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

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05.12.2018 № 03-3-09/3057

на № ______ от ______

**АО «Казахстанская фондовая биржа»**

Акционерное общество «Национальная компания «Продовольственная контрактная корпорация» (далее – Корпорация) сообщает об изменении рейтинговым агентством Moody's Investors Service 23 ноября 2018 года прогноза корпоративного рейтинга **B1** Корпорации со статуса *«Возможное понижение»* на статус прогноза *«Стабильный»*.

*Приложение: кредитное заключение Moody's Investors Service от 23 ноября т.г.*

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14356

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CREDIT OPINION
23 November 2018

Update

Rate this Research

RATINGS

**National Company Food Contract Corp JSC**

| | |
|---|---|
| Domicile | Kazakhstan |
| Long Term Rating | B1 |
| Type | LT Corporate Family Ratings - 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 Food Contract Corp JSC

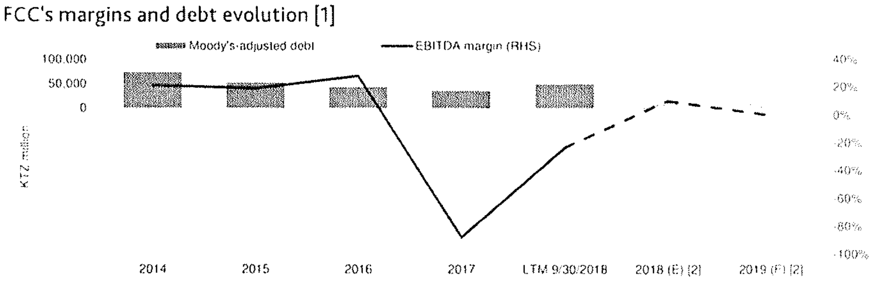
## Update following B1 ratings confirmation


## Summary

National Company Food Contract Corp JSC's (FCC) B1 ratings mainly reflect (1) our expectation of a strong probability of government support for FCC through KazAgro National Management Holding JSC (KazAgro, Ba1 stable), which is FCC's sole shareholder owned by the Government of Kazakhstan (Baa3 stable); (2) the material progress that FCC has made since mid-August 2018 in generating positive operating cash flow and addressing the refinancing risk in relation to its KZT33 billion notes due December 2018, although its liquidity and financial positions remain weak and evolving; and (3) FCC's exposure to the inherent cyclicality in the agriculture industry, heightened by the company's small size and reliance on the Kazakh grain sector.

FCC's B1 corporate family rating is determined in accordance with our Government-Related Issuers (GRI) rating methodology because FCC is owned by the Kazakh government through KazAgro. The rating combines (1) FCC's Baseline Credit Assessment (BCA) of caa1, which is a measure of the company's standalone credit quality, reflecting very weak credit metrics for the 12 months ended September 2018; and (2) an uplift from the strong probability of government support in a distress situation.


Exhibit 1
**FCC's margins and debt evolution [1]**




[1] All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's-adjusted 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)
[2] This represents Moody's estimates and forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.
*Source: Moody's Financial Metrics™*

## Credit strengths

» History of strong government support

» Recent improvements in cash flow generation and buildup of sizable cash reserves to address the notes maturity in December 2018

» Status as the state grain trader

» Status as an integral part of KazAgro holding

## Credit challenges

» Likely exhaustion of the recently improved liquidity following the upcoming notes repayment

» Uncertainty regarding the sustainability of business model

» A weak and evolving financial profile

» Exposure to the inherent cyclicality in the agriculture industry, heightened by FCC's small size and reliance on the Kazakh grain sector

## Rating outlook

The stable outlook on FCC's ratings reflects Moody's expectation that FCC will repay its notes due December 2018, proactively address its near-term liquidity needs thereafter, and sustainably improve its financial profile compared to that in 2017 utilising the strong state support available to FCC through KazAgro.

This expectation considers the closer involvement of the state through KazAgro in 2018 in managing FCC's operations and the signs of increasing state support for the company in the context of the overall increased state support to Kazakhstan's agriculture sector

## Factors that could lead to an upgrade

» Upward pressure on FCC's ratings is currently unlikely, given the weakness of FCC's standalone credit quality. In the medium term, the ratings could be upgraded if FCC delivers a material and sustainable recovery in its financial profile, illustrated by FCC's ability to generate positive cash flows from its operating activity on a sustainable basis, proactively address liquidity needs and service debt on its own.

## Factors that could lead to a downgrade

» The ratings could be downgraded if (1) FCC's revamped business model does not prove viable, resulting in a deterioration in the company's operating and financial performance; (2) FCC's near-term liquidity needs are not addressed fully and in advance; (3) we revise our assessment of strong government support for the company downwards; and/or (4) there is significant downward pressure on Kazakhstan's sovereign rating, or that of KazAgro.

## Key indicators

Exhibit 2
National Company Food Contract Corp JSC

National Company Food Contract Corp JSC [1]

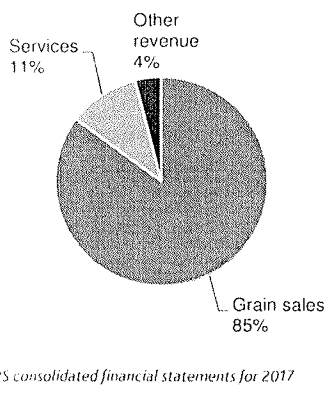
| US Millions | Dec-14 | Dec-15 | Dec-16 | Dec-17 | LTM (Sep-18) | 2018-proj. [3] | 2019-proj. [3] |
|---|---|---|---|---|---|---|---|
| Revenue (USD Billion) | 0.31 | 0.21 | 0.08 | 0.04 | 0.12 | 0.12 | 0.08 |
| Gross Plant (USD Billion) | 0.08 | 0.02 | 0.03 | 0.03 | 0.02 | 0.02 | 0.02 |
| Debt / Book Capitalization | 52.8% | 44.6% | 39.3% | 39.3% | 50.1% | 18.7% | 21.0% |
| Net Debt / EBITDA [2] | 2.1x | 3.9x | 2.3x | -1.4x | -0.9x | -0.8x | -77.2x |
| FFO / Debt | 13.8% | 12.6% | 10.4% | -2.5% | 0.5% | 10.2% | -9.5% |

[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. Moody's projections (proj.) are Moody's opinion and do not represent the views of the issuer.
[2] Net debt includes an adjustment for 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).
[3] This represents Moody's estimates and forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.
*Source: Moody's Investors Service*

## Profile

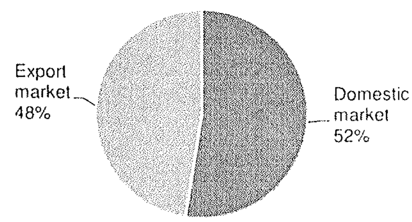
National Company Food Contract Corp JSC (FCC) is the Kazakh state grain trader fully owned by the Kazakh government through KazAgro. FCC's principal activities are to purchase grain from domestic producers and sell it domestically and for export to ensure food security in Kazakhstan, the stability of the domestic grain market and the development of the export potential of domestic grain. FCC is also engaged in commercial operations, including the storage, transshipment and sale of grain. For the 12 months ended September 2018, FCC generated revenue of KZT38.8 billion (around $116 million).

Exhibit 3
Revenue breakdown by type (2017)




*Source: Company's IFRS consolidated financial statements for 2017*

Exhibit 4
Agricultural product sales volume breakdown by market (2017)




*Source: Company's annual report for 2017*

## Detailed credit considerations

### Recently improved liquidity will likely be exhausted following the notes repayment in December 2018

The prolonged weakness in FCC's financial and liquidity positions through mid-2018 prompted us to place FCC's ratings and BCA on review for downgrade on 17 August 2018. As of August 2018, the company's largest upcoming debt maturity, represented by the KZT33 billion notes due December 2018, remained unaddressed, making FCC's ability to repay the notes fully dependent on the state support it receives through KazAgro.

The recent confirmation of FCC's rating and BCA recognises the material progress that the company has made in generating positive operating cash flow and addressing its near-term liquidity needs in the third quarter of 2018 and then through early November. During this period, in line with an action plan adopted by FCC under KazAgro's guidance in June 2018, FCC increased its grain sales through domestic grain exchange and exports, improved its payment collection and cut costs.

These measures have enabled FCC to build its cash reserves (excluding restricted cash in FCC's accounts) to levels comparable with the amount needed to cover the notes at maturity. Supplemented by upcoming cash receipts under a few executed export supplies, these cash reserves should be sufficient for the company to repay the notes fully and on time.

Following the notes repayment, FCC will need to replenish its liquidity to address cash flow volatilities inherent to its trading business and immediate operating needs, as well as near-term debt payments to its sole shareholder, KazAgro. For this purpose, FCC plans to use cash inflow from the collection of overdue accounts receivable or, if collection fails, from a bank guarantee that covers the respective receivables in favor of the company. This cash inflow should be received in early December. However, this cash inflow alone will not be sufficient to address the company's near-term liquidity needs, leaving it dependent on support from its sole shareholder, KazAgro.

### FCC's status as a GRI and strong government support

In accordance with our GRI rating methodology, FCC's rating incorporates a three-notch uplift to its BCA of caa1. This uplift is driven by (1) the credit quality of the Kazakh government, which owns FCC through KazAgro; (2) our assessment of a strong probability of government support to FCC through KazAgro in the event of financial distress; and (3) the high default dependence between the company and the government.

FCC's high level of default dependence reflects (1) the company's full state ownership through KazAgro, (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 those of the government.

The strong probability of the state support is predicated on the company's role as the state grain trader and a tool in supporting the domestic grain market as part of the state strategy to develop the domestic agriculture sector.

Our support assumption also factors in the reputational risk to the state if it fails to support FCC in servicing its financial debt in a timely manner, which is reinforced by FCC's cross-default links with KazAgro.

Over recent years, FCC's metrics have exhibited extreme volatility, most evident in revenue, which declined twofold in 2017 and then rebounded 2.5 times in the first nine months of 2018. FCC has also benefited from the close oversight by (particularly as the 2018 bond maturity approaches) and ongoing support wherever necessary, financial or otherwise, from KazAgro. These features are reflected in FCC's caa1 BCA, and without such support from KazAgro, FCC's standalone credit quality would be assessed as even weaker; its standalone debt capacity is very low.

Once the December bond payment has been met as we expect, our focus will switch to reappraising FCC's future financial strategy, under guidance from KazAgro; it is not yet clear whether FCC has plans to raise third-party debt again in the short term. KazAgro was first rated in 2018 and was itself designated as a GRI. Our typical approach is not to designate subsidiaries of GRIs as GRIs in their own right, so it is possible that we may choose to de-designate FCC as a GRI in its own right and instead rate it as a subsidiary of KazAgro, because any future support would likely flow through KazAgro rather than directly from the government.

### Exposure to the inherent cyclicality in the agriculture industry, heightened by FCC's small size and reliance on the Kazakh grain sector

FCC's major grain trading business line is exposed to the inherent cyclicality in 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. The recent increase in global wheat prices on the back of weather-driven concerns over production prospects has not marked a significant upward trend, given low crop prices and the slow monetization of crops by farmers for the last few years. Increased competition and broadly low, although somewhat improved, grain prices will likely sustain over the next 12-18 months, 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 volatility, 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.

### The sustainability of business model remains uncertain

The sustainability of the company's business model remains uncertain, in our view, given the prolonged period of losses, liquidity issues, significant overdue trade accounts receivables from the weak domestic farming sector and overstocking.

FCC's business model has been changing for the past few years, which has significantly added to the volatility in its operating and financial performance, and its current weakness.

In 2017, the ownership of the previously state-owned reserves was transferred to FCC, which provided the company with more flexibility in their use. 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 over the year.

The company's support functions for the domestic grain market limit its flexibility and imply noncommercial operations under the government's instructions, particularly when the market is in a distressed situation.

### Financial profile remains weak and evolving despite an improvement in Q3 2018

In 2017, FCC's financial profile significantly deteriorated because of low global grain prices and the weakness of the domestic farming sector. There was no sign of recovery through mid-June 2018. The company's EBITDA and operating cash generation in 2017 and for the 12 months ended June 2018 were materially negative.

We positively note that in line with its above-mentioned action plan adopted in June, FCC managed to increase its grain sales and generated sizable positive EBITDA and operating cash flow in Q3 2018 and thereafter through mid-November 2018. Nevertheless, the company's EBITDA for the 12 months ended September 2018 remains weak, given its weak operations in the recent past. We believe FCC is yet to demonstrate its ability to sustain the recent improvements in its grain sales and its positive EBITDA and operating cash flow and translate the improvements into a robust recovery in its financial profile over the next 12-18 months.

## Liquidity analysis

By the end of October 2018, FCC has built unrestricted cash reserves of around KZT31 billion. Supplemented with around KZT2 billion of cash to be received by the end of November under an executed export contract, the company should have sufficient resources to repay its KZT33 billion notes due on 12 December 2018. However, thereafter, FCC will need to replenish its exhausted liquidity to repay a KZT12.7 billion loan to KazAgro due in January 2019, fund day-to-day operations and be ready to address its trading business' cash flow volatilities in case of need. A KZT11 billion cash inflow under a bank guarantee for overdue accounts receivable, which the company expects to receive in early December, should significantly increase its liquidity position but will not be able to fully comfort it. However, in our view, the risk of the company's weak and evolving liquidity remains mitigated by the support from its sole shareholder KazAgro.

We understand that KazAgro is willing and has sufficient resources to assist FCC in meeting its financial obligations, including the repayment of its notes.

## 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 b3, 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) its still-weak financial profile and uncertainty over the sustainability of the improvements in its operations and financial performance delivered in Q3 2018; and (3) weak and evolving liquidity.

Exhibit 5
Rating factors

| Rating Factors<br>National Company Food Contract Corp JSC<br>Trading Companies Industry Grid [1][2] | Current<br>LTM 9/30/2018 | | Moody's 12-18 Month<br>Forward View<br>As of Nov 2018 [3] | |
|---|---|---|---|---|
| **Factor 1: Scale (20%)** | **Measure** | **Score** | **Measure** | **Score** |
| a) Revenue (USD Billion) | $0.12 | Ca | $0.08 | Ca |
| b) Fixed Assets (USD Billion) | $0.02 | Ca | $0.02 | Ca |
| **Factor 2: Business Profile (30%)** | | | | |
| a) Business Profile | B | B | B | B |
| **Factor 3: Leverage (20%)** | | | | |
| a) Debt / Book Capitalization | 50.1% | Baa | 21.0% | Aaa |
| b) Net Debt / EBITDA [4] | -0.9x | Ca | -77.2x | Ca |
| c) FFO / Debt | 0.5% | B | -9.5% | Ca |
| **Factor 4: Financial Policy (30%)** | | | | |
| a) Financial Policy | B | B | B | B |
| **Rating:** | | | | |
| a) Indicated Rating from Grid | | B3 | | B2 |
| b) Actual Rating Assigned | | | | 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 9/30/2018(L); 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 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).
*Sources: Moody's Investors Service*

## Ratings

Exhibit 6

| Category | Moody's Rating |
|---|---|
| NATIONAL COMPANY FOOD CONTRACT CORP JSC | |
| Outlook | Stable |
| Corporate Family Rating | B1 |
| Senior Unsecured -Dom Curr | B1/LGD4 |
| PARENT: KAZAGRO NATIONAL MANAGEMENT HOLDING JSC | |
| Outlook | Stable |
| Issuer Rating | Ba1 |
| Senior Unsecured | Ba1 |
| Other Short Term | (P)NP |
| NSR LT Issuer Rating | Aa2.kz |

*Source: Moody's Investors Service*

## Appendix

Exhibit 7

### Peer comparison

| (in US millions) | National Company Food Cont B1 Stable | | | Noble Group Limited Caa1 Stable | | | Bunge Limited Baa2 Negative | | |
|---|---|---|---|---|---|---|---|---|---|
| | FYE Dec-16 | FYE Dec-17 | LTM Sep-18 | FYE Dec-16 | FYE Dec-17 | LTM Jun-18 | FYE Dec-16 | FYE Dec-17 | LTM Jun-18 |
| Revenue | $80 | $41 | $116 | $8,667 | $6,442 | $5,210 | $42,679 | $45,794 | $45,816 |
| EBITDA | $23 | -$36 | -$27 | $512 | -$75 | $1,371 | $2,084 | $1,665 | $1,618 |
| Fixed Assets | $30 | $31 | $25 | $1,785 | $1,569 | $1,244 | $10,191 | $11,282 | $11,282 |
| Total Assets | $339 | $291 | $292 | $12,922 | $5,650 | $4,555 | $19,577 | $19,783 | $22,542 |
| Total Debt | $132 | $108 | $139 | $4,315 | $4,768 | $4,787 | $5,141 | $6,090 | $9,188 |
| Cash & Cash Equiv. | $80 | $57 | $117 | $1,095 | $599 | $441 | $934 | $601 | $221 |
| Total Debt/Capital | 39.3% | 39.3% | 50.1% | 49.8% | 131.7% | 141.2% | 41.3% | 45.9% | 58.0% |
| Net Debt / EBITDA | 2.3x | -1.4x | -0.9x | 6.3x | -55.9x | 3.2x | 2.0x | 3.3x | 5.5x |
| FFO / Debt | 10.4% | -2.5% | 0.5% | 2.1% | -65.9% | -34.0% | 35.6% | 22.8% | 15.4% |

All figures and ratios are calculated using Moody's estimates and standard adjustments.
*Source: Moody's Financial Metrics™*

Exhibit 8

### Moody's-adjusted debt breakdown
National Company Food Contract Corp JSC

| (in US Millions) | FYE Dec-14 | FYE Dec-15 | FYE Dec-16 | FYE Dec-17 | LTM Ending Sep-18 |
|---|---|---|---|---|---|
| **As Reported Debt** | **507.3** | **195.3** | **150.9** | **142.3** | **147.3** |
| Operating Leases | 0.9 | 0.5 | 0.5 | 0.6 | 0.5 |
| Non-Standard Adjustments | -104.2 | -40.8 | -19.7 | -35.0 | -8.9 |
| **Moody's-Adjusted Debt** | **404.0** | **155.0** | **131.7** | **108.0** | **139.0** |

All figures and ratios are calculated using Moody's estimates and standard adjustments.
*Source: Moody's Financial Metrics™*

Exhibit 9

### Moody's-adjusted EBITDA breakdown
National Company Food Contract Corp JSC

| (in US Millions) | FYE Dec-14 | FYE Dec-15 | FYE Dec-16 | FYE Dec-17 | LTM Ending Sep-18 |
|---|---|---|---|---|---|
| **As Reported EBITDA** | **67.2** | **41.0** | **22.2** | **-60.3** | **-37.8** |
| Operating Leases | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 |
| Unusual | 0.0 | -2.3 | 0.7 | 24.7 | 11.3 |
| Non-Standard Adjustments | -0.7 | 0.9 | -0.5 | -0.6 | -0.4 |
| **Moody's-Adjusted EBITDA** | **66.9** | **39.8** | **22.6** | **-36.0** | **-26.8** |

All figures and ratios are calculated using Moody's estimates and standard adjustments.
*Source: Moody's Financial Metrics™*

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