

Rating Action: Moody's changes outlook on DBK Leasing's Ba3 rating to stable from negative

Global Credit Research - 19 Dec 2013

London, 19 December 2013 -- Moody's Investors Service has today changed to stable from negative the outlook on the following ratings of DBK Leasing: Ba3 long-term local- and foreign-currency corporate family and issuer ratings, the provisional (P)Ba3 local-currency rating assigned to the issuer's KZT15 billion (\$102 million) domestic bond programme, and the Ba3 local currency debt rating assigned to the issuer's senior unsecured Medium-Term Notes (MTN) issued under this programme. Concurrently Moody's affirmed all the company's long-term ratings and its Not Prime short-term issuer rating.

RATINGS RATIONALE

The rating action reflects Moody's assessment of the stabilisation in DBK Leasing's credit profile following a large-scale equity injection into the company in Q3 2013. The rating agency expects that DBK Leasing's enhanced capital will be sufficient to absorb possible losses stemming from the company's weak asset quality and to offset its weak earnings generations in the next two-to-three years.

The KZT11.44 billion (about \$75 million) recapitalisation of DBK Leasing by its parent Development Bank of Kazakhstan (Baa3, stable) more than doubled the company's equity, which resulted in the company reporting a very strong equity-to-assets ratio of 38.4% at end-Q3 2013, according to its unaudited IFRS financial statements.

According to DBK Leasing, nearly 40% of its leasing book was overdue over 90 days or restructured as of end-Q3 2013. Against these problem leases the company held reserves of 16.9% of the leasing book, which will likely be insufficient to cover all expected credit losses, and the company will have to substantially increase these reserves over the next 12-18 months.

Higher reserves against problem leases and low net interest margin will maintain negative pressure on DBK Leasing's already weak profitability. The company reported a net loss of KZT691 million for the first nine months of 2013, which resulted in a negative annualised return on assets (RoA) of 1.92%.

DBK Leasing's liquidity profile is adequate, with an ample liquidity cushion amounting to 31% of total assets as of end-Q3 2013. The company's refinancing risks are limited as it is highly reliant on parental funding, which accounted for around half of its non-equity funding at end-Q3 2013. Whilst DBK Leasing has repaid a considerable portion of the parent funds following its recapitalisation, the rating agency expects that the resources provided by the parent can be rolled over if necessary.

DBK Leasing's Ba3 corporate family and issuer ratings incorporate a three-notch uplift from the company's standalone credit assessment of b3, which is based on our assessment of the very high probability of extraordinary support from the parent. The very high probability of parental support reflects: (1) DBK Leasing's 100% ownership and around 50% (at end-Q3 2013) non-equity funding by Development Bank of Kazakhstan; (2) the company's relatively small size, which enables the parent to extend the necessary level of support in the event of need; and (3) its good fit with its parent strategy.

WHAT COULD MOVE THE RATINGS UP/DOWN

Upward pressure could be exerted on DBK Leasing's ratings as a result of improving asset quality and profitability.

A further material deterioration of DBK Leasing's leasing book could have negative rating implications, as could any downgrade of the parent's ratings. Signs of a diminished willingness on the part of Development Bank of Kazakhstan to further develop DBK Leasing, or the parent's decision to privatise the company could also exert negative pressure on the company's ratings.

PRINCIPAL METHODOLOGIES

The principal methodology used in this rating was Finance Company Global Rating Methodology published in March 2012. Please see the Credit Policy page on www.moody's.com for a copy of this methodology.

Headquartered in Astana, Kazakhstan, DBK Leasing reported total assets of KZT43.9 billion (\$291.4 million), shareholders equity of KZT7.7 billion (\$51.1 million), and net income of KZT95 million (\$630,000) as of year-end 2012, according to the company's audited financial statements.

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