

Fitch Ratings

Fitch Revises Eastcomtrans' Outlook to Negative; Affirms at 'B'

Fitch Ratings-London-18 December 2015: Fitch Ratings has revised the Outlook on Kazakhstan-based Eastcomtrans LLP's (ECT) Long-term foreign and local currency Issuer Default Ratings (IDRs) and National Long-term Rating to Negative from Stable and affirmed the ratings at 'B', and 'BB(kaz)', respectively. A full list of rating actions is at the end of this rating action commentary.

KEY RATING DRIVERS

The revision of the Outlook reflects Fitch's expectation that ECT's US dollar-denominated cash flow generating capacity will weaken due to pressure on both lease rates and fleet utilisation levels from significant tenge devaluation and revision of contracts with a key client, Tengizchevroil (TCO). Consequently, there is also a risk of debt covenant breaches, which may pose a threat to ECT's liquidity position.

The affirmation of ECT's ratings considers the company's established, albeit narrow and concentrated franchise, its continuing deleveraging and so far strong operating profitability.

ECT is the largest private fleet owner in Kazakhstan with around 12 thousand wagons and benefits from a relatively young fleet (six years). While it has a solid position in Kazakhstan, it remains relatively small in the context of the wider CIS market.

ECT's credit profile is pressured by significant tenge devaluation (to 316 USD/KZT at 17-Dec-2015 from 186 USD/KZT at end-1H15). The company has a big short balance sheet FX position, as all its assets are tenge-denominated and 90% of debt is in foreign currency. It also has a cash flow mismatch, while only 65% of its revenue is dollar-denominated/pegged. Fitch estimates ECT's FX revaluation loss in 2015 at around KZT30bn, resulting in its tangible net worth dropping to USD72m at end-2015. This would be a breach of the level covenanted in two loan agreements. However, management expects to receive waivers on both. Another consequence of devaluation is that ECT's rates in tenge have become significantly above market average, so in order to retain customers it needs to lower them, which could affect debt servicing capacity.

ECT's revenue remains highly dependent on a single client, TCO, which accounted for about 45% of 2015 revenue (57% in 2014). Most of the TCO contracts originally maturing at end-2015 were recently renewed for four years, albeit with a 30% decrease in lease rate and an option for TCO to renegotiate terms after one year. This creates the risk of a possible negative impact on fleet utilisation and revenue generation if TCO contracts are terminated in end-2016 or if the rates reduce further. Fitch believes the remarketing of the TCO fleet could be challenging without a significant haircut to current rates, which could lead to a material decrease in revenue and EBITDA.

ECT's other major covenants are net debt/EBITDA at 4x and interest coverage at 2.5x for its Eurobond (USD87m) and net debt/EBITDA at 3.75x to 4x for most of its bilateral loans (USD200m). Excluding a big one-off FX loss from the EBITDA calculation, Fitch estimates that ECT should be in compliance with these covenants at end-2015, unless there is further material (about 15%) devaluation of tenge in the last month of 2015. As the operating environment remains tough, the risks of covenant breaches are likely to extend to 2016, although the company could negotiate waivers with creditors, given to a large extent the systemic nature of its problems and still decent cash generation and strong quality of revenues with virtually zero delinquencies in 2014 (although the shift towards smaller customers may compromise future quality) and good solvency with net debt/equity 3.3x at end-2015.

Refinancing risk absent of debt acceleration is moderate. Debt repayments including interest amount to USD62.5m in 2016 (equivalent of KZT20bn at FX rate on 17 December 2015). These are covered

with a cash cushion (KZT8bn at end-11M15) and expected cash flow from operations of around KZT18bn in 2016, Fitch estimates.

RATING SENSITIVITIES

IDRS, NATIONAL RATINGS AND SENIOR DEBT

ECT's ratings could be downgraded in case of a marked weakening of the company's earning capacity due to decreasing rates and/or utilisation, increasing ECT's leverage or undermining its ability to service its debt. Diminishing of the safety buffer above major financial covenants or breaches could also be rating negative.

The Outlook may be revised to Stable in case of (i) lengthening of lease contracts with TCO or remarketing of the fleet at reasonable rates; and (ii) reducing risks of covenant breaches by way of deleveraging, obtaining waivers or refinancing of debt with softer terms/longer tenors.

KEY RATING DRIVERS AND SENSITIVITIES: SENIOR DEBT RATINGS

The senior debt ratings for the USD100m notes (USD87m outstanding) due 2018 are aligned with the company's IDRs. These notes are secured, but this does not structurally improve the noteholders' position relative to other creditors, given that a large majority of company funding is similarly secured.

The rating actions are as follows:

Long-term IDR affirmed at 'B'; Outlook revised to Negative from Stable

Short-term IDR affirmed at 'B'

Long-term local currency IDR affirmed at 'B'; Outlook revised to Negative from Stable

National Long-term Rating affirmed at 'BB(kaz)'; Outlook revised to Negative from Stable

Senior secured rating affirmed at 'B', Recovery Rating 'RR4'

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Additional information is available on www.fitchratings.com

Applicable Criteria

Global Non-Bank Financial Institutions Rating Criteria (pub. 28 Apr 2015)

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