CREDIT OPINION
19 February 2025

Update

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RATINGS

National Company Kazakhstan Temir Zholy JSC

Domicile	Astana, Kazakhstan
Long Term Rating	Baa2
Type	LT Issuer Rating - Fgn Curr
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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National Company Kazakhstan Temir Zholy JSC

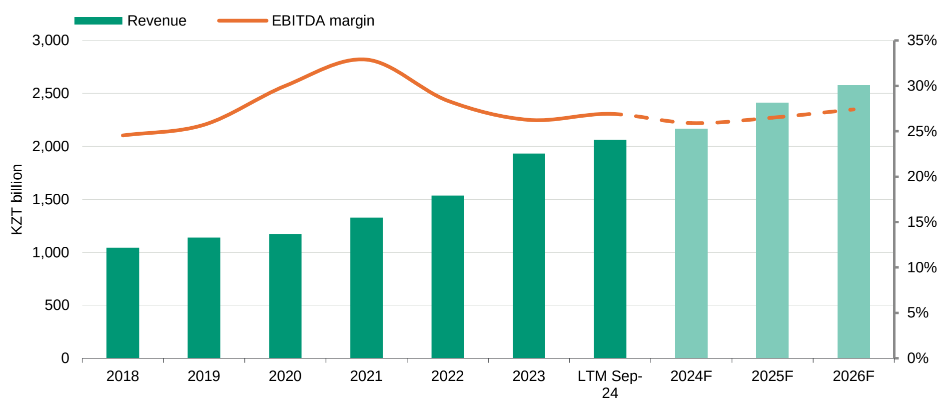
Update to credit analysis

Summary

National Company Kazakhstan Temir Zholy JSC's (KTZ) Baa2 rating factors in its Baseline Credit Assessment (BCA) of ba3, the Government of Kazakhstan's Baa1 rating, the moderate default dependence between KTZ and the government, and the high probability of government support in the event of financial distress. We rate KTZ under our Government-Related Issuers (GRI) methodology because the government exerts a very high level of control over the company through its parent Sovereign Wealth Fund Samruk-Kazyna JSC (Samruk-Kazyna, Baa1 stable) and given KTZ's strategic importance to the government.

The BCA factors in the company's position as the monopoly owner of rail transportation infrastructure and the largest provider of transportation services in Kazakhstan; strategic and social importance to its parent company, and to the state and its efforts to diversify the economy away from hydrocarbon sectors, which translates into sizeable ordinary support, accommodating tariff policy and prudent supervision over KTZ's strategy and financial policy; prudent development strategy; and growing revenue, earnings and cargo turnover. At the same time, the BCA reflects the company's ongoing large capital spending programme, which leads to negative cash generation and growing debt over 2023-26, and high exposure to the macroeconomic and regulatory environment in Kazakhstan.

Exhibit 1
Financial performance should remain sound in 2025-26



Source: Moody's Ratings

Credit strengths

» Status as the monopoly provider of strategic rail infrastructure services in Kazakhstan

» Expansion of the more profitable transit business

» Proven track record of ordinary and extraordinary state support, including sizeable long-term funding

Credit challenges

» Large investment programme, which leads to negative free cash flow (FCF)

» Exposure to the macroeconomic and regulatory environment in Kazakhstan

Rating outlook

The stable outlook on KTZ's rating reflects our view that KTZ's specific credit factors, including its operating and financial performance, credit metrics, market position and liquidity, will remain commensurate with its rating on a sustainable basis, and there will be no weakening in the probability of support from Samruk-Kazyna and the government in the event of financial distress.

Factors that could lead to an upgrade

Upward rating pressure could emerge if (1) there is a significant improvement in the company's standalone creditworthiness and (2) Kazakhstan's sovereign rating and Samruk-Kazyna's rating are upgraded. The former would require that the company completes its investment cycle and sustainably reduces its adjusted debt/EBITDA below 4.0x.

Factors that could lead to a downgrade

We could downgrade KTZ's rating if it was to downgrade Kazakhstan's sovereign rating or Samruk-Kazyna's rating , or if we reassess the likelihood of support from Samruk-Kazyna and the government in the event of financial distress to a weaker level. A material deterioration in the company's standalone credit quality could also lead to a rating downgrade.

Key indicators

Exhibit 2

National Company Kazakhstan Temir Zholy JSC

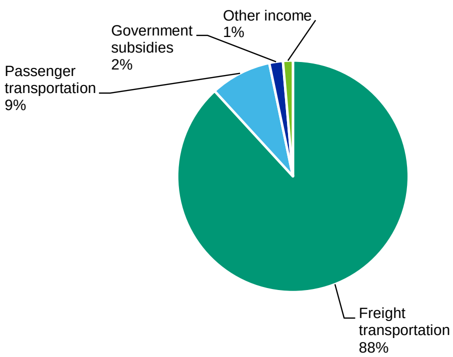
(in $ billions)	2019	2020	2021	2022	2023	LTM Sep-24	2024F	2025F
Revenue	3.0	2.8	3.1	3.3	4.2	4.5	4.7	5.2
Operating Margin	16%	17%	20%	16%	17%	18%	18%	18%
EBITA / Average Assets	5%	6%	9%	8%	8%	8%	7%	7%
Debt / EBITDA	5.4x	4.9x	4.0x	4.2x	4.4x	4.7x	5.0x	5.2x
FFO / Debt	14%	15%	17%	15%	14%	13%	9%	10%
EBIT / Interest Expense	1.3x	2.2x	2.3x	2.0x	1.8x	1.8x	1.6x	1.5x
EBITDA Margin	26%	30%	33%	28%	26%	27%	26%	27%

All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology. LTM = Last 12 months. The forecasts are our opinion and do not represent the views of the issuer.
Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Profile

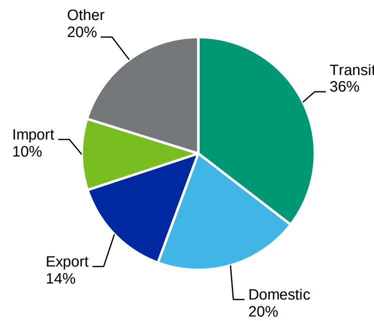
Headquartered in Astana, Kazakhstan, National Company Kazakhstan Temir Zholy JSC (KTZ) is the vertically integrated monopoly owner and operator of the national rail network of the Republic of Kazakhstan, and the leading provider of freight and passenger rail transportation services in the country. Beyond its railway operations, KTZ also manages several significant infrastructure assets, including sea ports. The company is wholly owned by JSC National Welfare Fund Samruk-Kazyna. KTZ reported revenue of KZT2,062 billion and Moody's-adjusted EBITDA of KZT555 billion for the 12 months that ended September 2024.

Exhibit 3
Revenue breakdown by service type (2023)



Source: Company

Exhibit 4
Freight transportation revenue breakdown by destination (2023)



Source: Company

Detailed credit considerations

Monopoly owner of the national rail infrastructure and the largest provider of transportation services in Kazakhstan

KTZ's business profile benefits from its position as the monopoly provider of rail infrastructure services in Kazakhstan, a country where railway is the key freight transportation mode because of its substantial territory, landlocked position, and abundant and widespread natural resources. In particular, rail transportation accounted for 65% of the country's freight turnover in 2023, a small increase from 64% in 2022.

Kazakhstan's strategic location among key trading regions such as the European Union, China, Russia and the Commonwealth of Independent States provides good potential for the active development of transit operations in the country. KTZ also holds the leading position in the domestic freight market, accounting for around a third of the total national cargo turnover (including pipelines). Moreover, it remains a dominant provider of rail passenger services in the country, with around 70% of the total rail passenger turnover.

The company competes with pipelines, which have taken over almost all crude oil cargo volume from rail, and with road transportation, which dominates short-haul routes. Private participation in the Kazakhstan railway transportation industry is limited to the ownership, leasing and operation of railcars and containers, with many private operators being part of industrial groups that largely service their own freight turnover. Although the market for locomotive traction was liberalised in 2019, we expect KTZ to retain its leadership in the segment because of its established large fleet and the high capital required for private investors to develop this business.

Financial performance will remain robust because of high regulated tariff indexation and growing freight turnover

KTZ's operating performance had historically been exposed to the economic environment in Kazakhstan and commodity market volatility, which influence transportation activity in the country. However, the increasing stability of transit operations and Kazakhstan's economic resilience and diversification in recent years have reduced this exposure. Notably, KTZ's freight transportation business, accounting for about 90% of its revenue, was resilient to the severe economic impact of the global coronavirus pandemic. In addition, oil and oil products account for only 8% of the company's freight turnover now, which limits its exposure to oil market conditions.

The company benefits from increased transportation activity between Russia and Asia and across the Trans-Caspian International Transport Route — also known as the Middle Corridor. Demand for railway freight transportation is likely to remain elevated because of a structural diversion of cargo flow in the region and may be curbed only by infrastructure bottlenecks. The company's freight turnover increased by 5.1% in 2022, 6.9% in 2023 and 3.8% in 2024, reaching 272.1 billion ton-kilometers. The freight turnover is likely to grow by 1%-3% a year in 2025-26. Furthermore, container turnover grew rapidly to 1.4 million TEU in 2024 from 1.1 million TEU in 2021-22. Transit volumes increased by 8.8% in 2024.

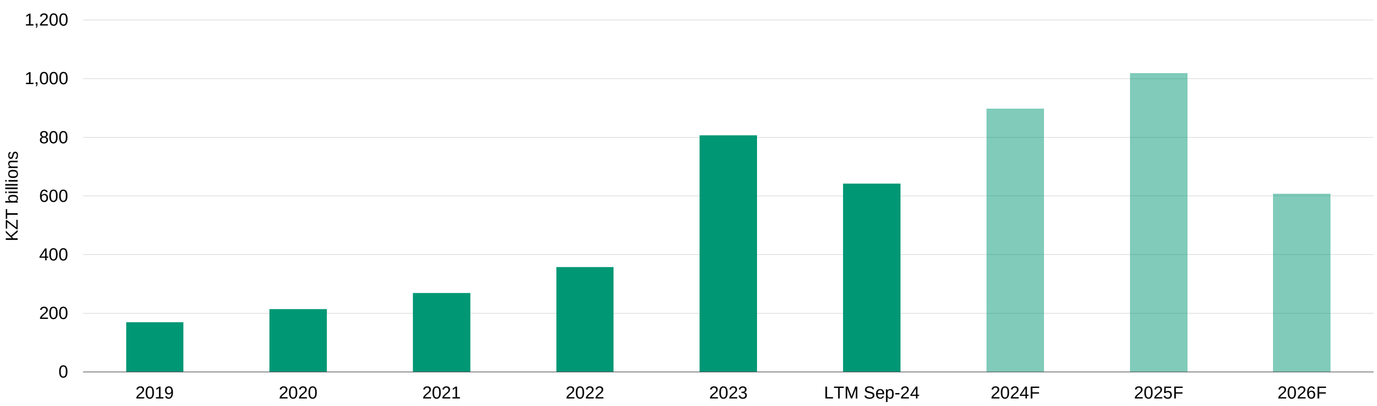
The tariff regulation has been also supportive recently. The average cargo tariff increased by 13% in 2021, 6% in 2022, 18% in 2023 and 13% for the first nine months of 2024, which helps offset relatively high inflation and finance extensive capital spending. More positively, the company expects average tariff growth of 24% a year in 2025-27.

Financial performance remains sound. Revenue increased by 9% in the first nine months of 2024, compared with 26% in 2023 and 16% in 2022. The slowdown in revenue growth was caused by a reduction in coal exports because of rising prices and a poor harvesting season that lead to a decline in grain transportation. Nevertheless, better operating performance in the second half of 2024 and tariff indexation are likely to result in low-double-digit revenue growth in percentage terms for full-year 2024. In the first nine months of 2024, the company reported strong growth in Moody's-adjusted EBITDA, increasing by 11% to KZT460 billion from KZT413 billion in the year-earlier period. EBITDA margin slightly improved to 30% from 29% in the same period a year earlier. We expect EBITDA margin to remain stable at 25%-28% in 2024-26.

Large investment programme

Since 2023, KTZ is executing a large capital spending programme. The company is investing in the expansion of infrastructure, particularly in its key transit route Dostyk–Aktogay–Moyinty, which will help remove bottlenecks; and in the modernisation and expansion of locomotives, freight cars and passenger cars. The infrastructure spending will be financed mostly by debt from Samruk-Kazyna. Locomotives and railway cars are financed by debt from Samruk-Kazyna and various ECAs. The company's capital spending increased to KZT807 billion in 2023 from KZT358 billion in 2022 and KZT269 billion in 2021. We expect KTZ's capital spending to increase by 10% to KZT900 billion in 2024.

Exhibit 5
Capital spending will remain high in 2024-26



Source: Company

As a result, the company's FCF was deeply negative in 2023-24 and is likely to remain negative in 2025-26 due to debt-funded capital spending, despite strong operating cash generation and the absence of dividends.

In addition, KTZ is considering additional initiatives to enhance infrastructure on the Trans-Caspian Route, including construction of new railway lines, modernisation and expansion of transport corridors, and completion of digitalization projects. If approved, this will increase the company's capital spending programme further.

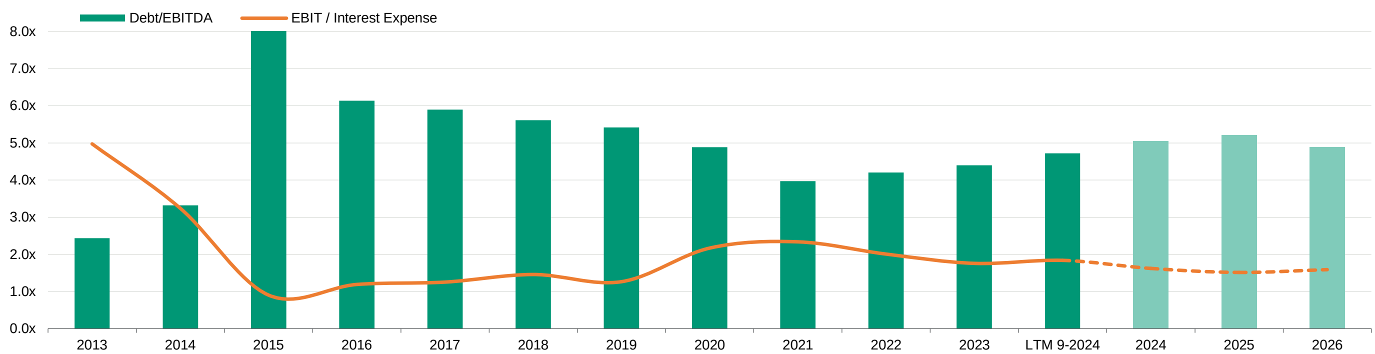
However, the capital spending programme is reasonable given the recent strong growth in cargo turnover, expectations of further growth, inability to meet all demand due to infrastructure bottlenecks and sometimes lack of available locomotives, and the need to replace obsolete railway cars.

Recent improvement in credit metrics will be reversed temporarily because of high capital spending

The company demonstrated improvement in credit metrics in 2020-23, compared with 2015-19. Leverage reduced to 4.0x-5.0x in 2020-23 from 5.5x-6.0x in 2016-19, and EBIT/interest expense increased to around 2.2x from 1.3x over the same period.

However, this will be reversed partially in 2024-26 because of the high capital spending cycle. KTZ's Moody's-adjusted total debt increased to KZT2,620 billion as of September 2024 from KZT2,234 billion in 2023 and KZT1,831 billion in 2022. As a result, gross leverage increased to 4.7x in the 12 months that ended September 2024 from 4.4x in 2023 and 4.2x in 2022, but still remained below the average of 5.3x in 2018-20. We expect leverage to be around 5.0x in 2024-26. However, around half of the company's debt is provided or orchestrated by the government and features a very long repayment profile and low or subsidized interest rates.

Exhibit 6
Gross leverage will hover around 5.0x in 2024-26



Source: Moody's Ratings

We also acknowledge KTZ's focus on reducing leverage in the long term and debt portfolio optimisation (in terms of currency composition and maturity profile) under the financial policy approved by Samruk-Kazyna. Specifically, the financial policy targets leverage to be at or below 4.0x reported debt/EBITDA.

State support remains a key rating driver

The proven government support, both ordinary and extraordinary, is a particularly important rating component and is underpinned by the company's strategic importance to the economy as the monopoly owner of the rail transportation infrastructure and the largest provider of transportation services in Kazakhstan; role as a key platform in implementing the state initiative of developing the transportation industry, including the strategically important transit operations; and social importance as one of the largest employers and taxpayers in the country. The company's current rating is underpinned by strong evidence of consistent state support for its efforts to stabilise its operating and financial performance, and our expectation that the government will provide extraordinary aid if needed. In addition, the government could exert a very high level of control through KTZ's parent Samruk-Kazyna over the governance, financial policies and strategy of the company.

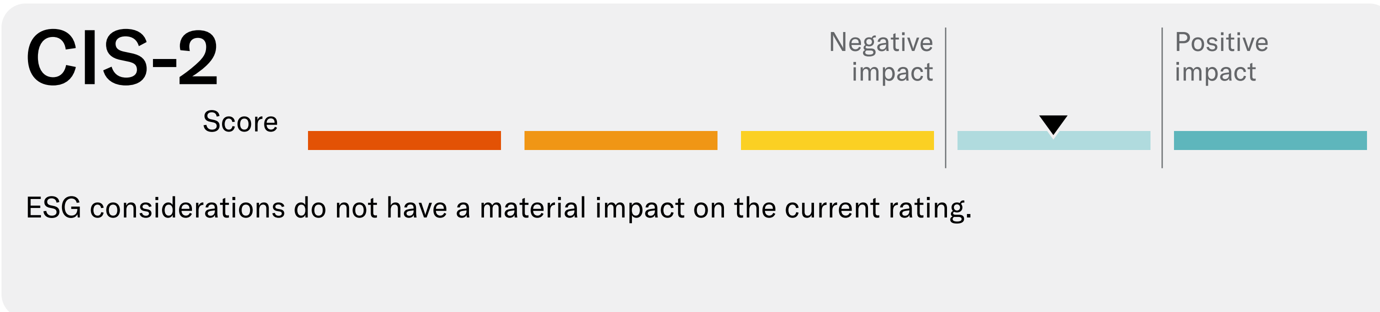
KTZ's business model incorporates ordinary support from the state in the form of approval of tariff indexation; annual subsidies for loss-making passenger operations; equity injections, subsidies and long-term state funding at preferable terms to finance the investment programme; subsidised interest rates on bonds placed in the domestic market; and active involvement in KTZ's strategy and operations, appointment of management and board of directors, investments, financing policies and risk management.

In particular, the company's ongoing debt portfolio optimisation efforts have been fully supported and orchestrated by the government, which also provides part of the funding. The state-provided subsidies for passenger operations amounted to KZT39 billion in 2023, KZT38 billion in 2022, KZT39 billion in 2021 and KZT26 billion in 2020. Around half of the company's debt portfolio is either low-interest debt from the state or is covered by interest-rate subsidies. Historically, the state has also provided crucial extraordinary support to the company's liquidity when needed.

ESG considerations

National Company Kazakhstan Temir Zholy JSC's ESG credit impact score is CIS-2

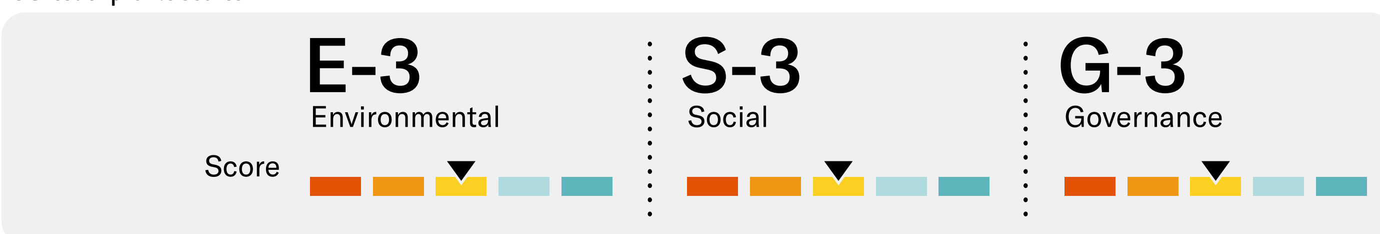
Exhibit 7
ESG credit impact score



Source: Moody's Ratings

KTZ's **CIS-2** indicates that ESG considerations are not material to the rating thanks to the uplift provided by its continued strategic importance to Samruk-Kazyna and the Government of Kazakhstan.

Exhibit 8
ESG issuer profile scores



Source: Moody's Ratings

Environmental

E-3. KTZ has moderate exposure to environmental risks (**E-3**) and reflects the lower environmental impact of railways over road transportation and other modes of transport. Around one third of KTZ's locomotive fleet is electrified. But the company is exposed to some environmental risks through its transportation of sometimes hazardous materials.

Social

S-3. KTZ has moderate exposure to social risks because of the high level of unionisation of its workforce and its dependence on a skilled workforce.

Governance

KTZ's **G-3** is driven by its balanced financial policy; Samruk-Kazyna's strong influence over its strategy and operations; and its concentrated ownership.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

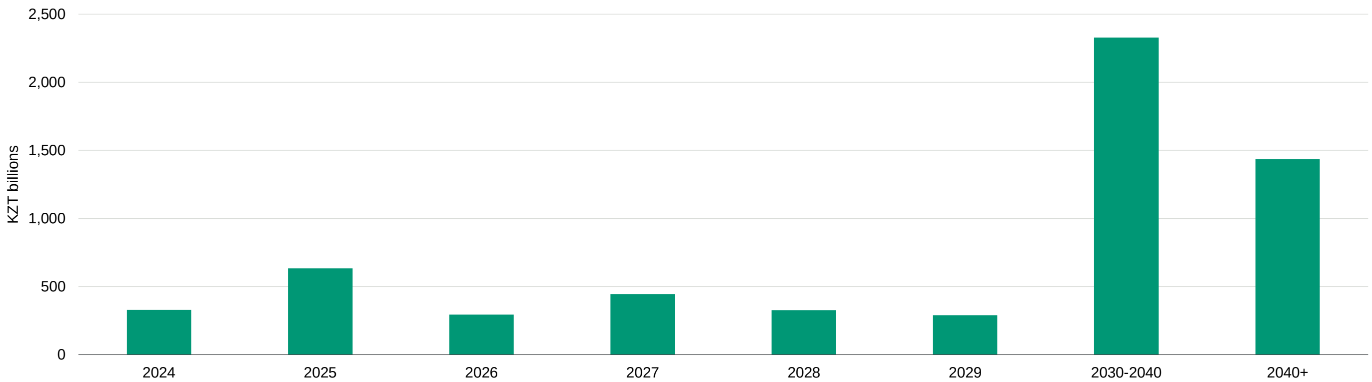
Liquidity analysis

KTZ's liquidity has historically benefited from a fairly comfortable debt maturity profile, with over 60% of its total debt due after 2028; from the discretionary nature of most of the company's total capital spending; and from its proven access to bank and capital market financing, and state support via equity injections and long-term state loans. However, the size of its committed available credit facilities is modest compared with the sizeable capital spending programme.

We estimate that the company will generate about KZT345 billion of funds from operations in 2025, which should adequately cover its upcoming debt maturity of KZT185 billion, excluding KZT415 billion ($833 million) in bonds held by its parent company Samruk-Kazyna. We expect the bond redemption to be refinanced or converted into an equity-like instrument by the parent company. However, to fund its extensive capital expenditure programme, which we estimate at around KZT1,000 billion in 2025, the company will need to rely on external facilities. KTZ is likely to receive funding from the state at low interest rates and with long tenors to finance its capital spending before committing itself to spending.

We expect KTZ to remain in compliance with the financial covenants under its bank debt. We also take into account the company's historical ability to receive the applicable waivers in a timely manner if needed.

Exhibit 9
Debt maturity profile is skewed towards 2030-40



Debt maturities as of 30 June 2024
Source: Company

Methodology and scorecard

The principal methodology used in KTZ's rating is our Surface Transportation and Logistics rating methodology and Government-Related Issuers methodology.

Exhibit 10
Rating factors
National Company Kazakhstan Temir Zholy JSC

Surface Transportation and Logistics Industry Grid	Current LTM Sep-24		Moody's 12-18 month forward view	
Factor 1 : Scale (15%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue ($ billions)	4.5	Ba	4.7 - 5.2	Ba
Factor 2 : Business Profile (20%)				
a) Business Profile	A	A	A	A
Factor 3 : Profitability & Efficiency (10%)				
a) Operating Margin %	18%	Baa	18%	Baa
b) EBITA / Average Assets	8%	Ba	7%	Ba
Factor 4 : Leverage & Coverage (40%)				
a) Debt / EBITDA	4.7x	B	5.0x - 5.2x	B
b) FFO / Debt	13%	Ba	9%-10%	B
c) EBIT / Interest Expense	1.8x	B	1.5x - 1.6x	B
Factor 5 : Financial Policy (15%)				
a) Financial Policy	Ba	Ba	Ba	Ba
Rating:				
a) Scorecard-Indicated Outcome		Ba2		Ba1
b) Actual Rating Assigned				Baa2
Government-Related Issuer	**Factor**			
a) Baseline Credit Assessment	ba3			
b) Government Local Currency Rating	Baa2			
c) Default Dependence	Moderate			
d) Support	High			
e) Actual Rating Assigned	Baa2			

All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology. LTM = Last 12 months.
The forecasts are our opinion and do not represent the views of the issuer.
Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Appendix

Exhibit 11

Peer comparison

National Company Kazakhstan Temir Zholy JSC

	National Company Kazakhstan Temir Zholy JSC			Deutsche Bahn AG			SNCF S.A.			Union Pacific Corporation		
	Baa2 Stable			(P)Aa1 Stable			A1 Stable			A3 Positive		
	FY	FY	LTM	FY	FY	LTM	FY	FY	LTM	FY	FY	LTM
(in $ millions)	Dec-22	Dec-23	Sep-24	Dec-22	Dec-23	Jun-24	Dec-22	Dec-23	Jun-24	Dec-22	Dec-23	Sep-24
Revenue	3,335	4,239	4,479	54,894	48,869	48,133	43,684	45,159	45,933	24,875	24,119	24,288
EBITDA	946	1,113	1,206	5,319	2,687	1,640	8,188	8,293	8,067	12,843	12,208	12,681
Total Debt	3,957	4,900	5,449	42,424	47,584	47,127	81,504	79,584	71,818	35,352	34,583	33,100
Operating Margin	15.6%	17.5%	17.6%	1.6%	-3.2%	-5.8%	6.5%	6.1%	5.6%	40.1%	37.9%	39.7%
FFO / Debt	14.7%	14.0%	12.9%	14.3%	10.4%	7.8%	7.5%	7.8%	8.9%	27.3%	26.0%	28.4%
EBITA / Average Assets	7.6%	7.9%	7.7%	1.7%	-1.6%	-2.9%	3.2%	3.2%	3.0%	16.0%	14.4%	14.9%
Debt / EBITDA	4.2x	4.4x	4.7x	7.9x	17.3x	29.0x	9.8x	9.4x	9.0x	2.8x	2.8x	2.6x
EBIT / Interest Expense	2.0x	1.8x	1.8x	1.6x	-1.6x	-2.3x	1.9x	2.0x	2.0x	7.6x	6.8x	7.3x
RCF / Net Debt	17.2%	15.3%	13.7%	16.3%	9.5%	7.0%	17.7%	15.2%	13.5%	18.8%	17.4%	19.3%

All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Exhibit 12

Moody's-adjusted debt reconciliation

National Company Kazakhstan Temir Zholy JSC

(in KZT billions)	2019	2020	2021	2022	2023	LTM Sep-24
As reported debt	**1,513**	**1,620**	**1,637**	**1,740**	**2,189**	**2,575**
Pensions	44	43	46	44	45	45
Non-Standard Adjustments	30	56	51	47	-	-
Moody's-adjusted debt	**1,587**	**1,720**	**1,734**	**1,831**	**2,234**	**2,620**

All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Exhibit 13

Moody's-adjusted EBITDA reconciliation

National Company Kazakhstan Temir Zholy JSC

(in KZT billions)	2019	2020	2021	2022	2023	LTM Sep-24
As reported EBITDA	**226**	**292**	**421**	**356**	**489**	**466**
Pensions	11	3	5	8	5	5
Unusual Items	56	58	11	72	14	84
Moody's-adjusted EBITDA	**293**	**352**	**437**	**436**	**508**	**555**

All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Exhibit 14

Overview on select historical and forecast Moody's-adjusted financial data

National Company Kazakhstan Temir Zholy JSC

(in KZT billions)	2019	2020	2021	2022	2023	LTM Sep-24	2024F	2025F
INCOME STATEMENT								
Revenue	1,139	1,173	1,329	1,536	1,934	2,062	2,169	2,414
EBITDA	293	352	437	436	508	555	562	640
EBITDA margin %	~~25.7%~~	~~30.0%~~	~~32.9%~~	~~28.4%~~	26.3%	26.9%	~~25.9%~~	~~26.5%~~
EBIT	168	216	296	290	351	389	391	456
EBIT margin %	~~14.8%~~	~~18.4%~~	~~22.3%~~	~~18.9%~~	~~18.1%~~	~~18.9%~~	~~18.0%~~	~~18.9%~~
Interest Expense	133	99	127	144	200	212	241	302
BALANCE SHEET								
Cash & Cash Equivalents	152	155	178	267	205	187	49	76
Total Assets	3,333	3,367	3,604	3,996	4,914	5,527	5,770	6,505
Total Debt	1,587	1,720	1,734	1,831	2,234	2,620	2,836	3,332
CASH FLOW								
Funds From Operations (FFO)	225	260	293	269	313	338	251	346
Capital Expenditures	(169)	(214)	(269)	(358)	(807)	(642)	(892)	(1,013)
Dividends	(21)	(1)	-	-	(1)	(4)	-	-
Retained Cash Flow (RCF)	204	259	293	269	311	334	251	346
Free Cash Flow (FCF)	60	7	53	(88)	(526)	(362)	(514)	(565)
INTEREST COVERAGE								
EBITDA / Interest Expense	2.2x	3.5x	3.4x	3.0x	~~2.5x~~	~~2.6x~~	~~2.3x~~	~~2.1x~~
(FFO + Int.) / Interest Expense	~~2.7x~~	~~3.6x~~	~~3.3x~~	~~2.9x~~	~~2.6x~~	~~2.6x~~	~~2.0x~~	~~2.1x~~
LEVERAGE								
FFO / Debt	14.2%	15.1%	16.9%	14.7%	14.0%	12.9%	~~8.8%~~	~~10.4%~~
RCF / Net Debt	14.2%	16.5%	18.8%	17.2%	15.3%	13.7%	~~-8.5%~~	~~-10.9%~~
FCF / Net Debt	4.2%	0.4%	3.4%	-5.6%	-25.9%	-14.9%	~~17.5%~~	~~17.8%~~
Debt / EBITDA	5.4x	4.9x	4.0x	4.2x	4.4x	4.7x	~~5.0x~~	~~5.2x~~
Net Debt / EBITDA	4.9x	4.4x	3.6x	3.6x	4.0x	4.4x	~~-5.2x~~	~~-5.0x~~

All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology. LTM = Last 12 months.
The forecasts are our opinion and do not represent the views of the issuer.
Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Ratings

Exhibit 15

Category	Moody's Rating
NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY JSC	
Outlook	Stable
Issuer Rating	Baa2
PARENT: SOVEREIGN WEALTH FUND SAMRUK-KAZYNA JSC	
Outlook	Stable
Issuer Rating	Baa1
NSR LT Issuer Rating	Aaa.kz

Source: Moody's Ratings

REPORT NUMBER 1436494

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454