

Weekly Market Watch

Weekly Market Watch | Georgia
November 10, 2014

Economy

Annual inflation up 3.4% in October 2014

The annual inflation (CPI) rate in Georgia was recorded at 3.4% in October 2014, according to GeoStat, driven by the price increases on food and non-alcoholic beverages (+7.8% y/y, 2.37pts) and healthcare (+5.6% y/y, 0.61pts). October monthly inflation rate was 0.3%, with price increases on food (+1.0% m/m) and healthcare (+0.9% m/m) being the major drivers. We expect inflation to remain subdued this year, as world food prices continue decreasing and Georgia's nominal effective exchange rate continues strengthening (+7.7% y/y in October).

Gross international reserves stood at US\$ 2.66bn end-October 2014

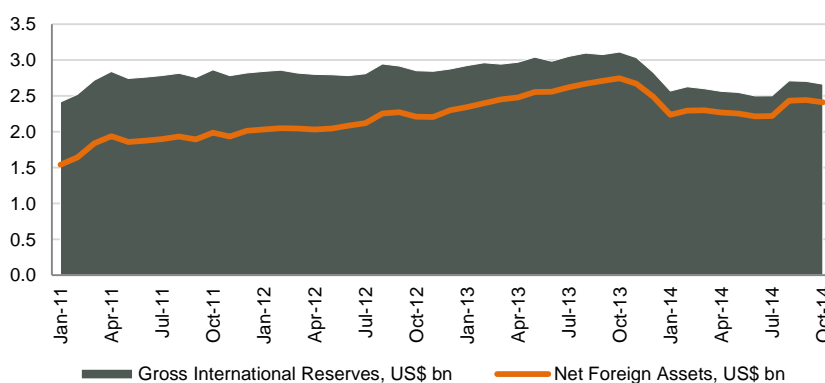
Gross international reserves stood at US\$ 2.66bn (-1.5% m/m) as of end-October 2014 according to NBG. In the same period net foreign assets of NBG reached US\$ 2.41bn (-1.4% m/m). We expect that gross reserves will be maintained at US\$ 2.7bn at the end-2014.

Annual inflation (CPI) in Georgia



Source: GeoStat

International reserves of NBG



Source: NBG

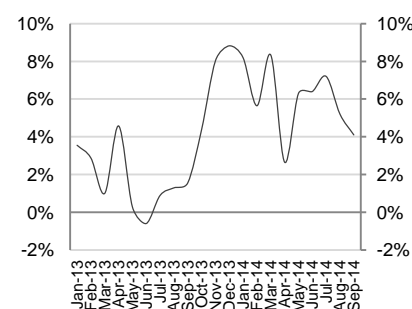
Key macro indicators

| | 9M14 | 2014F | 2013 |
|------------------------------|-------|-------|-------|
| GDP (% change) | 5.9% | 5.0% | 3.2% |
| GDP per capita (US\$) | na | 3,720 | 3,597 |
| Population (mn) | 4.5 | 4.5 | 4.5 |
| Inflation | 3.4%* | 4.5% | 2.4% |
| Gross reserves (US\$ bn) | 2.7* | 2.7 | 2.8 |
| CAD (% of GDP) | na | 8.0% | 5.9% |
| Fiscal deficit (% of GDP) | 1.1% | 3.0% | 2.6% |
| Total public debt (% of GDP) | 33.1% | 35.0% | 34.7% |

* as of 10M14

Source: Official data, G&T Research

Real GDP growth, %



Source: GeoStat

International ranking of Georgia

Ease of doing business # 15 (regional leader)
 Economic freedom index # 22 (mostly free)
 Global competitiveness rank # 69 (improving trend)

Source: World Bank, Heritage Foundation and World Economic Forum

Georgia sovereign credit ratings

| | | |
|--|---|---|
| STANDARD & POOR'S BB- Stable Affirmed May-2014 | Moody's INVESTORS SERVICE Ba3 Positive Affirmed Sep-2014 | FitchRatings BB- Positive Affirmed Oct-2014 |
|--|---|---|

Source: Rating agencies

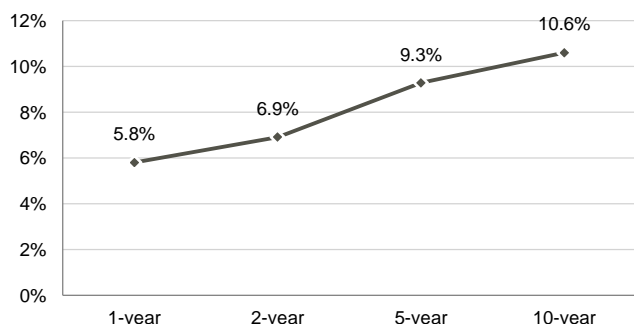
Money market

Refinancing loans: National Bank of Georgia (NBG) issued 7-day refinancing loans of GEL 360mn (US\$ 205mn) with an average yield of 4.00% (unchanged w/w).

Certificates of deposit: NBG sold 91-day, GEL 35mn (US\$ 20mn) certificates of deposits, with an average yield of 4.20% (unchanged from previous issue).

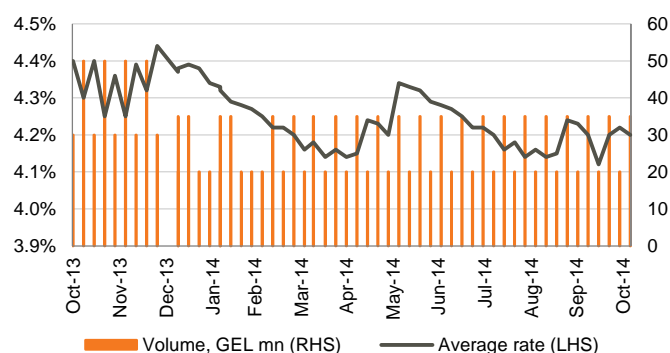
Treasury Notes of Ministry of Finance: 10-year, GEL 10mn (US\$ 5.7mn) T-Notes of Ministry of Finance were sold at the auction held at NBG. Minimum yield was 10.500%, maximum yield was 10.750% and the weighted average yield was fixed at 10.603%. The coupon rate was 11.600%. Coupons will be paid semi-annually. The nearest treasury securities auction is scheduled for November 12, 2014, where GEL 10mn nominal value 2year T-Notes will be sold.

T-bills / T-notes, yield curve



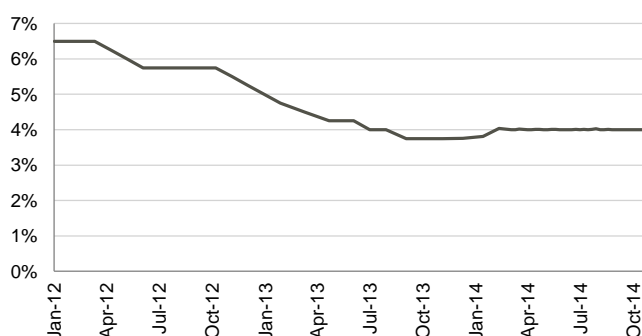
Source: NBG

Certificates of Deposits (weighted average rate)



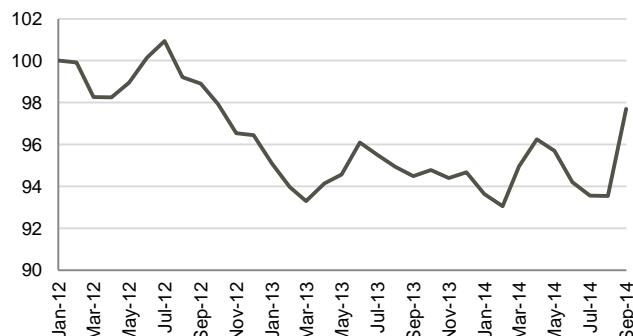
Source: NBG

Monetary policy rate



Source: NBG

Real Effective Exchange Rate



Source: NBG

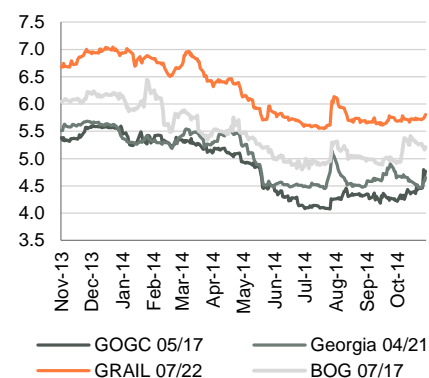
Fixed income

Corporate Eurobonds: Bank of Georgia Eurobonds (GEBGG; US\$ 400mn coupon: 7.75%; maturity 07/17) closed at 5.2% yield, trading at a premium, at 106.2 (up 0.4% w/w). GOGC Eurobonds (GEOROG; US\$ 250mn, coupon: 6.875%; maturity: 05/17) were trading at a premium, at 104.9 (down 1.1% w/w) yielding 4.8%. Georgian Railway Eurobonds (GRAIL; US\$ 500mn, coupon: 7.75% maturity: 07/22), also traded at a premium at 112.2 (down 0.2% w/w) yielding 5.8%.

Georgian Sovereign Eurobonds (GEORG; US\$ 500mn, coupon: 6.875% maturity: 04/21) went up to 112.2 (-0.5% w/w) closing at 4.7% YTM.

Georgian Leasing Company corporate bonds (\$GLC1H; US\$ 10mn, coupon: 8.75%, maturity: 09/17) were listed on GSE on October 31, 2014. The first fixing of 1k GLC bonds in GSE trading system took place last week at US\$ 1,016.54.

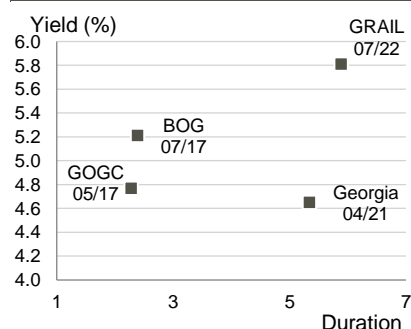
Georgia Eurobonds, YTM (%)



| | Local bonds | | | Eurobonds | | | |
|-------------------|----------------------|----------------------|-----------|------------|---------------|----------|-------------|
| | M ² 04/15 | M ² 06/15 | GLC 09/17 | GOGC 05/17 | Georgia 04/21 | GR 07/22 | BOG 07/17 |
| Amount, US\$ mn | 5 | 10 | 10 | 250 | 500 | 500 | 400 |
| Issue date | 04/14 | 06/14 | 09/14 | 12-May | 11-Apr | 12-Jul | 12-Jul |
| Maturity date | 04/15 | 06/15 | 09/17 | 17-May | 21-Apr | 22-Jul | 17-Jul |
| Coupon | 9.500% | 8.420% | 8.750% | 6.875% | 6.875% | 7.750% | 7.750% |
| Fitch/S&P/Moody's | -/- | -/- | -/- | BB-/B+/- | BB-/BB-/Ba3 | BB-/BB-/ | BB-/BB-/Ba3 |
| Mid price, US\$ | 102.2 | 102.8 | 100.0 | 104.9 | 112.2 | 111.9 | 106.2 |
| Mid yield, % | 9.00% | 8.00% | 8.75% | 4.8 | 4.7 | 5.8 | 5.2 |
| Z-spread | n/a | n/a | n/a | 336.7 | 259.1 | 381.8 | 437.6 |

Source: Bloomberg

Georgian Eurobond universe



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 |
|------------|-----------------|--------|---------------|---------------------------|-----------------|--------------|----------|
| Georgia | 500 | 6.875% | 12/04/2021 | BB-/BB-/Ba3 | 112.2 | 4.7 | 259.1 |
| Azerbaijan | 1,250 | 4.750% | 18/03/2024 | BBB-/BBB-/Baa3 | 103.4 | 4.3 | 188.7 |
| Bulgaria | 323 | 5.000% | 19/07/2021 | BBB-/ | 113.2 | 2.8 | 17.8 |
| Croatia | 1,250 | 3.875% | 30/05/2022 | BB/BB/Ba1 | 102.0 | 3.6 | 281.9 |
| Hungary | 3,000 | 6.375% | 29/03/2021 | BB+/BB/Ba1 | 113.2 | 4.0 | 198.9 |
| Romania | 2,250 | 6.750% | 07/02/2022 | BBB-/BBB-/Baa3 | 119.8 | 3.6 | 148.7 |
| Russia | 3,500 | 5.000% | 29/04/2020 | BBB/BBB-/Baa2 | 101.4 | 4.7 | 292 |
| Turkey | 2,000 | 5.625% | 30/03/2021 | BBB-/Baa3 | 109.4 | 3.9 | 192.2 |
| Ukraine | 1,500 | 7.950% | 23/02/2021 | CCC/CCC/Caa3 | 84.3 | 11.5 | 945.2 |

Source: Bloomberg

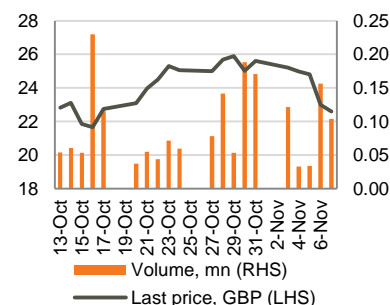
Equities

Bank of Georgia Holdings (BGEO LN) shares closed at GBP 22.59/share (-11.7% w/w and -7.15% m/m). More than 448k shares traded in a range of GBP 22.34 – 25.82/share. Average daily traded volume was 93k in the last 4 weeks, same as in previous month. FTSE 250 index, of which BOGH is the constituent has decreased (-0.24% w/w) after growing three weeks in a row with BOGH shares outperforming the index. The volume of BOGH shares traded was at 1.3% of its capitalization.

TBC Bank closed the week at US\$ 14.60 (-1.3% w/w and -6.9% m/m), more than 6k GDRs changed hands in the range of US\$ 14.60 – 15.00/GDR. Average daily traded volume was 40k in the last 4 weeks, much lower than in previous month. The price has added 12.31% since the start of the trading on June 5, 2014.

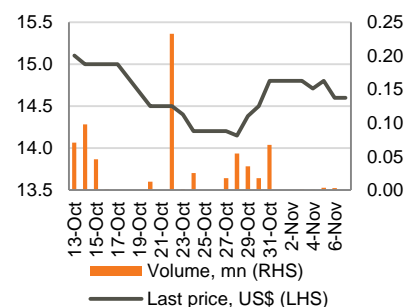
On the Georgian stock exchange Bank of Georgia shares were traded in the range of GEL 36.00 – 37.00 closing at GEL 37.00 (+5.7% w/w) and Liberty Bank shares were traded in the range of GEL 0.0140 – 0.0145 closing at GEL 0.0145 (-3.3% w/w), as a result G&T Index increased to 845.75 (+5.6% w/w).

Bank of Georgia (BGEO LN)



Source: Bloomberg

TBC Bank (TBCL LI)



Source: Bloomberg

Eastern European banks

| | Ticker | Share price, US\$ | MCap, US\$ mn | 1M, chg | 3M, chg | 6M, chg | YTD, chg | 1Y, chg |
|-------------------|--------|-------------------|---------------|---------|---------|---------|----------|---------|
| BGEO* | BGEO | 35.80 | 1,386 | -8.5% | -13.9% | -20.5% | -9.8% | 9.2% |
| TBC | TBC | 14.60 | 719 | -6.9% | 3.5% | N/A | N/A | N/A |
| Halyk Bank | HSBK | 8.50 | 2,365 | -12.1% | -3.4% | 7.1% | -3.9% | 19.2% |
| KKB | KKB | 4.00 | 1,363 | 4.2% | -21.9% | 56.3% | 108.3% | 102.7% |
| VTB Bank | VTBR | 1.77 | 11,885 | -7.1% | -10.1% | -19.8% | -37.4% | -32.2% |
| Vozrozhdenie Bank | VZRZ | 11.35 | N/A | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Sberbank | SBER | 2.74 | N/A | 0.0% | 0.0% | 0.0% | -12.7% | -13.6% |

Source: Bloomberg

Note: * BGEO is traded in GBP and is shown in US\$ equivalent

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