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RATING ACTION COMMENTARY

Fitch Affirms NC QazaqGaz and Subsidiaries at 'BB+'; Outlook Stable

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Fitch Ratings - Warsaw - 04 Feb 2025: Fitch Ratings has affirmed JSC National Company QazaqGaz's (QG) Long-Term Foreign- and Local-Currency Issuer Default Ratings at 'BB+' with Stable Outlook. Fitch has also affirmed the Long-Term Foreign-Currency IDRs of QG's fully owned subsidiaries, Intergas Central Asia JSC (ICA) and QAZAQGAZ AIMAQ JSC (QGA) at 'BB+' with Stable Outlooks.

QG is rated two notches below the sovereign rating of Kazakhstan (BBB/Stable), in line with Fitch's Government-Related Entities (GRE) Rating Criteria. QG's support score is 32.5, which underlines 'Very Likely' support from the state, based on the criteria definitions, while its Standalone Credit Profile (SCP) is 'b'. QG's SCP is supported by the company's monopolistic position in natural gas transit, transportation and distribution in Kazakhstan, but constrained by low profitability of domestic gas sales and reliance on dividends from joint ventures (JVs).

ICA and QGA have strong linkage with QG, hence warranting the equalisation of their ratings at 'BB+'.

KEY RATING DRIVERS

Tariffs to Increase: The government of Kazakhstan is set to amend the wholesale price limits for commercial gas. Starting from July 2025, the wholesale price limits will increase 33% annually over three years. The resultant positive impact of the higher tariffs on QG's profitability is partly tempered by the need to import increasing volumes of more expensive natural gas to meet growing domestic consumption.

High Dividends from AGP: Asia Gas Pipeline LLP (AGP), QG's largest joint venture with China National Petroleum Corporation (A+/Negative), manages Kazakhstan's largest segment of the Central Asia-China pipeline. Having cleared its financial debt, AGP is expected to generate around KZT500 billion in annual free cash flow (FCF) before dividends between 2024 and 2026. We anticipate that QG will receive at least KZT250 billion in dividends from AGP each year, which should bolster QG's cash flow generation.

Dividends to Reduce Leverage: The dependence on dividends from AGP indicates that the quality and diversity of the group's cash flow are partly constrained. The dividends from AGP are the primary factor contributing to the forecast reduction in QG's EBITDA gross leverage, decreasing to an average 1.8x for 2024-2027, from 13.3x in 2023, which is beneficial for QG's financial standing.

Investments Continue: QG's main investment projects include a series of upstream and downstream initiatives aimed at expanding its resource base and enhancing Kazakhstan's gas infrastructure. Key projects feature the construction of new gas processing plants at the Kashagan field, with phases projected to complete between 2026 and 2030. It is also involved in the development of a carbamide plant and an LNG processing facility. Further, QG is investing in major gas transportation projects, such as the Beineu-Bozoi-Shymkent gas pipeline expansion and regional gasification.

Responsibility to Support: We view the state's influence on QG's decision-making and oversight as 'Very Strong', given its full control by the government and its role in implementing the government's energy policies. Although the state is contemplating selling a minority share of QG through an IPO, we believe that the government will maintain strong links with the group. However, we do not give QG any scores for precedents of support as state support has been irregular.

Incentives to Support: We assess QG's preservation of government policy role as 'Strong', given its important role in the government's energy strategy and its status as the main domestic supplier of natural gas. We view its contagion risk as 'Strong' as QG is present in the eurobond market and its default could affect the ability of Kazakhstan and other GREs to borrow on international markets.

Legal Incentive for Subsidiaries Support: We view the legal incentives to support QG subsidiaries under our Parent and Subsidiary Linkage (PSL) Rating Criteria as 'High' since QG guarantees most of ICA's and QGA's external debt. ICA's debt is subject to a cross-default provision under QG's eurobond. Strategic incentives are 'High' for ICA and 'Medium' for QGA.

Operating Incentive for Subsidiaries Support: ICA is the operator of trunk gas pipelines in Kazakhstan for transporting gas domestically and internationally, and accounts for the majority of QG's EBITDA. QGA is a domestic operator of gas distribution networks. Operating incentives are 'High' for both subsidiaries, due to a fully integrated management strategy, as well as common planning and budgeting.

DERIVATION SUMMARY

QG's closest peers are JSC National Company KazMunayGas (KMG, BBB/Stable, SCP: bb) and Kazakhstan Electricity Grid Operating Company (KEGOC, BBB/Stable, SCP: bbb-).

KMG's IDR is equalised with the sovereign's, given its higher SCP and overall strong linkage with the sovereign. KMG's 'bb' SCP reflects its sizeable hydrocarbon production (though a significant part of it is coming from JVs); integration into midstream and downstream activities; and moderate financial leverage. KMG's scale is significantly larger than that of QG.

KEGOC's IDR is derived from its SCP plus a one-notch uplift for strong links with the state. KEGOC's 'bbb-' SCP reflects a stronger financial profile and improvements in the regulatory framework following market reform introduced in June 2023. The SCP benefits from KEGOC's monopoly position, long-term tariffs that add visibility to cash flow generation, and its large size compared with local peers'.

KEY ASSUMPTIONS

- Brent crude price at USD70/bbl in 2025, and USD65/bbl in 2026 and 2027

- Increasing gas imports from Russia; gas exports to China at around 5bcm per annum to 2027

- Increasing gas transit from Russia to Uzbekistan partially offsets practically discontinued gas transit from central Asia to Russia

- Increasing domestic gas tariffs insufficient to cover all input costs, including of purchased and imported gas

- Capex at KZT231 billion a year in 2025 and 2026, and KZT64 billion in 2027

- Dividends from JVs at KZT250 billion a year over 2025-2027

RATING SENSITIVITIES

QG

Factors That May, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- A sovereign downgrade

- Weaker ties between Kazakhstan and QG

- Further material deterioration of QG's SCP, for example, driven by lower-then-expected dividends from its JVs or materially deteriorating standalone liquidity

Factors That May, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- A sovereign upgrade

- Stronger ties between Kazakhstan and QG

- Significant improvement in QG's SCP, driven by higher domestic tariffs that comfortably cover input costs, or reduced import needs

QGA

Factors That May, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- Negative rating action on QG

- Weaker ties with QG

Factors That May, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Positive rating action on QG

ICA

Factors That May, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- Negative rating action on QG

- Weaker ties with QG

Factors That May, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Positive rating action on QG

For Kazakhstan's rating sensitivities, see the rating action commentary published on 15 November 2024 on www.fitchratings.com.

LIQUIDITY AND DEBT STRUCTURE

QG's cash and cash equivalents amounted to about KZT360 billion at end-June 2024, versus about KZT56 billion of total maturities in 2024 and 2025. Its largest maturity is a USD706 million Eurobond maturing in 2027. QG and its subsidiaries have a record of good access to Kazakh banks.

ISSUER PROFILE

QG is a natural monopoly in natural gas transit, transportation and distribution in Kazakhstan. It manages centralised infrastructure for transporting commercial gas, provides international transit, sells gas on domestic and foreign markets, and finances, builds and operates pipelines and gas storage facilities.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

QG is rated two notches below Kazakhstan under our GRE Rating Criteria. ICA's and QGA's ratings are equalized with that of QG.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			RECOVERY	PRIOR
Intergas Central Asia JSC	LT IDR	BB+ Rating Outlook Stable	Affirmed		BB+ Rating Outlook Stable
	ST IDR	B	Affirmed		B
	LC LT IDR	BB+ Rating Outlook Stable	Affirmed		BB+ Rating Outlook Stable
	Natl LT	AA-(kaz) Rating Outlook Stable	Affirmed		AA-(kaz) Rating Outlook Stable

senior unsecured	LT	BB+	Affirmed	RR4	BB+
senior unsecured	Natl LT	AA-(kaz)	Affirmed		AA-(kaz)
QAZAQGAZ AIMAQ JSC	LT IDR	BB+ Rating Outlook Stable	Affirmed		BB+ Rating Outlook Stable
	ST IDR	B	Affirmed		B
	LC LT IDR	BB+ Rating Outlook Stable	Affirmed		BB+ Rating Outlook Stable
	Natl LT	AA-(kaz) Rating Outlook Stable	Affirmed		AA-(kaz) Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

National Scale Rating Criteria (pub. 22 Dec 2020)

Parent and Subsidiary Linkage Rating Criteria (pub. 16 Jun 2023)

Government-Related Entities Rating Criteria (pub. 09 Jul 2024)

Corporate Recovery Ratings and Instrument Ratings Criteria (pub. 02 Aug 2024) (including rating assumption sensitivity)

Corporate Rating Criteria (pub. 06 Dec 2024) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 06 Dec 2024)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Intergas Central Asia JSC	EU Issued, UK Endorsed
JSC National Company QazaqGaz	EU Issued, UK Endorsed
QAZAQGAZ AIMAQ JSC	EU Issued, UK Endorsed

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