

Исх. № 3239  
от «17» октября 2019 г.

г. Алматы

**АО "Казахстанская фондовая биржа"**

тема: подтверждение рейтинга Moody's Investors Service

Настоящим ТОО «Исткомтранс», в соответствии с требованиями ст. 18 Листинговых правил АО «Казахстанская Фондовая Биржа», сообщает Вам о том, что 16.10.2019г. Moody's Investors Service подтвердил рейтинг ТОО «Исткомтранс» на уровне «В3», рейтинг по национальной шкале на уровне «В1.kz», рейтинг Еврооблигаций Компании (ISIN XS0918292151) на уровне «В3» и рейтинг возможного дефолта на уровне «В3/LGD3». Прогноз по всем рейтингам «Стабильный».

С уважением,

Генеральный директор



Малахов В.А.

## CREDIT OPINION

16 October 2019

Update

✓ Rate this Research

### RATINGS

#### Eastcomtrans LLP

Domicile	Kazakhstan
Long Term Rating	B3
Type	LT Corporate Family Ratings
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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## Eastcomtrans LLP

### Update to credit analysis

#### Summary

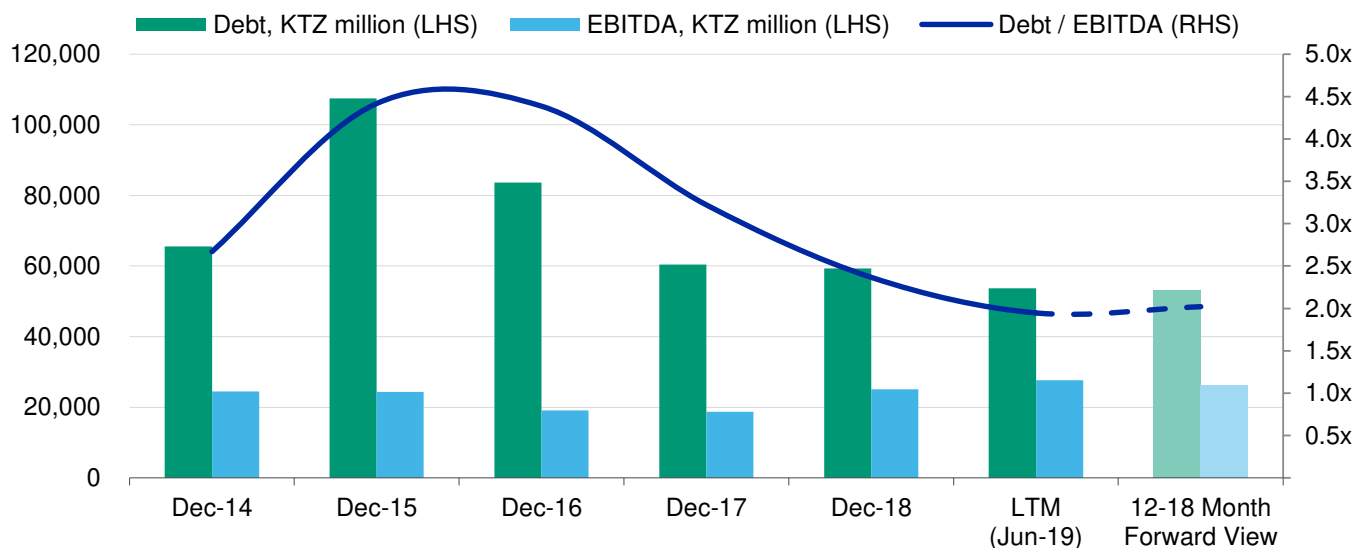
[Eastcomtrans LLP's](#) (ECT) strong positioning within the B3 rating reflects its improved operating and financial performance amid the full-fledged market recovery after the crisis of 2015-16, and its sound liquidity, which is underpinned by the company's (1) high profitability, strong cash flow generation and moderate investment programme, (2) comfortable debt maturity profile, (3) established relationships with international financial institutions and local banks, and (4) improving capacity under financial covenants, addressing the risks related to the series of breaches in the past. ECT's rating also reflects its comfortable asset coverage of net debt at 2.1x as of the end of June 2019, which provides for a healthy debt protection for creditors.

The rating, however, remains constrained by a degree of uncertainty related to (1) the upcoming renewal of the long-term contract with ECT's largest customer, Tengizchevroil LLP (TCO), by November 2019, although we view contract extension risks as moderate; and (2) the new development strategy and financial policy to be adopted by year-end 2019, which will be shaping the company's financial profile going forward.

The rating also takes into account the company's (1) relatively small size on a global scale; (2) material, although gradually declining, mismatch between the currency of debt (mainly the US dollar) and the volatile currency of operations (the Kazakhstani tenge); (3) high customer concentration in TCO, mitigated by ECT's established relationship and long-term contracts with this client, and some gradual business diversification; and (4) exposure to the volatile railcar lease rates and the developing operating and macroeconomic environment in Kazakhstan (Baa3 positive).

Exhibit 1

## ECT's leveraging will remain moderate in 2019-20



Sources: Moody's Financial Metrics™, Moody's Investors Service forecasts

## Credit strengths

- » Sound market position as one of the largest private freight railcar owners in Kazakhstan with a modern diversified fleet
- » Strengthened operating and financial performance and historically high profitability
- » Sound liquidity and established relationships with international financial institutions and local banks
- » Adequate asset coverage of debt, virtually all of which is secured with railcars

## Credit challenges

- » Small size on a global scale
- » Exposure to the developing operating and macroeconomic environment in Kazakhstan
- » High customer concentration, although with an established long-term contract-based relationship with its major client
- » Revenue-debt currency mismatch, which is likely to persist

## Rating outlook

The stable outlook on ECT's rating reflects our expectation that ECT's operating and financial performance and liquidity will remain healthy, and the company will comfortably comply with its covenants in 2019-20, while maintaining sound asset coverage. In particular, we expect ECT to successfully renew its long-term contract with TCO at adequate terms by November 2019 and retain a conservative financial policy under its new development strategy.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody.com](http://www.moody.com) for the most updated credit rating action information and rating history.

## Factors that could lead to an upgrade

We could consider an upgrade by one notch if ECT (1) demonstrates a sustained improvement in its earnings and profitability; and (2) improves its Moody's-adjusted EBITDA/interest to around 5.0x, funds from operations/debt to 30% and debt/EBITDA to 2.5x or below on a sustained basis. In addition, we would assess the sustainability of ECT's business profile, the company's contractual arrangements with its largest customer, TCO, and its vulnerability to any further changes in those arrangements.

## Factors that could lead to a downgrade

We could downgrade ECT's rating if its financial profile or liquidity, or both, deteriorate materially.

## Key indicators

Exhibit 2

### Eastcomtrans LLP

USD Millions	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	LTM (Jun-19)	12-18 Month Forward View
Revenue	178.4	124.7	73.1	79.0	87.9	92.5	95-100
Pretax Income % of Sales	38.8%	43.8%	18.1%	26.0%	40.9%	44.5%	30% - 40%
Debt / EBITDA	2.7x	4.4x	4.4x	3.2x	2.4x	1.9x	1.9x - 2.2x
FFO / Debt	26.7%	10.1%	12.3%	18.8%	30.9%	42.4%	35% - 45%
EBITDA / Interest Expense	4.1x	3.9x	2.1x	2.6x	3.9x	4.4x	4.5x - 5.0x

All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's forecasts are Moody's opinion and do not represent the views of the issuer. Periods are financial year-end unless indicated. LTM = Last 12 months.

Source: Moody's Financial Metrics™

## Profile

Eastcomtrans LLP (ECT) is one of the largest private companies in Kazakhstan specialising in leasing and operating freight railcars. As of the end of June 2019, ECT's fleet comprised around 11,640 owned and more than 800 leased railcars. The company derives around 65% of its revenue from operating lease agreements for railcars and the rest from providing transportation and other related services. Of ECT's share capital, 93.33% is directly and indirectly controlled by Marat Sarsenov and 6.67% by the [International Finance Corporation](#) (IFC, Aaa stable). For the 12 months ended 30 June 2019, ECT's revenue was KZT34.3 billion (around \$93 million) and EBITDA was KZT27.6 billion (about \$74 million).

## Detailed credit considerations

### ECT's small scale and high customer concentration in TCO, partly mitigated by an established long-term contract-based relationship and some gradual diversification

ECT is one of the largest private freight railcar owners in Kazakhstan, accounting for around 8% of the country's total railcar fleet and freight volume in 2018. However, the company remains very small in the global context, with \$93 million in revenue, mapping it to the Ca category under our Equipment and Transportation Rental Industry rating methodology. In addition, the company's fleet is fairly concentrated and largely consists of tank cars, which accounted for around 62% of total fleet, while open cars constituted another 30% as of end of June 2019.

ECT has also historically had high customer concentration, with the oil-producing consortium TCO remaining its key client. At the same time, the established long-term contract-based relationship between the companies provides some support to ECT's revenue predictability.

In particular, while the current three-year lease contract between ECT and TCO will expire at the end of October 2019, we view contract extension risks as moderate. We understand that the company is at the final stage of negotiating the contract renewal for another three years at more favourable terms, including higher tenge-denominated lease rates, which should be more in line with current market rates compared with those that prevailed during the weak period in 2016, when the expiring contract was signed. As a result, while the share of the TCO-leased fleet in ECT's total fleet should stay at around 35%, the share of TCO in the company's total revenue will rise to 40%-45% in 2020 from around 30% in 2017-19 (around 50% in 2016).

To reduce its business and customer concentration, since 2017, ECT has been gradually (1) expanding its fleet of open cars, successfully marketing them at more attractive rates (accounted for around 44% of ECT's total revenue in the first half of 2019 compared with around 24% in 2016); and (2) developing freight rail operator and logistics services, which contributed around 35% to its total revenue in H1 2019 (around 20% in 2016). ECT is also now considering diversifying into other businesses, such as container operations and, if regulation allows, locomotive traction.

### Exposure to the operating and macroeconomic environment in Kazakhstan

ECT is exposed to the macroeconomic environment in Kazakhstan, which drives volatility in transportation activities and the foreign-exchange rate in the country.

In 2015-16, ECT's operating and financial results were hurt by negative macroeconomic developments in Kazakhstan, including the substantial tenge devaluation, which drove the drop in freight turnover and forced ECT to rebalance its rates downwards, changing the currency for most of its contracts to tenge from US dollar. However, in 2017, the market started to improve followed by a full-fledged recovery in 2018 on the back of the economic and foreign-exchange rate stabilisation, with the country's cargo turnover rising by 9.6% and 6.6% in 2017 and 2018, respectively, and driving, in its turn, a spike in rates.

In addition, in 2017, ECT readjusted its fleet, replacing some of its tank cars with higher-margin open cars to address (1) the rising competition for oil and oil products' cargo from newly built pipelines, which pressured volume and lease rates in the segment; and (2) the strong demand for rail transportation of coal, industrial raw materials and iron ore.

As a result, after the decline in ECT's revenue and adjusted EBITDA by 20% and 25%, respectively, in 2016 from 2014 in tenge terms (the company's reporting currency), in 2018 they well exceeded the pre-crisis levels. The growth in US dollar terms was, however, largely offset by the persistently weak domestic currency, which did not allow the company to restore its results, with earnings remaining at around half of the 2014 levels.

In 2019-20, we expect gradual improvement in tank car rates, backed by some revival in demand amid low new fleet additions and the current trend for consolidation in this market segment. This improvement, coupled with more favourable terms under the renewed contract with TCO, should partly offset the developing pressure on ECT's revenue and profitability from (1) some resumed volatility in the tenge exchange rate starting H2 2018; (2) weaker rates for open cars amid flattening volumes and significant new fleet additions; and (3) rising costs for rail car maintenance and repairs. The company's 2019 adjusted EBITDA margin will also be undermined by the changes in our operating lease adjustments following the implementation of the IFRS 16 standard.

Overall, ECT will likely preserve a strong double-digit revenue growth in percentage terms in 2019-20, while adjusted EBITDA margin should comfortably settle at around 70% or above.

### Strengthened financials, but revenue-debt currency mismatch remains a risk

ECT's financials have been strengthening since 2017, underpinned by its improving operating performance and the stabilised tenge exchange rate. In 2018 and H1 2019, the company's leverage decreased to 2.4x and 1.9x Moody's-adjusted debt/EBITDA, respectively, from 4.4x in 2015-16, and we expect it to remain at around 2.0x in 2019-20, supported by ECT's healthy operating results and profitability, as well as strong cash flow generation, with moderate investments and dividend payouts.

ECT remains, however, exposed to foreign-currency risk, given the persisting revenue-debt currency mismatch. Only around 25% of the company revenue is directly denominated in foreign currency, while around 60% of the company's debt was in US dollars as of the end of June 2019. At the same time, the company is seeking to reduce its foreign-exchange risk by diversifying its debt portfolio from US-dollar-denominated debt, aiming to gradually rise the share of domestic-currency debt to around 70%-80% (from 10% in 2017).

### Healthy asset coverage of debt

As of the end of June 2019, the book value of ECT's own railcar fleet stood at more than KZT98 billion (around \$260 million), which provided for 2.1x coverage of the company's net debt as of the same date, up from 1.7x as of year-end 2017 and 1.3x as of year-end 2016, because of the increase in the fair value of the fleet, driven by the improved market conditions and the gradual reduction in the company's gross debt. We will monitor the recovery rate of debt as the new valuation of assets becomes available.

## Environmental, social and governance considerations

ECT has a concentrated ownership structure which heightens certain corporate governance risks, with 93.33% of the company directly and indirectly controlled by Marat Sarsenov. At the same time, we positively acknowledge ECT's fairly conservative financial policy and balanced approach to business development and shareholder distributions. In particular, during the crisis in 2015-16, the company limited its investments to maintenance capital spending and fully cut dividend payouts, which helped it remain free cash flow (FCF) positive. Despite the step-up in investment activity starting 2017 (mostly for the acquisition of new open cars and, to a lesser extent, railcar repair depots) as the market started to recover and the resumption of dividend payouts in 2019, ECT continued to generate positive FCF with no pressure on its leverage and asset coverage metrics. Although we note some uncertainty related to the new development strategy ECT plans to adopt, we expect the company to retain its conservative financial policy.

The risk of concentrated ownership is also partly mitigated by the presence of IFC with a 6.67% stake in the company.

## Liquidity analysis

We expect ECT's liquidity to remain supported by the strong cash flow generation and the company's comfortable debt maturity profile, following the extension of its senior secured \$100 million notes (of which around \$31 million is currently outstanding) to 2021-22 from 22 April 2018.

We expect the company to generate positive FCF in the next 18 months, with internally generated funds sufficient to cover investments and dividends. We also note that ECT's maintenance capital spending is only around KZT2.0 billion, while expansion investments related to the acquisition of new fleet will be funded by the committed credit line with the [European Bank for Reconstruction & Development](#) (Aaa stable). The available internal funds, including around KZT6.5 billion of cash and cash equivalents, will also comfortably cover its moderate debt maturities (about KZT11.7 billion or around \$31 million) during the period.

ECT's liquidity also benefits from its established relationships with international financial institutions and local banks with one of its lenders, the IFC, also being a shareholder of the company. In particular, ECT successfully resolved the situation around the covenant breaches under various debt facilities that the company incurred in 2016 through Q1 2018. ECT was able to successfully reset or suspend the testing of most of the financial covenants embedded in its loan agreements while also raising new funding for its investment programme at year-end 2017. As of the end of June 2019, the company fully complied with all of its covenants, which include leverage and coverage metrics, and we expect it to remain in compliance in 2019-20.

## Structural considerations

The B3 rating assigned to ECT's \$100 million notes maturing in 2021-22 (around \$31 million of which was outstanding as of June 2019) is at the same level as ECT's corporate family rating. This reflects the fact that the notes are secured with a pledge of railcars, similar to other debts in ECT's capital structure.

## Rating methodology and scorecard factors

Given that ECT derives more than 60% of its revenue from leasing out its railcars under operating lease agreements, we apply our Equipment and Transportation Rental Industry rating methodology to assess its credit quality. The differential between the assigned rating and the scorecard-indicated outcome reflects the company's small scale of operations, exposure to operating and macroeconomic environment in Kazakhstan, and sensitivity of its metrics, in particular leverage and coverage, to the volatile railcar lease rates and domestic currency exchange rate.

Exhibit 3

Eastcomtrans LLP

Equipment and Transportation Rental Industry Scorecard [1][2]	Current LTM 6/30/2019		Moody's 12-18 Month Forward View As of 10/11/2019 [3]	
	Measure	Score	Measure	Score
<b>Factor 1 : Scale (10%)</b>				
a) Revenue (USD Billion)	\$0.1	Ca	\$0.1	Ca
<b>Factor 2 : Business Profile (20%)</b>				
a) Business Profile	B	B	B	B
<b>Factor 3 : Profitability (10%)</b>				
a) Pretax Income % of Sales	44.5%	Aaa	30% - 40%	Aaa
<b>Factor 4 : Leverage and Coverage (45%)</b>				
a) Debt / EBITDA	1.9x	Baa	1.9x - 2.2x	Ba
b) FFO / Debt	42.4%	Baa	35% - 45%	Baa
c) EBITDA / Interest	4.4x	Ba	4.5x - 5.0x	Ba
<b>Factor 5 : Financial Policy (15%)</b>				
a) Financial Policy	B	B	B	B
<b>Rating:</b>				
a) Indicated Outcome from Scorecard		Ba2		Ba2
b) Actual Rating Assigned				B3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] As of 6/30/2019(LTM).

[3] This represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Source: Moody's Financial Metrics™

## Appendix

Exhibit 4

### Moody's-adjusted debt breakdown

(in USD Millions)	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18	LTM Ending Jun-19
<b>As Reported Debt</b>	<b>348.4</b>	<b>311.0</b>	<b>244.3</b>	<b>171.2</b>	<b>140.4</b>	<b>141.1</b>
Operating Leases	10.5	4.6	6.4	10.6	15.2	0.0
<b>Moody's-Adjusted Debt</b>	<b>358.8</b>	<b>315.6</b>	<b>250.7</b>	<b>181.7</b>	<b>155.6</b>	<b>141.1</b>

All figures are calculated using Moody's estimates and standard adjustments.

Source: Moody's Financial Metrics™

Exhibit 5

### Moody's-adjusted EBITDA breakdown

(in USD Millions)	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18	LTM Ending Jun-19
<b>As Reported EBITDA</b>	<b>84.2</b>	<b>-71.6</b>	<b>55.2</b>	<b>77.7</b>	<b>56.9</b>	<b>64.6</b>
Operating Leases	3.6	2.5	2.1	3.6	5.6	2.6
Unusual	49.4	183.5	-1.5	-23.7	10.3	7.2
<b>Moody's-Adjusted EBITDA</b>	<b>137.2</b>	<b>114.4</b>	<b>55.8</b>	<b>57.6</b>	<b>72.8</b>	<b>74.4</b>

All figures are calculated using Moody's estimates and standard adjustments. Unusual adjustments to EBITDA are mainly comprised of impairment and foreign-currency gains and losses.

2015 reported EBITDA is negative because it includes foreign-exchange loss because of tenge devaluation in H2 2015.

Source: Moody's Financial Metrics™

## Ratings

Exhibit 6

Category	Moody's Rating
<b>EASTCOMTRANS LLP</b>	
Outlook	Stable
Corporate Family Rating	B3
Senior Secured	B3/LGD3
NSR Corporate Family Rating	B1.kz

Source: Moody's Investors Service



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