

Weekly Market Watch

Weekly Market Watch | Georgia
August 9, 2021

Economy

Fitch revises Georgia's outlook to Stable, affirms at BB

On 6 August 2021 Fitch Ratings [has revised](#) Georgia's sovereign credit rating outlook to Stable from Negative and affirmed at BB. Based on Fitch the outlook revision reflects a much-improved macroeconomic baseline, and Fitch's confidence that the Georgian authorities will continue implementing policies supporting macroeconomic stability and medium-term sustainability of public finances. Based on Fitch Georgia navigated the external shock well. A credible policy framework and strong support from official creditors increased external buffers despite higher financing needs. This year's projected strong economic recovery will help government debt to start declining, while accumulated fiscal buffers will help limit pandemic-related risks. The stronger economic activity has led Fitch to revise up 2021 real GDP by 3.5ppts from its earlier projection, to 7.8% (after a contraction of 6.2% in 2020), implying that output will exceed its 2019 level this year. For 2022-2023, Fitch forecasts real GDP growth to average 5.4%, above potential of 4.0-4.5%, supported by a more robust recovery in the tourism sector and an increase in investment. Risks surrounding the pandemic, pace of vaccination roll-out, and upcoming local elections in October, pose downside risks to macroeconomic baseline based on Fitch.

Inflation was 11.9% y/y and 1.3% m/m in July 2021

Annual CPI inflation came in at 11.9% in July 2021, after a 9.9% inflation in previous month, according to Geostat. Core inflation (non-food, non-energy) was 6.4% and core inflation excluding tobacco was 6.3% in July. By categories, annual inflation was mainly driven by price changes in food and non-alcoholic beverages (+14.1% y/y, +4.43ppts), transport (+22.5% y/y, +2.65ppts), housing, water, electricity, gas and other fuels (+11.1% y/y, +1.65ppts), health (+11.4% y/y, +0.89ppts), furnishings, household equipment and maintenance (+11.5% y/y, +0.62ppts) and alcoholic beverages and tobacco (+7.1% y/y, +0.46ppts) categories. On a monthly basis, there was 1.3% inflation in July 2021, reflecting price increase in food and non-alcoholic beverages (+3.2% y/y, +1.02ppts) category.

NBG raises key rate to 10.0%

The NBG increased the key rate by 0.5ppts to 10.0% on 4 August 2021, citing "unexpectedly high" inflation of July at 11.9%. The regulator commented that the driving forces of high inflation are predominately one-off and independent from monetary policy. The major ones are the sharply increased prices of food and oil in international markets. In addition to the temporary factors, domestic demand has significantly increased - economic growth was 12.7% in 1H21 and for 2021 NBG revised the growth projection upwards to 8.5% from 4.0%. The NBG expressed concerns that the high inflation can lead to a surge in inflation expectations, and therefore the regulator intends to keep a tight policy stance for a medium-term, not ruling out further hikes. With such a policy and the expected fade-out of one-off exogenous factors, NBG expects inflation to decline in 2022. The next committee meeting is scheduled for 15 September 2021.

International reserves at US\$ 3.9bn in July 2021

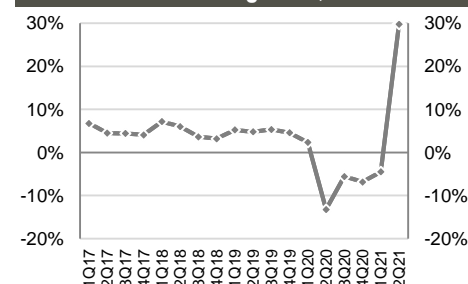
Gross international reserves increased by 0.8% y/y to US\$ 3.9bn in July 2021 according to NBG. On a monthly basis, the reserves were down by 1.2% (-US\$ 45.7mn). Changes in reserves were attributed to the government and banking sector FX operations, and/or asset revaluation.

Key macro indicators

| | 2018 | 2019 | 2020 |
|------------------------------|--------|--------|--------|
| GDP (% change) | 4.8% | 5.0% | -6.2% |
| GDP per capita (ppp) | 14,584 | 15,613 | 14,918 |
| GDP per capita (US\$) | 4,722 | 4,696 | 4,275 |
| Population (mn) | 3.7 | 3.7 | 3.7 |
| Inflation (eop) | 1.5% | 7.0% | 2.4% |
| Gross reserves (US\$ bn) | 3.3 | 3.5 | 3.9 |
| CAD (% of GDP) | 6.8% | 5.5% | 12.5% |
| Fiscal deficit (% of GDP) | 2.3% | 2.1% | 9.3% |
| Total public debt (% of GDP) | 38.9% | 40.4% | 60.0% |

Source: Official data

Real GDP growth, %



Source: Geostat

International ranking, 2019-21

Ease of Doing Business # 7 (Top 10)

Economic Freedom Index # 12 (mostly free)

Global Competitiveness Index # 74

Source: World Bank, Heritage Foundation and World Economic Forum

Georgia sovereign credit ratings

| | | |
|---|---|---|
| STANDARD & POORS BB Negative Affirmed Feb-2021 | Moody's INVESTORS SERVICE Ba2 Stable Affirmed May-2021 | FitchRatings BB Stable Affirmed Aug-2021 |
|---|---|---|

Source: Rating agencies

Money market

Ministry of Finance T-Bills:

2-year GEL 20.0mn (US\$ 6.4mn) Benchmark bonds were sold at the auction held at NBG on August 3, 2021. Total demand was c.3.4x higher and the weighted average yield was fixed at 8.840%, down by 0.178ppts from previous auction held in July, 2021.

6-month GEL 15.0mn (US\$ 4.8mn) T-Bills were sold at the auction held at NBG on August 3, 2021. Total demand was c.1.5x higher and the weighted average yield was fixed at 9.385%, up by 0.020ppts from previous auction held in July, 2021.

The nearest treasury security auction is scheduled for August 10, 2021, where GEL 15.0mn nominal value 1-year T-Bills will be sold.

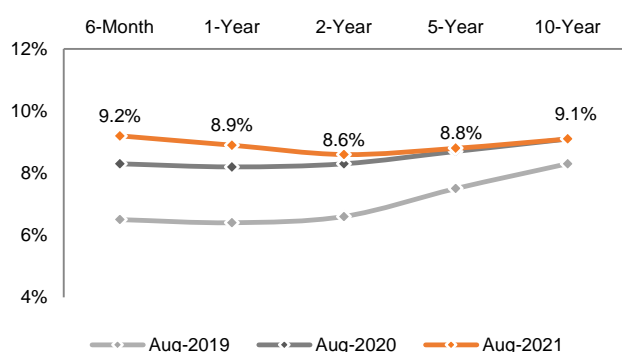
T-bills / T-notes in 2021

| Maturity | YTD placements, GEL mn | Remaining placements, GEL mn | Outstanding amount, GEL mn* |
|--------------|------------------------|------------------------------|-----------------------------|
| 6-month | 90 | 75 | 60 |
| 1-year | 75 | 90 | 360 |
| 2-year | 120 | 100 | 1,310 |
| 5-year | 259 | 175 | 2,412 |
| 10-year | 69 | 25 | 1,281 |
| Total | 613 | 465 | 5,422 |

Source: MoF

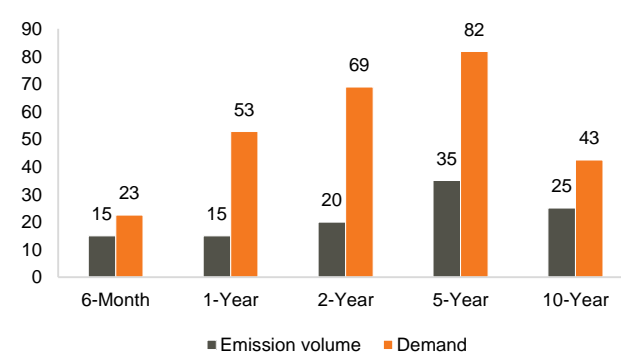
Note: * As of 30 June 2021

T-bills / T-notes, yield curve



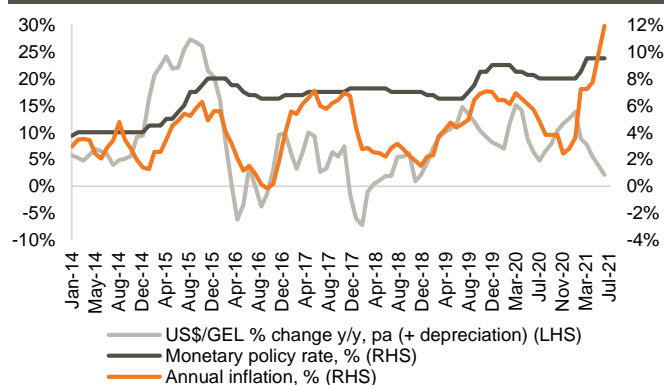
Source: NBG

Emission volume vs. demand on latest T-bills / T-notes auctions, GEL mn



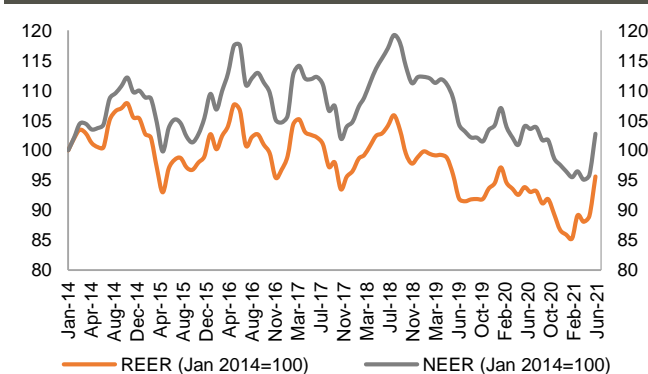
Source: NBG

Monetary policy rate, inflation and FX rate



Source: NBG, Geostat

Nominal effective exchange rate and Real effective exchange rate



Source: NBG

Note: Index growth/decline means appreciation/depreciation of exchange rate



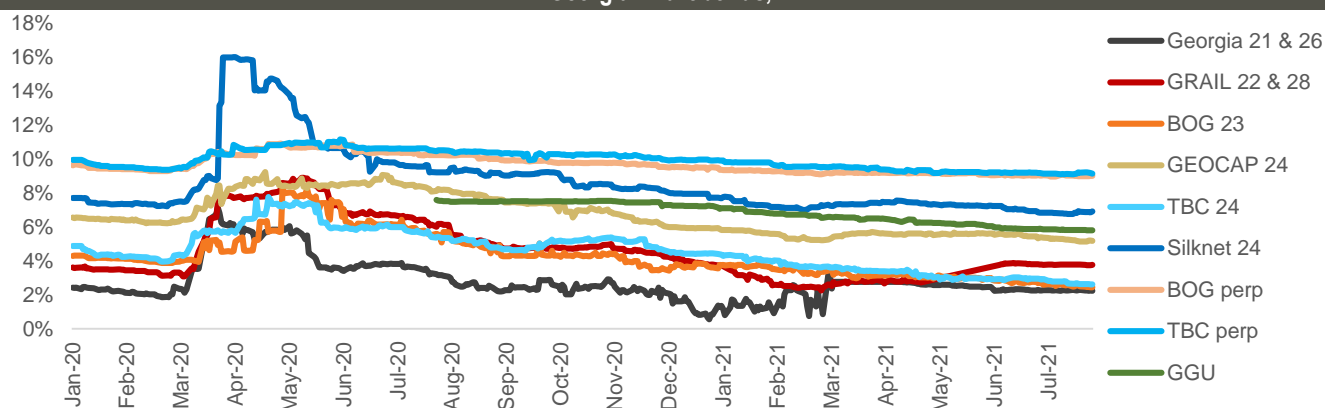
Fixed income

Corporate Eurobonds: Bank of Georgia Group Eurobonds (GEBGG) closed at 2.44% yield, trading at 106.78 (+0.04% w/w). Georgia Capital Eurobonds (GEOCAP) were trading at 102.29 (-0.08% w/w), yielding 5.16%.

Georgian Railway Eurobonds (GRAIL) traded at a premium at 101.52 (+0.18% w/w), yielding 3.75%.

Georgian Sovereign Eurobonds (GEORG) closed at 102.29 (+0.20% w/w) at 2.23% yield to maturity.

Georgian Eurobonds, YTM



Source: Bloomberg

Georgian bonds performance

Georgian Eurobonds performance

| Issuer | Currency | Amount, mn | Coupon | Maturity date | Ratings (Fitch/S&P/Moody/ Scope) | Mid price | Mid yield, % | Z-spread, bps |
|-------------------|----------|------------|---------|---------------|--|-----------|--------------|---------------|
| GEORG 04/26 | USD | 500 | 2.750% | Apr-26 | BB/BB/Ba2 | 102.29 | 2.23 | 143.57 |
| GRAIL 06/28 | USD | 500 | 4.000% | Jun-28 | BB-/B+/- | 101.52 | 3.75 | 272.76 |
| GEBGG 07/23 | USD | 350 | 6.000% | Jul-23 | BB-/B/Ba2 | 106.78 | 2.44 | 214.92 |
| GEBGG 11 1/8 PERP | USD | 100 | 11.125% | n/a | B-/B- | 110.23 | 9.00 | 665.68 |
| GEOCAP 03/24 | USD | 300 | 6.125% | Mar-24 | -B/B2 | 102.29 | 5.16 | 474.33 |
| SILKNET 04/24 | USD | 200 | 11.000% | Apr-24 | B-/B1 | 109.72 | 6.91 | 391.55 |
| TBC 06/24 | USD | 300 | 5.750% | Jun-24 | BB-/B/Ba2 | 108.58 | 2.61 | 213.12 |
| TBC PERP | USD | 125 | 10.775% | n/a | B-/B- | 110.61 | 9.12 | 643.29 |
| GGU 07/25 | USD | 250 | 7.750% | Jul-25 | B+/B/- | 106.85 | 5.79 | 425.36 |

Georgian local bonds performance

| | | | | | | | | |
|-----------------------|-----|----|--------|--------|----------|--------|-------|-----|
| KTW 12/22 | USD | 10 | 9.00% | Dec-22 | -/-/- | n/a | n/a | n/a |
| GWP 12/21 | GEL | 30 | 12.50% | Dec-21 | BB-/B/- | n/a | n/a | n/a |
| M2CA 12/21 | USD | 30 | 7.50% | Dec-21 | -/-/- | 100.00 | 7.50 | n/a |
| M2RE 10/22 | USD | 35 | 7.50% | Oct-22 | -/-/- | 100.43 | 7.20 | n/a |
| GLC 08/22 | USD | 10 | 7.50% | Aug-22 | -/-/- | n/a | n/a | n/a |
| GLC 07/23 | USD | 12 | 5.75% | Jul-23 | -/-/- | n/a | n/a | n/a |
| GLC 07/23 | EUR | 3 | 4.75% | Jul-23 | -/-/- | n/a | n/a | n/a |
| SILKNET 04/24 | GEL | 34 | 12.50% | Apr-24 | B+/B1/- | n/a | n/a | n/a |
| Geo. Beer Company | GEL | 25 | 13.00% | Dec-23 | -/-/-BB- | n/a | n/a | n/a |
| Lisi Lake Development | USD | 12 | 8.00% | Dec-21 | -/-/B+ | n/a | n/a | n/a |
| Tegeta 04/22 | GEL | 30 | 10.75% | Apr-22 | -/-/-BB- | n/a | n/a | n/a |
| Swiss Capital 09/21 | GEL | 10 | 14.25% | Sep-21 | B-/B/- | 100.00 | 14.25 | n/a |
| EVEX 11/24 | GEL | 50 | 12.10% | Nov-24 | -/-/-BB | n/a | n/a | n/a |

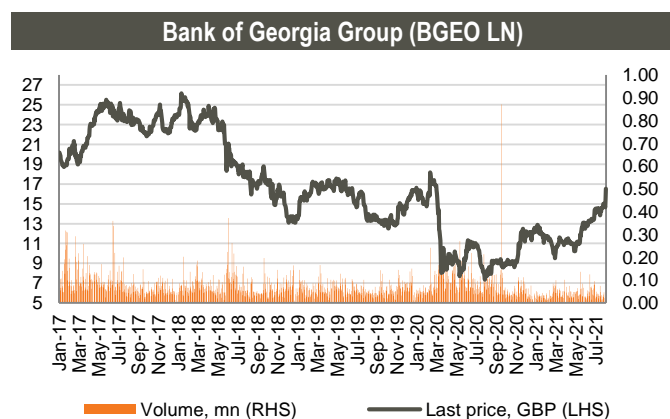
Source: Bloomberg

Equities

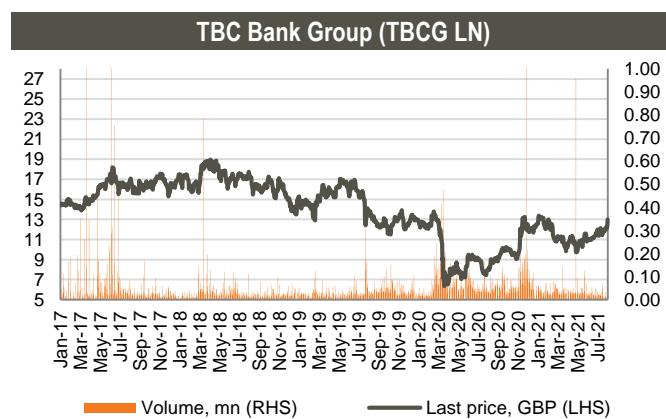
Bank of Georgia Group (BGEO LN) shares closed at GBP 16.54/share (+10.27% w/w and +15.66% m/m). More than 187k shares traded in the range of GBP 14.60 - 16.60/share. Average daily traded volume was 35k in the last 4 weeks. The volume of BGEO shares traded was at 0.38% of its capitalization.

Georgia Capital (CGEO LN) shares closed at GBP 6.22/share (-1.11% w/w and -12.76% m/m). More than 231k shares traded in the range of GBP 6.18 - 6.30/share. Average daily traded volume was 25k in the last 4 weeks. The volume of CGEO shares traded was at 0.48% of its capitalization.

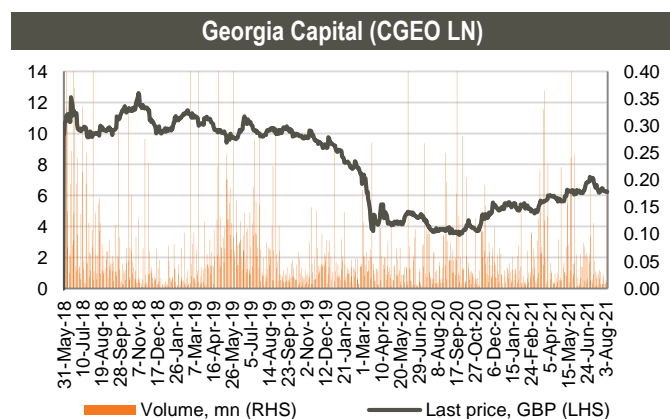
TBC Bank Group (TBCG LN) closed the week at GBP 13.00/share (+7.08% w/w and +8.33% m/m). More than 102k shares changed hands in the range of GBP 11.90 - 13.34/share. Average daily traded volume was 22k in the last 4 weeks. The volume of TBCG shares traded was at 0.19% of its capitalization.



Source: Bloomberg



Source: Bloomberg



Source: Bloomberg

Equities, continued

Eastern European banks

| | Ticker | Currency | Share price | Mcap, mn | 6M chg | y/y chg | YTD chg | P/E | | P/B | |
|--------------------|--------|----------|-------------|----------|--------|---------|---------|--------------|--------------|--------------|--------------|
| | | | | | | | | 2021F | 2022F | 2021F | 2022F |
| Bank of Georgia | BGEO | GBP | 16.54 | 813 | 41.4% | 99.5% | 35.6% | 6.26x | 5.29x | 1.29x | 1.11x |
| TBC | TBC | GBP | 13.00 | 717 | 0.0% | 58.7% | 4.0% | 5.10x | 4.40x | 0.90x | 0.78x |
| Sberbank | SBER | USD | 17.36 | 93,687 | 18.9% | 42.3% | 19.6% | 6.20x | 5.97x | 1.18x | 1.07x |
| Halyk Bank | HSBK | USD | 15.46 | 4,543 | 18.0% | 42.5% | 32.7% | 4.81x | 4.68x | 1.14x | 1.08x |
| VTB Bank | VTBR | USD | 1.36 | 8,787 | 39.9% | 39.2% | 42.1% | 2.44x | 3.00x | 0.51x | 0.41x |
| Akbank | AKBNK | TRY | 5.43 | 28,236 | -17.9% | 15.5% | -21.6% | 3.53x | 2.63x | 0.39x | 0.35x |
| Garanti | GARAN | TRY | 9.23 | 38,766 | -5.4% | 42.7% | -11.0% | 3.61x | 3.07x | 0.53x | 0.46x |
| Isbank | ISCTR | TRY | 5.44 | 24,480 | -14.7% | 18.0% | -22.3% | 2.89x | 2.13x | 0.32x | 0.28x |
| PKO | PKO | PLN | 38.85 | 48,563 | 35.8% | 77.9% | 35.3% | 10.67x | 10.31x | 1.09x | 1.04x |
| PEKAO | PEO | PLN | 99.44 | 26,100 | 50.7% | 88.4% | 62.7% | 13.53x | 11.35x | 0.98x | 0.94x |
| Millennium | MIL | PLN | 5.21 | 6,314 | 34.9% | 77.6% | 59.2% | 7.76x | 6.93x | 0.80x | 0.75x |
| Mbank | MBK | PLN | 320.20 | 13,566 | 64.3% | 72.2% | 78.7% | 10.80x | 9.61x | 0.81x | 0.76x |
| BRD | BRD | RON | 18.20 | 12,684 | 21.3% | 49.9% | 22.5% | 11.79x | 10.38x | 1.32x | 1.28x |
| Banca Transilvania | TLV | RON | 2.89 | 16,582 | 24.8% | 49.2% | 28.4% | 10.31x | 9.24x | 1.58x | 1.47x |
| OTP | OTPD | USD | 22.00 | 12,320 | -1.8% | -3.5% | -3.5% | 8.70x | 7.91x | 0.62x | 0.55x |
| Komerční | KOMB | CZK | 826.00 | 156,981 | 18.2% | 55.0% | 25.7% | 15.06x | 12.89x | 1.30x | 1.29x |
| Mean | | | | | | | | 7.72x | 6.86x | 0.92x | 0.85x |
| Median | | | | | | | | 7.01x | 6.45x | 0.94x | 0.86x |

Source: Bloomberg, S&P Capital IQ

Investment management companies

| | Ticker | Currency | Share price | Mcap, mn | 6M chg | y/y chg | YTD chg | P/E | | P/B | |
|-----------------------|--------|----------|-------------|----------|--------|---------|---------|--------------|---------------|--------------|--------------|
| | | | | | | | | 2021F | 2022F | 2021F | 2022F |
| Georgia Capital | CGEO | GBP | 6.22 | 298 | 16.9% | 63.9% | 15.2% | na | na | na | na |
| Tinc Comm | TINC | EUR | 12.54 | 456 | -0.1% | -5.7% | -3.2% | na | na | na | na |
| Sabancı Holding | SAHOL | TRY | 9.73 | 19,853 | -13.0% | 24.1% | -15.1% | 3.52x | 2.90x | 0.43x | 0.36x |
| Deutsche Beteiligungs | DBAN | EUR | 37.85 | 569 | 6.8% | 28.5% | 21.5% | 5.00x | 7.72x | 1.11x | 1.02x |
| Eurazeo | RF | EUR | 87.75 | 6,934 | 43.9% | 96.5% | 58.1% | 10.08x | 12.90x | 1.14x | 1.03x |
| Carlyle Group | CG | USD | 47.50 | 16,842 | 29.8% | 71.5% | 51.1% | 14.87x | 13.72x | 4.74x | 4.24x |
| Mean | | | | | | | | 8.37x | 9.31x | 1.85x | 1.66x |
| Median | | | | | | | | 7.54x | 10.31x | 1.12x | 1.03x |

Source: Bloomberg, S&P Capital IQ

Disclaimer

This document is the property of and has been prepared by JSC Galt & Taggart ("Galt & Taggart"), a member of Bank of Georgia group PLC ("Group") solely for informational purposes and independently of the respective companies mentioned herein. This document does not constitute or form part of, and should not be construed as, an offer or solicitation or invitation of an offer to buy, sell or subscribe for any securities or assets and nothing contained herein shall form the basis of any contract or commitment whatsoever or shall be considered as a recommendation to take any such actions.

Galt & Taggart is authorized to perform professional activities on the Georgian market. The distribution of this document in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by Galt & Taggart to inform themselves about and to observe any and all restrictions applicable to them. This document is not directed to, or intended for distribution, directly or indirectly, to, or use by, any person or entity that is a citizen or resident located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would require any registration or licensing within such jurisdiction.

Investments (or any short-term transactions) in emerging markets involve significant risk and volatility and may not be suitable for everyone. The recipients of this document must make their own investment decisions as they believe appropriate based on their specific objectives and financial situation. When doing so, such recipients should be sure to make their own assessment of the risks inherent in emerging market investments, including potential political and economic instability, other political risks including without limitation changes to laws and tariffs, and nationalization of assets, and currency exchange risk.

No representation, warranty or undertaking, express or implied, is or will be made by Galt & Taggart or any other member of the Group or their respective directors, employees, affiliates, advisers or agents or any other person as to, and no reliance should be placed on, the fairness, accuracy, completeness or correctness of this document and the information contained herein (and whether any information has been omitted from this document) and no reliance should be placed on it. This document should not be considered as a complete description of the markets, industries and/or companies referred to herein. Nothing contained in this document is, is to be construed as, or shall be relied on as legal, investment, business or tax advice, whether relating to the past or the future, by Galt & Taggart any other member of the Group or any of their respective directors, employees, affiliates, advisers or agents in any respect. Recipients are required to make their own independent investigation and appraisal of the matters discussed herein. Any investment decision should be made at the investor's sole discretion. To the extent permitted by law, Galt & Taggart, any other member of the Group and their respective directors, employees, affiliates, advisers and agents disclaim all liability whatsoever (in negligence or otherwise) for any loss or damages however arising, directly or indirectly, from any use of this document or its contents or otherwise arising in connection with this document, or for any act, or failure to act, by any party, on the basis of this document.

The information in this document is subject to verification, completion and change without notice and Galt & Taggart is not under any obligation to update or keep current the information contained herein. The delivery of this document shall not, under any circumstances, create any implication that there has been no change in the information since the date hereof or the date upon which this document has been most recently updated, or that the information contained in this document is correct as at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. No representation or warranty, expressed or implied, is made by Galt & Taggart or any other member of the Group, or any of their respective directors, employees, affiliates, advisers or agents with respect to the accuracy or completeness of such information.

The information provided and opinions expressed in this document are based on the information available as of the issue date and are solely those of Galt & Taggart as part of its internal research coverage. Opinions, forecasts and estimates contained herein are based on information obtained from third party sources believed to be reliable and in good faith, and may change without notice. Third party publications, studies and surveys generally state that the data contained therein have been obtained from sources believed to be reliable, but that there is no guarantee of the accuracy or completeness of such data. Accordingly, undue reliance should not be placed on any such data contained in this document. Neither Galt & Taggart, any other member of the Group, nor their respective directors, employees, affiliates, advisers or agents make any representation or warranty, express or implied, of this document's usefulness in predicting the future performance, or in estimating the current or future value, of any security or asset.

Galt & Taggart does, and seeks to do, and any other member of the Group may or seek to do business with companies covered in its research. As a result, investors should be aware of a potential conflict of interest that may affect the objectivity of the information contained in this document.

Unauthorized copying, distribution, publication or retransmission of all or any part of this document by any medium or in any form for any purpose is strictly prohibited.

The recipients of this document are responsible for protecting against viruses and other destructive items. Receipt of the electronic transmission is at risk of the recipient and it is his/her responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

Galt & Taggart

Address: 3 A. Pushkini Street, Tbilisi 0105, Georgia

Tel: + (995) 32 2401 111

Email: gt@gt.ge