

Georgian Railway 9M12 update

Georgia | Transportation
Georgian Railway
December 14, 2012

Fully state-owned Georgian Railway reported 9M12 financial results. Revenues remained flat at US\$ 213mn. The company's adjusted EBITDA (excluding Batumi Tower disposal and other nonrecurring items) also remained largely flat at US\$ 116mn. GR reported 82% y/y decrease in net income to US\$ 15mn due to US\$ 21mn one-off cost related to disposal of Batumi Tower and reversal of net finance income to net finance cost of US\$ 28mn as of 9M12. Georgian Railway remains compliant with debt covenants; however the company performance was below our expectations.

Dry cargo increase supports diversification; revenues remain flat

Georgian Railway's 9M12 revenues were flat at US\$ 213mn. The largest revenue contributor (85% of total revenues) - freight traffic, decreased 1.1% to US\$ 181mn, as 17% y/y increase of dry cargo transportation volume was outweighed by 13.3% y/y decline of liquid cargo. We see the increase in dry cargo transportation as positive since it supports diversification and lowers dependency on oil and oil products. Both freight car rental (10% of total revenues) and passenger transportation (4% of total revenues) increased by 11% y/y and 22% y/y, respectively. Scrap sales constitute only 1% of revenues.

One-off cost boosts operating expenses

In 9M12, operating expenses were up 19% y/y to US\$ 162mn, due to disposal of Batumi Tower (cost of US\$ 21mn or 11.7% of operating expenses). Adjusted operating expenses (excluding Batumi tower disposal) increased only 4% to US\$ 142mn. The increase was on the back of higher depreciation charges (+18.9% y/y to US\$ 48mn) and electricity and material costs (+18.7% y/y to US\$ 23mn). The company's staff costs were almost unchanged at US\$ 47mn.

Higher finance costs and asset disposal affect net income

The company's adjusted 9M12 EBITDA (excluding Batumi Tower disposal and other non-recurring items) declined 1% y/y basis reaching US\$ 116mn. Adjusted EBITDA margin was 54.6% vs 55.1% in 9M11. Net income of US\$ 15mn was affected by the one-off cost of US\$ 25mn related to the buy-back of a 5 year note at a premium price and disposal of Batumi Tower. As a result, net margin was 7.2% representing a 33ppts decline on y/y basis (adjusted net margin was 25.6% down 14.7ppts).

We revise our forecasts; compliant with debt covenants

Following the release of 9M12 results, we have revised our FY12 revenues forecast from US\$ 325.8mn to US\$ 286.8mn. We have also reduced our operating costs from US\$ 243mn to US\$ 230mn for FY12 on the back of lower revenue. We expect adjusted EBITDA margin at 54.8% vs previous forecast of 56.3% in FY12. We expect adjusted net margin to be at 25.6% (down 14.7ppts y/y). We see the company's net debt (excluding deposits held as a separate balance sheet item) to adjusted EBITDA ratio of 3.3x in FY12, below the Eurobond covenant ceiling of 3.5x.

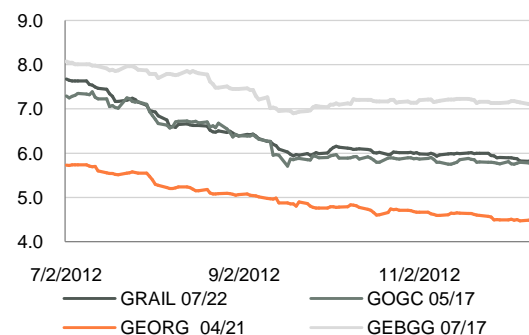
Georgian Eurobond parameters

	GR 07/22	Georgia 04/21	GOGC 05/17	BoG 07/17
Amount, US\$ mn	500	500	250	250
Issue date	07/12	04/11	05/12	07/12
Maturity date	07/22	04/21	05/17	07/17
Coupon	7.750%	6.875%	6.875%	7.750%
Fitch/S&P/	BB-/BB-	BB-/BB-	BB-/BB-	BB-/BB-
Moody's	/-	/Ba3	BB-/BB-	/Ba3
YTM ⁽¹⁾	5.8%	4.5%	5.8%	7.2%

¹ YTM as of 12th December, 2012

Source: Bloomberg

Georgian Eurobonds YTM, %



Source: Bloomberg

Key financials (US\$ mn) and ratios

	9M12	9M11	Change y/y
EBITDA	98.5	116.8	-16%
EBITDA margin	46.3%	54.9%	
Adjusted EBITDA ¹	116.2	117.4	-1%
Adjusted EBITDA margin ¹	54.6%	55.1%	
EBIT	50.7	76.6	-34%
EBIT margin	23.8%	36.0%	
Net income	15.4	85.7	-82%
Net margin	7.2%	40.3%	
Adjusted net income ²	54.5	85.7	-36%
Adjusted net margin ²	25.6%	40.3%	
Assets	1,755.1	1,459.5	20.3%
Equity	915.0	1,065.0	-14.1%
Debt	544.9	251.4	117%

¹excluding disposal of Batumi tower in 2012 and other non-recurring items

²excluding disposal of Batumi tower in 2012 and Eurobond buyback premium

Source: Company data, Bank of Georgia Research

FY12 forecast comparison, US\$ mn

	New	Old
Revenues	286.8	325.8
Adjusted EBITDA ¹	157.1	183.4
Adjusted EBITDA margin ¹	54.8%	56.3%
Total debt/EBITDA ¹	3.4 x	2.7 x
Net debt/EBITDA ¹	3.3 x	2.5 x

¹excluding disposal of Batumi tower and other non-recurring items

Source: Company data, Bank of Georgia Research



Financials

Income statement, US\$ mn

	9M12	Change y/y	2012E	Change y/y
Revenues	212.9	0%	286.8	1%
SG&A	114.4	19%	147.4	14%
EBITDA	98.5	-16%	139.4	-10%
EBITDA margin	46.3%		48.6%	
Adjusted EBITDA ¹	116.2	-1%	157.1	2%
Adjusted EBITDA margin ¹	54.6%		54.8%	
D&A	47.8	19%	66.9	22%
EBIT	50.7	-34%	72.5	-27%
EBIT margin	23.8%		25.3%	
Financial expenses (income), net	28.2	nm	41.0	nm
PBT	22.5	-75%	31.5	-71%
Tax expense	7.1	83%	4.7	-20%
Net income	15.4	-82%	26.8	-74%
Net margin	7.2%		9.3%	
Adjusted net income ²	54.5	-36%	65.9	-36%
Adjusted net margin ²	25.6%		23.0%	

Balance Sheet, US\$ mn

	9M12	Change y/y	2012E	Change y/y
Non-current assets	1,505.7	22.4%	1,529.9	16.4%
PP&E, net	1,321.3	21.4%	1,343.3	17.3%
Other	184.4	30.0%	186.6	10.2%
Current assets	249.5	9.0%	223.4	69.4%
Cash & equivalents	40.4	-64.0%	27.8	-24.8%
Trade receivables & prepayments	71.2	30.0%	47.2	43.1%
Other	137.8	122.3%	148.4	139.0%
Total assets	1,755.1	20.3%	1,753.3	21.2%
Shareholder equity	915.0	-14.1%	958.6	-11.1%
Non-current liabilities	572.9	101.4%	572.0	101.1%
LT debt	535.1	117.2%	535.0	115.8%
Other	37.8	-1.0%	37.1	1.6%
Current liabilities	267.3	143.1%	222.6	166.9%
ST loans	9.8	92.9%	7.3	-34.9%
Trade payables & prepayments	50.4	-16.2%	27.9	1.6%
Other	207.1	363.1%	187.4	318.8%
Total liabilities and equity	1,755.1	20.3%	1,753.3	21.2%

Ratio Analysis

	2012E	2011
Profitability		
ROA	1.7%	7.3%
ROE	2.6%	10.2%
Liquidity & Solvency		
Current ratio	1.0 x	1.6 x
Quick ratio	0.9 x	1.4 x
Cash ratio	0.2 x	0.5 x
Total debt/Equity	0.6 x	0.2 x
Net debt/Equity	0.5 x	0.2 x
Total debt/EBITDA ¹	3.4 x	1.7 x
Net debt/EBITDA ¹	3.3 x	1.5 x
Financial Leverage	1.8 x	1.3 x
Adjusted Interest coverage ¹³	3.0 x	4.0 x
FFO to total debt ¹	0.2 x	0.6 x
RCF to net debt	0.1 x	-0.6 x
FFO to adjusted finance expenses ¹³	1.4 x	5.1 x

¹ Excluding disposal of Batumi tower in 2012 and other non-recurring items

² Excluding disposal of Batumi tower in 2012 and Eurobond buyback premium

³ Including previously capitalized Eurobond interest expense

Source: Company data, Bank Georgia Research



Contacts

Head of Research

Ekaterina Gazadze | egazadze@bog.ge

Associate Director

George Shengelia | gshengelia@bog.ge

Associate

Giorgi Iremashvili | giremashvili@bog.ge

Analyst

Sopho Khelashvili | skhelashvili@bog.ge

Bank of Georgia Research

29a Gagarin Str. Tbilisi 0160, Georgia
+995 32 2444 444
Research@bog.ge



Disclaimer

This document is strictly confidential and has been prepared by JSC Bank of Georgia ("Bank of Georgia") 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.

Bank of Georgia 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 Bank of Georgia 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 Bank of Georgia or its 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 Bank of Georgia or any of its 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, Bank of Georgia and its 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 Bank of Georgia 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 Bank of Georgia, or any of its 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 Bank of Georgia 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 Bank of Georgia, nor its 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.

Bank of Georgia does, and seeks 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.

This document is confidential to clients of Bank of Georgia. 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.