



ПРОДОВОЛЬСТВЕННАЯ КОНТРАКТНАЯ КОРПОРАЦИЯ
АЗЫҚ-ТҮЛІК КЕЛІСІМ ШАРТ КОРПОРАЦИЯСЫ
FOOD CONTRACT CORPORATION

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CREDIT OPINION

6 December 2017

Update

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RATINGS
National Company Food Contract Corp JSC

Domicile	Kazakhstan
Long Term Rating	B1
Type	LT Corporate Family Ratings - Fgn Curr
Outlook	Negative

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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National Company Food Contract Corp JSC

Update following downgrade to B1 rating with a negative outlook

Summary

[National Company Food Contract Corp JSC's](#) (FCC) B1 corporate family rating is determined in accordance with our Government-Related Issuers rating methodology because FCC is owned by the [Government of Kazakhstan](#) through JSC National Holding Company KazAgro (KazAgro). The rating factors in the following inputs: (1) FCC's Baseline Credit Assessment (BCA) of caa1, which is a measure of the company's standalone credit quality; (2) the Baa3 local-currency rating of the Kazakh government; (3) the high default dependence between the company and the government; and (4) the probability of strong support from the government.

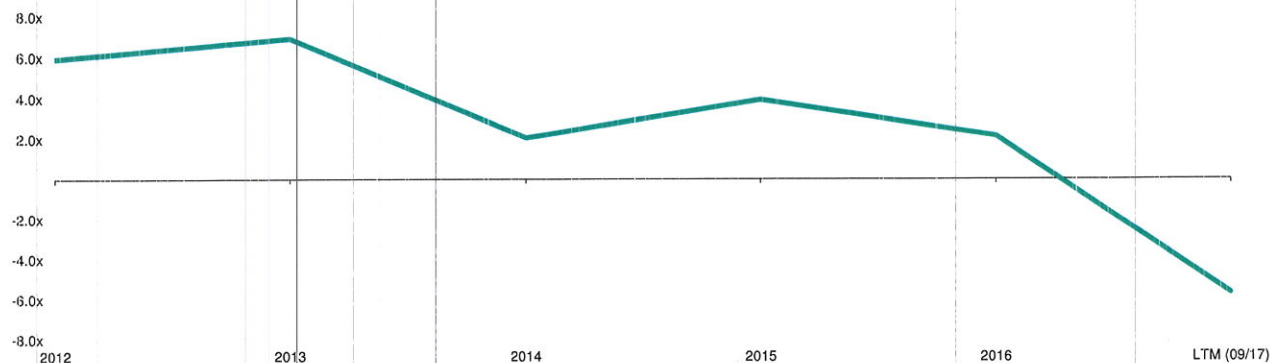
FCC's corporate family rating and BCA reflect the company's deteriorated liquidity since early 2017, as well as a more-than-expected weakening in its financial profile through September 2017. The prospects of a sustainable recovery in the liquidity and financial profiles through 2018 are uncertain, given the financial weakness of the domestic farming sector, as reflected by the latter's significant overdue liabilities to FCC and low global grain prices, which limit FCC's earnings from commercial operations and increase its call and dependence on the government's funding to continue to support domestic grain markets and farmers.

FCC's small scale and heavy dependence on the Kazakh grain sector exacerbate the company's exposure to the inherent cyclicity of the agricultural industry, resulting in lack of visibility and significant swings in FCC's earnings and cash flow, and, hence, the company's financial metrics.

At the same time, the company's rating benefits from its status as the state grain trader, with a long track record of operations in domestic and international markets, and its established relationships with farmers, grain storage companies, key grain importers and foreign banks.

We positively factor in the track record of the state support that FCC received on an ongoing basis to perform its market support functions. However, the state support provided to the company this year has not been sufficient to offset the recent deterioration in its liquidity and financial profiles.

Exhibit 1
FCC's financial profile remains under pressure
Net Debt / EBITDA



[1] All quantitative measures, except for Fixed Assets, are based on 'As Adjusted' financial data and incorporate Global Standard Adjustments for Non-Financial Corporations. Fixed Assets are based on 'As Reported' financial data for Gross Property, Plant and Equipment.

[2] Net Debt includes an adjustment for Readily Marketable Inventories (RMI), which is typically between 20% and 75% of inventory depending on the business mix of the company (see the published rating methodology for a detailed description of this adjustment).

Source: Moody's Investors Service

Credit strengths

- » History of strong government support
- » Established position in the grain market as the state grain trader

Credit challenges

- » Deteriorated liquidity and refinancing risk in relation to the notes due 2018
- » Exposure to low global grain prices and the inherent cyclical nature of the agriculture industry heightened by FCC's small size and reliance on the Kazakh grain sector
- » Weak and volatile financial profile

Rating outlook

The negative outlook on FCC's rating indicates our concerns over the company's weak liquidity and its ability to sustainably and materially improve its cash flow generation and earnings in the next 12-18 months. The outlook could be stabilized if the company improves its medium-term liquidity, in particular by successfully refinancing its notes due December 2018, in line with plans.

Factors that could lead to an upgrade

- » Given the negative outlook, upward pressure on the rating is unlikely.

Factors that could lead to a downgrade

- » Failure to address the refinancing risk related to FCC's maturing notes in a timely manner
- » Significant downward pressure on Kazakhstan's sovereign rating
- » Further deterioration in the company's financial profile, challenging business and debt service capacity
- » Decline in the probability of extraordinary support from the government in the event of financial distress

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 for the most updated credit rating action information and rating history.

» Non-reversal of the October 2017 transaction with KazAgro and a troubled Kazakhstan bank, JSC Delta Bank

Key indicators

Exhibit 2

KEY INDICATORS [1]

National Company Food Contract Corp JSC

	9/30/2017(L)	12/31/2016	12/31/2015	12/31/2014	12/31/2013
Revenue (USD Billion)	\$0.03	\$0.08	\$0.21	\$0.31	\$0.32
Total Assets (USD Billion)	\$0.32	\$0.34	\$0.36	\$0.78	\$1.04
Fixed Assets (USD Billion)	\$0.03	\$0.03	\$0.02	\$0.08	\$0.10
Debt / Book Capitalization	29.6%	39.3%	44.6%	52.8%	61.6%
Net Debt / EBITDA [2]	-5.7x	2.1x	3.9x	2.1x	6.9x
FFO / Debt	-4.2%	10.1%	12.6%	13.8%	-0.4%

[1] All quantitative measures, except for Fixed Assets, are based on 'As Adjusted' financial data and incorporate Global Standard Adjustments for Non-Financial Corporations. Fixed Assets are based on 'As Reported' financial data for Gross Property, Plant and Equipment.

[2] Net Debt includes an adjustment for Readily Marketable Inventories (RMI), which is typically between 20% and 75% of inventory depending on the business mix of the company (see the published rating methodology for a detailed description of this adjustment).

Source: Moody's Investors Service

Corporate profile

National Company Food Contract Corporation JSC (FCC) is the Kazakh state grain trader, fully owned by the Kazakh government through KazAgro. Apart from its commercial operations, the company retains its regulatory functions for the domestic grain market to (1) ensure the food security of the country by maintaining sufficient grain reserves; (2) guarantee the stability of the country's grain market; and (3) develop the export-related infrastructure of the domestic grain industry. Under the recent agricultural reform, the company is also assuming the new role of the national agricultural export center, which implies developing exports operations for other agricultural products. For the 12 months ended September 2017, FCC generated revenue of KZT9.2 billion (\$27 million).

Detailed credit considerations

Deteriorated liquidity and heightened refinancing risk

FCC's liquidity has deteriorated since early this year, with heightened refinancing risk in relation to the company's KZT33.3 billion notes due December 2018. As of now, the company's cash reserves are significantly lower than its debt maturities through 2018, of which the largest is represented by the notes.

We particularly note that the company has either lost or found it difficult to access some cash in troubled Kazakh banks, which additionally reduced its liquidity. The prospects of recovery of these assets or the renewal of access to them remain uncertain, in our view. In particular, as of mid-2017, FCC accrued an impairment of KZT5.7 billion on its cash placed with a failed bank, Kazinvestbank JSC.

The available long-term credit facilities are not intended to refinance the notes. Given FCC's negative operating cash flow for the first nine months of 2017 and uncertainty over its material and sustained recovery in the next 12-18 months, the company may find it difficult to address the liquidity gap on its own and will likely need support from its sole shareholder, state-owned KazAgro.

Strong government support

In accordance with our Government-Related Issuers rating methodology, FCC's rating incorporates a three-notch uplift to the company's BCA of caa1. This uplift is driven by (1) the credit quality of the state as the company's ultimate shareholder, (2) our assessment of strong support from its shareholder in the event of financial distress, and (3) the high default dependence between the company and the state.

FCC's high level of default dependence reflects (1) the company's full state ownership; (2) the high concentration of its operations in the domestic market; and (3) the sensitivity of its financials to the same sources of risk as that of the government because political

events might affect the willingness of the government to support the company (or even its willingness to support the continued existence of the company).

Despite the recent market liberalization efforts by the state (under which FCC lost its official mandate to maintain the state grain reserves and regulate domestic grain prices), the government's strong support is predicated on the preserved role of the company as an important state tool in (1) regulating and supporting the domestic grain market, (2) guaranteeing national food security, and (3) developing strategic export operations of agricultural products. The importance of FCC to the government was, in particular, illustrated by the exclusion of the company from a privatization plan in 2016.

The strong support also factors in (1) the economic and social significance of agriculture to the country, as well as the sector's contribution to national exports, although secondary to the importance of the oil and gas sector; (2) the reputational risk to the state if it fails to support FCC in servicing its financial debts in a timely manner; and (3) the actual state support that the company has received to date in the form of interest-free loans, capital injections and subsidies. However, our assessment of support is lowered by the lack of an explicit guarantee of FCC's financial liabilities by the Kazakh government.

Exposure to low global grain prices and the inherent cyclicity of the agriculture industry heightened by FCC's small size and reliance on the Kazakh grain sector

FCC is exposed to the inherent cyclicity of the agricultural industry and volatility in commodity grain prices. The company's earnings and cash flow remain highly volatile because grain prices vary owing to imbalances between demand and supply. Low grain prices are expected to sustain over the next 12-18 months in the oversupplied global market, weighing on the company's financial performance and blurring the prospects of its sustainable recovery.

The company's small size and reliance on the Kazakh grain sector further increase its susceptibility to market weakness and volatilities, biological risks and foreign-trade disputes. These risks are exacerbated by the application of outdated technologies by Kazakh farmers and the undeveloped nature of the grain sector in the country overall. FCC is also exposed to economic and regulatory risks in a single emerging market.

FCC plans to develop operations in other agricultural products (in 2016, the company commenced trial operations in oilseeds) will not bring any meaningful diversification from the grain sector in the short term.

Benefits of established grain market positions are yet to be reinforced by a shift toward profit-oriented operations

Established grain market positions as the state grain trader support FCC's business. The company intends to capitalize on these positions while shifting toward more profit-oriented operations. As a result, the company expects to mitigate the volatility in its business and financial profiles.

Historically, this volatility was further reinforced by FCC's mandate to maintain state grain reserves and act as the government's arm for regulating domestic grain prices. This mandate often implied operating against market trends. However, under the market liberalization, which commenced in 2016, the company's business model has become more focused on commercial operations.

Following the expiration of the trust management agreement between the Ministry of Agriculture and FCC, concerning state grain reserves, in 2017, the ownership of these reserves was transferred to FCC, which provides the company with more flexibility in their usage. Nevertheless, under FCC's mandate to ensure the country's food security, the company still has to maintain the minimum required level of grain reserves at the end of the year, although fluctuations within a year are allowed. Moreover, in 2016, FCC switched from the direct regulation of domestic grain prices in the government's interest to profit-oriented market making. This move should allow the company to materially increase the share of commercially driven trade operations, including attractive exports.

Although the above changes may have somewhat reduced the magnitude of swings in FCC's operations, the company retains its regulatory and support functions for the market, which limit its operating flexibility and might still imply non-commercial operations under the government's instructions, particularly in a distressed situation.

In addition, under the new state development program for the industry (introduced in 2017), FCC is now in the process of transforming into the national agricultural export center, responsible for developing and facilitating exports operations, and exploring new export

markets for a range of agricultural products, apart from grain. However, the exact impact that this business change may have on the company's operating and financial profiles is yet to be seen.

Weak and volatile financial profile

The actual deterioration in FCC's financial profile was more than expected for the first nine months of 2017, even after taking into account the factor of seasonality, owing to weakening global grain prices. The company's EBITDA and funds from operations for the period turned out materially negative. In our view, a sustainable recovery and improvement in the company's cash flow generation and earnings through 2018 are unlikely because the global grain market remains oversupplied and prices are expected to stabilize at low levels.

FCC's earnings from commercial grain exports will remain under pressure. FCC will be increasingly dependent on the government's funding to support domestic farmers. Domestic farmers' weaknesses will continue, challenging the company's plan to collect a sizable amount of trade receivables from domestic farmers by year-end 2018, and hence, increase its cash flow. Half of the company's total accounts receivable, or KZT23.5 billion, was overdue up to 30 days as of year-end 2016, with no material progress in collecting them having been reported by the company through September 2017.

Moreover, the recently announced sizable, non-cash transaction between FCC, its parent, KazAgro, and the troubled Kazakhstan bank, JSC Delta Bank, could have been credit negative for FCC. However, this did not prompt a downgrade of the company's rating because we expect the transaction to be reversed shortly. If it were otherwise, we could downgrade FCC's ratings. Under the transaction, FCC acquired from KazAgro claims on the bank and subsequently acquired from the bank claims on some of its former borrowers. The transaction would negatively affect FCC's balance sheet, although it is a non-cash transaction and the company's taken claims and respective liabilities to KazAgro are long term. We understand that before the end of the year, FCC will transfer these claims back and hence annul the respective liabilities to KazAgro. According to FCC, the transaction is technical, initiated by KazAgro, with the company acting as an intermediary to help KazAgro close its cooperation with the bank.

In the weak market environment, we expect FCC to maintain access to state funding, mainly in the form of shareholder loans and loans from the Ministry of Agriculture, to provide non-commercial support to domestic farmers, which should mitigate credit risks for the company.

Liquidity analysis

As of the end of September 2017, we assess FCC's liquidity through December 2018 as weak, given that the company's cash reserves were lower than its debt maturities (around KZT37 billion), while operating cash flow for the first nine months of 2017 was negative and the visibility of the cash flow over the next 12-18 months remains limited. The overdue accounts receivable from domestic farmers is sizable, and the company's plan to collect them by year-end 2018 is quite challenging, given the weakness of the domestic farming sector.

Availabilities under credit facilities with foreign banks can support FCC's operations, although, as we understand, their cost would be particularly burdensome for the company in the weak market environment.

In our view, FCC's ability to timely address the company's refinancing risk related to the KZT33.3 billion notes due December 2018 will likely depend on the government support. We understand that the company is negotiating with the government for low-cost funding for the purpose of supporting domestic farmers.

Rating methodology and scorecard factors

We determine FCC's underlying credit quality, reflected in the company's BCA, by applying our Trading Companies rating methodology, published in June 2016. The company's current BCA of caa1 is lower than the grid-indicated outcome of b2, mainly because of (1) its exposure to the Commonwealth of Independent States' market environment, which is characterized by a less developed regulatory, political and legal framework; (2) the significant volatility in its operations and a high reliance on state regulation; and (3) its weak liquidity.

Exhibit 3

Rating Factors			Moody's 12-18 Month Forward View As of 11/30/2017 [3]	
National Company Food Contract Corp JSC				
Trading Companies Industry Grid [1][2]				
Factor 1: Scale (20%)	Current LTM 9/30/2017 Measure	Score	Measure	Score
a) Revenue (USD Billion)	\$0.03	Ca	\$0.03	Ca
b) Total Assets (USD Billion)		N/A		N/A
b) Fixed Assets (USD Billion)	\$0.03	Ca	\$0.03	Ca
Factor 2: Business Profile (30%)				
a) Business Profile	B	B	B	B
Factor 3: Leverage (20%)				
a) Debt / Book Capitalization	29.6%	Aa	35% - 45%	A
b) Net Debt / EBITDA [4]	-5.7x	Ca	Caa	Caa
c) FFO / Debt	-4.2%	Ca	Caa	Caa
Factor 4: Financial Policy (30%)				
a) Financial Policy	B	B	B	B
Rating:				
a) Indicated Rating from Grid		B2		B2
b) Actual Rating Assigned (BCA)				caa1
Government-Related Issuer		Factor		
a) Baseline Credit Assessment		caa1		
b) Government Local Currency Rating		Baa3		
c) Default Dependence		High		
d) Support		Strong		
e) Final Rating Outcome		B1		

[1] All quantitative measures, except for Fixed Assets, are based on 'As Adjusted' financial data and incorporate Global Standard Adjustments for Non-Financial Corporations. Fixed Assets are based on 'As Reported' financial data for Gross Property, Plant, and Equipment.

[2] As of 9/30/2017(L); Source: Moody's Financial Metrics™

[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.

[4] Net Debt includes an adjustment for Readily Marketable Inventories (RMI), which is typically between 20% and 75% of inventory depending on the business mix of the company (see the published rating methodology for a detailed description of this adjustment).

Source: Moody's Investors Service

Ratings

Exhibit 4

Category	Moody's Rating
NATIONAL COMPANY FOOD CONTRACT CORP JSC	
Outlook	Negative
Corporate Family Rating	B1
Senior Unsecured -Dom Curr	B1

Source: Moody's Investors Service

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