

Weekly Market Watch

 Weekly Market Watch | Georgia
 May 8, 2017

Economy

Tourist arrivals up 29.7% y/y in April 2017

Total international arrivals to Georgia increased 10.2% y/y to 0.51mn visitors in April 2017, according to the Ministry of Internal Affairs. Arrival growth was mainly driven by surge in tourist arrivals increasing 29.7% y/y to 0.22mn persons (43.6% of total) in April after posting a 28.6% y/y growth in March 2017. Out of top countries by arrivals, in April 2017, visitors continued to increase from Armenia (+13.2% y/y), Russia (+16.5% y/y), Ukraine (+27.2% y/y) and Azerbaijan (+7.1% y/y), while arrivals were down from Turkey (-19.2% y/y) due to delays at Sarpi border. Arrivals from EU were up 44.8% y/y to 26,000 visitors. In 4M17 international arrivals increased 11.1% y/y to 1.8mn visitors, while tourist arrivals increased 26.9% y/y to 0.74mn.

Tax revenues up 18.7% y/y in April 2017

Consolidated budget tax revenues were up 18.7% y/y to GEL 755.6mn in April 2017, according to the Treasury Service. In 4M17, tax revenues stood at GEL 3.1bn up 16.6% y/y. The 2017 consolidated budget tax revenues are budgeted at GEL 9.5bn (+8.6% compared to 2016 actual tax revenues)

Inflation was 6.1% y/y and 0.1% m/m in April 2017

The annual CPI inflation was 6.1% in April 2017 after 5.4% inflation in previous month, according to GeoStat. Core inflation was 3.3% in April, up from 2.9% in previous month. Overall price changes were driven by price increases in food and non-alcoholic beverages (+7.6% y/y, +2.31ppts), transport (+17.6% y/y, +2.11ppts), and alcoholic beverages and tobacco (+14.5% y/y, +0.94ppts) categories.

On a monthly basis, prices increased 0.1% in April 2017. Price increase in food and non-alcoholic beverages (+1.4% m/m, +0.42ppts), and price decline in transport (-1.7% m/m, -0.23ppts) categories were the major drivers of monthly deflation dynamics.

NBG increases its policy rate by 25 basis points to 7.0%

At its meeting on 2 May 2017, NBG's monetary policy committee increased the policy rate by 25 basis points to 7.0% to control the inflation expectations. As NBG cited, due to the supply side pressures, the inflation is expected to be above its target rate during 2017, and all other things being equal, a further increase in the policy rate is not expected. Once the effect of one-time factors affecting CPI inflation is exhausted, the inflation rate is expected to decline to its target level of 3.0% in 2018. The next committee meeting is scheduled for June 14, 2017.

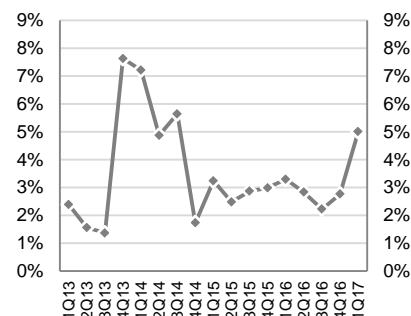
Key macro indicators

| | 3M17 | 2016 | 2015 |
|------------------------------|---------|-------|-------|
| GDP (% change) | 5.0% | 2.7% | 2.9% |
| GDP per capita (ppp) | ... | ... | 9,630 |
| GDP per capita (US\$) | ... | 3,853 | 3,767 |
| Population (mn) | 3.7 | 3.7 | 3.7 |
| Inflation (eop) | 6.1%(1) | 1.8% | 4.9% |
| Gross reserves (US\$ bn) | 2.8 | 2.8 | 2.5 |
| CAD (% of GDP) | ... | 13.3% | 11.9% |
| Fiscal deficit (% of GDP) | ... | 4.1% | 3.7% |
| Total public debt (% of GDP) | ... | 44.6% | 41.4% |

Source: Official data, IMF, G&T

(1) As of 4M17

Real GDP growth, %



Source: GeoStat

International ranking, 2017

Ease of Doing Business # 16 (Top 20)

Economic Freedom Index # 13 (mostly free)

Global Competitiveness Index # 59 (improving trend)

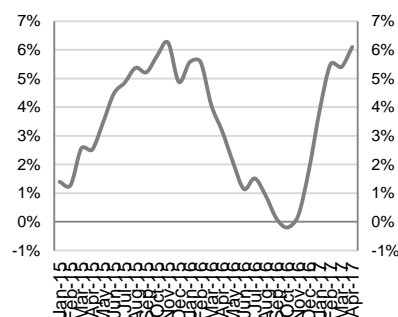
Source: World Bank, Heritage Foundation and World Economic Forum

Georgia sovereign credit ratings

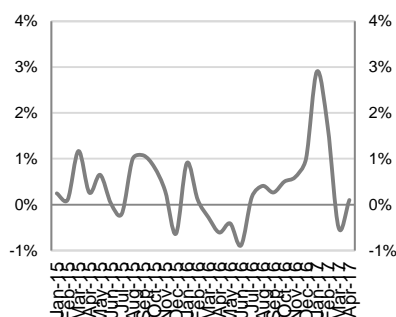
| | | |
|---|---|---|
| STANDARD & POORS BB- Stable Affirmed Nov-2016 | Moody's INVESTORS SERVICE Ba3 Stable Affirmed Mar-2016 | FitchRatings BB- Stable Affirmed Mar-2017 |
|---|---|---|

Source: Rating agencies

Annual CPI inflation (% change, y/y)



Monthly CPI inflation (% change, m/m)



Source: GeoStat

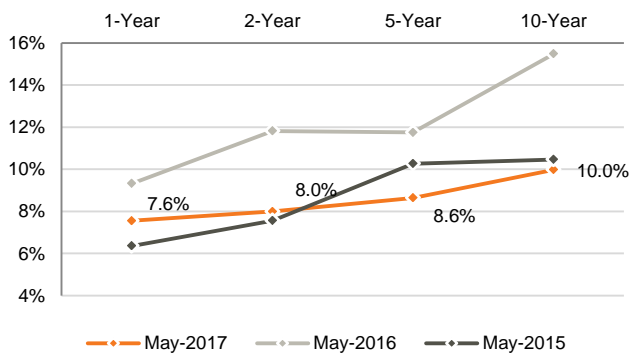


Money market

Refinancing loans: National Bank of Georgia (NBG) issued 7-day refinancing loans of GEL 1,200mn (US\$ 491.5mn).

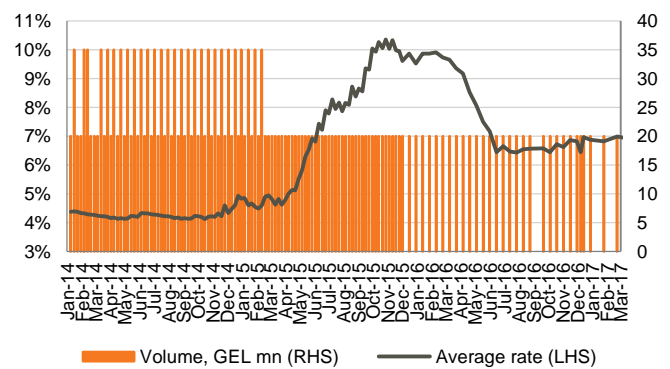
Ministry of Finance Treasury Notes: 1-year GEL 40.0mn (US\$ 16.4mn) T-Bills of Ministry of Finance were sold at the auction held at NBG on May 3, 2017. The weighted average yield was fixed at 7.552%. The nearest treasury security auction is scheduled for May 10, 2017, where GEL 20.0mn nominal value 182-days T-Bills and GEL 30.0mn nominal value 2-years T-Notes will be sold.

T-bills / T-notes, yield curve



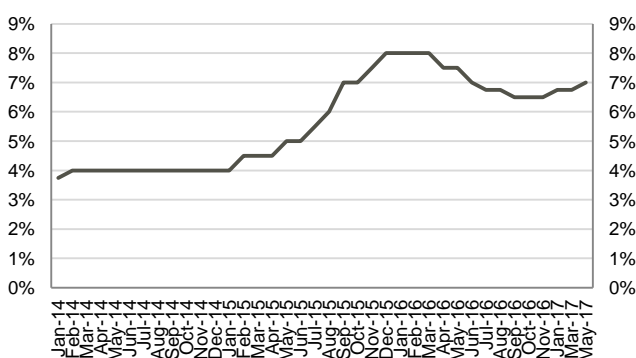
Source: NBG

Certificates of Deposits (weighted average rate)



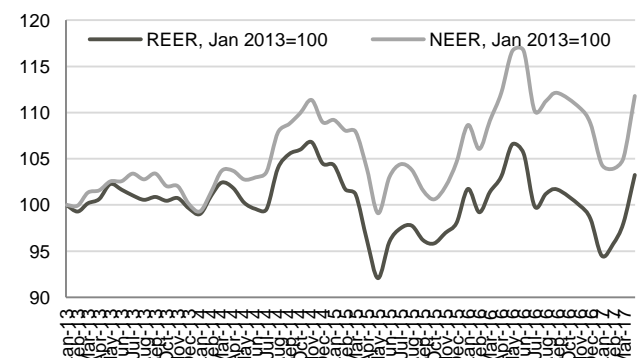
Source: NBG

Monetary policy rate



Source: NBG

Nominal Effective Exchange Rate and Real Effective Exchange Rate



Source: NBG

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

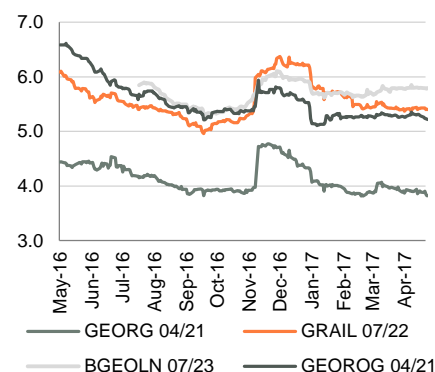


Fixed income

Corporate Eurobonds: BGEO Group Eurobonds (BGEOLN) closed at 5.8% yield, trading at 101.0 (unchanged w/w). GOGC Eurobonds (GEOROG) were trading at 105.4 (-0.1% w/w), yielding 5.2%. Georgian Railway Eurobonds (GRAIL) traded at a premium at 110.5 (unchanged w/w), yielding 5.4%.

Georgian Sovereign Eurobonds (GEORG) closed at 111.1 (+0.1% w/w) at 3.8% yield to maturity.

Georgia Eurobonds, YTM (%)



Source: Bloomberg

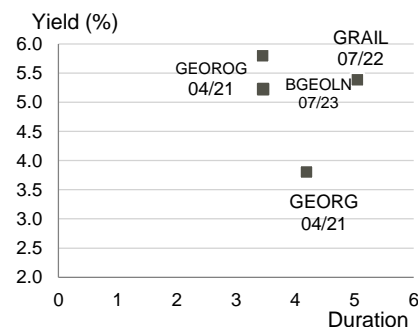
| | Local bonds | | | | Eurobonds | | | |
|-------------------|--------------|---------------|-----------------|--------------|-----------------|-----------------|----------------|----------------|
| | GWP 12/21 | M2RE 10/19 | Nikora 03/18 | GLC 09/17 | GEOROG 04/21 | BGEOLN 07/23 | GEORG 04/21 | GRAIL 07/22 |
| Amount, US\$ mn | 30* | 25.0 | 5.0 | 10.0 | 250 | 350 | 500 | 500 |
| Issue date | 12/16 | 10/16 | 03/16 | 09/14 | 04/16 | 07/16 | 04/11 | 07/12 |
| Maturity date | 12/21 | 10/19 | 03/18 | 09/17 | 04/21 | 07/23 | 04/21 | 07/22 |
| Coupon, % | 10.25 | 7.5 | 11.0 | 8.75 | 6.750 | 6.000 | 6.875 | 7.750 |
| Fitch/S&P/Moody's | BB-/ | -/- | -/- | -/- | BB-/B+ | BB-/B1 | BB-/BB-/Ba3 | B+/B+ |
| Mid price, US\$ | n/a | 101.1 | 101.6 | 100.9 | 105.4 | 101.0 | 111.1 | 110.5 |
| Mid yield, % | n/a | 7.00% | 9.0% | 6.00% | 5.2 | 5.8 | 3.8 | 5.4 |
| Z-spread, bps | n/a | n/a | n/a | n/a | 335.6 | 193.6 | 340.8 | 373.6 |

Source: Bloomberg

*GWP 12/21 bonds are in Georgian lari

**Coupon rate 3.5% over the NBG's refinancing rate

Georgian Eurobond universe



Source: Bloomberg

Eastern European sovereign 10-year bond performance

| Issuer | Amount, US\$ mn | Coupon, % | Maturity date | Ratings (Fitch/S&P/Moody) | Mid price, US\$ | Mid yield, % | Z-spread, bps |
|------------|-----------------|-----------|---------------|---------------------------|-----------------|--------------|---------------|
| Georgia | 500 | 6.875% | 12/04/2021 | BB-/BB-/Ba3 | 111.1 | 3.8 | 193.6 |
| Azerbaijan | 1,250 | 4.750% | 18/03/2024 | BB+/BB+/Ba1 | 102.2 | 4.4 | 225.9 |
| Bulgaria | 323 | 5.000% | 19/07/2021 | BBB-/BB+/Baa2 | 119.4 | 0.3 | -225.9 |
| Croatia | 1,250 | 3.875% | 30/05/2022 | BB/BB/Ba2 | 109.1 | 2.0 | 173.4 |
| Hungary | 3,000 | 6.375% | 29/03/2021 | BBB-/BBB-/Baa3 | 113.1 | 2.8 | 92.8 |
| Romania | 2,250 | 6.750% | 07/02/2022 | BBB-/BBB-/Baa3 | 116.0 | 3.1 | 114.9 |
| Russia | 3,500 | 5.000% | 29/04/2020 | BBB-/BB+/Ba1 | 106.8 | 2.6 | 84.4 |
| Turkey | 2,000 | 5.625% | 30/03/2021 | BB+/BB/Ba1 | 105.9 | 4.0 | 210.9 |

Source: Bloomberg

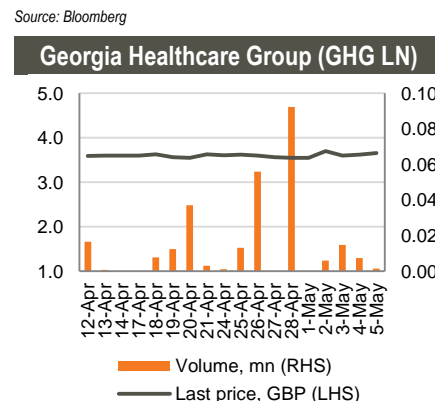
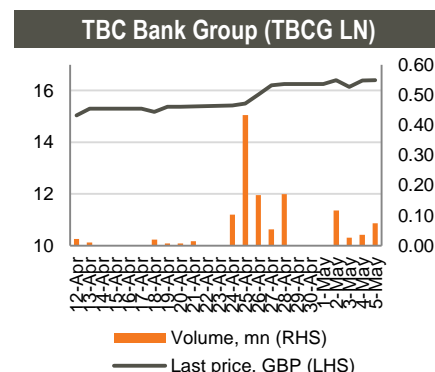
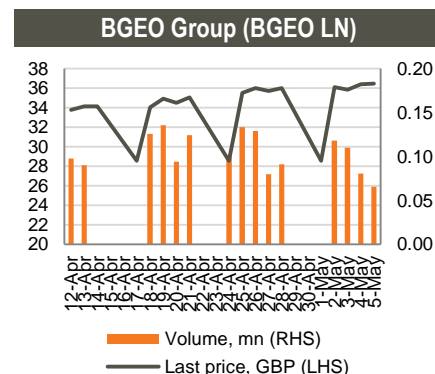


Equities

BGEO Group (BGEO LN) shares closed at GBP 36.48/share (+1.33% w/w and +7.90% m/m). More than 465k shares traded in the range of GBP 35.38 – 36.90/share. Average daily traded volume was 102k in the last 4 weeks. FTSE 250 Index, of which BGEO is a constituent, gained 0.29% w/w and gained 3.16% m/m. The volume of BGEO shares traded was at 1.18% of its capitalization.

TBC Bank Group (TBCG LN) closed the week at GBP 16.40 (+0.92% w/w and +9.33% m/m). More than 423k shares changed hands in the range of GBP 16.01 – 16.43/share. Averaged daily traded volume was 82k in the last 4 weeks.

Georgia Healthcare Group (GHG LN) shares closed at GBP 3.66/share (+2.96% w/w and +1.53% m/m). More than 122k shares were traded in the range of GBP 3.55 – 3.70/share. Average daily traded volume was 16k in the last 4 weeks. The volume of GHG shares traded was at 0.09% of its capitalization.



Eastern European Banks

| | Tick er | Share price, US\$ | MCap, US\$ mn | 1M, chg | 3M, chg | 6M, chg | YTD, chg | 1Y, chg |
|----------------------|------------|-------------------------|---------------------|------------|------------|------------|-------------|------------|
| BGEO* | BGEO | 47.28 | 1,866 | 12.2% | 27.9% | 30.3% | 68.5% | 43.1% |
| TBC* | TBC | 21.26 | 1,120 | 13.7% | 85.6% | 85.6% | 110.5% | 102.4% |
| Halyk Bank | HSBK | 7.40 | 2,034 | -0.7% | 28.7% | 16.4% | 49.5% | 111.1% |
| KKB | KKB | 1.07 | 427 | -12.3% | -24.9% | -19.5% | -12.7% | -46.5% |
| VTB Bank | VTBR | 2.25 | 14,581 | -4.1% | -2.2% | 9.5% | 6.7% | 9.6% |
| Vozrozhdenie Bank | VZRZ | 12.75 | 303 | -2.7% | -3.3% | 14.8% | 54.6% | 62.7% |
| Sberbank | SBER | 11.63 | 62,737 | -4.8% | -2.6% | 29.5% | 97.7% | 50.8% |

Source: Bloomberg

*BGEO and TBC are traded in GBP and are shown in US\$ equivalent

Note: 6M, YTD, and 1Y changes in TBC share prices calculated using GDR prices on those dates.

Healthcare Sector Peers

| | Ticker | Share price, US\$ | MCap, US\$ mn | 1M, chg | 3M, chg | 6M, chg | YTD, chg | 1Y, chg |
|------------------|----------|----------------------|------------------|---------|---------|---------|----------|---------|
| GHG* | GHG | 4.74 | 624 | 5.5% | 10.1% | 8.3% | 107.4% | 68.2% |
| Mouwasat | MOUWASAT | 38.56 | 1,928 | 1.9% | 2.8% | 10.1% | 18.8% | 16.1% |
| Fortis | FORH | 3.28 | 1,696 | 11.9% | 18.3% | 29.8% | 20.5% | 28.3% |
| Raffles | RFMD | 0.99 | 1,742 | -3.9% | -3.6% | -7.7% | 1.6% | -11.9% |
| IHH | IHH | 1.42 | 11,689 | 4.9% | 0.0% | -6.3% | -7.1% | -12.6% |
| Bangkok Chain | BCH | 0.38 | 949 | 1.2% | -4.1% | 0.8% | 51.7% | 32.4% |
| Netcare | NTC | 2.00 | 2,928 | 7.9% | -15.1% | -20.0% | -8.6% | -13.6% |

Source: Bloomberg

*GHG is traded in GBP and is shown in US\$ equivalent

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Galt & Taggart

Address: 79 D. Agmashenebeli Avenue, Tbilisi 0102, Georgia

Tel: + (995) 32 2401 111

Email: gt@gt.ge