Georgian Oil and Gas Corporation

# Revising forecasts

**Georgia | Energy**
Georgian Oil and Gas Corporation
October 25, 2013

Following GOGCs 1H13 results, we revise our revenue and margin forecasts on the back of reduced gas sales tariffs but higher revenues. According to our estimates, the 9% cut in retail gas prices in effect from March 2013 will undercut profitability until 2015. However, on the debt servicing side, neither liquidity nor leverage covenants should be a concern for Eurobond holders. GOGC's capex plans have shifted to a thermal power plant, Gardabani, from the Namakhvani hydropower plant. Operations at Gardabani, of which the Partnership Fund will own 49%, will contribute an estimated US$ 50mn in EBITDA from 2016 onwards on a fully-consolidated basis.

## Higher 1H13 revenues and costs, but still ample profitability remains

Revenues from gas supplies (75% of sales) grew by a respectable 14% y/y in 1H13 on higher volumes. Higher transportation fee income and gas volumes on the Main Gas Pipeline System (MGPS) increased revenues from pipeline rentals by 5% in 1H13 (accounting for 11.6% of total revenues). Upstream activities posted 6x higher revenue in 1H13 y/y as oil reserves from 2012 were sold and recognized as income per production sharing agreements, now representing 10% of total revenues. The oil transportation segment remained largely flat, as expected. The rising cost of gas purchases – the main cost component for GOGC – narrowed the EBITDA margin by 290bps to 39.8%. Eurobond financing costs also cut into the bottom line. According to GOGC's FY13 guidance, gas prices are likely to decline while volumes should increase slightly. We expect revenues to grow by a modest 4.5% in FY13 and 1.8% and 1.5% in FY14 and FY15, respectively.

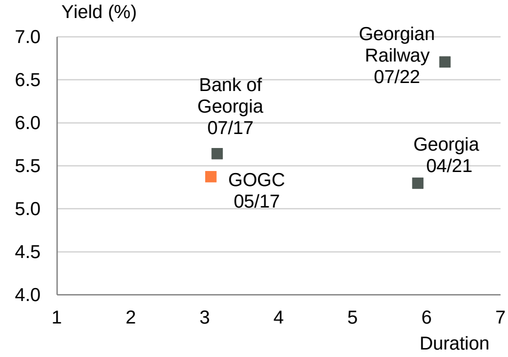
## Capex remains priority, but redirected to Gardabani

In 2012, GOGC ended its involvement in the Namakhvani Hydro Plant due to potential environmental issues that required further revision. Instead, GOGC will invest in the Gardabani Combined Cycle Power Plant (CCPP) which should be fully operational in 2016. Project construction costs were re-evaluated to US$ 220mn from US$ 200mn. The plant will be run by the Gardabani TPP LLC with funding from both GOGC and PF, where each invests US$ 50mn of equity and GOGC provides an additional US$ 120mn in debt financing to the Gardabani SPV. Upon completion, GOGC will own a 51% equity stake in Gardabani, while the PF will retain the remaining 49%. PF's US$ 50mn equity investment will be financed from a loan of the same amount that GOGC made to PF for the plant's construction in 2012. It will be repaid by the PF over 2015-2019.

## Eurobond covenants in-check, liquidity still strong

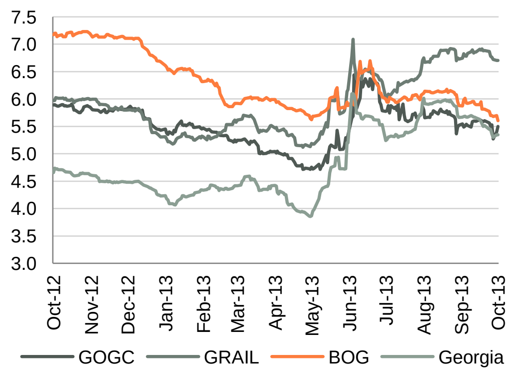
GOGC's 2.7x FY12 and projected 3.1x FY13 net debt-to-EBITDA ratios leave the company in compliance with the 3.5x Eurobond covenant. The expected rise in the ratio in 2013 will be driven by US$ 120mn in outflows related to Gardabani's construction. Term deposits (US$ 41mn in 1H13) are included as cash equivalents in adjusted net debt calculations, which lowers the ratio to 2.1x in FY13. We do not include an un-tapped overdraft facility of US$ 53mn in net debt calculations, but note that it does provide an additional liquidity buffer.

**Figure 1: Georgian Eurobond universe**




*Source: Bloomberg*

**Figure 2: Georgian Eurobonds, YTM %**




*Source: Bloomberg*

**Table 1: Key financials (US$ mn) and ratios**

| | 1H13 | 1H12 | Chg, y/y |
|---|---|---|---|
| EBITDA | 43.5 | 37.5 | 16.0% |
| EBITDA margin | 39.8% | 42.7% | (290bps) |
| EBIT | 37.7 | 31.1 | 21.4% |
| EBIT margin | 34.5% | 35.4% | (80bps) |
| Net income | 36.3 | 29.2 | 24.5% |
| Net margin | 33.3% | 33.2% | 10bps |
| Assets | 538.7 | 535.7 | 2.5% |
| Equity | 272.3 | 243.2 | 14.2% |
| Liabilities | 266.4 | 292.5 | (7.1%) |

*Source: Company data, Bank of Georgia Research*

## Capex plans remain a priority

**GOGC announced it will terminate its involvement with Namakhvani** due to potential environmental issues that require further assessment. However, the company replaced Namakhvani with Gardabani, which leaves capex plans in place. As of end-2012, GOGC committed US$ 10.5mn to Namakhvani, but most of the contracts are retractable without penalty. US$ 4.5mn was written off at the end of 2012 and we do not expect any other significant Namakhvani-related impairment charges going forward. Although discontinuing Namakhvani is disappointing to us, we believe Gardabani is an attractive alternative as it will help diversify GOGC's revenue structure.

**Eurobond proceeds earmarked for Namakhvani will now be directed to Gardabani.** The project is slated for end-2015 completion at a total project cost of US$ 220mn, becoming fully operational in 2016. The US$ 50mn loan that GOGC lent to the Partnership Fund (PF) for Gardabani's construction in 2012 will be repaid by the PF in equal semi-annual installments over 2015-2019 at a 9% interest rate. This effectively leaves the PF and GOGC investing approximately US$ 50mn of equity each while GOGC will remain the majority owner with 51%. In our model, we assumed GOGC will invest US$ 120mn of debt in Gardabani in 2013 and the final equity component of US$ 50mn in 2014. The debt component issued by GOGC to Gardabani TPP LLC will have a grace period until 2016 and then be repaid in 20 equal semi-annual installments, at 9.5% interest rate.

**Table 2: Use of Eurobond proceeds and other funding as at June 2013**

| Use of Eurobond proceeds / sources of funding | |
|---|---|
| **US$ 41mn** | Term deposits |
| **US$ 168mn** | Cash & equivalents |
| **US$ 54mn[1]** | Loan to PF[2] (for PF's Gardabani equity investment), due 2015-2019 in equal semi-annual installments at 9% interest rate |
| **US$ 31mn** | Receivable from state-controlled entity[3], due in 2013 at 11% interest rate |
| **US$ 294mn** | |

*[1] Difference of US$ 4mn vs. reported amount of US$ 50mn due to exchange rate adjustment*

*[2] JSC Partnership Fund was established by the Government of Georgia in August 2011. The Government owns 100% of the Fund. PF's current asset base exceeds USD 4.3bn as it incorporates government stakes in major state-owned enterprises (SOEs), including Georgian Railway (100% stake), Georgian Oil and Gas Corporation (100% stake), Georgian State Electrosystem (100% stake), Electricity System Commercial Operator (100% stake), and Telasi (25% stake). Oversight of the PF's management team is ensured by the supervisory board which is chaired by the Prime Minister of Georgia and includes the Ministers of Economy, Finance, Energy, and Justice as well as heads of four Georgian banks.*

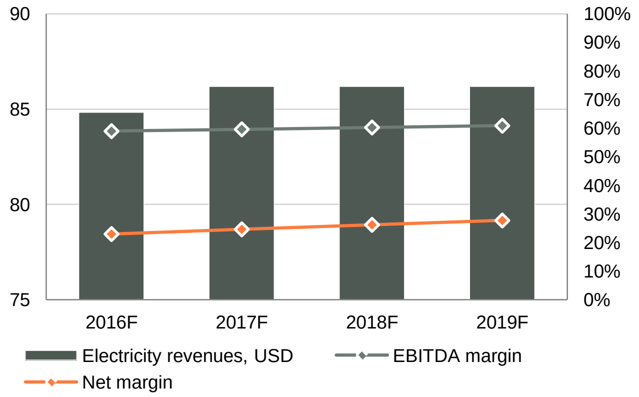
*[3] To the extent permitted by Georgian legislation, the National Agency of State Property of the Ministry of Economy and Sustainable Development of Georgia confirmed its intent to provide support to the state-controlled entity in repaying the loan if required*

## Revising forecasts: New operating metrics, capex schedule

**We revise 2013 growth forecasts downwards to reflect higher volumes and lower selling prices vs. 2012 actual results, as per company guidance.** Under a new government initiative, social gas prices were lowered by GEL 0.05/$m^2$ (9.4% reduction, by our estimates) effective March 2013. As a result, we expect the EBITDA margin to contract 19ppts to 31%, with revised EBITDA at US$ 59mn vs. our previous US$ 72mn estimate for FY13. Our model assumes mostly flat social gas prices from 2013 onwards.

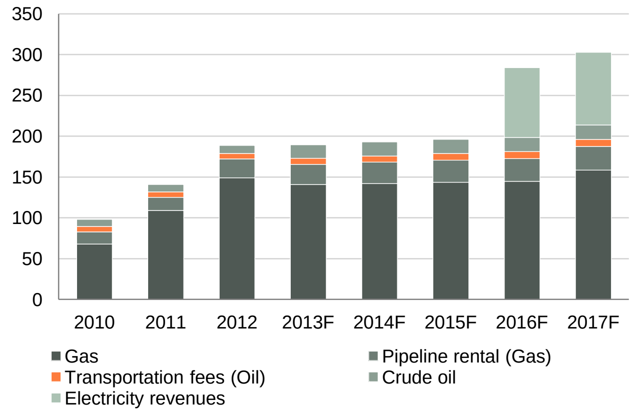
**The South Caucasus Pipeline (SCP) expansion project was announced in 2013 and will most likely be completed by 2017.** Maximum pipeline throughput capacity of the SCP system will reach 22 billion cubic meters per year. GOGC will benefit from the expansion as they will be able to increase gas purchase volumes under the SCP Optional Gas Agreement, which is expected to remain unchanged at 5% of SCP volume. By 2019, we estimate GOGC will receive 500mn cubic meters of gas from the SCP under a Supplemental Gas Agreement and an additional 850mn cubic meters under the Optional Gas Agreement. We also expect this to have a positive effect on profitability as gas purchases from the SCP are significantly cheaper than from other sources.

**Figure 3: Projected Gardabani revenues (US$ mn) and margins**




*Source: Company data, Bank of Georgia Research*

**Figure 4: GOGC revenue growth forecast, US$ mn**



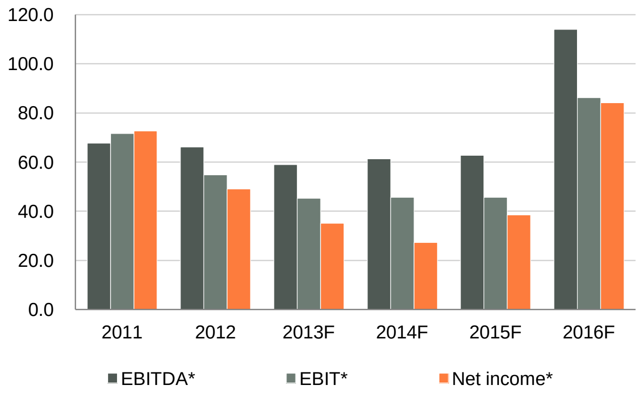

*Source: Company data, Bank of Georgia Research*

**Much-needed revenue diversification from gas to higher share of electricity through Gardabani.** With 230MW annual capacity, we estimate Gardabani will contribute around US$ 85mn to consolidated revenue in FY16. Thermal power plants are subject to the cost of gas as its main operating input and in our view it will be the key factor for profitability. Our projections estimate Gardabani's EBITDA margin at around 60% and suggest it will improve GOGC's overall EBITDA margin from 32% to 40% in its first year of operations in FY16.

**We expect the launch of Gardabani in FY16 will improve GOGC's EBITDA and net margins 8.1ppts and 3.3ppts respectively.** The lower impact on the net income margin is due to GOGC's minority interest and higher depreciation expenses resulting from Gardabani's operations. We estimate Gardabani will contribute US$ 50mn in EBITDA and US$ 25mn in net income during its first year of operation.

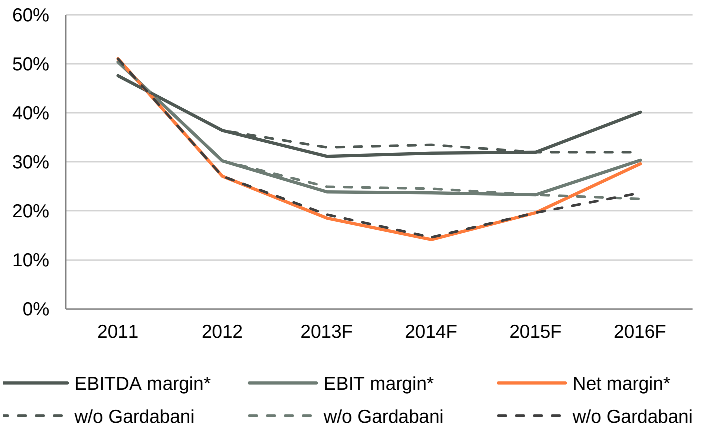
**In 1H13 GOGC received US$ 7.6mn in interest income on bank deposits, nearly double y/y.** The company also received US$ 4mn of accrued interest on loans issued. In FY13, we expect GOGC's financial income sources to significantly offset Eurobond financing costs and overall incur a net finance expense of only US$ 2.5mn.

**Figure 5: GOGC profitability measures, US$ mn**




** Excluding impairment loss reversal in 2011 and Namakhvani impairment in 2012-2013*
*Source: Company data, Bank of Georgia Research*

**Figure 6: Profitability margins with and without Gardabani**



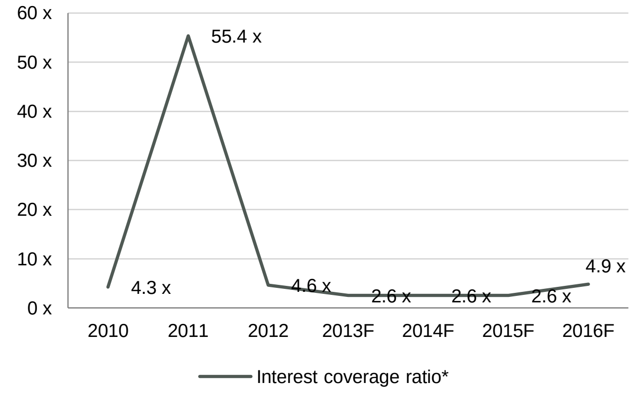

** Excluding impairment loss reversal in 2011 and Namakhvani impairment in 2012-2013*
*Source: Company data, Bank of Georgia Research*

**In our model, we assume a 35% dividend payout ratio, in-line the company's guidance going forward.** At this rate GOGC will be able to meet both its capex and financing commitments. Nevertheless, as a quasi-sovereign entity (100% owned by the PF on behalf of the state) we believe the government will remain flexible on the dividend policy and help GOGC meet its liabilities if needed.

## Solid liquidity position despite lock-ups in term deposits and loans issued

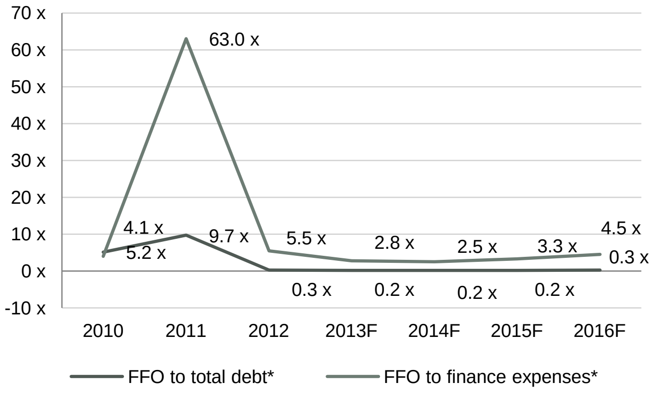
**Large portions of the Eurobond proceeds were initially placed on long- and short-term deposit at local banks.** In May 2013, the company reclassified US$ 55mn of short-term deposits as cash and cash equivalents, as a result of renegotiated deposit terms. From 2014, the company can fully withdraw the majority of non-current term deposits on favorable terms without incurring significant penalties. GOGC also has an unused overdraft stand-by facility of US$ 53mn.

**Figure 7: Interest coverage ratio**




** Excluding hist. impairment loss reversal in 2011*
*Source: Company data, Bank of Georgia Research*

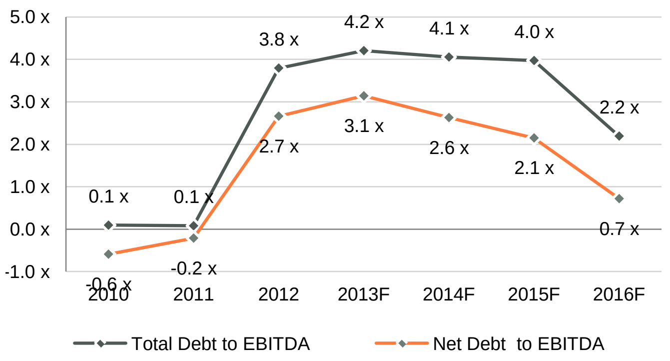
**Figure 8: Liquidity**




** Funds from operations; excluding hist. impairment loss reversal in 2011*
*Source: Company data, Bank of Georgia Research*

**The net debt-to-EBITDA ratio stood at 2.7x in FY12 and we expect it at 3.1x in FY13**, driven by US$ 120mn in expected outflows at Gardabani. Adjusted net debt-to-EBITDA (incl. long term term deposits) was 1.0x in 2012 and we expect it at 2.1x in 2013.

**Figure 9a: Debt/EBITDA[1] ratios (conventional)**

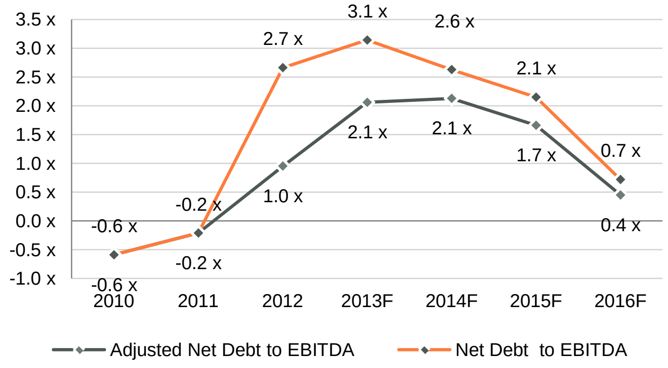



[1] *EBITDA adjusted for impairment loss reversal in 2010-2011*

*Note: Net Debt is based on call deposits and current accounts in banks as sole cash equivalents*

*Source: Company data, Bank of Georgia Research*

**Figure 9b: Adjusted Debt/EBITDA[1]**

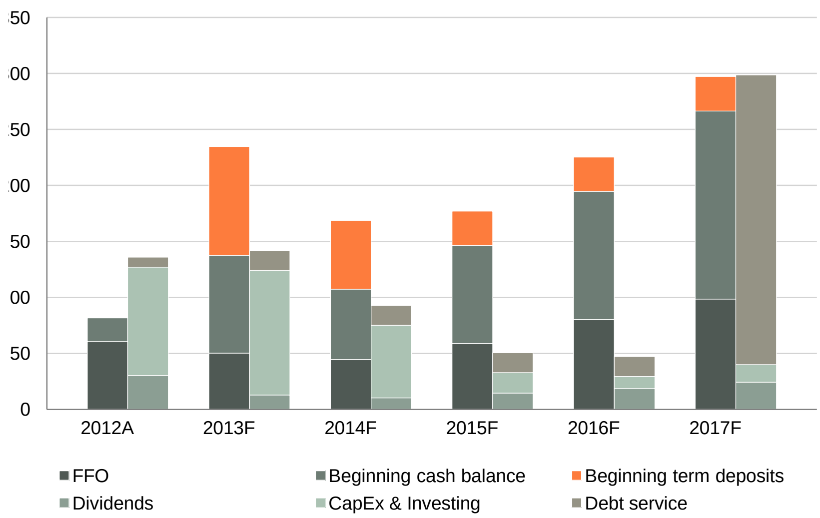



*Note: Adjusted Net Debt includes long term term deposits as cash equivalents*

*Source: Company data, Bank of Georgia Research*

**An assessment of funding sources and uses indicates GOGC is capable of meeting debt repayment liabilities.** GOGC remains comfortably funded even at a maximum 35% dividend payout, while minimum cash is maintained at 8% of total assets. In the case of extraordinary expenses such as unanticipated capex or heftier dividends, GOGC could face a cash crunch, but even then, the short-term credit facility of US$ 53mn would cover the shortage. Alternatively, GOGC can reduce dividends to help fund a slight gap that might occur in 2017 when principal repayment on its Eurobonds is due.

**Figure 10: GOGC funding sources and uses (US$ mn)**




*Source: Company data, Bank of Georgia Research estimates*

## Ratings affirmed in-line with the sovereign

**In April 2013, Fitch Ratings affirmed GOGC's BB- rating.** This was done in alignment with the sovereign due to the 100% indirect state ownership and its critical importance for national energy policy. However, on a standalone basis it was rated a B+ due to its small size, limited operations, and funding issues related to new projects.

**GOGC bond yields are currently on the decline after a spike during May-September period due to US QE taper expectations.** Amid the low interest rates in the US and Western Europe during the 1H13, investors chased returns in the Eastern European bond space. This rise in demand drove down Georgian Eurobond yields until the end of May, but the yields experienced a strong spike at the end of May along with other Eastern European corporate bonds on talk of US QE taper. Most Eastern European bonds are normally issued in US$, with rates closely tied to US Treasuries. GOGC's yield rose from 4.755% on May 22 (when the Federal Reserve first mentioned cutting back on stimulus) to its current one year high of 6.443% in June. But the market stabilized after the Fed decided to keep its asset purchases steady at its September meeting and pushed back tapering expectations to 2014. As a result, investors' appetite increased for EM bonds and GOGC bond yield reduced towards 5.5% in mid-October.

# Financials

## Income statement, US$ mn

| | 2010 | 2011 | 2012 | 2013F | 2014F | 2015F | 2016F | 2017F |
|---|---|---|---|---|---|---|---|---|
| Net revenue | 96.7 | 142.3 | 181.5 | 189.7 | 193.2 | 196.1 | 284.0 | 302.8 |
| EBITDA[(1)] | 43.0 | 67.7 | 66.1 | 59.0 | 61.3 | 62.7 | 113.9 | 123.5 |
| EBITDA margin[(1)] | 44.5% | 47.6% | 36.4% | 31.1% | 31.8% | 32.0% | 40.1% | 40.8% |
| D&A | 10.0 | 11.7 | 11.3 | 13.7 | 15.6 | 17.1 | 27.8 | 29.8 |
| EBIT | 56.3 | 71.7 | 54.8 | 45.3 | 45.7 | 45.6 | 86.1 | 93.7 |
| EBIT margin | 58.2% | 50.4% | 30.2% | 23.9% | 23.7% | 23.3% | 30.3% | 31.0% |
| Financial expenses (income), net | 5.0 | (5.6) | (5.9) | 2.5 | 11.7 | (3.4) | (5.4) | (18.3) |
| PBT | 51.4 | 77.3 | 60.6 | 42.8 | 34.0 | 49.1 | 91.5 | 112.0 |
| Tax expense | 6.6 | 9.7 | 7.0 | 6.4 | 5.1 | 7.4 | 12.0 | 15.1 |
| Minority interest expense | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 9.6 | 10.8 |
| Net income | 44.7 | 67.7 | 53.6 | 36.4 | 28.9 | 41.7 | 69.9 | 86.2 |
| Net margin | 46.3% | 47.5% | 29.5% | 19.2% | 15.0% | 21.3% | 24.6% | 28.5% |
| Profit from discontinued operations | 10.0 | 5.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Impairment of assets related to Namakhvani project | 0.0 | 0.0 | (4.5) | (1.2) | 0.0 | 0.0 | 0.0 | 0.0 |
| Net income after discontinued operations | 54.7 | 72.7 | 49.1 | 35.2 | 28.9 | 41.7 | 69.9 | 86.2 |

[(1)] Excluding reversal of impairment losses (US$ 23.3mn – 2010; US$ 15.7mn – 2011)
*Source: Company, Bank of Georgia Research*

## Balance sheet, US$ mn

| | 2010 | 2011 | 2012 | 2013F | 2014F | 2015F | 2016F | 2017F |
|---|---|---|---|---|---|---|---|---|
| Non-current assets | 150.4 | 188.9 | 313.4 | 444.9 | 465.5 | 468.8 | 454.1 | 411.7 |
| Net PP&E | 126.8 | 162.6 | 170.5 | 178.8 | 178.2 | 179.4 | 180.1 | 174.9 |
| Gardabani CCPP | 0.0 | 0.0 | 51.5 | 174.5 | 224.5 | 224.5 | 206.9 | 198.1 |
| Term deposits | 0.0 | 0.0 | 63.6 | 61.3 | 30.7 | 30.7 | 30.7 | 0.0 |
| Other | 23.6 | 26.3 | 27.8 | 30.1 | 32.1 | 34.2 | 36.4 | 38.7 |
| Current assets | 78.4 | 66.4 | 216.4 | 131.6 | 156.6 | 183.6 | 236.9 | 74.4 |
| Cash & equivalents | 32.5 | 21.0 | 86.1 | 62.8 | 87.5 | 114.4 | 167.9 | 1.3 |
| Receivables & prepayments | 14.4 | 18.2 | 52.1 | 51.7 | 51.7 | 51.5 | 51.1 | 54.0 |
| ST deposits & investments | 0.0 | 0.0 | 61.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 31.5 | 27.2 | 17.0 | 17.1 | 17.4 | 17.7 | 17.9 | 19.1 |
| Total assets | 228.8 | 255.4 | 529.7 | 576.5 | 622.1 | 652.3 | 690.9 | 486.0 |
| Shareholders equity | 195.4 | 214.6 | 240.5 | 268.3 | 287.1 | 314.2 | 348.3 | 393.0 |
| Non-current liabilities | 5.8 | 6.8 | 250.8 | 280.7 | 305.9 | 306.5 | 312.4 | 59.9 |
| LT interest bearing debt | 1.3 | 0.4 | 245.0 | 248.2 | 248.7 | 249.2 | 249.7 | 0.0 |
| Minority interest | 0.0 | 0.0 | 0.0 | 26.7 | 51.2 | 51.2 | 56.5 | 53.3 |
| Other | 4.5 | 6.4 | 5.8 | 5.8 | 5.9 | 6.0 | 6.1 | 6.6 |
| Current liabilities | 27.6 | 34.0 | 38.5 | 27.5 | 29.2 | 31.7 | 30.3 | 33.1 |
| ST loans | 5.0 | 6.2 | 3.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Trade payables & prepayments | 1.7 | 1.6 | 15.0 | 6.8 | 8.2 | 10.3 | 8.7 | 9.9 |
| Other | 20.9 | 26.2 | 20.4 | 20.7 | 21.0 | 21.4 | 21.6 | 23.3 |
| Total liabilities & equity | 228.8 | 255.4 | 529.7 | 576.5 | 622.1 | 652.3 | 690.9 | 486.0 |

*Source: Company, Bank of Georgia Research*

## Cash flow, US$ mn

| | 2010 | 2011 | 2012 | 2013F | 2014F | 2015F | 2016F | 2017F |
|---|---|---|---|---|---|---|---|---|
| Cash flows from operating activities | 45.4 | 46.7 | 43.0 | 41.7 | 44.5 | 59.7 | 77.3 | 95.2 |
| Net income | 54.7 | 72.7 | 49.1 | 36.4 | 28.9 | 41.7 | 52.5 | 68.8 |
| Depreciation and amortisation | 10.7 | 12.4 | 11.3 | 13.7 | 15.6 | 17.1 | 27.8 | 29.8 |
| Reversal of impairment losses | (21.4) | (16.2) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in working capital | (8.9) | (20.9) | (15.9) | (7.1) | 1.5 | 2.4 | (1.2) | (1.2) |
| Other | 10.2 | (1.2) | (1.4) | (1.3) | (1.4) | (1.6) | (1.7) | (2.1) |
| Cash flows from investing activities | (8.8) | (38.8) | (182.1) | (75.7) | (34.4) | (18.3) | (10.9) | 15.0 |
| Capital expenditures | (8.3) | (38.7) | (17.9) | (19.1) | (15.0) | (18.3) | (10.9) | (15.7) |
| Gardabani CCPP investment | 0.0 | 0.0 | (51.7) | (122.2) | (50.0) | 0.0 | 0.0 | 0.0 |
| Loans given to shareholder and state controlled entity | 0.0 | 0.0 | (27.1) | 29.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| Increase in term deposits | 0.0 | 0.0 | (85.3) | 35.8 | 30.7 | 0.0 | 0.0 | 30.7 |
| Other | (0.4) | (0.1) | (0.1) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cash flows from financing activities | (9.0) | (21.3) | 204.3 | 9.3 | 14.5 | (14.5) | (13.0) | (276.8) |
| Net borrowings (repayments) | (3.9) | 0.0 | 239.7 | (4.6) | (0.0) | (0.0) | (0.0) | (250.0) |
| Dividends paid | (5.1) | (4.4) | (30.0) | (12.7) | (10.1) | (14.6) | (18.4) | (24.1) |
| Change in minority interest | 0.0 | 0.0 | 0.0 | 26.7 | 24.5 | 0.0 | 5.3 | (3.2) |
| Other | 0.0 | (16.9) | (6.4) | (0.0) | 0.1 | 0.1 | 0.1 | 0.5 |
| Net cash inflows (outflows) | 27.7 | (13.4) | 65.2 | (24.7) | 24.7 | 26.9 | 53.5 | (166.6) |
| Beginning cash balance | 4.9 | 32.5 | 21.0 | 86.1 | 62.8 | 87.5 | 114.4 | 167.9 |
| Foreign currency translation gain (loss) | (0.1) | 1.9 | (0.1) | 1.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| Ending cash balance | 32.5 | 21.0 | 86.1 | 62.8 | 87.5 | 114.4 | 167.9 | 1.3 |

*Source: Company, Bank of Georgia Research*

## Financial ratios

| | 2010 | 2011 | 2012 | 2013F | 2014F | 2015F | 2016F | 2017F |
|---|---|---|---|---|---|---|---|---|
| Profitability | | | | | | | | |
| ROA(1) | 9.9% | 21.1% | 13.5% | 6.5% | 4.8% | 6.5% | 7.8% | 11.7% |
| ROE(1) | 14.4% | 24.9% | 23.2% | 14.2% | 10.4% | 13.9% | 15.8% | 18.6% |
| Liquidity and Solvency | | | | | | | | |
| Current ratio | 2.8 x | 2.0 x | 5.6 x | 4.8 x | 5.4 x | 5.8 x | 7.8 x | 2.2 x |
| Quick ratio | 2.6 x | 1.9 x | 5.6 x | 4.8 x | 5.4 x | 5.8 x | 7.8 x | 2.2 x |
| Cash ratio | 1.2 x | 0.6 x | 2.2 x | 2.3 x | 3.0 x | 3.6 x | 5.5 x | 0.0 x |
| Total debt/Equity | 0.0x | 0.0x | 1.0x | 0.9x | 0.9x | 0.8x | 0.7x | 0.0x |
| Net debt/Equity (2) | (0.1x) | (0.1x) | 0.7x | 0.7x | 0.6x | 0.4x | 0.2x | (0.0x) |
| Total debt/EBITDA(1) | 0.1x | 0.1x | 3.8x | 4.2x | 4.1x | 4.0x | 2.2x | 0.0x |
| Net debt/EBITDA(1) (2) | (0.6x) | (0.2x) | 2.7x | 3.1x | 2.6x | 2.1x | 0.7x | (0.0x) |
| Adjusted Net debt /EBITDA(1) (3) | (0.6x) | (0.2x) | 1.0x | 2.1x | 2.1x | 1.7x | 0.4x | (0.0x) |
| Financial leverage | 1.2 x | 1.2 x | 2.2 x | 2.1 x | 2.2 x | 2.1 x | 2.0 x | 1.2 x |
| Interest coverage(1) | 4.3 x | 55.4 x | 4.6 x | 2.6 x | 2.6 x | 2.6 x | 4.9 x | 10.6 x |
| FFO to total debt(1) | 5.2 x | 9.7 x | 0.3 x | 0.2 x | 0.2 x | 0.2 x | 0.3 x | nm |
| RCF to net debt (2) | (1.1x) | 0.9x | 0.4x | (0.1x) | 0.2x | 0.2x | 0.7x | 129.4x |
| FFO to financial expenses(1) | 4.1 x | 63.0 x | 5.5 x | 2.8 x | 2.5 x | 3.3 x | 4.5 x | 11.1 x |

(1) Calculated without reversal of impairment losses of US$ 23.3mn in FY10 and US$15.7mn in FY11
(2) Based on call deposits and current accounts in banks as sole cash equivalents
(3) Including current and non-current term deposits

*Source: Company data, Bank of Georgia Research*

# Contacts

**Head of Research**

Ekaterina Gazadze | egazadze@bog.ge

**Associate**

Giorgi Nakashidze | gnakashidze@bog.ge

## Bank of Georgia Research

29a Gagarin Str.
Tbilisi 0160, Georgia
Tel: +995 32 2444 444
Email: 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, advisors 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.