Georgian Railway
1Q17 update

Georgia | Transportation
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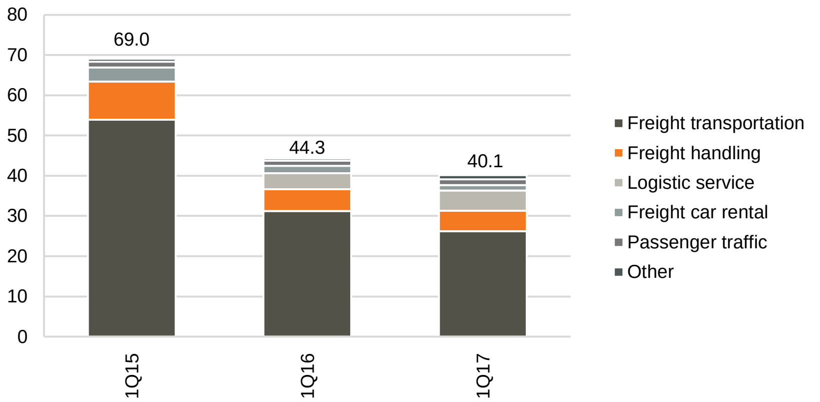
GR released 1Q17 unaudited results. Revenue declined 9.4% y/y, from an already low base, to US$ 40.1mn due to lower freight volumes and an unfavorable shift in freight category/direction mix. Operating expenses decreased 3.4% y/y to US$ 36.4mn, leading to an 8.7% y/y decline in adjusted EBITDA to US$ 17.6mn, with the adjusted EBITDA margin at 43.9%. Lower adjusted EBITDA and higher debt from financing the purchase of four new passenger trains resulted in a deterioration of the adjusted EBITDA coverage ratio from 1.9x in 1Q16 to 1.7x in 1Q17.

In 1Q17, freight transportation and freight handling revenues declined 16.1% y/y to US$ 26.2mn and 6.1% y/y to US$ 5.1mn, respectively. The downward trend persisted in the freight car rental category as well, with revenues down 23.7% y/y to US$ 1.4mn. On the other hand, logistic service and passenger traffic revenues grew 25.1% y/y to US$ 5.0mn and 15.6% y/y to US$ 1.5mn, respectively.

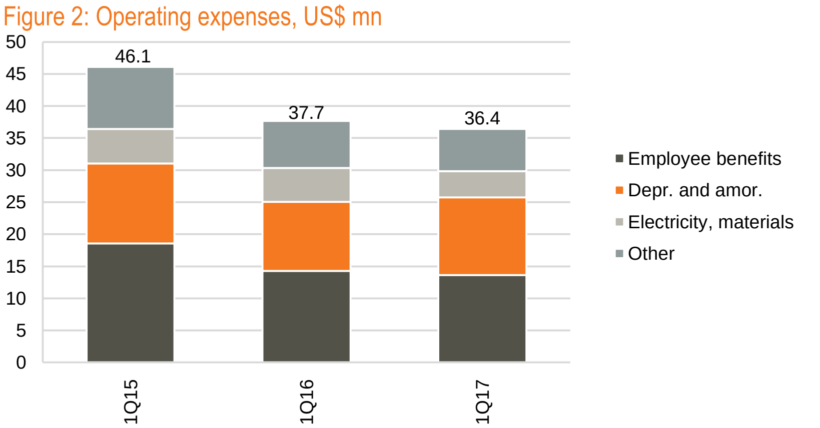
Figure 1: Revenue, US$ mn



Source: Company data

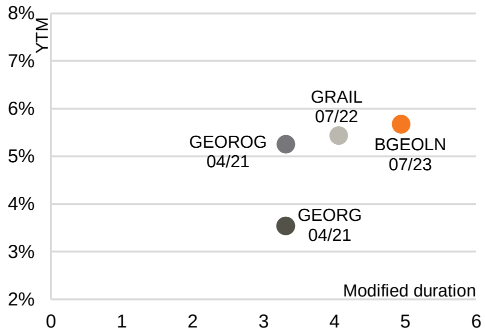
1Q17 operating expenses declined 3.4% y/y to US$ 36.4mn. Electricity, consumables and maintenance expense posted the largest drop (-22.4% y/y to US$ 4.1mn), while employee benefits expense was down 4.6% y/y to US$ 13.6mn.

Figure 2: Operating expenses, US$ mn



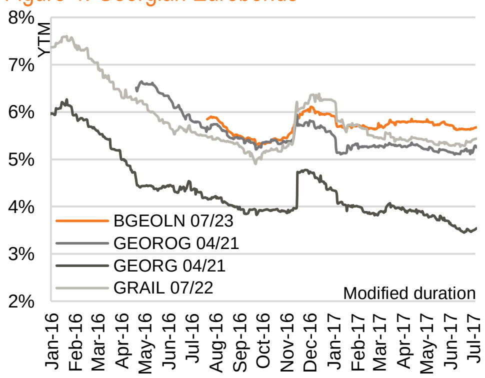
Source: Company data

Figure 3: Georgian Eurobond universe



Source: Bloomberg

Figure 4: Georgian Eurobonds



Source: Bloomberg

Table 1: Key financials (US$ '000) and margins

	1Q16	1Q17	Change, y/y
Revenue	44,281.3	40,117.1	*-9.4%*
EBITDA	19,291.3	17,621.8	*-8.7%*
EBITDA margin	*43.6%*	*43.9%*	*30 bps*
Adjusted EBITDA	19,291.3	17,621.8	*-8.7%*
Adjusted EBITDA margin	*43.6%*	*43.9%*	*30 bps*
EBIT	8,538.1	5,514.7	*-35.4%*
EBIT margin	*19.3%*	*13.7%*	*-560 bps*
Net income	14,371.1	35,704.3	*148.4%*
Net profit margin	*32.5%*	*89.0%*	*5650 bps*
Assets	1,294,449.5	1,313,723.6	*1.5%*
Equity	636,097.4	692,124.6	*8.8%*
Liabilities	658,352.1	621,599.1	*-5.6%*

Source: Company data

US$-GEL	1Q15	1Q16	1Q17
Period-end	2.228	2.368	2.445
Average	2.073	2.435	2.603

Source: NBG

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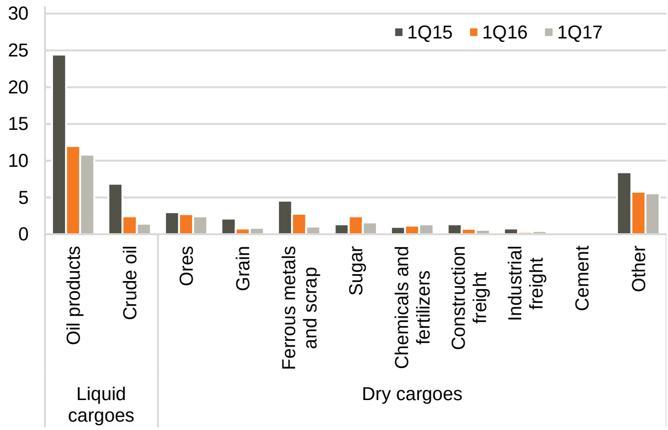
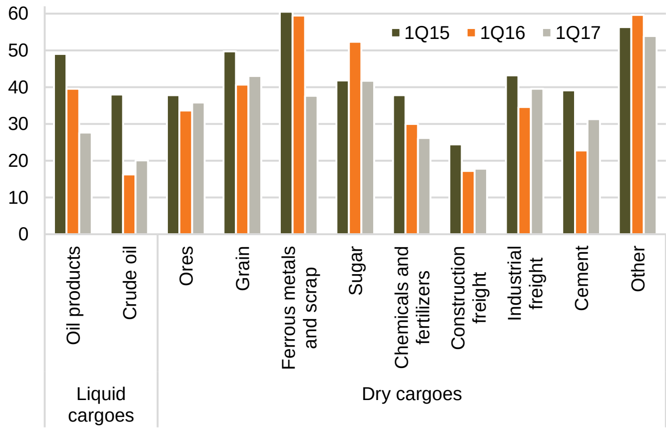
The main driver of the decrease in freight traffic was ferrous metals and scrap transportation, down 62.3% y/y to US$ 1.1mn due to lower shipments of oil and gas pipes (a profitable freight category) to Azerbaijan. Transportation revenue from oil products, the single largest freight category, decreased 9.7% y/y to US$ 10.8mn on the back of lower fuel diesel volumes from Azerbaijan, which was partially offset by higher heavy fuel and gasoil volumes from Kazakhstan. Crude oil transportation dropped 40.1% y/y to US$ 1.4mn, despite the substantial shift in freight origin from Kazakhstan to the more profitable Azerbaijan. Ores transportation decreased 10.7% y/y to US$ 2.4mn, as there were no shipments from Brazil, a profitable source, which accounted for 14% of ores volume in 1Q16. Sugar transportation revenue shrank 34.2% y/y to US$ 1.6mn due to lower shipments of cane sugar from Brazil to Azerbaijan and Armenia. Chemicals and fertilizers, industrial freight, and grain were the only categories that posted increases, but together they accounted for only 10.1% of freight transportation revenues in 1Q17.

Figure 5: Freight transportation revenue, US$ mn



Source: Company data

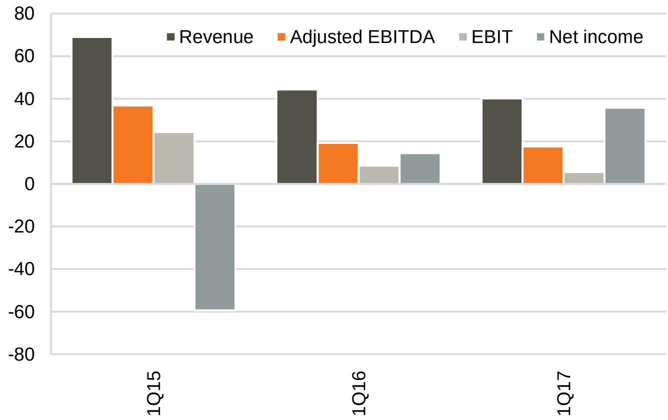
Figure 6: Average revenue per 1,000 ton-km, US$



Source: Company data

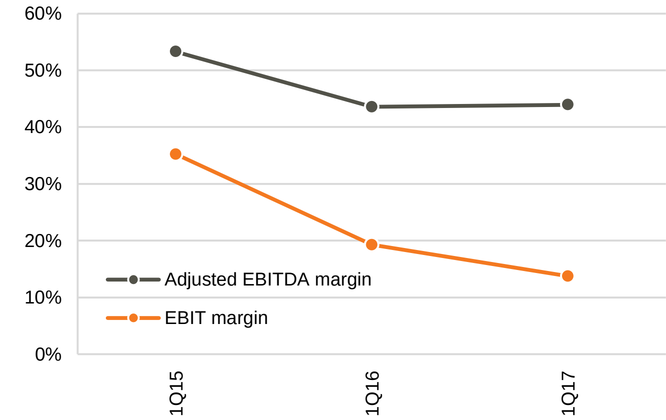
1Q17 adjusted EBITDA declined 8.7% y/y to US$ 17.6mn, while the adjusted EBITDA margin improved slightly to 43.9% (43.6% in 1Q16). Higher depreciation expense weighed on EBIT, which dropped 35.4% y/y to US$ 5.5mn. Strengthening of GEL against US$ since end-FY16 led to a non-cash FX gain of US$ 34.3mn, accounted for as finance income, which propped up net income at US$ 35.7mn.

Figure 7: Income statement highlights, US$ mn



Source: Company data

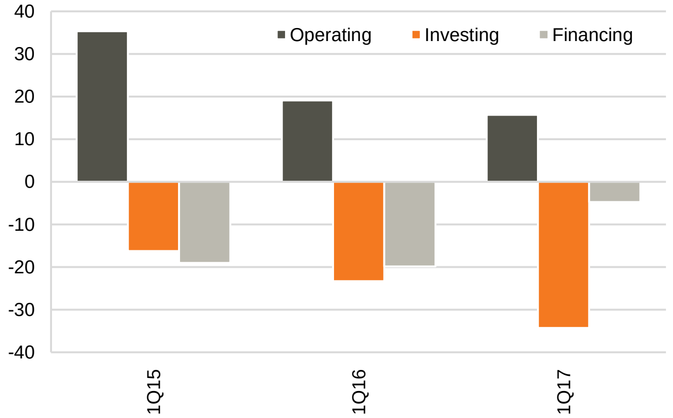
Figure 8: Profitability margins



Source: Company data

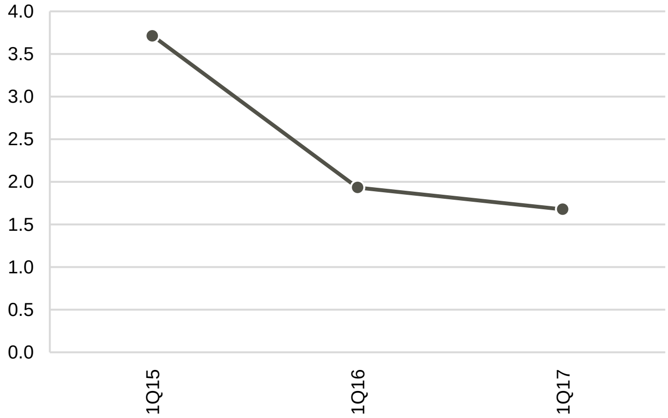
Operating cash was down 17.6% y/y to US$ 15.7mn, partially due to higher VAT payments for the purchase of passenger trains. Investment of US$ 17.2mn in new passenger trains was one of the reasons behind the 41.5% y/y spike in capital spending to US$ 36.4mn. The increase in debt from financing the purchase contributed to a deterioration of the adjusted EBITDA coverage ratio from 1.9x in 1Q16 to 1.7x in 1Q17. Modernization project expenditures were also a major part of investing outflows.

Figure 9: Cash flows, US$



Source: Company data

Figure 10: Adjusted EBITDA coverage ratio



Source: Company data

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