



Georgian Railway Stable Performance

Georgia | Transportation
Georgian Railway
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Georgian Railway reported 9M14 results. The company performance was solid overall. However, the strengthening of US\$ vs. GEL during this period (9M14 average USD/GEL rate 5.8% higher y/y) affected the results in US\$ terms. EBIT margin reached 30.0% showing an increase of two percentage points. Net profit margin decreased from 22.0% to 20.9%. We expect FY14 net debt to EBITDA to improve and reach 2.8x compared to 3.4x in FY13. It is well below the 3.5x ceiling set by Eurobond covenants, leaving a plenty of breathing space.

Top line remains stable

GR's top line reached US\$ 212mn (up only by 0.4% y/y) or GEL 372mn (up by 6.2% y/y) in 9M14. Revenues grew on the back of 4.7% y/y growth in freight traffic, the highest revenue contributor (87.2% of total revenues in 9M14). Freight car rental segment, corresponding to 7.8% of GR's total revenues, added 4.5mn GEL to top line, corresponding to a 18.4% growth y/y in GEL and 11.8% in US\$ terms. Passenger traffic accounted for 4.1% of total revenues and improved the top line by more than GEL 1mn, translating into a healthy 8.4% growth y/y. Other revenues increased to US\$ 2mn (up by 76.7% y/y), while still representing a subtle 0.9% share in the revenues.

Costs increased modestly

Employee benefits increased by 1.8% y/y in US\$ terms and 7.8% y/y in GEL terms and accounted for 61mn and 107mn in US\$ and GEL terms, respectively. Depreciation and amortization expense was flat at 44mn in US\$ terms, while it increased by 5.8% y/y in GEL terms and reached GEL 78mn. Electricity usage and fuel consumption decreased by 9.4% y/y and 10.0% y/y in US\$ terms, respectively (down 4.2% and 4.8% in GEL terms). However, it was more than offset by a surge in materials usage, showing a 17.1% y/y increase in US\$ terms (24.0% y/y increase in GEL terms). Other expenses accounted for US\$ 32mn or GEL 55mn representing a decrease of 7.5% and 2.2% in US\$ and GEL terms, respectively. Total costs reached 157mn (up 1.0%) and 276mn (down 4.8%) in US\$ and GEL terms, respectively, mainly driven by employee benefits.

Bottom line is solid despite higher finance costs

GR's 9M14 EBIT reached US\$ 64mn (GEL 111mn) showing an increase of 9.4% y/y in US\$ terms (15.7% y/y in GEL terms). However, net profit saw a decline of 4.7% y/y in US\$ terms and was flat in GEL terms (up only by 0.8% y/y) to reach US\$ 44mn or GEL 78mn. Bottom line decreased due to finance costs being 77.0% y/y higher in US\$ terms (87.2% y/y higher in GEL terms) than previous year. The increase in finance costs was mainly driven by a net FX loss of US\$ 6.5mn in 9M14 compared to US\$ 1.7mn in 9M 2013 mainly due to US\$ denominated Eurobond obligations.

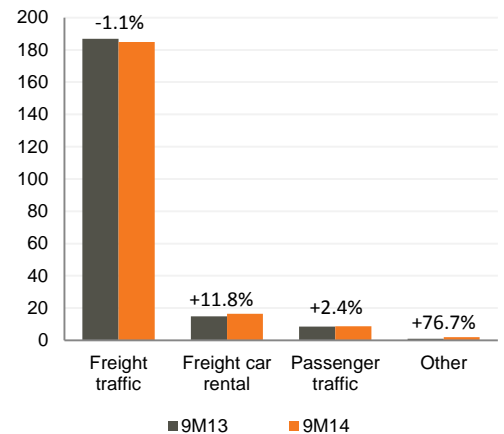
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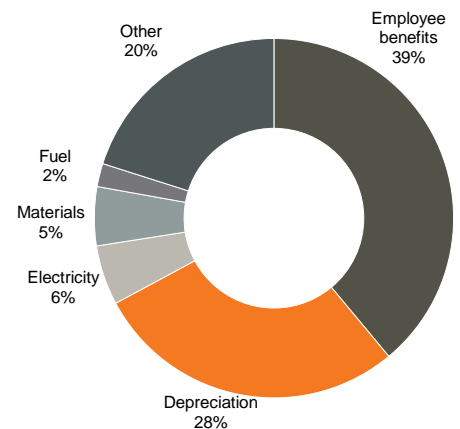
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Figure 1: Revenue breakdown, US\$ mn



Source: Company data, Galt & Taggart Research

Figure 2: 9M14 Cost breakdown



Source: Company data, Galt & Taggart Research

Table 1: Key financials (US\$ '000) and margins

	9M13	9M14	Chg, y/y
EBITDA	102,479	107,907	5.3%
EBITDA margin	48.5%	50.9%	2.4 pts
EBIT	58,144	63,588	11.3%
EBIT margin	27.5%	30.0%	2.5 pts
Net income	46,422	44,227	-22.0%
Net margin	22.0%	20.9%	-1.1 pts
Assets	1,711,658	1,680,577	-1.8%
Equity	952,715	930,837	-2.3%
Liabilities	757,740	749,741	-1.1%

Source: Company data, Galt & Taggart Research

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