

Rating Action: Moody's assigns Kazakhstan Mortgage Company JSC Baa3 long-term ratings; outlook stable

20 Dec 2018

London, 20 December 2018 -- Moody's Investors Service ("Moody's") has today assigned Baa3 long-term and Prime-3 short-term local- and foreign-currency issuer ratings to Kazakhstan-based Kazakhstan Mortgage Company JSC (KMC). The outlook on KMC is stable. At the same time, Moody's assigns the Aa1.kz National Scale Issuer Rating (NSR) to the issuer.

A full list of assigned ratings can be found at the end of this press release.

RATINGS RATIONALE

KMC's ratings benefit from very high support from its immediate parent Baiterek National Management Holding, JSC (Baiterek; Baa3 stable) which is 100% owned by the Government of Kazakhstan (Baa3 stable). As a result, Moody's incorporates four notches of rating uplift based on its parental support assumptions, from KMC's standalone assessment of b1, which reflects (1) its policy role ensuring secured business niche with access to cheap funding and capital, (2) adequate capitalisation and profitability, (3) exposure to mortgage and the volatile real estate sector which pressures asset quality, business volumes and revenues and (4) potentially vulnerable liquidity.

The very high support from Baiterek reflects KMC's strategic importance due to its special mandate to develop residential housing in the country including mortgage lending and social housing rent. KMC participates in government programmes and its funding is pre-dominantly comprised of funding received from its parent and the government. The company is ranked fifth by total assets among Baiterek's subsidiaries and had around 6% share in its consolidated total assets at end-2017.

Moody's believes the parent would provide financial support to KMC, if it were necessary, to avoid significant reputational damage, reduced access to market funding for its subsidiaries or impairment or disruption in the implementation of important government programmes. Moody's believes that in some cases extraordinary support will be originally provided by the government of Kazakhstan given that KMC's parent company, Baiterek, is de-facto the government financial arm which manages the subsidiaries under its umbrella. KMC's policy mandate secures its business niche and ensures a good access to capital while cheap government funding supports its profitability.

KMC's policy mandate exposes it to housing sector which is rather cyclical and depends significantly on dynamics of real disposable income of population, interest rates, construction activity, real estate prices and etc. As a result, the business volumes, revenues and asset quality could exhibit some volatility.

The company's non-performing loans (90+ days overdue) accounted for a substantial 5% of the mortgage portfolio at end-H1 2018. Problem leases accounted for less than 0.5% of lease book at end-H1 2018. At the same time, seasoning of the previously rapidly grown leasing book will lead to deterioration of asset quality -- albeit not expected to the level of mortgage portfolio given its less risky nature.

Moody's expects KMC's capitalisation to remain high and does not expect tangible common equity to tangible managed assets (TCE/TMA) ratio to fall below 20% in the next 12-18 months. At end-Q3 2018, TCE/TMA ratio was 25%. Capitalisation is being supported by adequate profitability: the net income to average managed assets ratio was 2% in Q3 2018. Profitability benefits from stable net interest margin, low operating costs and loss charges (as majority of problem loans have been reserved).

The company maintains low liquidity cushion (5-7% of total assets) and large repayments of market funding make it vulnerable to refinancing risk or will force it to deleverage before repayments. It finances acquisition of mortgage portfolio from banks via issuing bonds which exposes it to refinancing and interest rate risk due to maturity mismatch.

OUTLOOK

The stable outlooks on KMC mirror the stable outlook on its parent's (Baiterek) long-term issuer ratings.

WHAT COULD MOVE THE RATINGS UP/DOWN

Upside potential of the issuer ratings is constrained by those of Baiterek given that it is at the same level.

KMC's long-term ratings could be downgraded in case of a lowering of Baiterek's rating or reduced support assumptions for KMC.

LIST OF ASSIGNED RATINGS

Issuer: Kazakhstan Mortgage Company JSC

Assignments:

...LT Issuer Rating, Assigned Baa3 Stable

...ST Issuer Rating, Assigned P-3

...NSR LT Issuer Rating, Assigned Aa1.kz

Outlook Actions:

...Outlook, Assigned Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Finance Companies published in December 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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