

Research Update:

Kazakhstan's DAMU Entrepreneurship Development Fund Affirmed At 'BB+/B'; Outlook Stable

June 29, 2020

Overview

- We believe that DAMU Entrepreneurship Development Fund (DAMU or the fund) remains a core institution within the Baiterek Holding group and therefore equalize our rating on DAMU with our assessment of the group's credit profile.
- In our view, the Baiterek group would benefit from almost certain government support but we consider that the sovereign's willingness to support government-related entities (GREs) is subject to transition risk.
- We are affirming our 'BB+/B' ratings on DAMU.
- The stable outlook on DAMU mirrors the outlook on our sovereign ratings on Kazakhstan.

Rating Action

On June 29, 2020, S&P Global Ratings affirmed its 'BB+/B' long- and short-term foreign- and local-currency issuer credit ratings on Kazakhstan-based DAMU Entrepreneurship Development Fund (DAMU). The outlook is stable.

At the same time, we affirmed the Kazakhstan national scale rating on DAMU at 'kzAA+'.

Rationale

The affirmation primarily reflects our view that--given its mandate to support and develop Kazakhstan's SME sector--DAMU remains a core institution within the Baiterek group. We believe that the Baiterek group would benefit from almost certain government support because it includes several financial institutions that play key roles in the government's development agenda.

Under our group rating methodology, we assess Baiterek's group credit profile (GCP) at 'bb+', which reflects the creditworthiness of its consolidated operations, taking into account the likelihood of extraordinary government support and the 'BBB-' sovereign credit ratings on Kazakhstan. The GCP assessment is one notch lower than the sovereign ratings, due to our

PRIMARY CREDIT ANALYST

Max M McGraw

Dubai

+ 97143727168

maximillian.mcgraw
@spglobal.com

SECONDARY CONTACT

Dmitry Nazarov, CFA

Moscow

(7) 495-783-41-60

dmitry.nazarov
@spglobal.com

ADDITIONAL CONTACT

EMEA Sovereign and IPF

SovereignIPF
@spglobal.com

concerns that the government of Kazakhstan's willingness to support GREs is subject to transition risk. Our view is informed by the authorities' comparatively limited involvement in ensuring timely payment of the obligations of railway company Kazakhstan Temir Zholy, a key subsidiary of Samruk-Kazyna (see "Ratings On Kazakhstan's DAMU Lowered To 'BB+/B' On Negative Trend In Government Support; Outlook Negative," published June 30, 2017, on RatingsDirect.)

We assess the underlying credit quality of the Baiterek group, excluding government support, in the 'b' category. This is due to relatively high economic and industry risks in the Kazakh banking system, the group's solid capital buffer, which counterbalances risks associated with Baiterek's public policy role, and reliance on market funding.

We view DAMU as playing a core role within the Baiterek group, and therefore equalize our rating on DAMU with the GCP. DAMU accounts for about 6.5% of Baiterek's consolidated assets as of year-end 2019. DAMU's general mandate to contribute to the development of entrepreneurship in Kazakhstan and the SME sector closely aligns with Baiterek's overall group strategy. We expect that DAMU will continue implementing various government programs that support the SME sector and job growth. We also consider it highly unlikely that Baiterek would sell DAMU.

In response to the twin shocks of lower oil prices and the COVID-19 pandemic on Kazakhstan's economy, the government announced an anti-crisis package in March 2020, under which DAMU will play an important role in supporting SMEs. Subsidized loans provided by DAMU will increase as the "Economics of Simple Things" program expands. DAMU will also provide different support tools to loans issued under the National Bank of Kazakhstan's Kazakhstani tenge (KZT) 600 billion (about \$1.5 billion) working capital lending program.

We also use our group rating methodology to assess DAMU. We believe there is an extremely high likelihood that the government would provide timely extraordinary support to DAMU if needed, based on DAMU's:

- Integral link with the government of Kazakhstan, which fully owns DAMU through National Management Holding Baiterek. DAMU was established in 1997 by presidential decree and its status is described in the law "On Private Entrepreneurship," which refers to the fund as an institution contributing to entrepreneurship development on behalf of the government; and
- Very important role for the government as the institution supporting the SME sector in Kazakhstan. The government has set out the expansion of the sector as a priority for the development and diversification of the Kazakh economy. DAMU contributes to implementing several government development programs including the SME support program Business Roadmap 2020--now extended to 2025--the infrastructure program Nurly Zhol, and the Enbek program focused on the development of productive employment and entrepreneurship for 2017-2021.

Outlook

The stable outlook on DAMU mirrors the outlook on our sovereign ratings on Kazakhstan. Any rating action on the sovereign would likely result in a similar action on the fund.

Downside scenario

We could lower our ratings on DAMU if we saw signs of waning government support to the Baiterek group or, more broadly, to other GREs over the next 12 months. We could also lower the rating if DAMU's importance to Baiterek group diminished.

Upside scenario

We could raise the ratings on DAMU if Kazakhstan's monitoring of its GRE debt and the efficiency of its administrative mechanisms to provide extraordinary support to Kazakh GREs improved.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Kazakhstan 'BBB-/A-3' Ratings Affirmed; Outlook Stable, March 26, 2020
- Banking Industry Country Risk Assessment: Kazakhstan, Nov. 28, 2019
- For Kazakh Government-Related Entities, A Clear Support Strategy Is Key, Oct. 2, 2017
- Ratings On Kazakhstan's DAMU Lowered To 'BB+/B' On Negative Trend In Government Support; Outlook Negative, June 30, 2017

Ratings List

Ratings Affirmed

**DAMU Entrepreneurship Development Fund
JSC**

Sovereign Credit Rating BB+/Stable/B

Kazakhstan National Scale kzAA+/-/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such

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criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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