

**"ҚАЗАҚТЕЛЕКОМ"  
АКЦИОНЕРЛІК  
ҚОҒАМЫ**



**АКЦИОНЕРНОЕ  
ОБЩЕСТВО  
"КАЗАХТЕЛЕКОМ"**

**ҚАЗАҚТЕЛЕКОМ**

"KAZAKHTELECOM JOINT STOCK COMPANY"

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№ \_\_\_\_\_

**АО «Казakhstanская фондовая биржа»**

**«Fitch Ratings» подтвердило кредитный рейтинг АО «Казakhstanтелеком»  
на уровне «BB», прогноз «Позитивный»**

**9 ноября 2015 года Международное рейтинговое агентство Fitch Ratings (далее Fitch) подтвердило долгосрочный рейтинг эмитента АО "Казakhstanтелеком" на уровне «BB», прогноз "Позитивный".**

Аналитики Fitch отметили, что создание совместного предприятия (СП) путем объединения мобильного бизнеса АО «Казakhstanтелеком» и Теле 2, позволит усилить позиции АО «Казakhstanтелеком» в сегменте предоставления мобильных услуг. Fitch сохраняет «Позитивный» прогноз по РДЭ Компании, так как данная сделка будет иметь ограниченное негативное влияние на левередж Компании на момент закрытия сделки. Аналитики Fitch считают, что АО «Казakhstanтелеком» справится с увеличением левереджа в случае, если Компания должна будет приобрести в течение трех лет оставшуюся долю в СП в размере 49%.

Казakhstanтелеком является сильным традиционным оператором фиксированной связи с доминирующими долями рынка в сегменте традиционной телефонии и услуг фиксированной широкополосной связи. Компания ведет деятельность в благоприятной регуляторной среде. Оператор вновь вышел на массовый рынок мобильной связи, запустив LTE/GSM в 2014 г. с возможностью предоставления фиксированных и мобильных услуг.

**Главный финансовый директор**

**Нуркеева А.**

**013775**



Fitch «BB», « »

Fitch Ratings-Moscow-09 November 2015: ( )  
Fitch Ratings- -09 2015 . Fitch (« »)

( ) Tele2 AB

49%

LTE/GSM 2014 ..

22%

5,6

Tele2 51%/49% 49%/51% Tele2  
97 . Tele2

1 . 2016 .

Tele2 2015 .. KCell Vimpelcom Ltd.  
22%,

LTE 4G, LTE,  
Tele2 4G,  
2G/3G.

51% . Fitch . Fitch , 2016-2017 .

Fitch -  
(FFO) 2,0x 2017-2018 .

/

. Tele2 . Fitch

FFO 2019 . 2,0x.  
2,0x 2020 .

Tele2 EBITDA Kcell Vimpelcom.  
2014 .. EBITDA Tele2  
EBITDA 2015 .

Fitch,

20%

2016 .  
2016 .

2016-2017 .,

2019 .,

FFO 2x ( 2014 .: 1,9x);

Tele2

FFO 3x /

« ».

(«BBB»/ « »),

10-

18

«B»  
«A+(kaz)»,

«BB», « »  
« »

«A+(kaz)». «BB»

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« Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage (17 2015 .):  
https://www.fitchratings.com/creditrating/reports/report\_frame.cfm?rpt\_id=869362 »/

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**Applicable Criteria**

Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage (pub. 17 Aug 2015) (https://www.fitchratings.com/creditrating/reports/report\_frame.cfm?rpt\_id=869362)

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## Fitch Affirms Kazakhtelecom at 'BB'; Outlook Positive

Fitch Ratings-Moscow-09 November 2015: Fitch Ratings has affirmed Kazakhtelecom JSC's (Kaztel) Long-term Issuer Default Rating (IDR) at 'BB' with a Positive Outlook.

The creation of a joint venture (JV) from the combination of Kaztel's and Tele2 AB's mobile assets in Kazakhstan should significantly strengthen Kaztel's position in mobile services. We are maintaining the Positive Outlook on the company's IDR as this transaction should only have a slightly negative impact on its leverage. We believe the company should be able to digest a spike in leverage if it has to purchase in three years the 49% stake in the mobile JV it does not own.

Kaztel is a strong fixed-line incumbent, with dominant market shares in traditional telephony and fixed-line broadband services, operating in a benign regulatory environment. The company re-entered the mobile mass market with its LTE/GSM service in 2014, providing it with a capability to offer both fixed and mobile services.

### KEY RATING DRIVERS

#### Stronger Mobile Business

The transaction should strengthen the mobile market positions of both parties. The JV will have a 22% share of Kazakhstan's mobile subscriber market or 5.6 million active customers. The companies will continue operating separately under their current brand names. We do not expect any significant subscriber cannibalisation as both brands should continue to operate in separate consumer niches.

Kaztel and Tele2 Group will hold 51%/49% economic interest and 49%/51% voting interest, respectively. Kaztel will contribute its mobile subsidiary Altel on a debt-free basis while Tele2 will contribute its mobile assets in Kazakhstan with a KZT97bn shareholder loan. Tele2 will retain management control over the JV and will appoint all of the Management Board apart from CFO. The deal is subject to regulatory approval and is expected to close in 1Q16

#### More Rational Mobile Market

Tele2 and Altel compete aggressively with mobile market leaders JSC Kcell and Vimpelcom Ltd. The price war initiated by the operators in 2015 along with mobile termination rates cuts have led to pressure on mobile average revenue per user. With a combined subscriber share of 22%, the JV has less incentive for disruptive price behaviour to acquire customers. We expect the focus to shift towards the value of offers and quality of service.

#### LTE Remains an Advantage

Kaztel is rapidly growing the number of its data-hungry 4G customers as it remains the only Kazakh provider of LTE mobile services capable of managing high data volumes. Once the JV is created, Tele2's subscribers will be able to use 4G network while both companies' customers will benefit from wider 2G/3G coverage.

#### Expected Synergies

The merger of companies should generate synergies in operating costs and capital expenditures. The JV should be able to save money on network construction while the overlap of existing networks should lead to a higher quality of service and wider coverage. Given Kaztel's ability to provide the whole spectrum of telecom services, the upselling efforts in the mobile business may help it expand its broadband and pay-TV subscriber base.

#### Leverage to Increase Marginally

As a result of the transaction, Kaztel will guarantee up to 51% of the JV's total external debt. Fitch projects that the JV will require external funding in 2016-2017 to finance capex. Fitch includes these guarantees in Kaztel's total debt calculation. This results in a marginal deterioration of the company's leverage profile.

Fitch still expects funds from operations (FFO) adjusted gross leverage to decline below 2.0x in 2017-2018 on the back of continuing strong operating cash flow generation and lower capex.

#### Call/Put Options

As part of the merger Kaztel will have a call option allowing it to buy out the share of Tele2 in the JV in three years at a price determined by an independent appraiser. Tele2 has a mirroring put option with the same terms. Fitch conservatively assumes that this option is exercised and includes the shareholder loan repayment in its calculations, which causes FFO adjusted gross leverage in 2019 to exceed 2.0x. Due to robust free cash flow (FCF) generation, leverage should drop below 2.0x again in 2020.

#### Mobile Margins to Improve

Tele2 Kazakhstan and Altel have launched their mobile operations recently compared with market leaders Kcell and Vimpelcom. Rapid network development and aggressive subscriber acquisition have put pressure on the companies' margins. Tele2's mobile operations in Kazakhstan turned EBITDA-positive in 2014 and now generate a low single-digit margin while Altel reached EBITDA-breakeven only in 2015. Further profitability growth is likely from stabilising subscriber acquisition costs and cost synergies from the merger.

### KEY ASSUMPTIONS

Fitch's key assumptions within the rating case for Kaztel include the following:

- Low single-digit consumer revenue declines in the fixed-line segment;
- A decline in capex to below 20% of revenues from 2016 excluding the mobile JV;
- Positive FCF generation from 2016 excluding the mobile JV;
- Rapid mobile JV revenue growth of double digits in 2016-2017, declining to high single-digits thereafter;
- 100% ownership of the mobile JV in 2019 conservatively assuming earliest possible exercise of the put/call option;
- Kaztel's guarantees for external debt issued by the mobile JV are included in total debt calculation

- Priority of debt repayment over dividends distribution at the mobile JV

## RATING SENSITIVITIES

Positive: Future developments that may, individually or collectively, lead to a positive rating action include:

- A sustained decrease in FFO adjusted gross leverage to below 2x (end-2014: 1.9x);
- Maintaining sufficient liquidity that is diversified between external and internal sources;
- Stronger FCF generation with pre-dividend FCF margin in the mid-single digit range;
- Successful integration of Tele2's and Altel's assets and further strong execution of Kaztel's mobile strategy.

Negative: Future developments that may, individually or collectively, lead to a negative rating action include:

- A protracted rise in FFO-adjusted gross leverage to above 3x and/or a material increase in refinancing risks, which would lead to a downgrade
- Operating underperformance in the fixed and/or mobile segment, which may cause the Outlook to be revised to Stable.

## LIQUIDITY

Kaztel has a few credit lines from foreign banks and the domestic Development Bank of Kazakhstan (BBB/Stable) which are sufficient to cover its short-term refinancing needs and fund its expansionary capex programme. Facilities from foreign banks are in foreign currency, which match its forthcoming foreign currency maturities.

The company also has a 10-year KZT18bn credit line from Development Bank of Kazakhstan. It is available for financing mobile development but it would also allow Kaztel to divert operating cash flow from internal capex funding to other needs, including refinancing. Kaztel's debt profile is well spread with no medium-term debt redemption peaks.

## FULL LIST OF RATING ACTIONS

### Kazakhtelecom JSC

Long-term foreign and local IDRs: affirmed 'BB', Outlook Positive  
Short-term foreign currency IDR: affirmed at 'B'  
National Long-term rating: affirmed at 'A+(kaz)', Outlook Positive  
Senior unsecured debt in foreign and local currency: affirmed at 'BB'  
Senior unsecured debt in local currency: affirmed at 'A+(kaz)'

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### Applicable Criteria

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