

Rating Action: Moody's affirms KazakhExport's rating, changes outlook to positive from stable and changes rating methodology

15 October 2019

London, October 15, 2019 – Moody's Investors Service ("Moody's") today affirmed the Baa3 insurance financial strength rating (IFSR) of KazakhExport Export Insurance Company JSC (KazakhExport) and changed the outlook to positive from stable. At the same time Moody's changed the applicable rating methodology to "Trade Credit Insurers" from "Reinsurers" and "Government-Related Issuers".

This rating action reflects the change of outlook to positive from stable for Baiterek National Management Holding, JSC (Baiterek), KazakhExport's parent company on 27 August, which, in turn, followed the outlook's change to positive from stable for Kazakhstan's Baa3 sovereign debt rating on 22 August 2019. For additional information, please refer to the related press release: "Moody's changes Kazakhstan's outlook to positive, affirms Baa3 rating" (https://www.moodys.com/research/--PR_402812).

RATINGS RATIONALE

The affirmation of KazakhExport's Baa3 IFSR benefits from explicit and implicit support from its parent Baiterek, a financial arm of the Kazakh government, and also reflects its consistently strong levels of capitalization, as reflected in its limited underwriting leverage, and good financial flexibility with a low financial leverage. At the same time these strengths are tempered by the company's modest size, limited diversification due to its niche market position in credit insurance and limited geographical diversification with some exposure to lower-rated countries, which can challenge its profitability and reserve adequacy.

KazakhExport capitalization has been and will remain strong, supported by regular capital injections from the government through Baiterek for the purpose of developing the credit export insurance business. The company's shareholders' equity as a proportion of total assets has consistently averaged at a very high level of around 90% (92% as of 30 June 2019, 89% at year-end 2018 and 91% at year-end 2017). Its financial leverage of 1.5% is relatively low compared to peers, reflecting limited amount of financial debt on its balance sheet.

Moody's expects KazakhExport's insurance premiums to continue to grow steadily amid targeted credit insurance business development. However, the company is expected to remain of relative size both in respect of the Kazakh insurance market as well the global credit insurance market. Underwriting profitability improved, with a combined ratio at 105% in 2018, compared to the 213% reported in 2017. Moody's expects profitability to remain supported by investment returns.

The change in methodology to "Trade Credit Insurers" primarily reflects KazakhExport's product shift towards credit insurance and loan insurance which accounted for 75% of total premiums in 2018 from 20% in 2015. Moody's expects revenues from these business lines to further increase going forward as the company targets active business growth, with a focus on the credit insurance segment, supporting domestic exports under the National Export Strategy of the Republic of Kazakhstan.

POSITIVE OUTLOOK

The change in the outlook to positive from stable on Kazakhstan's Baa3 government bond rating and Baiterek's Baa3 long-term issuer rating led to corresponding change of the outlooks on KazakhExport' Baa3 IFSR and reflects the very strong institutional and financial links of KazakhExport with its immediate parent Baiterek – the national holding company, which plays an important role in promoting Kazakhstan's economic development and serves as channel for government funding under key government programmes.

NOTCHING CONSIDERATION

KazakhExport is 100% owned by the Government of Kazakhstan through Baiterek and its Baa3 IFSR benefits from one-notch of uplift from its standalone credit profile due to implicit and explicit support provided by its parent and the government of Kazakhstan.

WHAT COULD MOVE RATINGS UP OR DOWN

KazakhExport's IFSR will be upgraded if the sovereign and its parent's ratings are upgraded. Given positive outlook, the downside risks for KazakhExport IFSR is limited, but the outlook could return to stable if (1) the outlooks on the sovereign and parent's ratings stabilize or (2) if Moody's assessment of external support is diminishes.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Trade Credit Insurers published in May 2018. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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