



Georgian Railway Steady Performance in FY14

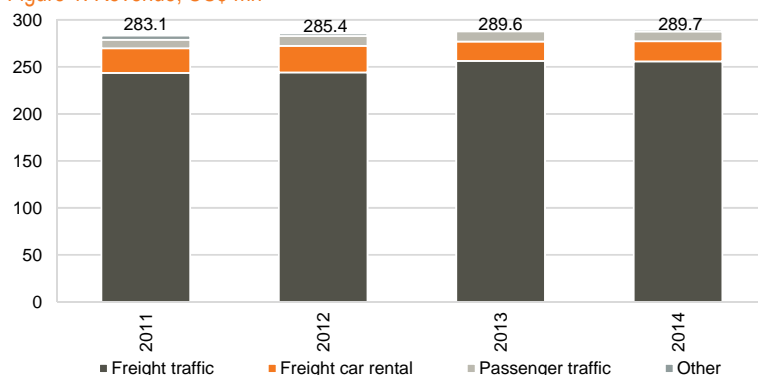
Georgia | Transportation
Georgian Railway
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Georgian Railway published FY14 results, surpassing our latest reforecast. Revenue was flat in US\$ terms at US\$ 289.7mn and grew 6.2% y/y in GEL terms to GEL 511.6mn due to a weak GEL against US\$. EBITDA grew 5.5% y/y on the back of reduced operating expenses and accounted for US\$ 141.6mn. EBITDA margin reached 48.9% from 46.4% in FY13. EBIT hit US\$ 82.0mn - growing 12.4% y/y. EBIT margin increased to 28.3% in FY14 from 25.2% in FY13. GEL weakness caused a non-cash FX loss that drove finance costs up, reducing net profit to US\$ 22.2mn and net profit margin to 7.7%. Due to US\$ 41.1mn increase in cash, net debt-to-EBITDA improved to 2.71x (from 3.17x in FY13), leaving comfortable headroom for the Eurobond covenant of 3.5x.

FY14 revenue flat

FY14 revenue of US\$ 289.7mn (US\$ 289.6mn in FY13) came in flat (growing 0.1% y/y compared to 1.5% y/y in FY13). In GEL terms, revenue reached GEL 511.6mn (GEL 481.7mn in FY13) - a growth of 6.2% y/y (2.2% y/y in FY13), mainly caused by a weak GEL against US\$ (FY14 average US\$-GEL rate 6.2% y/y higher).

Figure 1: Revenue, US\$ mn



Source: Company data, Galt & Taggart Research

Freight traffic, holding the lion's share (88.3% in FY14 and 88.5% in FY13) of revenue, accounted for US\$ 255.8mn (US\$ 256.3mn in FY13) and GEL 451.8mn (GEL 426.4mn in FY13) in FY14. Freight traffic revenue was down 0.2% y/y (up 5.0% y/y in FY13) in US\$ terms and up 6.0% y/y (up 5.7% y/y in FY13) in GEL terms.

Revenue from freight car rental grew 3.8% y/y in FY14 (26.6% y/y drop in FY13) and generated US\$ 21.4mn (US\$ 20.6mn in FY13) or 7.4% of total revenues (7.1% in FY13). In GEL, freight car rental revenue increased by a healthy 10.2% y/y (down 26.0% y/y in FY13) to reach GEL 37.8mn (GEL 34.3mn in FY13).

Passenger traffic contributed US\$ 10.4mn to the top line in FY14 (US\$ 10.8mn in FY13), translating into a 4.4% y/y decrease (2.8% y/y increase in FY13). In GEL terms, passenger traffic remained largely flat at GEL 18.3mn (GEL 18.0mn in FY13) - modest growth of 1.5% y/y (3.5% y/y in FY13) and share in total revenue of 3.6% (3.7% in FY13).

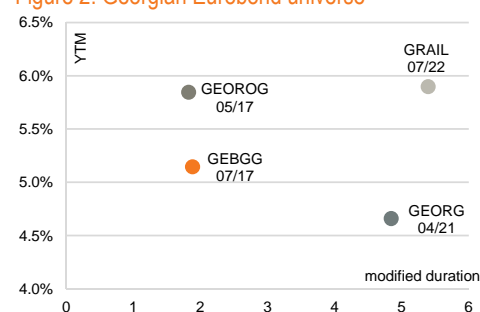
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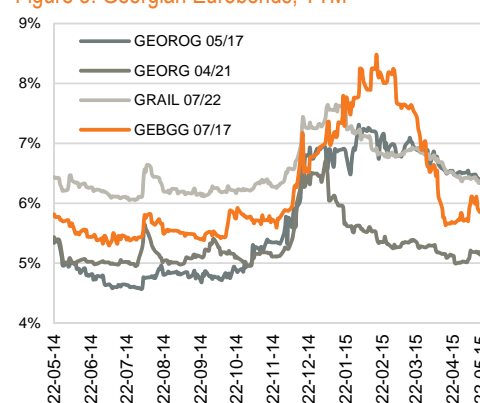
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Figure 2: Georgian Eurobond universe



Source: Bloomberg

Figure 3: Georgian Eurobonds, YTM



Source: Bloomberg

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

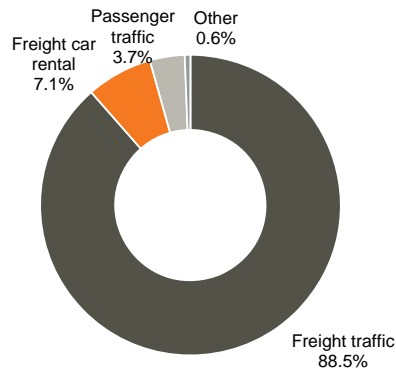
	FY13	FY14	Change, y/y
Revenue	289.6	289.7	0.05%
EBITDA	134.2	141.6	5.47%
EBITDA margin	46.36%	48.88%	252 bps
EBIT	73.0	82.0	12.36%
EBIT margin	25.20%	28.30%	310 bps
Net income	39.2	22.2	-43.27%
Net profit margin	13.54%	7.68%	-586 bps
Assets	1,661.7	1,592.9	-4.15%
Equity	903.7	838.6	-7.21%
Liabilities	758.0	754.3	-0.49%

Source: Company data, Galt & Taggart Research



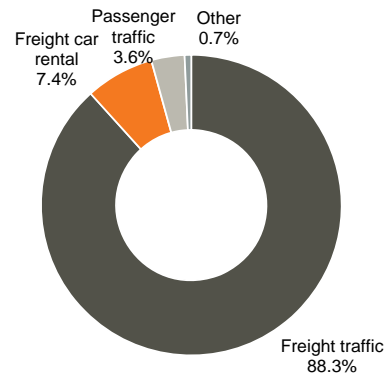
Other revenue rose by 18.6% y/y in FY14 (31.5% y/y decline in FY13) in US\$ terms and 25.9% y/y (31.0% y/y decline in FY13) in GEL terms to reach US\$ 2.1mn (US\$ 1.7mn in FY13) and GEL 3.7mn (GEL 2.9mn in FY13). However, other revenue holds only 0.7% of revenue in FY14 (0.6% in FY13).

Figure 4: FY13 revenue



Source: Company data, Galt & Taggart Research

Figure 5: FY14 revenue

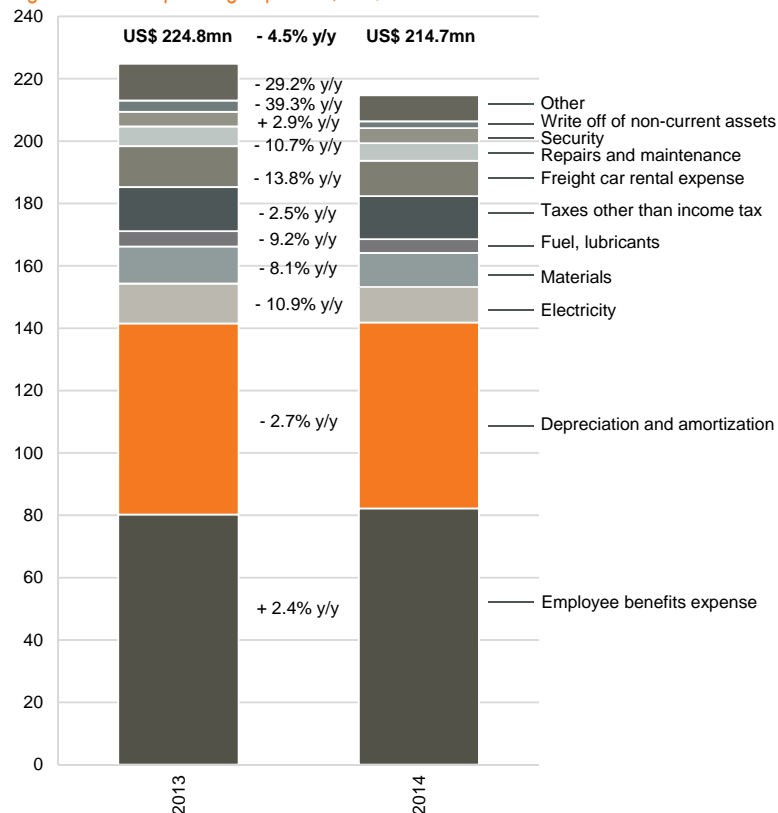


Source: Company data, Galt & Taggart Research

Expenses shrink considerably

Operating expenses shrank 4.5% y/y in FY14 (7.0% y/y reduction in FY13) to US\$ 214.7mn (US\$ 224.8mn in FY13). While in GEL, operating expenses climbed 1.4% y/y in FY14 (7.8% y/y increase in FY13) and reached GEL 379.2mn (GEL 373.9mn in FY13).

Figure 6: FY14 operating expenses, US\$ mn



Source: Company data, Galt & Taggart Research

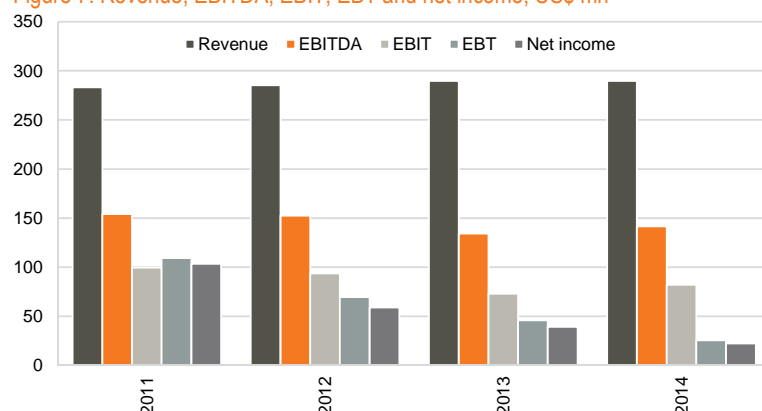


Employee benefits expense increased 2.4% y/y in FY14 (22.2% y/y increase in FY13) to reach US\$ 82.2mn (US\$ 80.3mn in FY13). In GEL, employee benefits expense grew 8.7% y/y (23.1% y/y in FY13) to reach GEL 145.2mn (GEL 133.5mn in FY13). In FY14, share of employee benefits expense in total operating expenses stood at 38.3% (35.7% in FY13).

Electricity and materials expense decreased by 9.5% y/y (7.9% y/y decrease in FY13) and 4.0% y/y in FY14 (7.2% y/y drop in FY13) in US\$ and GEL terms, amounting to US\$ 26.8mn (US\$ 29.6mn in FY13) and GEL 47.2mn (GEL 49.2mn in FY13), respectively. In US\$ terms, electricity costs saw a decrease of 10.9% y/y (8.9% y/y decrease in FY13) to US\$ 11.4mn (US\$ 12.8mn in FY13) while materials used shrank by 8.1% y/y (5.6% y/y decrease in FY13) to US\$ 10.9mn (US\$ 11.9mn). In FY14, fuel and lubricants used diminished by 9.2% y/y (10.9% y/y reduction in FY13) accounting for US\$ 4.5mn (US\$ 4.9mn in FY13).

Other expenses accounted for US\$ 46.1mn in FY14 (US\$ 53.7mn in FY13) or GEL 81.5mn (GEL 89.3mn in FY13), showing a decrease of 14.1% y/y (0.3% y/y increase in FY13) and 8.9% y/y (1.0% y/y increase in FY13) in US\$ and GEL terms, respectively.

Figure 7: Revenue, EBITDA, EBIT, EBT and net income, US\$ mn



Source: Company data, Galt & Taggart Research

FY14 EBITDA stood at US\$ 141.6mn (US\$ 134.2mn in FY13) - an increase of 5.5% y/y (12.0% y/y decrease in FY13). In GEL terms, FY14 EBITDA was at GEL 250.0mn (GEL 223.3mn in FY13), translating into 12.0% y/y growth (11.4% y/y decline in FY13). EBITDA margin reached 48.9% in FY14 compared to 46.4% in FY13.

EBIT hit US\$ 82.0mn (US\$ 73.0mn in FY14) or GEL 144.8mn (GEL 121.4mn in FY13), growing 12.4% y/y (22.2% y/y decrease in FY13) or 19.3% y/y (21.6% y/y drop in FY13) in US\$ and GEL terms, respectively. Likewise, EBIT margin expanded to 28.3% in FY14 from 25.2% in FY13.

Finance income of US\$ 6.6mn (US\$ 7.4mn in FY13) **was down 10.9% y/y** (35.9% y/y decrease in FY13). In GEL terms, finance income of GEL 11.7mn (GEL 12.3mn in FY13) was down 5.4% y/y (35.4% y/y decrease in FY13).

Weak GEL in FY14 led to an increase in finance costs of 82.2% y/y (3.7% y/y decrease in FY13) in US\$ terms and 93.4% y/y (3.0% y/y decrease in FY13) in GEL terms, respectively. Of total of US\$ 63.0mn or GEL 111.3mn finance costs in FY14 (US\$ 34.6mn or GEL 57.5mn in FY13), non-cash FX loss, created due to revaluation of long-term liabilities, made up US\$ 34.6mn (US\$ 20.7mn in FY13), leaving finance costs excluding FX loss at US\$ 28.4mn (US\$ 13.9mn in FY13).



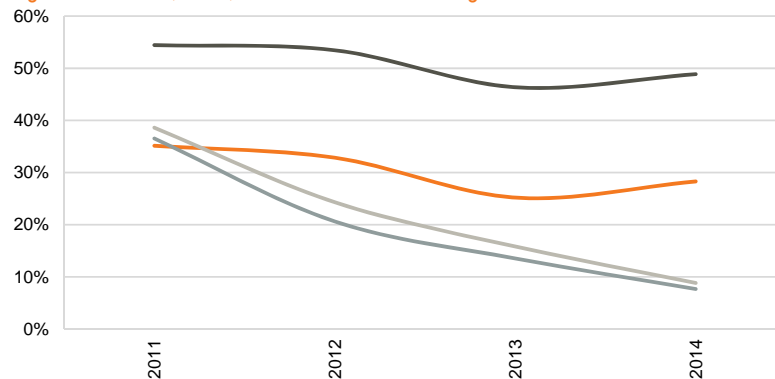
Figure 8: USD-GEL FX rate



Source: National Bank of Georgia

FY14 net income was at US\$ 22.2mn (US\$ 39.2mn in FY13) or GEL 39.3mn (GEL 65.2mn in FY13) - a decline of 43.3% y/y (33.4% y/y decline in FY13) in US\$ terms and 39.8% y/y (32.9% y/y decrease in FY13) in GEL terms. Net profit margin was 7.7% in FY14 compared to 13.5% a year earlier.

Figure 9: EBITDA, EBIT, EBT and net income margins

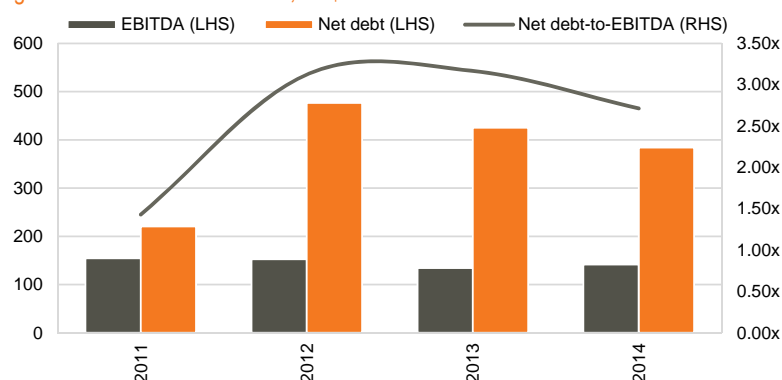


Source: Company data, Galt & Taggart Research

Solvency is not a concern

Due to US\$ 41.1mn increase in cash and cash equivalents during FY14 (US\$ 50.9mn increase in FY13), end-FY14 net debt decreased by 9.6% y/y (10.8% y/y decrease in FY13) and stood at US\$ 384.1mn (US\$ 425.0mn in FY13). This led to net debt-to-EBITDA of 2.71x (3.17x in FY13), well below the Eurobond covenant of 3.5x.

Figure 10: EBITDA and net debt, US\$ and net debt-to-EBITDA



Source: Company data, Galt & Taggart Research



Financial statements

Income statement

	US\$, '000	2011	2012	2013	2014
Revenue		283,134.5	285,390.4	289,556.8	289,700.7
Freight traffic		243,715.6	244,192.4	256,336.0	255,842.3
Freight car rental		26,071.1	28,089.1	20,625.0	21,412.3
Passenger traffic		9,049.0	10,556.9	10,847.5	10,372.9
Other		4,298.8	2,552.0	1,748.2	2,073.2
Other income		7,132.1	18,484.2	8,203.0	6,995.5
Employee benefits expense		(64,347.7)	(65,687.9)	(80,261.8)	(82,211.6)
Electricity		(14,341.3)	(14,005.8)	(12,766.5)	(11,377.5)
Materials		(8,213.9)	(12,571.1)	(11,885.2)	(10,918.2)
Fuel, lubricants		(5,773.3)	(5,503.7)	(4,905.6)	(4,455.6)
Taxes other than income tax		(10,473.0)	(12,553.5)	(14,160.0)	(13,808.6)
Freight car rental expense		(13,878.6)	(15,163.1)	(13,132.6)	(11,321.4)
Repairs and maintenance		(6,583.5)	(4,680.7)	(6,342.4)	(5,663.5)
Security		(4,374.1)	(4,333.7)	(4,674.1)	(4,810.7)
Write off of non-current assets		(2,428.2)	(8,953.8)	(3,596.8)	(2,184.8)
Other		(5,689.1)	(7,878.3)	(11,790.2)	(8,352.9)
Operating expenses excluding depreciation and amortization		(136,102.7)	(151,331.7)	(163,515.1)	(155,104.9)
EBITDA		154,163.9	152,542.9	134,244.1	141,591.3
Adjusted EBITDA		156,453.8	161,092.6	141,200.7	143,776.1
Depreciation and amortization expense		(54,646.9)	(58,793.1)	(61,275.6)	(59,607.3)
Results from operating activities		99,517.0	93,749.8	72,968.4	81,984.0
Finance income		16,035.2	11,570.7	7,414.9	6,606.4
Finance costs		(6,222.9)	(35,918.3)	(34,580.0)	(63,011.3)
Net finance costs		9,812.3	(24,347.7)	(27,165.1)	(56,404.9)
Profit before income tax		109,329.4	69,402.1	45,803.3	25,579.1
Income tax expense		(5,884.2)	(10,527.2)	(6,588.8)	(3,331.5)
Profit and total comprehensive income for the year		103,445.2	58,874.9	39,214.4	22,247.6



Statement of changes in equity

	US\$, '000	2011	2012	2013	2014
Share capital, 1 January		589,939.5	603,889.1	604,590.8	563,465.9
Common capital issued for property, plant and equipment		-	-	194.8	-
Net non-cash contributions by and distributions to owners		(2,007.7)	29,849.0	-	1,204.5
Cash contributions by and distributions to owners		10,955.8	-	-	-
Transfer of retained earnings to share capital		-	-	-	-
Share capital, 31 December		598,972.0	633,639.8	604,777.4	564,607.2
Non-cash owner contribution reserve, 1 January		21,196.2	22,963.1	18,241.7	16,995.6
Net non-cash contributions by and distributions to owners		1,565.2	(3,857.7)	-	1,439.0
Non-cash owner contribution reserve, 31 December		22,776.1	19,118.1	18,241.7	18,359.1
Retained earnings, 1 January		366,557.5	460,857.1	258,812.4	261,525.5
Profit and total comprehensive income for the year		103,445.2	58,874.9	39,214.4	22,247.6
Dividends to equity holders		-	(231,532.3)	(15,029.3)	(28,501.7)
Net non-cash contributions by and distributions to owners		(13,743.4)	(15,700.3)	(1,338.8)	-
Cash contributions by and distributions to owners		-	(1,878.0)	-	-
Transfer of retained earnings to share capital		-	-	-	-
Total transactions with owners, recorded directly in equity		(13,743.4)	(249,110.5)	(16,368.1)	(28,501.7)
Retained earnings, 31 December		457,104.7	271,247.7	280,699.8	255,599.4
Total equity		1,078,852.9	924,005.6	903,718.8	838,565.7



Statement of financial position

	US\$, '000	2011	2012	2013	2014
Assets					
Property, plant and equipment		1,145,420.0	1,326,272.1	1,351,832.6	1,276,147.2
Investment property		4,093.9	-	-	-
Deferred tax assets		-	939.8	896.7	835.5
Other non-current assets		165,263.1	169,544.3	104,191.7	91,323.2
Non-current assets		1,314,777.0	1,496,756.2	1,456,921.0	1,368,306.0
Inventories		14,211.2	21,471.0	24,799.3	18,248.6
Current tax assets		305.9	-	6,732.1	5,861.8
Trade and other receivables		16,377.3	23,693.5	30,180.3	28,946.1
Prepayments and other current assets		16,592.2	37,211.3	22,708.6	9,952.2
Term deposits		45,769.6	60,554.7	-	-
Cash and cash equivalents		38,625.4	69,461.0	120,368.6	161,506.2
Current assets		131,881.7	212,391.5	204,788.9	224,514.9
Total assets		1,446,658.7	1,709,147.7	1,661,710.0	1,592,820.9
Equity and liabilities					
Share capital		598,972.0	633,639.8	604,777.4	564,607.2
Non-cash owner contribution reserve		22,776.1	19,118.1	18,241.7	18,359.1
Retained earnings		457,104.7	271,247.7	280,699.8	255,599.4
Total equity		1,078,852.9	924,005.6	903,718.8	838,565.7
Loans and borrowings		247,897.4	525,704.1	525,942.5	498,697.7
Advance received from the government		-	139,791.2	133,382.5	123,082.7
Trade and other payables		26.9	31.4	29.9	27.9
Deferred tax liabilities		36,475.5	34,588.0	33,655.5	32,194.7
Non-current liabilities		284,399.8	700,114.7	693,010.4	654,003.0
Loans and borrowings		11,139.9	20,172.6	19,436.2	46,860.9
Trade and other payables		27,512.4	49,281.7	32,345.2	42,112.0
Liabilities to the government		7,895.6	7,820.4	6,863.4	4,543.4
Provisions		12,137.3	2,494.1	3,544.3	3,459.4
Other taxes payable		16,085.1	-	-	-
Current tax liabilities		-	930.8	-	-
Other current liabilities		8,635.6	4,327.9	2,791.6	3,276.5
Current liabilities		83,406.0	85,027.5	64,980.7	100,252.2
Total liabilities		367,805.8	785,142.2	757,991.1	754,255.2
Total equity and liabilities		1,446,658.7	1,709,147.7	1,661,710.0	1,592,820.9



Statement of cash flows

	US\$, '000	2011	2012	2013	2014
Cash flows from operating activities					
Cash receipts from customers		285,199.7	285,133.0	285,830.1	298,360.5
Cash paid to suppliers and employees		(133,252.8)	(148,976.5)	(144,522.3)	(138,081.4)
VAT refund from the State		-	13,928.9	4,508.8	-
Cash flows from operations before income taxes and interest paid		151,946.9	150,085.4	145,816.6	160,279.1
Income tax paid		(17,946.8)	(4,978.1)	(14,278.4)	(1,656.4)
Interest paid		-	-	-	-
Net cash from (used in) operating activities		134,000.1	145,107.3	131,538.2	158,622.7
Cash flows from investing activities					
Acquisition of property, plant and equipment		(258,610.2)	(242,948.5)	(89,482.6)	(49,141.0)
Proceeds from sale of investments		-	-	-	-
Proceeds from sale of property, plant and equipment		-	1,836.2	111.8	-
Acquisition of subsidiary		-	-	(28.9)	-
Decrease/(increase) in term deposits		(22,791.8)	(14,457.0)	57,426.9	-
Decrease/(increase) in restricted cash		5,307.7	1,794.4	-	-
Finance income		5,861.7	6,843.3	10,078.0	6,525.4
Other investing		-	-	-	-
Net cash from (used in) investing activities		(270,232.7)	(246,931.6)	(21,894.7)	(42,615.6)
Cash flows from financing activities					
Proceeds from borrowings		678.5	239,929.0	-	-
Repayment of borrowings		(282.9)	(384.6)	(19.2)	-
Interest paid		(25,550.9)	(13,877.4)	(41,940.1)	(41,241.2)
Decrease/(increase) in restricted cash financing		-	-	-	-
Dividends to equity holders		-	(91,279.5)	(15,029.3)	(28,501.7)
Contribution of cash by owners		11,862.1	-	-	-
Distribution of cash to owners		(906.3)	(1,878.0)	-	-
Net cash from (used in) financing activities		(14,199.5)	132,509.6	(56,988.7)	(69,742.9)
Net increase in cash and cash equivalents		(151,850.0)	30,584.3	50,444.6	43,837.7
Cash and cash equivalents, 1 January		193,943.0	37,154.0	66,276.6	112,146.4
Restricted cash		(7,131.7)	(1,788.5)	-	-
Effect of exchange rate fluctuations on cash and cash equivalents		(5,241.6)	1,722.7	3,647.4	5,522.1
Cash and cash equivalents, 31 December		36,851.5	69,461.0	120,368.6	161,506.2



Financial ratios

	2011	2012	2013	2014
Profitability				
Return on Revenue				
EBITDA margin	54.45%	53.45%	46.36%	48.88%
EBIT margin	35.15%	32.85%	25.20%	28.30%
EBT margin	38.61%	24.32%	15.82%	8.83%
Net profit margin	36.54%	20.63%	13.54%	7.68%
Return on Investment				
Return on assets (ROA)	7.15%	3.44%	2.36%	1.40%
Operating ROE	9.22%	10.15%	8.07%	9.78%
Return on equity (ROE)	9.59%	6.37%	4.34%	2.65%
Return on common equity	17.27%	9.29%	6.48%	3.94%
Return on capital employed (ROCE)	7.75%	6.28%	4.53%	5.31%
Return on invested capital (ROIC)	7.73%	-11.69%	1.71%	-0.34%
Solvency				
Component percentage / debt ratios				
Liabilities to assets	25.42%	45.94%	45.62%	47.35%
Liabilities to invested capital	27.49%	53.42%	52.31%	54.49%
Liabilities to equity	34.09%	84.97%	83.87%	89.95%
Liabilities to EBITDA	2.39x	5.15x	5.65x	5.33x
Debt-to-assets	17.91%	31.94%	32.82%	34.25%
Debt-to-invested capital	19.36%	37.14%	37.64%	39.42%
Debt-to-equity	24.01%	59.08%	60.35%	65.06%
Debt-to-EBITDA	1.68x	3.58x	4.06x	3.85x
Net debt-to-assets	15.24%	27.87%	25.58%	24.11%
Net debt-to-invested capital	16.47%	32.41%	29.33%	27.75%
Net debt-to-equity	20.43%	51.56%	47.03%	45.80%
Net debt-to-EBITDA	1.43x	3.12x	3.17x	2.71x
Long-term debt-to-assets	17.14%	30.76%	31.65%	31.31%
Long-term debt-to-invested capital	18.53%	35.77%	36.29%	36.03%
Long-term debt-to-equity	22.98%	56.89%	58.20%	59.47%
Long-term debt-to-EBITDA	1.61x	3.45x	3.92x	3.52x
Financial leverage (equity multiplier)	1.34x	1.85x	1.84x	1.90x
Coverage ratios				
EBITDA coverage	24.54x	4.26x	4.05x	2.37x
EBIT coverage	15.84x	2.62x	2.20x	1.37x
Liquidity				
Current ratio	1.58x	2.50x	3.15x	2.24x
Quick ratio (acid test)	1.41x	2.25x	2.77x	2.06x
Cash ratio	0.46x	0.82x	1.85x	1.61x



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