Georgian Railway
Good Changes Ahead

Georgia | Transportation
Georgian Railway
December 11, 2013

Georgian Railway is on track to deliver growth in the coming years after striking a new agreement to transport oil from Kazakhstan and expand into Black Sea ferry operations and truck cargo transportation via intermodal stations. GR also decided to re-visit its capex-heavy Tbilisi Bypass Project, which will boost profitability and free up cash if put on hold. Meanwhile, 9M13 financials were disappointing as the company failed to deliver growth and margins were lower due to higher salary costs. The drivers of the top-line weakness are temporary and we expect the rebound in sales which started in 3Q13 to continue through 4Q13, leaving annual revenues flat y/y. We see 2014F revenues up 19% y/y on the back of newly announced projects and agreements.

Flat 2013 ahead but stronger prospects in the future

9M13 revenues were flat at US$ 212mn. The largest revenue segment, freight transport, added just 4% y/y to US$ 188mn, while a 20% y/y increase in liquid cargo transportation was offset by a 15% y/y decrease in dry cargo. A new agreement to ship crude oil and mazut from Kazakhstan is the basis for our revised FY14 volume growth projection of 27% for the liquid cargo segment. In addition, the new Black Sea ferry and intermodal station projects should add 4-5% annual growth to dry cargo volume from FY14 onwards.

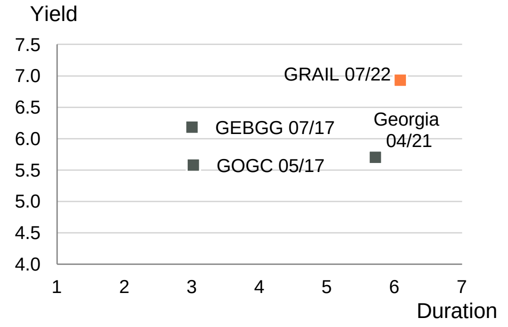
The major capex program is being re-visited

The Tbilisi Bypass Project (TBP) project is being re-visited by the company as the project may result in increased operational costs and lower benefits than initially thought. Additional research is being done by the government and there is no clarity on the capex required for the project for the next three years. Due to the lack of clarity on future plans, in our model we envisage no additional outflows from 4Q13 onwards. If TBP is put on hold, we believe it will benefit current operations through higher long-term profitability and release of additional cash flows in the short term. We will re-visit our model assumptions once a final decision on the project is made. The potential return on the US$ 223mn in capex already spent is unclear, but GR is now able to choose between completing or discontinuing the project, without further commitment. Other capex projects recently announced, which are aimed at providing near-term revenue, will also help diversify revenue sources.

Liquidity remains strong and less pressured by near-term capex requirements

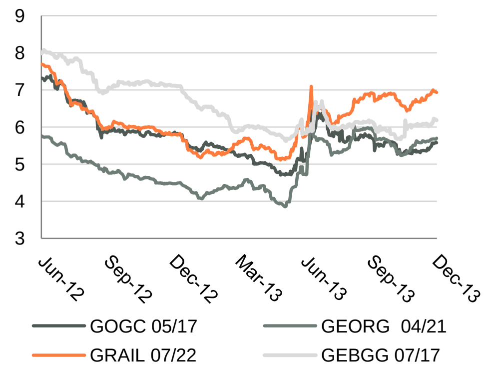
GR's net debt 9M13 over LTM EBITDA stands at 2.8x. We believe GR is well-placed in terms of liquidity to meet expansion and maintenance capex and debt obligations. We expect net debt-to-EBITDA to peak at 2.9x in FY13 before gradually declining to 1.6x in 2017 and that the company will have no issues in complying with the 3.5x ceiling set by Eurobond covenants.

Figure 1: Georgian Eurobond universe



Source: Bloomberg

Figure 2: Georgian Eurobonds, YTM %



Source: Bloomberg

Table 1: Key financials indicators (US$ mn)

	9M13	9M12	Chg, y/y
EBITDA	103	119	*(13.5%)*
EBITDA margin	48.5%	55.9%	*(7.4) ppts*
EBIT	58	71	*(17.9%)*
EBIT margin	27.5%	33.4%	*(5.9) ppts*
Net income	47	36	*30.2%*
Net margin	22.0%	16.8%	*5.2 ppts*
Assets	1,729	1,724	*0.3%*
Equity	963	899	*7.2%*
Liabilities	765	825	*(7.3%)*

Source: Company data, Bank of Georgia Research

Giorgi Nakashidze
Senior Associate | gnakashidze@bog.ge | +995 322 444 444 ext.3751

Giorgi Iremashvili
Associate | giremashvili@bog.ge | +995 322 444 444 ext.4691

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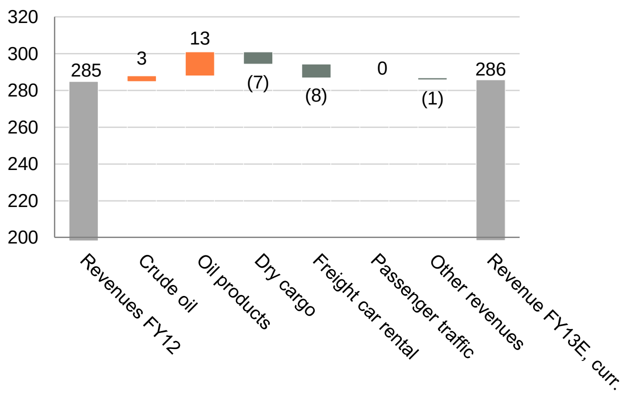
No growth in 2013, but mid-term growth prospects brighter

The performance of almost all of GR's business lines came under pressure in 9M13, but growth in liquid cargo segment, oil products in particular, helped offset top-line weakness. We expect improved performance in 4Q13 compared to previous quarters on the back of the launch of new liquid cargo contracts in 3Q13 and higher grain and construction transportation, which would leave full-year revenues flat y/y in 2013. Oil products, which is part of the liquid cargo segment (the other being crude oil), was the key growth area in 9M13 (+34% y/y), which helped offset the 1% y/y decline in crude oil and 15% y/y decline in dry cargo. The reduction in grain and construction materials shipments is manageable, in our view, as we believe it is temporary. However, certain other commodities are likely to experience a structural reduction such as aluminum for example due to closure of an aluminum plant in Azerbaijan. Overall, we believe dry cargo volumes will be 13% lower in FY17 vs. our previous estimate of 17mn tonnes.

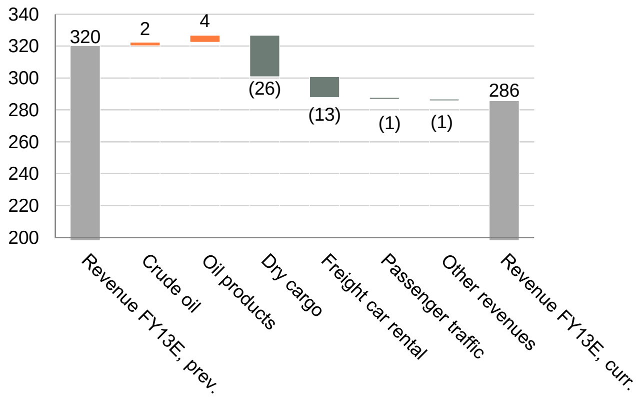
We expect profitability to deteriorate slightly on decreased revenues and higher salary expenses with EBIT margin dropping 5.2ppts to 27.8% in FY13. However, we see net margin adding 1.3ppts in FY13 to 22.0%, mainly due on a one-off Eurobonds early redemption costs incurred in FY12.

Figure 3a: Segment revenue forecast FY12 vs. FY13E, US$ mn



Source: Company data, Bank of Georgia Research

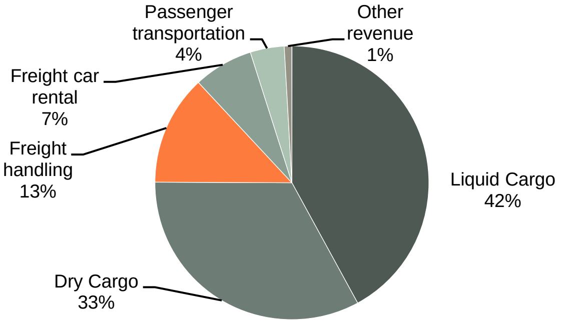
Figure 3b: FY13 segment revenue forecast previous vs. new, US$ mn



Source: Company data, Bank of Georgia Research

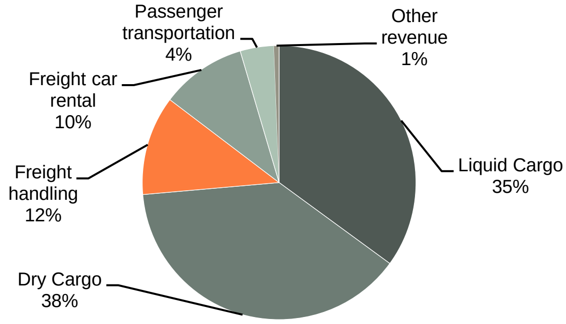
Compared to our previous estimates, we expect crude oil and oil product revenue to perform better in FY13. In April 2013, GR acquired oil transportation company Georgian Transit LLC, which contributed c. US$ 4mn of revenue to liquid cargo segment in 2Q13 only. We increase our estimate our FY13 for revenues from crude oil by 6% and from oil products by 6% on the back of a consolidation of Georgia Transit revenues and significant new revenues stemming from the Zhanazhol oil fields in Kazakhstan 3Q13 onwards. We revise our forecasts downwards for dry cargo and freight rental segments significantly (16% and 39% lower, respectively) which results in our estimate for FY13 revenues at US$ 286mn, 11% lower than our previous estimate (US$ 320mn).

Figure 4: 9M13 revenue breakdown (US$ 212mn)



Source: Company data

Figure 5: 9M12 revenue breakdown (US$ 213mn)



Source: Company data

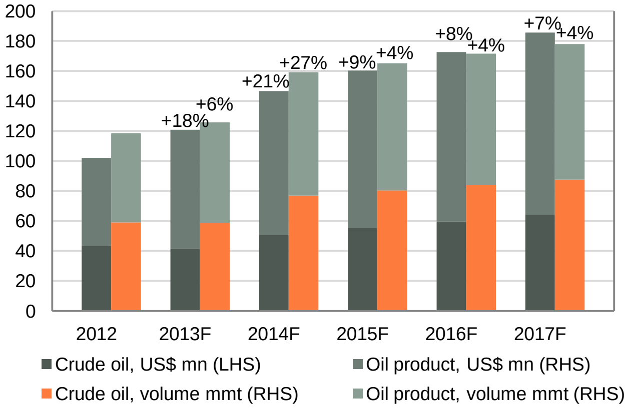
Liquid cargo: Good news ahead

Progress was made in securing new liquid cargo volumes. Liquid cargo traditionally accounted for more than half of GR's freight volumes and has been mainly sourced from Central Asia and Azerbaijan. The company recently signed an agreement to transport up to 3.2mmt Kazakh crude oil and mazut from the Zhanazhol oil fields (operated by CNPC-Aktobemunaigaz), one of Kazakhstan's most significant oil and gas fields, annually. As it is normally the case with these types of agreements for GR, the duration of the contract is undefined but we expect the shipments to continue at the same rate as in FY14. GR began shipping Zhanazhol-sourced crude in September, adding 0.15mmt to the current monthly average of 0.39mmt. Mazut transportation is expected to start in late 2013 and add an additional 0.12mmt, or 29%, per month.

The acquisition of Georgia's largest cargo forwarder of oil and oil products, Georgia Transit adds further growth to this segment. From April 2013 onwards, GR's liquid cargo revenues included those of Georgia Transit (2Q13: US$ 3.8mn). Additionally, Azerbaijan recently completed the construction of a methanol plant, which GR's management believes will bring in additional growth starting in 4Q13. We do not include these methanol volumes in our forecasts owing to a lack of clarity on potential volumes.

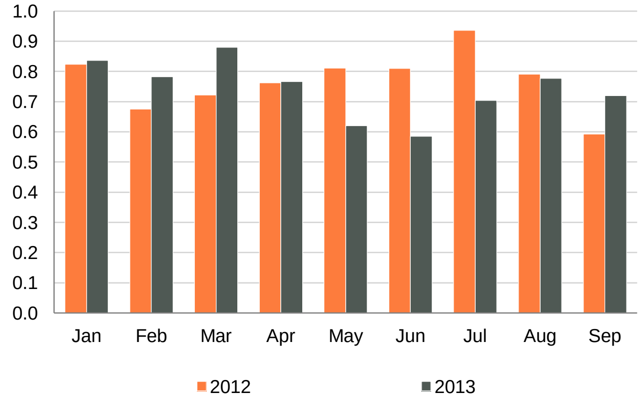
Revising mid-term sales projections upwards on positive liquid cargo developments. We now expect FY14 liquid cargo volumes to increase 27% y/y and contribute sizably to a total 5.1ppts EBITDA margin expansion. In 2Q13, GR's oil transport volumes grew just 4% y/y due to maintenance works at supplier oil fields in Kazakhstan. These issues were fixed later in the year and volumes returned in 3Q13, due to which we expect a 6% y/y growth in volume terms in FY13 for liquid cargo segment overall.

Figure 6: Annual liquid cargo volume forecast



Source: Company data, Bank of Georgia Research

Figure 7: Monthly liquid cargo volumes, mmt



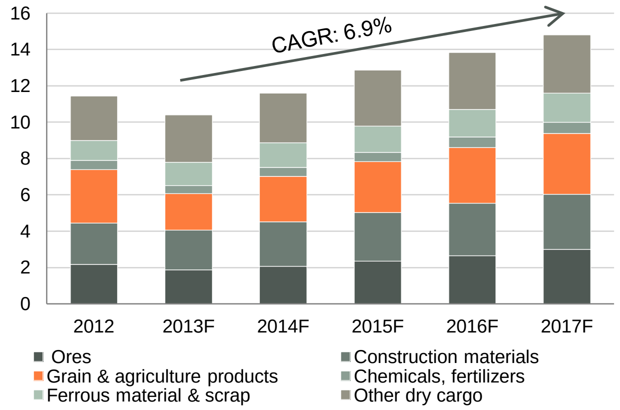
Source: Company data

Dry cargo weak, but expected to recover

Dry cargo volumes declined in 9M13 on the back of a significant reduction in key segments, particularly grains and ores. Grain transportation (down 49% y/y in 9M13), construction (down 14% in 9M13 y/y) and ores (down 18% in 9M13 y/y) all underperformed in 9M13. The resulting change in GR's overall cargo mix also drove a decline of 3% in average revenue per 1,000 tonne-km of dry cargo in 9M13 compared to 4Q12.

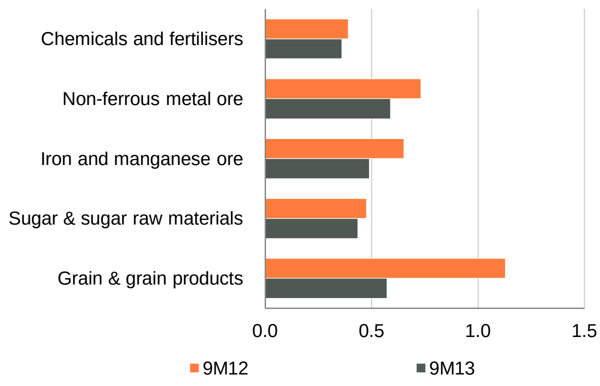
We are revising 2017F dry cargo outlook downwards to 14.8mn tonnes from 17.0mn tonnes on the back of a partly temporary and partly structural impact effective FY13. The volatility in grain and construction materials shipments is manageable, in our view, as we believe it is temporary. We also cut our 2013-17 other capex (i.e. non-Modernization or TBP-related) estimate to US$ 261mn from US$ 487mn, mainly as the company is no longer expecting to expand the rolling stock since the current size is sufficient to meet expected operations.

Figure 8: Dry cargo volume forecast, mmt



Source: Company data, Bank of Georgia Research

Figure 9: Dry cargo volume breakdown, mmt



Source: Company data, Bank of Georgia Research

Grain volumes fell the sharpest on a temporary inventory supply shock in Armenia. High end-2012 grain stocks in Armenia temporarily eliminated the need for additional grain transport. However, this segment picked up in 3Q13 and the volume was on average 3x higher than the previous two quarters. We expect this trend to continue and overall segment to contract by 18% in FY13. In our view, it is a temporary decline and we expect grain transportation to return to company's previous growth guidance from 2014 onwards (11% CAGR 2014-17).

Construction freight volumes decline on economic slowdown. Georgia's economic slowdown prompted lower construction activity, which in the past was mainly driven by budget-funded infrastructure projects. Budget spending has been tight in 9M13 amid Georgia's political transition. We do, however, expect construction activity to pick up towards the end of this year, which drives our forecast of flat construction freight transport volumes for GR in 2013. As government spending resumes, we expect this segment to grow around 12% in 2014 before returning to a more sustainable high single-digit growth rate from 2015 onwards.

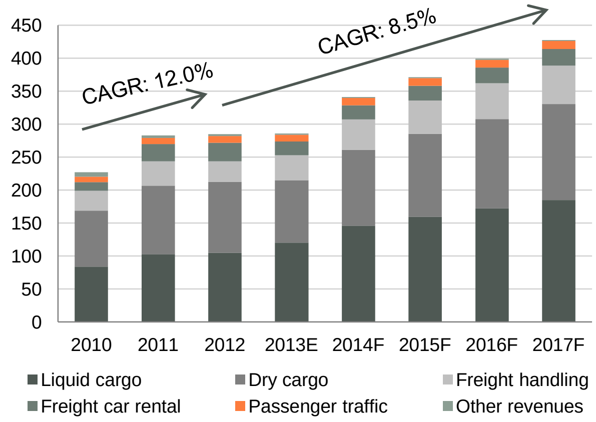
We cut ore transport volume forecasts from 2.1mmt to 1.9mmt due to closure of an aluminum plant in Azerbaijan (one of the key contributors to aluminum transportation). Meanwhile, we expect bauxite and manganese volumes (other components of ore segment) to continue growing at low double-digit levels. We expect a 14% y/y decline in ore volumes due to reduction in aluminum in 2013 and a lower double-digit growth recovery from 2014 onwards.

Freight handling and rental: Minor but important

Freight car (railway wagon) rentals fell 31% y/y in 9M13 on lower tariffs. Turkmenistan, one of GR's largest markets for freight car rentals, traditionally generated high rental tariff revenues for GR due to delay penalties (e.g. tariffs triple for delays of over 45 days). In 2013, Turkmenistan Railway acquired new diesel locomotives, which reduced delays and cut GR's revenue. On the positive side, GR now has additional free capacity that will reduce the need for future rolling stock investments. In addition, in 3Q13 the segment posted higher revenues than the average of previous two quarters (+27%) due to an increase in usage of GR's tank cars for liquid cargo transportation in Azerbaijan and box cars for dry cargo transportation in Azerbaijan, Russia and Kazakhstan.

Freight handling revenues increased 10% y/y in 9M13. An increase in station service tariffs from US$ 1.6 to US$ 1.7 per tonne for GR's own locomotives and from US$ 0.55 to US$ 0.6 per tonne for customers' own railcars drove the small increase. The tariff hike and increased revenues from delays of customers' own railcars offset a decrease in overall volumes.

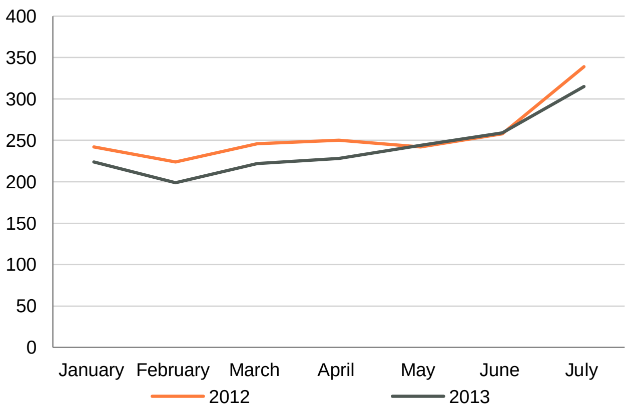
Figure 10: Revenue forecast by segment, US$ mn



Source: Company data, Bank of Georgia Research

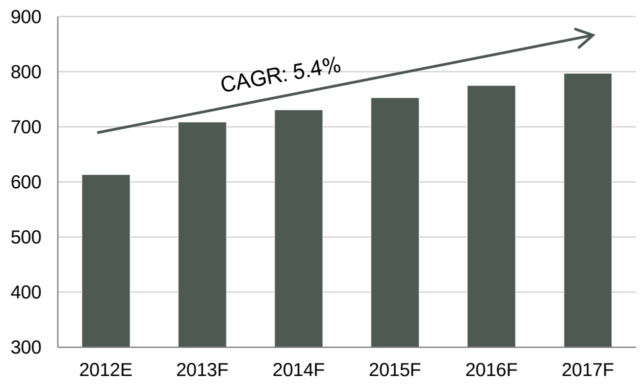
Passenger revenues fell 1% y/y in 9M13 as GR's passenger railcar fleet decreased in size due to replacement requirements. GR is now negotiating a deal to lease 38 passenger wagons, with the new stock expected to be available as of 4Q13. There was also an increased share of seats sold with higher tariffs, resulting in a disproportion between change in passenger numbers and change in revenues from this segment.

Figure 11: Passenger volumes by months, '000



Source: Company data

Figure 12: Passenger volume-kilometers (mn)

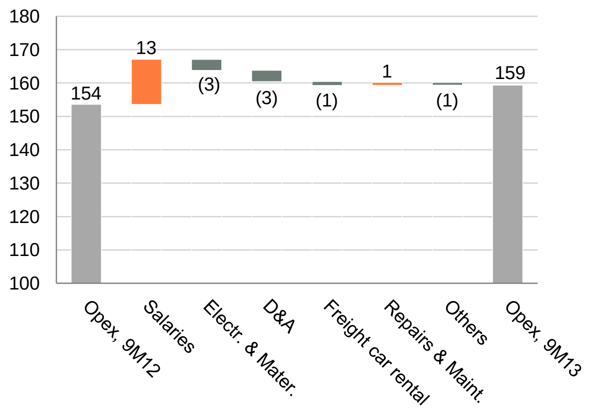


Source: Company data, Bank of Georgia Research

Costs to stabilize after one-off hike in employee expenses

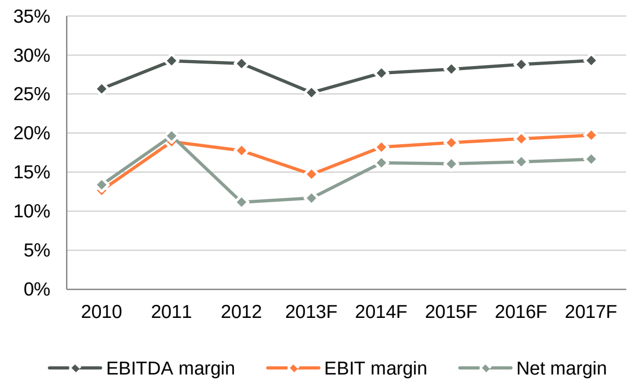
Costs rose 16% through 9M13 on the back of higher salaries and repair and maintenance costs. GR's EBITDA margin reduced to 49% in 9M13 from 56% in 9M12. We expect margins to continue recovery in 4Q13 and expand further in FY14 thanks to higher liquid cargo volumes and new projects.

Figure 13: Operating cost evolution 9M13 vs. 9M12



Source: Company data, Bank of Georgia Research

Figure 14: Profitability margins



Source: Company data, Bank of Georgia Research

Employee benefits expenses, the largest operating cost, increased 29% y/y in 9M13. This item was one of the biggest contributors to total costs going up 4% y/y (US$ 5.7mn) in 9M13. Average salary per employee rose to US$ 530 in 9M13 from US$ 415 in 9M12, up by 28%. A salary and staff optimization project that was launched in 2012 intensified in 1H13. The project aimed to increase average salaries while cutting the number of staff, and a delay to the latter due to a wave of strikes in the company and the country after the elections resulted in higher salary expenses overall. The management announced that it withholds from laying-off staff as the completion of Baku-Tbilisi-Kars project, expected in 2015, would require additional staff in any case. The need for laying-off and rehiring the same staff is avoided, however, the initial plan of cutting employee costs will no longer be followed and we forecast salaries to remain at current high levels in the near term.

Repair and maintenance costs were up 31% y/y in 9M13 due to new types of repairs like Twin-Head replacement on freight and passenger railcars, which were not needed in 2012.

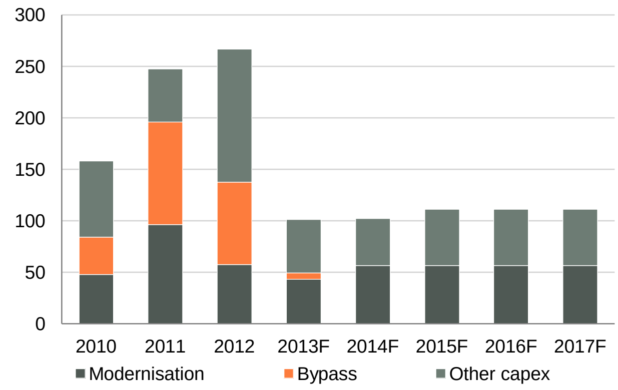
On the other hand, the increases in salary and repair costs were offset to some part by improvements in materials (down 20% y/y), electricity (down 10% y/y), fuel (down 12%) and freight car rental costs (down 10% y/y). In addition to lower overall volumes, reduction in fuel costs was caused by stoppage and slowing down of some capex projects (TBP and Modernization, respectively), as the contractors on these projects were renting GR's heavy equipment that required diesel for operations. The decrease in electricity costs was caused by higher average weight of train compositions from an average 2,000 tonnes to 2,200 tonnes per composition. Freight car rental fees decreased on the back of privatization of Ukrainian, Russian and Kazakh wagon fleet, causing lower freight car rental fees that GR has to pay when using them.

Amended capex plans are unexpected, but will add profitability

Tbilisi Bypass Project

A final decision on TBP has not been made and will only be made once ongoing research is completed. If it is put on hold, we believe it will benefit current operations through higher long-term profitability and release of additional cash flows in the short-term. With US$ 223mn already spent, we do not expect TBP to be cancelled outright but re-visited for a future decision. A delay in TBP would add to profitability over the next three to five years. It will also release additional free cash to support leverage. If the project is found to be unattractive and abandoned completely, GR might get compensated for a portion of the capex incurred if an alternative use is found. In addition, of the US$ 223mn already spent, around US$ 40mn was used to purchase construction materials that can be redirected to GR's other projects.

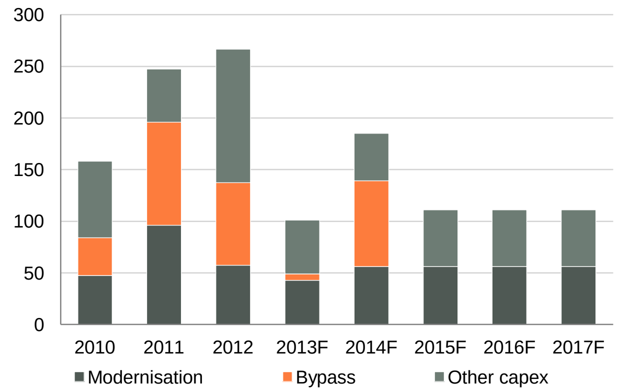
Figure 15a: Georgian Railway's capex schedule, US$ mn (without TBP)



Source: Company data, Bank of Georgia Research

Note: Other capex includes infrastructure, freight, passenger and rolling stock expansion capex

Figure 15b: Georgian Railway's capex schedule, US$ mn (with TBP completed in FY14)



Source: Company data, Bank of Georgia Research

Note: Other capex includes infrastructure, freight, passenger and rolling stock expansion capex

Main Line Modernization Project

The completion of the Modernization project may be extended past 2016 at the company's discretion. As of end-2012, roughly US$ 200mn was spent, with around US$ 250mn remaining in capital commitments. The company spent just US$ 24mn on the project in 9M13. In our base case, we assume the project will be completed in 2017, but we note that GR has the flexibility to push it even further back and reduce cash outlays in 2014-2017, if needed.

Other new projects

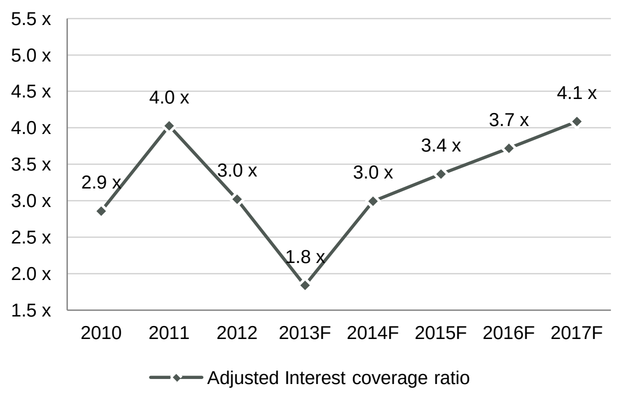
New project: flatcar transportation for Turkish cargo transporters to Azerbaijan, Armenia and Central Asia. Trucking companies, mainly based in Turkey, will find it cheaper to transport cargo using GR's flatcars. The project is expected to increase total dry cargo volume by 5% in FY15. The project is dependent on the construction of 3 intermodal stations in Batumi (mostly completed), Poti and Vale for around US$ 15mn in total. The Batumi station is slated to be operational in 4Q13.

New project: Ferry transport on the Black Sea. GR recently announced a tender to select a partner with whom to operate a ferry route from Poti (Georgia) to Kavkaz (Russia). The company will establish an SPV with the partner, which will be required to own or operate ferries on a rental basis, or have a preliminary ferryboat purchase agreement. With trade relations with Russia recently restored, we believe this project can boost GR's cargo volumes.

Coverage and liquidity ratios are sound

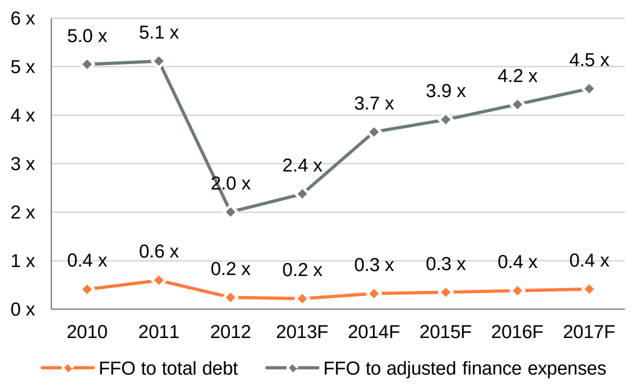
GR is well-positioned in terms of liquidity to meet expansion and maintenance capex and debt obligations. The company has been prudent in terms of its capex program and it also extended Modernization and delayed TBP projects to reduce pressure on liquidity. We do not expect GR to require any additional funding as its funding sources exceed uses by 1.6x on average between 2013-2017.

Figure 16: Interest coverage ratio



Source: Company data, Bank of Georgia Research

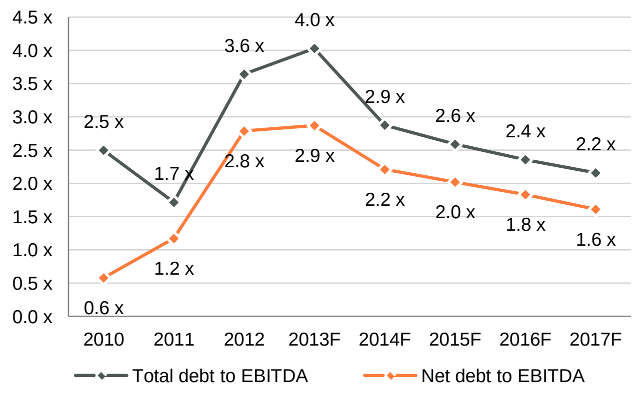
Figure 17: Liquidity



Source: Company data, Bank of Georgia Research

We expect net debt-to-EBITDA ratio to peak at 2.9x in FY13 before gradually declining to 1.6x in FY17. The spike in FY13 is mainly caused by capex outflows, as well as lowers EBITDA due to higher operating costs and lower revenue. Net debt includes bank deposits as cash equivalents since they can be quickly accessed if needed.

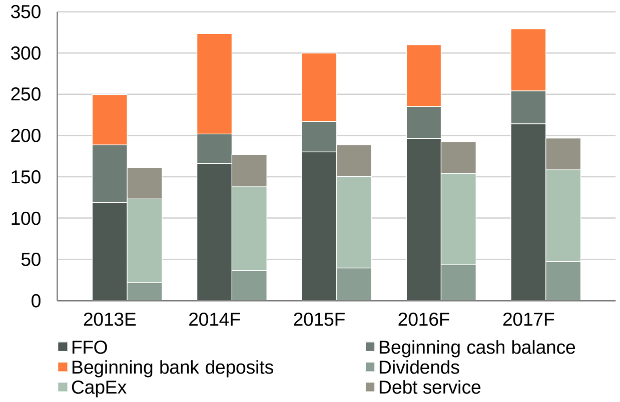
Figure 18: Debt/EBITDA ratios



Note: Net debt includes short term bank deposits as cash equivalents
Source: Company data, Bank of Georgia Research

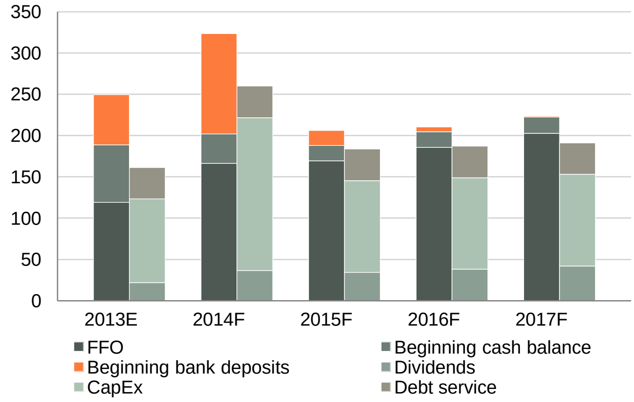
In FY12, GR paid out a GEL 151mn (US$ 91mn) extraordinary dividend after paying no dividends in 2011. Starting from 2013, GR's dividend payments are restricted by their bond covenant, which sets 50% of previous year's consolidated net income as the ceiling for maximum amount that can be paid out in any year starting 2013. In our model, we assume dividend payout ratio to be 35% going forward, which is the same as our assumption for another quasi-sovereign entity – Georgian Oil and Gas Corporation (GOGC). Being a statecontrolled entity, GR is supported by a strict performance-based dividend policy and dividends can be retained if needed. For example, in FY11, GR did not pay out any dividends. We believe that our 35% dividend payout ratio in FY13 is conservative from a cash-flow perspective, as dividends are likely to be lower due to below-expected operating performance and uncertainties with capex.

Figure 19a: GR funding sources scenario 1: TBP discontinued (US$ mn)



Source: Company data, Bank of Georgia Research

Figure 19b: GR funding sources scenario 2: TBP completed (US$ mn)



Source: Company data, Bank of Georgia Research

If the TBP project is ultimately cancelled, GR will be able to pay out up to 50% in dividends annually. On the other hand, if the project is reinstated within the next 3 years, higher capex needs may result in cash shortages and require the company to seek additional funding. For demonstration purposes, we also analyzed the potential impact of completing TBP in the second scenario (Figure 19b). We assumed that GR will pay out the remaining amount of capex in FY14 and operating costs will rise by approximately US$ 6mn per year from 2015 onwards (indicative completion of TBP).

Table 2: Net debt to EBITDA sensitivities

Dividend payout	2013F	2014F	2015F	2016F	2017F
5%	2.73 x	1.92 x	1.57 x	1.22 x	0.83 x
20%	2.80 x	2.07 x	1.80 x	1.53 x	1.23 x
35%	2.87 x	2.21 x	2.02 x	1.83 x	1.61 x
50%	2.94 x	2.35 x	2.24 x	2.13 x	1.98 x
65%	3.01 x	2.49 x	2.45 x	2.41 x	2.33 x

Total CapEx, US$ mn (2013-17)	2013F	2014F	2015F	2016F	2017F
415	2.70 x	1.95 x	1.65 x	1.37 x	1.07 x
475	2.79 x	2.08 x	1.84 x	1.60 x	1.34 x
536	2.87 x	2.21 x	2.02 x	1.83 x	1.61 x
597	2.95 x	2.34 x	2.20 x	2.06 x	1.88 x
657	3.04 x	2.47 x	2.39 x	2.29 x	2.15 x

Note: Net debt includes short term bank deposits as cash equivalents
Source: Bank of Georgia Research

Fitch affirms credit ratings at “BB-” and downgrades outlook to negative

Fitch affirmed Long-term foreign and local currency Issuer Default Ratings (IDR) at “BB-”. Short-term foreign and local currency IDRs and senior unsecured ratings were also affirmed at “B” and “BB-“, respectively. At the same time, Fitch Ratings revised Georgian Railway’s outlook from Stable to Negative in November 2013.

The ratings outlook revision has been disappointing, however, we believe that the company is on track for delivering growth and remains comfortable with debt service covenants and ratios. If Tbilisi Bypass Project incurs no additional capex, it will result in a positive impact on GR’s bottom line. With regards to the operating metrics, we are disappointed to see large variations in volumes during FY12 and 1H13. However, the drop in volumes was caused mainly by one-off events they started to rebound in 3Q13, which we expect to continue in 4Q13 as well.

The main reasons for the changes by Fitch Ratings were the following:

Deterioration in the credit metrics

- Lower than expected volumes and tariffs and higher than expected salary costs
- Material reduction in Fitch’s forecasts for EBITDA and funds from operations (FFO) and a consequent deterioration in credit metrics over the next two years
- Volumes generated by the Tbilisi-Baku-Kars route are expected to be delayed to FY15 from FY13
- Risk of a stranded asset (GEL 354mn spent by FY12) should the Tbilisi Bypass project remain unfinished

Reduction in support from the Georgian government

- Material dividend payments in a high-capex period
- Pressure to increase employee salaries given recent elections
- Perceived reduction in government backing for key investment projects - Tbilisi Bypass
- Continual reduction in state’s direct ownership

Due to the perception of weaker company ties with Georgia, Fitch changed the rating approach within its Parent and Subsidiary Rating Linkage criteria - Fitch no longer considers it appropriate to align GR’s ratings with those of the state and links with the government will now be reflected in a top down one-notch approach. As GR’s standalone rating (“BB-“) is higher than the top down one-notch approach, the standalone rating currently drives the overall rating.

Financials

Income statement, US$ mn

	2010	2011	2012	2013E	2014F	2015F	2016F	2017F
Revenues	227.0	283.1	284.7	285.7	341.3	371.4	399.2	427.7
y/y change	18.9%	24.7%	0.6%	0.3%	19.5%	8.8%	7.5%	7.2%
SG&A	117.7	129.0	132.1	150.0	161.8	172.0	180.1	188.5
EBITDA	109.3	154.2	152.7	135.6	179.5	199.4	219.0	239.2
EBITDA margin	48.1%	54.4%	53.6%	47.5%	52.6%	53.7%	54.9%	55.9%
D&A	55.4	54.6	58.8	56.3	61.5	66.7	72.4	78.1
EBIT	53.9	99.5	93.8	79.4	118.0	132.7	146.6	161.1
EBIT margin	23.7%	35.1%	32.9%	27.8%	34.6%	35.7%	36.7%	37.7%
Financial expenses (income), net	(15.6)	(9.8)	24.4	5.4	(5.5)	(0.9)	0.4	1.0
PBT	69.5	109.3	69.5	73.9	123.5	133.5	146.2	160.1
Tax expense	12.5	5.9	10.5	11.1	18.5	20.0	21.9	24.0
Net income	57.0	103.4	58.9	62.8	105.0	113.5	124.2	136.1
Net margin	25.1%	36.5%	20.7%	22.0%	30.8%	30.6%	31.1%	31.8%

Balance sheet, US$ mn

	2010	2011	2012	2013E	2014F	2015F	2016F	2017F
Non-current assets	1,055.9	1,314.8	1,521.3	1,537.2	1,626.1	1,705.3	1,783.7	1,855.5
PP&E, net	973.4	1,145.4	1,348.0	1,414.9	1,493.8	1,576.2	1,653.0	1,724.1
Other	82.5	169.4	173.3	122.3	132.3	129.1	130.7	131.4
Current assets	260.3	131.9	215.9	239.4	217.2	219.3	228.5	252.0
Cash & equivalents	182.7	36.9	68.8	33.7	35.1	36.7	38.4	40.4
Trade receivables & prepayments	39.2	33.0	61.9	50.0	59.7	65.0	69.9	74.9
Other	38.3	62.1	85.2	155.7	122.4	117.6	120.2	136.8
Total assets	1,316.2	1,446.7	1,737.1	1,776.6	1,843.3	1,924.6	2,012.1	2,107.5
Shareholder equity	921.2	1,078.9	939.1	1,010.5	1,092.7	1,166.5	1,247.2	1,335.7
Non-current liabilities	284.8	284.4	711.6	712.1	689.9	694.2	698.3	702.4
LT debt	247.3	247.9	534.3	530.3	500.0	500.0	500.0	500.0
Other	37.5	36.5	177.3	181.8	189.9	194.2	198.3	202.4
Current liabilities	110.2	83.4	86.4	54.0	60.7	63.9	66.6	69.4
ST loans	10.9	11.1	20.5	9.1	9.1	9.1	9.1	9.1
Trade payables & prepayments	34.9	27.5	50.1	28.6	34.1	37.1	39.9	42.8
Other	64.4	44.8	15.8	16.4	17.5	17.6	17.6	17.5
Total liabilities and equity	1,316.2	1,446.7	1,737.1	1,776.6	1,843.3	1,924.6	2,012.1	2,107.5

Cash flow, US$ mn

	2010	2011	2012	2013E	2014F	2015F	2016F	2017F
Cash flows from operating activities	131.3	133.9	145.3	105.6	152.3	174.3	192.2	210.1
Earnings before interest and taxes (EBIT)	53.9	99.5	93.8	79.4	118.0	132.7	146.6	161.1
Depreciation and amortisation	55.4	54.6	58.8	56.3	61.5	66.7	72.4	78.1
Income tax expense	(12.5)	(5.9)	(10.5)	(11.1)	(18.5)	(20.0)	(21.9)	(24.0)
Change in working capital	24.3	(18.6)	(43.1)	(19.0)	(8.6)	(5.1)	(4.9)	(5.1)
Other	10.2	4.2	46.2	0.0	0.0	0.0	0.0	0.0
Cash flows from investing activities	(181.0)	(270.6)	(247.5)	(145.2)	(98.7)	(129.4)	(142.7)	(155.9)
Capital expenditures	(139.1)	(246.9)	(229.8)	(90.7)	(150.3)	(145.9)	(150.8)	(149.9)
Finance income	25.5	16.0	11.6	6.4	12.8	8.7	7.9	7.9
Other	(67.4)	(39.7)	(29.3)	(60.8)	38.9	7.8	0.2	(13.8)
Cash flows from financing activities	217.7	(14.0)	130.6	5.4	(52.3)	(43.2)	(47.8)	(52.3)
Net borrowings (repayments)	242.1	(24.3)	426.1	(9.4)	(30.3)	(0.0)	(0.0)	(0.0)
Finance costs	(9.9)	(6.2)	(35.9)	(11.8)	(7.3)	(7.8)	(8.3)	(8.8)
Dividends paid	(20.2)	0.0	(91.3)	(22.0)	(36.7)	(39.7)	(43.5)	(47.6)
Other	5.7	16.5	(168.2)	48.6	22.0	4.4	4.0	4.1
Net cash inflows (outflows)	167.9	(150.8)	28.4	(34.2)	1.3	1.6	1.8	1.9
Beginning cash balance	0.8	182.7	36.9	68.8	33.7	35.1	36.7	38.4
FX effects on Cash	12.9	(5.2)	1.7	0.0	0.0	0.0	0.0	0.0
FX translation gain/loss	1.1	10.1	1.8	(0.8)	0.0	0.0	0.0	0.0
Ending cash balance	182.7	36.9	68.8	33.7	35.1	36.7	38.4	40.4

Source: Company data, BOG Research

Ratio analysis

	2010	2011	2012	2013E	2014F	2015F	2016F	2017F
Profitability								
ROA	4.9%	7.3%	3.7%	3.6%	5.8%	6.0%	6.3%	6.6%
ROE	6.4%	10.2%	5.8%	6.5%	10.0%	10.0%	10.3%	10.5%
Liquidity & Solvency								
Current ratio	2.4 x	1.6 x	2.5 x	4.4 x	3.6 x	3.4 x	3.4 x	3.6 x
Quick ratio	2.3 x	1.4 x	2.2 x	3.9 x	3.0 x	2.9 x	2.8 x	3.0 x
Cash ratio	1.7 x	0.5 x	0.8 x	0.7 x	0.6 x	0.6 x	0.6 x	0.6 x
Total debt/Equity	0.3 x	0.2 x	0.6 x	0.5 x	0.5 x	0.4 x	0.4 x	0.4 x
Net debt/Equity	0.1 x	0.2 x	0.5 x	0.4 x	0.4 x	0.3 x	0.3 x	0.3 x
Total debt/EBITDA[1]	2.5 x	1.7 x	3.6 x	4.0 x	2.9 x	2.6 x	2.4 x	2.2 x
Net debt/EBITDA[1]	0.6 x	1.2 x	2.8 x	2.9 x	2.2 x	2.0 x	1.8 x	1.6 x
Financial Leverage	1.4 x	1.3 x	1.8 x	1.8 x	1.7 x	1.6 x	1.6 x	1.6 x
Adjusted Interest coverage[1,2]	2.9 x	4.0 x	3.0 x	1.8 x	3.0 x	3.4 x	3.7 x	4.1 x
FFO to total debt[1]	0.4 x	0.6 x	0.2 x	0.2 x	0.3 x	0.3 x	0.4 x	0.4 x
RCF to net debt	2.5 x	-0.6 x	0.1 x	0.1 x	-0.1 x	0.0 x	0.0 x	0.0 x
FFO to adjusted finance expenses[1,2]	5.0 x	5.1 x	2.0 x	2.4 x	3.7 x	3.9 x	4.2 x	4.5 x

[1] Excluding disposal of Batumi tower
[2] Including previously capitalized Eurobond interest expense
Note: Net debt includes short term bank deposits as cash equivalents
Source: Company data, Bank of Georgia Research

Research Team Contacts

Head of Research
Ekaterina Gazadze | egazadze@bog.ge

Economist
Alim Hasanov | ahasanov@bog.ge

Senior Associate
Giorgi Nakashidze | gnakashidze@bog.ge

Associate
Giorgi Iremashvili | giremashvili@bog.ge

Analyst
Suliko Kokhreidze | skokhreidze@bog.ge

Bank of Georgia Research

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

www.bogr.ge

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