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RESEARCH

Georgian Railway
Recovery Underway

Georgia | Transportation
Georgian Railway
October 7, 2014

Georgian Railway recently reported 1H14 results broadly in-line with guidance and our estimates. Revenues are showing real signs of recovery, especially in the oil products and dry cargo segments. The top line was also padded by the consolidation of freight forwarding subsidiaries Georgian Transit and Georgian Transit Line. A point of concern was the drop-off in crude oil volumes (halved to 1mn tons in 1H14 from 1H13) as regional pipelines have become more competitive and stolen business, but we remain upbeat on GR's mid-term outlook on the back of a slate of emerging regional opportunities. New crude oil shipments are likely from Kazakhstan, Turkmenistan, and Afghanistan, while new volumes of cotton, fertilizers, and sugar are expected as Russia has eliminated discounts in the direction of Ukraine and GR's tariffs have become more competitive. GR is also awaiting the completion of the Baku-Tbilisi-Kars (BTK) railway in 2015 – the new route is poised to boost cross-Georgia trade flows.

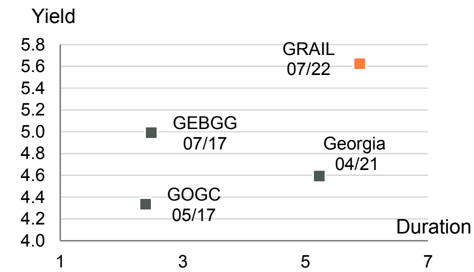
Top line starts recovery, shifts towards higher-margin sources

GR's revenues increased 1.6% (6.9% in GEL terms) in 1H14 y/y to US$ 132mn (GEL 230mn). Growth was mainly driven by addition of freight forwarding margins to liquid cargo segment revenues as well as higher oil products and dry cargo transportation volumes. Oil products revenue increased by 13.1% in 1H14 y/y (19.1% in GEL terms), boosted by methanol exports from Azerbaijan and addition of freight forwarding margins from Georgia Transit and Georgia Transit Line. On the dry cargo side, GR boosted volumes of ferrous and scrap metal (8.6% y/y), construction freight (6.0%), sugar (17.2%), and grains (18.3%). Growth in the oil product and dry freight segments helped offset the effect of declining crude oil volumes that came about as a result of the expansion of the Caspian Pipeline Consortium (CPC) pipeline. The expansion re-directed Tengizchevroil (TCO) shipments from Kazakhstan via alternate routes instead of Georgia (approx. 2mn tons per year). Overall, revenue per 1,000-ton-km rose 1.1% in crude oil, 1.8% in oil products, and 3.6% in dry cargo in US$ terms. The diversification is a positive development with GR's revenue mix shifting into higher-margin sources like oil products and freight forwarding.

Profitability remains solid despite FX losses

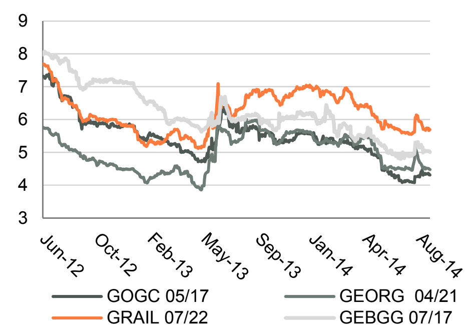
A more profitable mix of cargo and stable salary costs helped GR widen the EBITDA margin to 45.9% in 1H14. Net income, however, fell 22.0% y/y owing to higher finance costs as a result of a depreciation of the GEL vs. the US$. Finance costs surged to US$ 12.8mn in 1H14 from US$ 3.3mn in 1H13 as GR booked a US$ 8.2mn FX loss in 1H14. However, this loss is not monetary and not realized until the redemption of the bonds, hence in line with GEL/US$ FX rate it will post losses and gains but not pose a significant problem to GR. The GEL/US$ FX rate has stabilized recently, and we expect any reported FX losses to be much lower in the future.

Figure 1: Georgian Eurobond universe



Source: Bloomberg

Figure 2: Georgian Eurobonds, YTM %



Source: Bloomberg

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

	1H13	1H14	Chg, y/y
EBITDA	$58,530	$60,624	*3.6%*
EBITDA margin	45.1%	45.9%	*0.8 ppts*
EBIT	$28,120	$31,308	*11.3%*
EBIT margin	21.6%	23.7%	*2.1 ppts*
Net income	$25,303	$19,745	*-22.0%*
Net margin	19.5%	15.0%	*-4.5 ppts*
Assets	$1,722,778	$1,653,826	*-4.0%*
Equity	$940,508	$896,801	*-4.6%*
Liabilities	$782,270	$757,025	*-3.2%*

Source: Company data, Galt & Taggart Research

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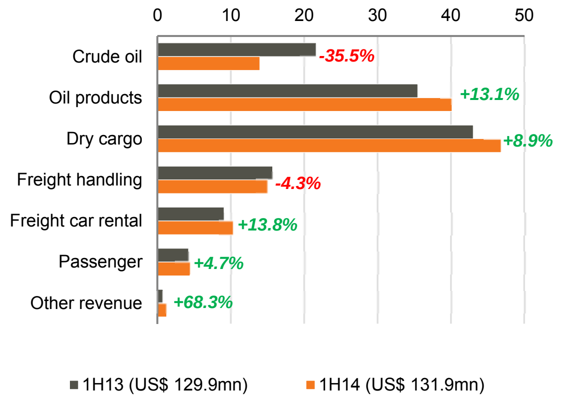
Revenues remain stable while the cargo mix turns more profitable

1H14 revenues increased 1.6% to US$ 132mn. Freight transport revenues for several key commodities began to recover, with oil products (13.1%), ferrous metal and scrap (13.0%), sugar (11.2%) and chemicals and fertilizers (36.9%) all showing significant growth in 1H14. The consolidation of freight forwarding revenues from Georgian Transit provided an additional boost to the top line. The profitability of GR's cargo mix improved as growing oil products and dry cargo replaced crude oil which now makes up only 11.7% of total cargo volumes vs. 21.5% in 1H13.

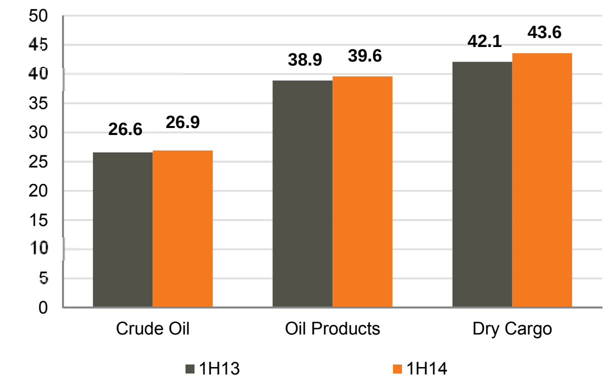
Revenue per 1,000-ton-km rose 1.1% in crude oil, 1.8% in oil products, and 3.6% in dry cargo in US$ terms. We believe the current rates to be in line with that of the market and GR still has room to increase freight rates if necessary.

Figure 3: Revenue breakdown by segment, 1H14 vs. 1H13 (US$ mn)



Source: Company data

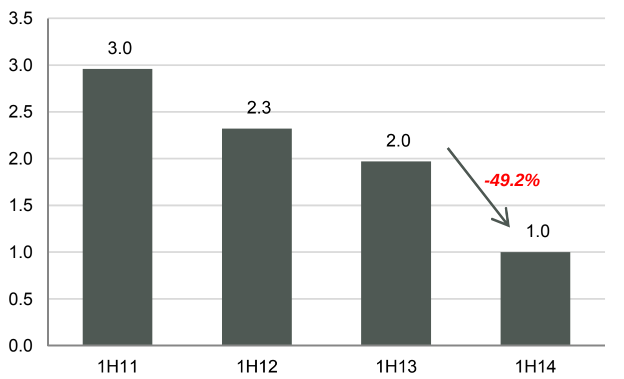
Figure 4: Average revenue per 1,000 ton-km (US$)



Note: Excluding Georgia Transit and Georgia Transit Line
Source: Company data, Galt & Taggart Research

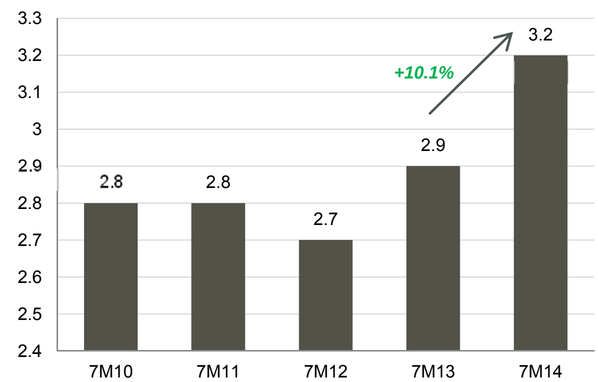
The expansion of the CPC pipeline redirected crude oil volumes from Kazakh Tengizchevroil (TCO). Georgian Railway's crude oil volumes have been cut as a result from 3mn tons in 1H11 and 2mn tons in 1H13 to 1mn tons in 1H14.

Figure 5: Crude oil transport volumes (tons)



Source: Company data

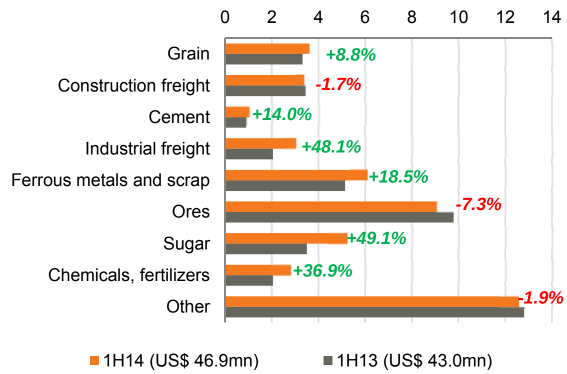
Figure 6: Oil products transport volumes (tons)



Source: Company data

While crude oil volumes fell, shipments of oil products reached 3.2mn tons in 7M14, up 10.1% y/y. GR had a significant growth of cargo transportation in the months following June 2014, transporting 0.7mn tons of oil products in July only. We view this as a positive development for GR as the tariffs for oil products are much higher and they are more profitable type of cargo than crude oil. When transporting oil products, GR's subsidiaries can book additional revenue from providing freight forwarding services. Additional shipments from Azerbaijan and Turkmenistan drove the growth, particularly methanol from Azerbaijan which is expected to add significant volumes in 2014 and 2015.

Figure 7: Dry cargo revenues 1H13 vs. 1H14 (US$ mn)



Source: Company data, Galt & Taggart Research

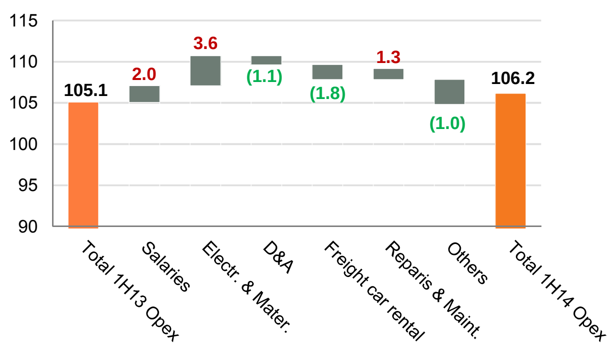
Ferrous and scrap metal, industrial freight, grain, sugar, and chemicals and fertilizers led the dry cargo revenue growth. Strong growth rates in these categories offset the fall in revenue from ores transportation (in GEL terms, only ores revenue declined). Increase in revenue from ferrous metals and scrap resulted from higher volumes (+8.6% y/y) and changes in transportation direction causing an increase in average distance of transportation by 11%. Industrial freight revenues grew due to replacing internal volumes by export, which had a positive revenue implication as the internal tariffs are lower that export.

As expected, revenue from grain transportation recovered in 1H14 (+8.8% y/y) as depleted grain stocks in the region needed replenishing. Regarding revenues from sugar transportation, the 49.1% y/y rise in 1H14 was due to higher volumes in Armenia. GR expects additional volumes of cotton, a new category of dry cargo, to come on stream in 2014-2015. Russia has eliminated shipment discounts in the direction of Ukraine and GR expects to ship 250,000 tons of cotton as a result in 2014. Additionally, GR believes it can ship additional volumes of construction materials that will be needed for the construction of the Shah Deniz pipeline in the region.

Profitability recovering but affected by one-off FX losses

Operating expenses remained stable y/y in 1H14. Higher salaries and electricity and materials costs were offset by decreases in freight car rental costs and other expenses. The key reasons behind rising salary costs (+5.0% in US$ terms; +10.6% in GEL terms) was the increase in salaries that took place during 2013, showing full effect in 2014. It was also partly a result of higher bonus payments during 2014. Materials expenses increased as new types of materials, which are used for scheduled wagon repairs, were purchased - this is done periodically and were started in 2H13.

Figure 8: Operating expenses 1H13 vs. 1H14 (US$ mn)



Source: Company data, Galt & Taggart Research

Net income fell 22.0% as finance costs rose on the depreciation of the GEL/US$ rate. The lari fell vs. the US$ in 1H14, leading the company to book higher finance costs, which are payable in US$ but reported in GEL. Finance costs nearly quadrupled (US$ 3.3mn in 1H13 vs. US$ 12.8mn in 1H14) as the company booked a US$ 8.2mn FX loss in 1H14 due to the revaluation of its Eurobonds. However, the GEL/US$ FX rate has since stabilized and we do not expect significant FX losses going forward.

Positive outlook on revenues and liquidity from new developments

New cargo opportunities from competing routes

We expect GR to increase volumes of crude oil from Kazakhstan, Turkmenistan, and Afghanistan and dry cargo from cotton and industrial freight. GR's management is committed to recovering the lost crude oil volumes by focusing on the following:

- **Crude oil from Buzachi (Kazakhstan):** Lukoil is expected to boost production and transport volumes through the Makhachkala – Novorossiysk pipeline, leaving less space for the Buzachi oil from Kazakhstan. Currently, transporting Buzachi oil via GR is more expensive than the pipeline (by US$ 20 per 1,000 ton-km), but GR is holding talks with Azerbaijan Railway and ports to decrease the tariff. GR could also offer a separate, temporary discount to attract the cargo. This stream could bring an additional 2mn tons of oil annually, according to GR.

- **Crude oil from Turkmenistan:** Prior to April 2014, the State Oil Company of Azerbaijan (SOCAR) owned exclusive rights to export via the BTC pipeline. Turkmenistan now started conducting auctions for its oil to give access to other parties apart from SOCAR. GR expects that oil acquired by traders other than SOCAR will add roughly 800k tons of crude oil to the current 3mn tons of crude from Turkmenistan being exported to the west.

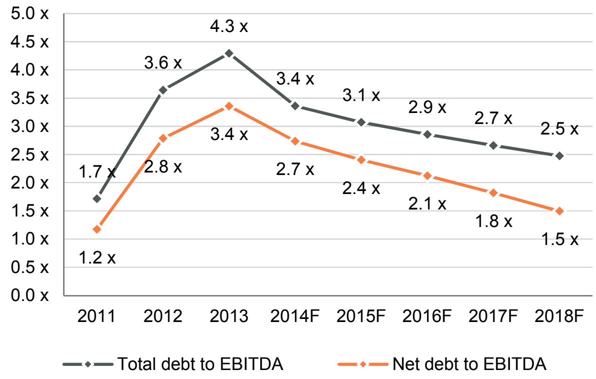
- **Crude oil from Afghanistan:** In 2014 Afghanistan restricted the production of A80 petrol, meaning all crude volumes produced in the country must be exported (since they do not have the capability to produce A92 petrol). Afghanistan can export crude oil through/to Russia, Uzbekistan, and Georgia. GR's management believes Georgia is most effective option because the oil cannot flow through a pipeline for reasons of quality and location. As a result, management expects 140k tons of crude from Afghanistan to be added to GR's volumes.

In addition, Russia's elimination of discounts in the direction of Ukraine means there is now the potential to transport 3mn tons of sugar from Ukraine to Turkmenistan and Kazakhstan via Georgia. Transport of aluminum, which had recently experienced a cyclical slowdown, is expected to pick up again as Azerbaijan is likely to resume production if world aluminum prices reach US$ 2,200 per metric ton (currently c. US$ 1,950 vs. c. $1,700 in March 2014). Finally, GR has an opportunity to ship c. 600k tons of grain from Kazakhstan to Turkey (currently transported via the Port of Eisk on the Sea of Azov) and c. 450k tons of frozen meat from Baltics to Central Asia. The grain opportunity exists as despite GR's current through rate being a bit higher than that of transportation to the Eisk Port, considering the subsequent shipping charge from the port to Samsun GR's corridor becomes more attractive. The frozen meats opportunity is a potential cargo for GR's containers unit and negotiations are currently underway.

Stalled Tbilisi Bypass and Modernization projects require lower near-term cash outflows

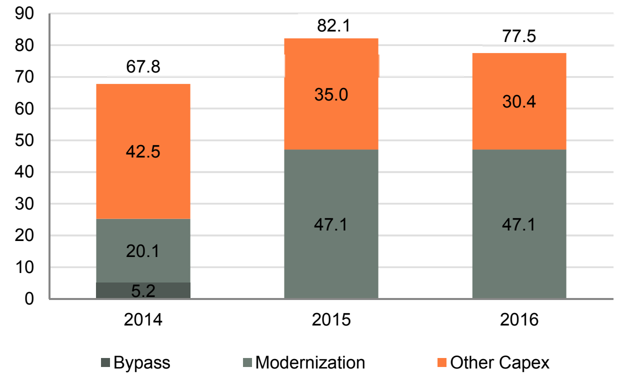
GR cash balances and liquidity position have both improved after the Bypass project was frozen for three years pending a review. The company now expects capex of US$ 227mn during 2014-2016, of which only US$ 5.2mn will be spent on the Bypass project. We expect GR's current net debt-to-EBITDA of 2.7x gradually coming down over the mid-term as a result of growth in EBITDA and repayment of long-term liabilities.

Figure 9: Debt/EBITDA ratios



Note: Net debt includes short term bank deposits as cash equivalents
Source: Company data, Galt & Taggart Research

Figure 10: GR's capital expenditure program (US$ mn)



Source: Company data, Galt & Taggart Research

The Modernization project is underway as planned, but the expected cash outflows have been spread out further until 2019. GR estimates the remaining construction costs for the project at around US$ 240mn. The project is designed to decrease the track gradient in the gorge section between Zestaponi and Khashuri on the main Tbilisi-Black Sea rail line. Once the project is complete GR will benefit from faster speeds, lower electricity costs, and lower depreciation.

The Baku-Tbilisi-Kars (BTK) line will attract new cargo to the corridor

The completion of the BTK rail line in 2015 will attract new cargo from China-Turkey and Turkey-Russia trade. The Government of Azerbaijan provided US$ 775mn for project construction in the form of a 25-year loan to the Georgian government, which in turn established an SPV. The SPV owns the Georgian section of the railway for the construction period only and it will use free cash flow from the route to repay the loan – but the final structure of ownership and operating rights post-construction is yet to be finalized. Upon completion, GR is expected to own and operate the section between Gardabani and Marabda, with the remainder expected to be owned 50/50 by GR and Azerbaijan Railway. Of the projected initial 5mn in cargo volumes on BTK, GR believes most of it will be in new cargo from Turkey-Russia trade via Azerbaijan and China-Turkey trade. Additionally, GR expects some revenue from passenger transportation between Azerbaijan and Turkey. We will continue following the developments regarding the launch of BTK and its possible effects on GR's revenue. It is our understanding that GR has flexibility in setting tariffs on the Georgian section of BTK thus mitigating potential impact on revenues from existing routes.

Peer comparison: Georgian Railway vs. global railway companies

GR compares well to regional and global peers. Georgian Railway's EBITDA margin stands 9.1 ppts above the average for key peers (46.4% vs. 37.3%), while its net margin is slightly below the average as a result of the 1H14 FX losses. However, the company's average net margin over 2010-2013 was a superior 27.4% and we expect the margin to recover to 19.6% in 2014, which would once again place it ahead of key peers.

Table 2: GR's benchmarking vs. regional and global railway companies

Company	Country	Ownership	Revenue as a % of GDP	Freight as % of revenue	Annual revenue (US$ mn)	EBITDA margin %	Net margin %	Net Debt / EBITDA
Americas								
Union Pacific Corp.	USA	Public	0.13%	94.2%	21,963.0	42.0%	20.0%	0.88x
Burlington Northern Santa Fe Corp	USA	Private	0.13%	99.5%	21,375.7	39.2%	17.2%	1.71x
CSX Corp.	USA	Public	0.07%	96.8%	12,026.0	38.1%	15.5%	1.85x
Norfolk Southern Corp.	USA	Public	0.07%	92.0%	11,245.0	37.2%	17.0%	1.89x
Canadian National Railway Corp.	Canada	Public	0.56%	84.5%	10,268.4	45.9%	24.7%	1.57x
Canadian Pacific Railway Ltd.	Canada	Public	0.33%	97.5%	5,955.2	39.3%	14.3%	1.82x
Kansas City Southern	USA	Public	0.01%	96.2%	2,369.3	40.6%	14.9%	1.83x
America Latina Logistica SA	Brazil	Public	0.08%	92.9%	1,693.9	47.5%	5.9%	2.13x
Genesee & Wyoming Inc.	USA	Public	0.01%	75.0%	1,569.0	34.0%	17.3%	2.93x
Ferromex Grupo Mexico	Mexico	Private	0.12%	95.1%	1,469.7	27.8%	14.0%	0.68x
Mean			*0.15%*	*92.4%*		*39.2%*	*16.1%*	*1.73x*
Median			*0.10%*	*94.7%*		*39.3%*	*16.2%*	*1.83x*
Western Europe								
Deutsche Bahn	Germany	State-owned	1.43%	49.4%	51,943.7	12.8%	1.7%	3.29x
SNCF	France	State-owned	1.57%	28.4%	42,812.0	-1.7%	-0.5%	N/A
Ferrovie dello Stato Italiane	Italy	State-owned	0.53%	72.5%	11,063.0	24.4%	5.5%	5.03x
Swiss Federal Railways	Switzerland	State-owned	1.23%	11.1%	7,982.2	25.3%	3.3%	3.99x
Renfe	Spain	State-owned	0.26%	8.6%	3,582.8	14.3%	-1.5%	10.85x
NSB-Group	Norway	State-owned	0.56%	7.9%	2,345.9	18.9%	5.3%	3.21x
VR-Group	Finland	State-owned	0.45%	14.6%	1,066.2	15.5%	1.1%	N/A
Danske Statsbaner	Denmark	State-owned	0.15%	48.8%	455.2	43.3%	5.5%	3.39x
Comboios de Portugal EPE	Portugal	State-owned	0.17%	N/A	379.7	6.4%	N/A	N/A
Iarnród Éireann	Ireland	State-owned	0.12%	2.5%	259.1	7.5%	-4.9%	12.74x
Mean			*0.65%*	*27.1%*		*16.7%*	*1.7%*	*6.07x*
Median			*0.49%*	*14.6%*		*14.9%*	*1.7%*	*3.99x*
Central and Eastern Europe								
Russian Railways	Russia	State-owned	2.64%	61.7%	55,397.5	18.9%	2.1%	1.74x
Osterreichische Bundesbahnen	Austria	State-owned	1.67%	43.5%	6,958.7	30.2%	1.9%	12.38x
Kazakhstan Temir Zholy	Kazakhstan	State-owned	2.38%	84.3%	5,346.8	34.5%	14.5%	1.53x
Česke Drahy Group	Czech Republic	State-owned	0.85%	41.2%	1,681.0	16.9%	-5.9%	5.91x
Globaltrans	Russia	Private	0.07%	86.5%	1,407.3	46.4%	17.9%	1.39x
Lietuvos Gelezinkeliai	Lithuania	State-owned	1.47%	81.8%	621.0	30.5%	6.0%	1.34x
Latvijas Dzeldzcels	Latvia	State-owned	2.06%	36.0%	584.4	1.5%	0.8%	13.44x
Zeleznicna Spolcnost Slovensko	Slovenia	State-owned	1.24%	27.0%	579.4	7.2%	5.3%	6.24x
Slovensle Zeleznice	Slovakia	State-owned	0.51%	3.7%	468.9	18.8%	-1.9%	N/A
Mean			*1.43%*	*51.8%*		*22.8%*	*4.5%*	*5.50x*
Median			*1.47%*	*43.5%*		*18.9%*	*2.1%*	*3.83x*
Key peers mean			***0.58%***	***88.4%***		***37.3%***	***14.4%***	***1.67x***
Key peers median			***0.12%***	***92.4%***		***38.7%***	***15.2%***	***1.73x***
Georgian Railway[1]	**Georgia**	**State-owned**	**1.88%**	**95.6%**	**302.4**	**46.4%**	**13.5%**	**2.73x**

Key peers

[1] GR's revenue and net debt/EBITDA given as per our 2014F forecasts, while share of freight in revenue and EBITDA and net income margins are 1H14 actual figures

Note: Peers' financials given as per latest available financial statements

Source: Company data; Bloomberg, World Bank, Galt & Taggart Research

GR is highly leveraged with a net debt-to-EBITDA of 2.7x compared to 1.7x for key peers, mainly owing to the issuance of US$ 500mn in Eurobonds. We expect GR's net debt-to-EBITDA will retreat to 1.7x in 2018, in-line with the average for key peers.

Although GR's freight tariffs are higher than the pipeline alternatives in the region, GR's tariffs are still below the global emerging market railway freight rates. The average tariff of the selected EM railways is US$ 46 per 1,000 ton-km, which is higher than GR's US$ 44, US$40 and US$ 27 per 1,000 ton-km for dry cargo, oil products and crude oil, respectively. We believe that GR still has room to increase its freight rates if necessary while remaining competitive in the region. Additionally, the company can use discretion to offer one-off discounts to new opportunities, like with the case of the Buzachi oil.

Table 3: GR's freight tariffs vs. other railway companies in emerging markets

Company	Country	Freight rates per 1,000 ton-km (US$)
Ferrocarril Central Andino	Peru	94
Kenya Railways Corporation	Kenya	89
Perurail	Peru	65
FerroExpreso Pampeano	Argentina	57
Ferrovia Centro Atlantica	Brazil	54
America Latina Logistica	Brazil	53
Ferrocarril del Pacifico	Chile	49
Empresa Ferroviaria Andina	Bolivia	45
Georgian Railway - Dry cargo	**Georgia**	**44**
Ferroviaria Oriental	Bolivia	43
Ferrosur Roca	Argentina	43
Georgian Railway - Oil products	**Georgia**	**40**
Nuevo Central Argentino	Argentina	39
ALL Central	Argentina	38
Kansas City Southern de Mexico	Mexico	38
ALL Mesopotamico	Argentina	36
Estrada de Ferro Parana Oeste	Brazil	33
MRS Logistica	Brazil	32
Belgrano Cargas	Argentina	32
Ferrocarril Mexicano	Mexico	30
Georgian Railway - Crude oil	**Georgia**	**27**
Tanzania Zambia Railways Authority	Tanzania	24
Indian Railways	India	16
Other companies' mean		*46*
Other companies' median		*41*

Note: Tariffs given as per latest available data for each company

Source: Company data, IDB, Shippers Council of Eastern Africa, International Transport Forum, Galt & Taggart estimates

Financials

Income statement, US$ mn

	2011	2012	2013	2014F	2015F	2016F	2017F	2018F
Revenues	283.1	284.7	288.5	302.4	324.9	348.1	372.2	398.7
y/y change	24.7%	0.6%	1.3%	4.8%	7.4%	7.2%	6.9%	7.1%
SG&A	129.0	132.1	154.2	152.3	160.8	170.0	179.1	189.4
EBITDA	154.2	152.7	134.2	150.1	164.0	178.2	193.1	209.3
EBITDA margin	54.4%	53.6%	46.5%	49.6%	50.5%	51.2%	51.9%	52.5%
D&A	54.6	58.8	61.3	63.1	66.9	70.6	74.3	78.0
EBIT	99.5	93.8	73.0	87.0	97.2	107.6	118.9	131.4
EBIT margin	35.1%	32.9%	25.3%	28.8%	29.9%	30.9%	31.9%	33.0%
Financial expenses (income), net	(9.8)	24.4	27.2	17.1	8.3	4.8	3.9	2.2
PBT	109.3	69.5	45.8	69.9	88.9	102.9	114.9	129.2
Tax expense	5.9	10.5	6.6	10.5	13.3	15.4	17.2	19.4
Net income	103.4	58.9	39.2	59.4	75.6	87.4	97.7	109.8
Net margin	36.5%	20.7%	13.6%	19.6%	23.3%	25.1%	26.2%	27.5%

Balance sheet, US$ mn

	2011	2012	2013	2014F	2015F	2016F	2017F	2018F
Non-current assets	1,314.8	1,521.3	1,456.9	1,459.1	1,499.0	1,536.6	1,569.7	1,598.8
PP&E, net	1,145.4	1,348.0	1,351.8	1,360.3	1,401.6	1,439.3	1,473.2	1,503.4
Other	169.4	173.3	105.1	98.8	97.4	97.3	96.6	95.4
Current assets	131.9	215.9	204.8	212.8	186.4	208.3	241.2	286.1
Cash & equivalents	36.9	70.6	120.4	141.3	50.6	52.3	54.3	56.5
Trade receivables & prepayments	33.0	61.9	52.9	47.9	56.9	60.9	65.1	69.8
Other	62.1	83.4	31.5	23.6	79.0	95.1	121.7	159.8
Total assets	1,446.7	1,737.1	1,661.7	1,671.9	1,685.4	1,744.9	1,810.9	1,884.9
Shareholder equity	1,078.9	939.1	903.7	906.6	955.7	1,012.6	1,076.0	1,147.4
Non-current liabilities	284.4	711.6	693.0	697.5	665.4	666.1	666.5	667.0
LT debt	247.9	534.3	525.9	531.8	500.0	500.0	500.0	500.0
Other	36.5	177.3	167.1	165.7	165.4	166.1	166.5	167.0
Current liabilities	83.4	86.4	65.0	67.8	64.3	66.3	68.3	70.5
ST loans	11.1	20.5	19.4	19.4	19.4	19.4	19.4	19.4
Trade payables & prepayments	27.5	50.1	32.3	32.7	32.5	34.8	37.2	39.9
Other	44.8	15.8	13.2	15.6	12.4	12.1	11.7	11.2
Total liabilities and equity	1,446.7	1,737.1	1,661.7	1,671.9	1,685.4	1,744.9	1,810.9	1,884.9

Cash flow, US$ mn

	2011	2012	2013	2014F	2015F	2016F	2017F	2018F
Cash flows from operating activities	133.9	145.3	131.4	123.8	126.7	158.6	171.5	185.1
Earnings before interest and taxes (EBIT)	99.5	93.8	73.0	87.0	97.2	107.6	118.9	131.4
Depreciation and amortisation	54.6	58.8	61.3	63.1	66.9	70.6	74.3	78.0
Income tax expense	(5.9)	(10.5)	(6.6)	(10.5)	(13.3)	(15.4)	(17.2)	(19.4)
Change in working capital	(18.6)	(43.1)	(21.6)	15.4	(24.1)	(4.1)	(4.4)	(4.8)
Other	4.2	46.2	25.3	(31.2)	0.0	0.0	0.0	0.0
Cash flows from investing activities	(270.6)	(247.5)	(24.5)	(76.7)	(150.6)	(118.2)	(126.7)	(135.3)
Capital expenditures	(246.9)	(229.8)	(91.3)	(76.7)	(106.8)	(108.1)	(107.4)	(107.0)
Finance income	16.0	11.6	7.4	0.0	0.0	3.9	5.2	7.4
Other	(39.7)	(29.3)	59.4	0.0	(43.8)	(14.0)	(24.5)	(35.7)
Cash flows from financing activities	(14.0)	130.6	(55.7)	(40.8)	(66.8)	(38.7)	(42.8)	(47.6)
Net borrowings (repayments)	(24.3)	426.1	25.0	10.1	(31.8)	0.0	0.0	0.0
Finance costs	(6.2)	(35.9)	(34.6)	(17.1)	(8.3)	(8.7)	(9.1)	(9.6)
Dividends paid	0.0	(91.3)	(16.4)	(18.6)	(26.5)	(30.6)	(34.2)	(38.4)
Other	16.5	(168.2)	(29.7)	(15.2)	(0.3)	0.6	0.5	0.4
Net cash inflows (outflows)	(150.8)	28.4	51.2	6.3	(90.7)	1.8	2.0	2.2
Beginning cash balance	182.7	36.9	70.6	120.4	141.3	50.6	52.3	54.3
FX effects on Cash	(5.2)	1.7	3.8	2.9	0.0	0.0	0.0	0.0
FX translation gain/loss	10.1	3.7	(5.2)	11.8	(0.0)	0.0	0.0	(0.0)
Ending cash balance	36.9	70.6	120.4	141.3	50.6	52.3	54.3	56.5

Source: Company data, Galt & Taggart Research

Ratio analysis

	2011	2012	2013	2014F	2015F	2016F	2017F	2018F
Profitability								
ROA	7.3%	3.7%	2.3%	3.6%	4.5%	5.1%	5.5%	5.9%
ROE	10.2%	5.8%	4.2%	6.6%	8.1%	8.9%	9.4%	9.9%
Liquidity & Solvency								
Current ratio	1.6 x	2.5 x	3.2 x	3.1 x	2.9 x	3.1 x	3.5 x	4.1 x
Quick ratio	1.4 x	2.2 x	2.8 x	2.9 x	2.4 x	2.7 x	3.0 x	3.5 x
Cash ratio	0.5 x	0.8 x	1.9 x	2.1 x	0.8 x	0.8 x	0.8 x	0.8 x
Total debt/Equity	0.2 x	0.6 x	0.6 x	0.6 x	0.6 x	0.5 x	0.5 x	0.5 x
Net debt/Equity	0.2 x	0.5 x	0.5 x	0.5 x	0.5 x	0.4 x	0.4 x	0.3 x
Total debt/EBITDA[1]	1.7 x	3.6 x	4.3 x	3.7 x	3.2 x	3.0 x	2.7 x	2.5 x
Net debt/EBITDA[1]	1.2 x	2.8 x	3.4 x	2.7 x	2.6 x	2.3 x	2.0 x	1.6 x
Financial Leverage	1.3 x	1.8 x	1.8 x	1.8 x	1.8 x	1.7 x	1.7 x	1.6 x
Adjusted Interest coverage[12]	4.0 x	3.0 x	1.6 x	2.3 x	2.5 x	2.8 x	3.1 x	3.4 x
FFO to total debt[1]	0.6 x	0.2 x	0.2 x	0.2 x	0.3 x	0.3 x	0.3 x	0.4 x
RCF to net debt	-0.6 x	0.1 x	0.0 x	0.1 x	-0.1 x	0.0 x	0.1 x	0.1 x
FFO to adjusted finance expenses[12]	5.1 x	2.0 x	1.4 x	2.3 x	3.2 x	3.5 x	3.8 x	4.1 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, Galt & Taggart Research

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