Georgian Railway

Freight transportation rebounded first time in 7 years

FY19 & 1Q20

Fixed Income Research | Georgia
Georgian Railway
August 4, 2020

GR's financial performance improved in 2019, with top line up 4.0% y/y to US$ 174.2mn. Main revenue category - freight transportation - increased for the first time in the last 6 years, up 14.9% y/y to US$ 109.4mn in 2019, supported by both liquid and dry cargo flows. GR also managed to increase freight handling, passenger and other revenue streams. Meanwhile, income reduced from logistic services (-37.6% y/y) and car rental (-3.4% y/y) in 2019. GR's operating performance strengthened helped by increased revenues on the one hand and lower operating expenses on the other (operating expenses, excluding the PPE impairment, dropped 15.6% y/y to US$ 128.4mn in 2019). This resulted in improved EBITDA, which was up 16.4% y/y to US$ 79.2 in 2019. Net debt-to-EBITDA ratio also improved, down from 6.1x in 2018 to 5.2x in 2019, however this level is still above the Eurobond covenant of 3.5x. We forecast the ratio to start declining from 2020, but remain elevated in the medium term, which might pose difficulties to the company for its Eurobond placement due in 1Q22.

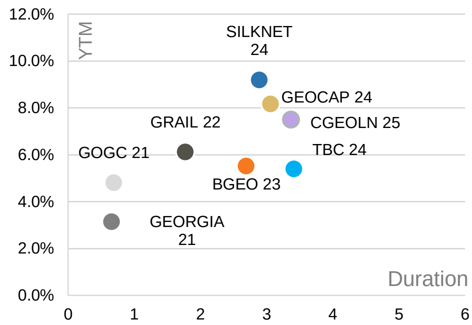
FY19 revenue stood at US$ 174.2mn in 2019, up 4.0% y/y from a low base of US$ 167.5mn in previous year. Freight transportation, largest revenue category, was the main growth driver in 2019. Freight handling followed the trend, recording a 13.8% y/y growth reaching US$ 23.2mn in 2019, while passenger and other revenue streams grew 2.2% y/y to US$ 11.0mn and 4.2% y/y to US$ 3.5mn, respectively. Meanwhile, income from logistic services reduced 37.6% y/y to US$ 17.3mn and car rental revenue was also down 3.4% y/y to US$ 9.7mn in 2019.

Operating expenses (excluding impairment loss on PPE) dropped 15.6% y/y to US$ 128.4mn in 2019. The improvement was mainly driven by 35.8% y/y reduction in depreciation and amortization expenses, related to PPE impairment in 2018. Savings were made in other major categories too, including taxes (other than income), remuneration and other operating expenditure. Increased revenues and reduced operating expenses pushed adjusted EBITDA up 23.9% y/y to US$ 76.7mn in 2019, resulting in 44.0% adjusted EBITDA margin in 2019 compared to 36.9% in 2018

Improved operating performance reduced net debt-to-EBITDA ratio from 6.1x in 2018 to 5.2x in 2019, albeit still far above the Eurobond covenant of 3.5x. The company's net debt-to-EBITDA ratio has been above the covenant for the last three years, limiting the company's ability to incur any financial indebtedness.

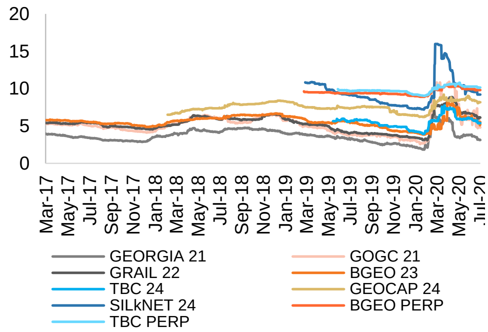
Despite COVID-19 related disruptions, cargo transportation by GR continued growth in 2020, up 8.4% y/y in 5M20. This data does not yet capture deteriorated economic conditions in Georgia and its partner countries, but eventually will likely weaken GR's performance in the short-term. These risks and uncertainties about epidemiological situation in the upcoming months were reflected in Fitch Ratings' latest outlook for GR, shifting from Stable to Negative on 14 May 2020, in line with that of Sovereign.

Figure 1: Georgian Eurobond universe



Source: Bloomberg

Figure 2: Georgian Eurobond universe



Source: Bloomberg as of 31 July, 2020

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

	FY18	FY19	Change, y/y
Revenue	167,531	174,179	4.0%
EBITDA	67,989	79,165	16.4%
EBITDA margin	*40.6%*	*45.5%*	*4.9pps*
Adjusted EBITDA	61,883	76,698	23.9%
Adjusted EBITDA margin	*36.9%*	*44.0%*	*7.1bps*
Net income	-282,709	-1,981	99.3%
Net profit margin	*-168.8%*	*-1.1%*	*167.6pps*
Assets	845,854	806,766	-4.6%
Liabilities	648,134	624,262	-3.7%
Equity	197,719	182,503	-7.7%
Net debt to EBITDA	6.2x	5.2x	

Georgian Railway credit ratings

S&P Global Ratings
B+
Negative
Affirmed June-2020

Fitch Ratings
BB-
Negative
Affirmed May-2020

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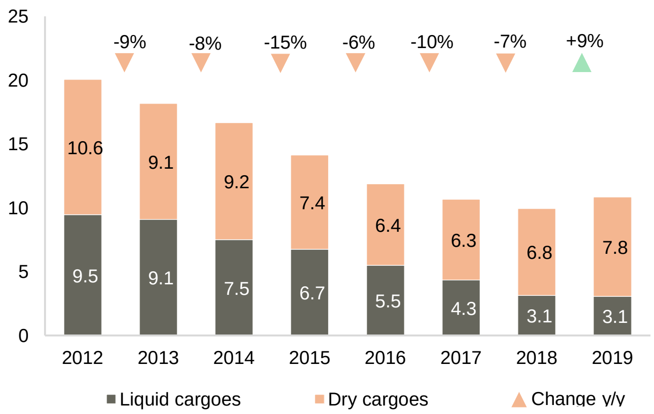
Transportation volumes up for the first time in 7 years

For the first time in 7 years the volume of cargo transported by GR increased in 2019. Overall, rail transportation volumes increased 8.5% y/y to 10.9mn tons in 2019. Dry cargo drove the growth in 2019, as liquid cargo transportation continued to decline, albeit at a slower pace. On a positive note, transit flows going through Georgia by rail picked up in 2019, up 23.8% y/y to 5.2mn tons. Furthermore, cargo volumes exported by rail also posted a solid 18.2% y/y growth in 2019.

Importantly, Baku-Tbilisi-Kars (BTK) railway brought in meaningful volumes of cargo for the first time in 2019. Although the scale of BTK is still small, with improved economic backdrop in the region, this direction could become another important source of income for GR, going forward.

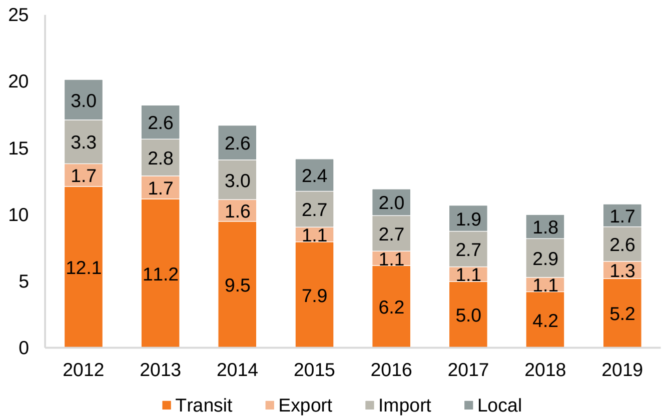
Liquid cargo transportation continued the decline (-2.0% y/y) in 2019, reflecting substitution by pipeline. The decline was entirely driven by the fall in crude oil transportation volumes, which fell to almost zero in 2019 as pipeline transportation has completely replaced rail over time. Oil products transportation, which now makes up 99.6% of total liquid cargo transportation grew slightly, up 3.1% y/y to 3.1mn tones in 2019, related to increased transportation volumes from Russia.

Figure 3: Rail cargo by product type, mn tons



Source: Georgian Railway

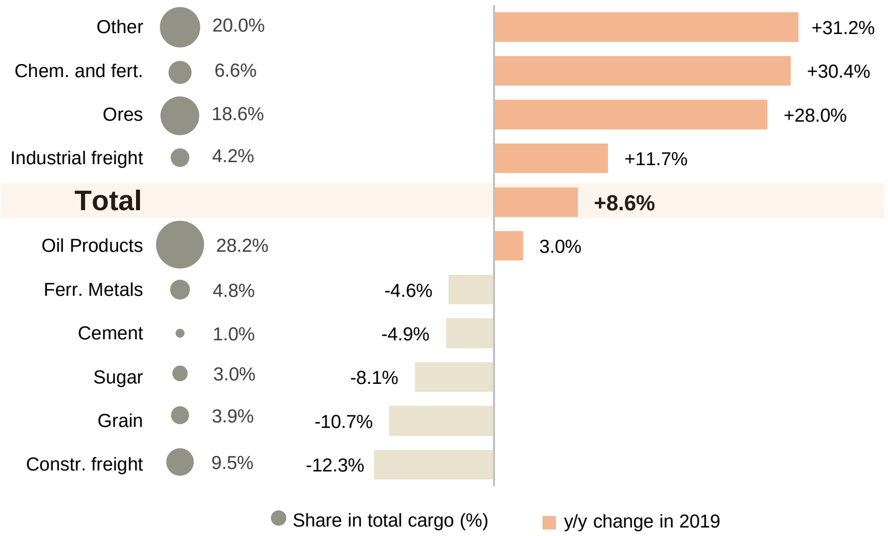
Figure 4: Rail cargo by destination, mn tons



Source: Georgian Railway

Dry cargo, which has been the growth engine for GR for the past 2 years continued expansion in 2019. Dry cargo transported by rail recorded a strong 13.4% y/y growth in 2019, accounting for 71.7% of total cargo transportation. Rise in dry cargo transportation was mainly driven by ores, chemicals & fertilizers and other product categories. Ore products transportation, which made up 25.6% of total dry cargo, grew 28.0% y/y in 2019, due to increased transportation from Russia and Armenia. Meanwhile, pick-up in transported chemicals & fertilizers (+30.4% y/y in 2019) is explained by increased demand from Turkmenistan and Azerbaijan.

Figure 5: Cargo transportation volume, y/y change in 2019

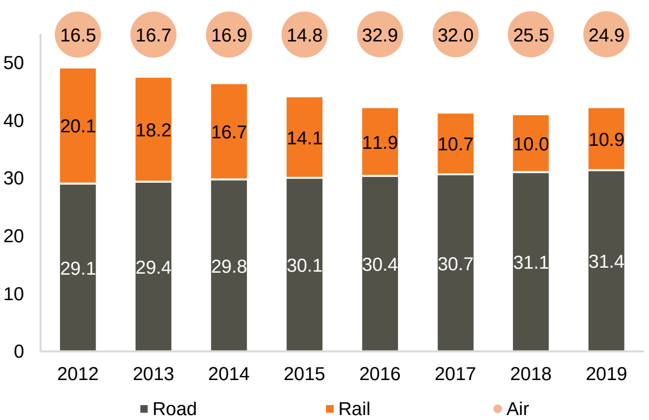


Source: Georgian Railway

Overall transportation volumes going through Georgia increased in 2019, mostly helped by higher rail cargo transportation (discussed above). Road transportation volumes, which made up c. 75% of total cargo flows going through Georgia, have been on the upward trajectory for the last 10 years. Road transportation increased 1.1% y/y to 31.4mn tons in 2019.

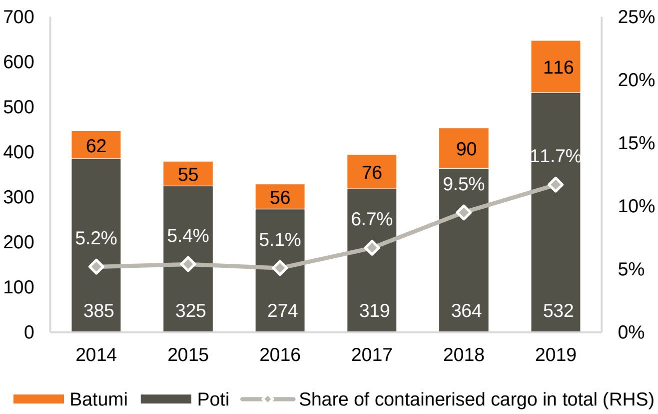
On the back of the increased throughput, cargo flows in Georgia's sea ports also picked up, recording 14.1% y/y growth to 17.2mn tons in 2019. Poti port drove the growth, handling 8.6mn tons of freight in 2019 (+36.3% y/y). Notably, upward trend in containerization continued, with c. 650,000 containers handled at Georgian sea ports in 2019 (+42.7% y/y).

Figure 6: Freight transportation by modes, mn tons



Source: Ministry of Economy
Air transportation in '000 tons

Figure 7: Containers handled at Georgian sea ports, '000 TEUs

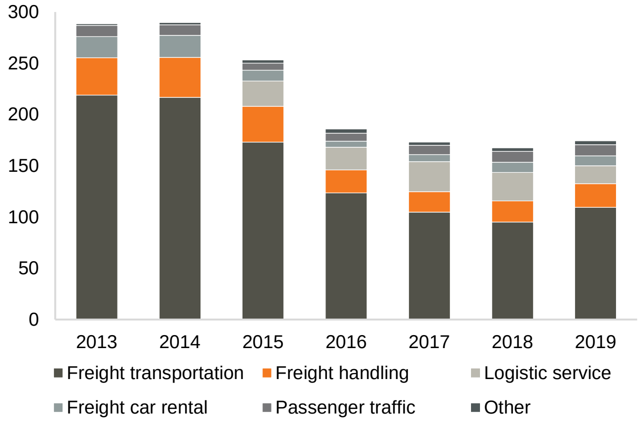


Source: Ministry of Economy , Georgian Railway

Revenue picked up helped by freight transportation unit

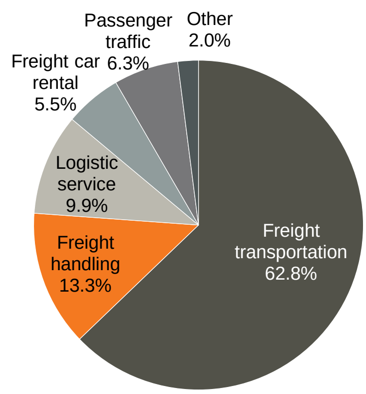
GR's revenue grew 4.0% y/y to US$ 174.2mn in 2019. Main revenue category - freight transportation (62.8% of total in 2019) - increased for the first time in 6 years, up 14.9% y/y to US$ 109.4mn in 2019. Freight handling followed the trend, up 13.8% y/y to US$ 23.2mn in 2019. Significant increase in freight transportation and handling revenues was partly offset by reduced income from logistic services, dropping 37.6% y/y to US$ 17.3mn in 2019. Car rental revenue was also down (-3.4% y/y to US$ 9.7mn in 2019), while passenger and other revenue streams grew 2.2% y/y to US$ 11.0mn and 4.2% y/y to US$ 3.5mn, respectively.

Figure 8: Revenue, US$ mn



Source: Georgian Railway, Galt & Taggart Research

Figure 9: Revenue structure, 2019

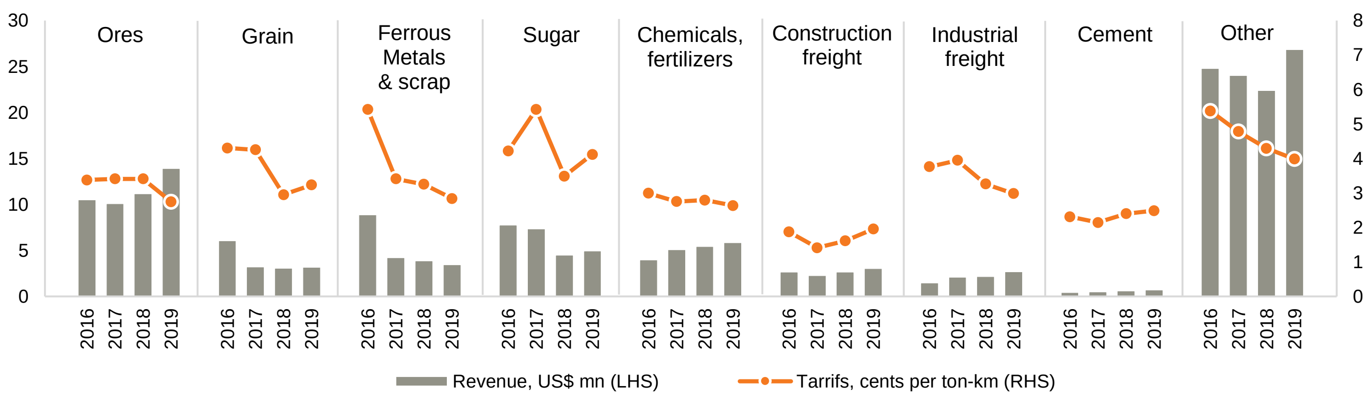


Both liquid and dry cargo supported the growth of freight transportation revenue in 2019. Revenue from dry cargo transportation was up 15.8% y/y to US$ 64.5 mn in 2019, while income from liquid cargo transportation increased 13.8% y/y to US$ 45.0mn in the same period, mostly due to higher tariffs charged by GR.

2019 dry cargo revenue growth was backed by increased volumes, as well as more profitable product category mix. Reduced revenues from ferrous metals and scrap transportation (down 11.2% y/y to US$ 3.4mn in 2019) were offset by growth in all other categories in the same period:

- Ores (+24.7% y/y to US$ 13.9mn)
- Chemicals and fertilizers (+7.6% y/y to 5.8mn)
- Sugar (+10.7% y/y to 4.9mn)
- Grain (+4.4% y/y to US$ 3.2mn)
- Construction freight (+14.6% y/y to US$ 3.0mn)
- Industrial freight (+24.7% y/y to US$ 2.7mn)
- Cement (+16.0% y/y to US$ 0.7mn)
- Other (+19.8% y/y to US$ 26.8mn)

Figure 10: Dry cargo transportation revenue and tariffs



Source: Georgian Railway

Logistics service revenue fell 37.6% y/y to US$ 17.3mn in 2019, with its share in total dropping to 9.9% in the same period (vs 16.6% in 2018). This decline is mainly caused by decreased income from GR's subsidiary company that serves crude oil and oil products transportation.

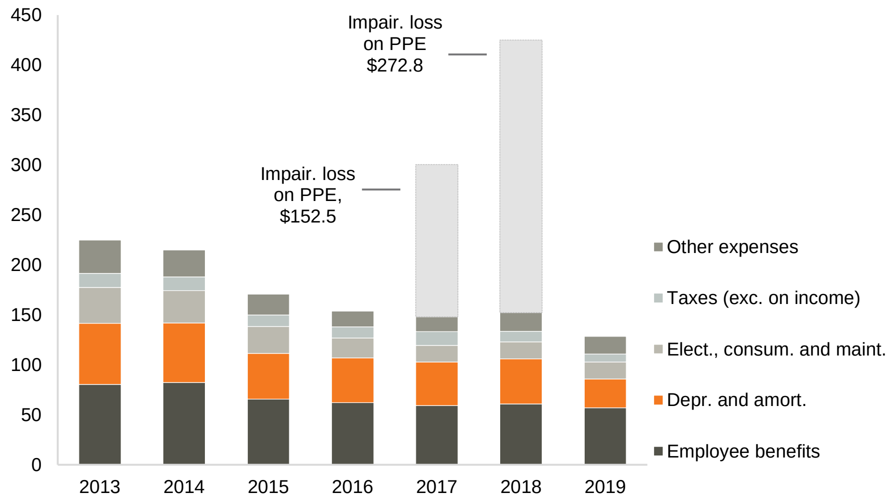
Operating performance improved

GR's operating expenses (excluding the PPE impairment) dropped 15.6% y/y to US$ 128.4mn in 2019. The decline was mostly driven by 35.8% y/y reduction in depreciation and amortization expenses, related to sizable PPE impairment recorded in the last 2 years (c. US$ 425mn). Furthermore, GEL's depreciation against dollar in 2019 also decreased operating expenses which are expressed in USD (as most of the expenses are incurred in GEL).

Savings are noteworthy in other major expense categories as well:

- Taxes (other than taxes on income) reduced 25.5% y/y to US$ 7.9 in 2019, caused by significant reduction in property tax, also related to PPE impairment of 2018;
- Employee benefits expenses fell 6.5% y/y to US$ 57.0mn (+ 4.0% y/y in GEL);
- Electricity, consumables and maintenance expenses reduced slightly, down 1.4% y/y to US$ 17.0mn (+9.6% y/y in GEL)
- Other expenses were down 4.4% y/y to US$ 17.7mn in 2019 (+6.3% y/y in GEL)

Figure 11: Operating expenses, US$ mn

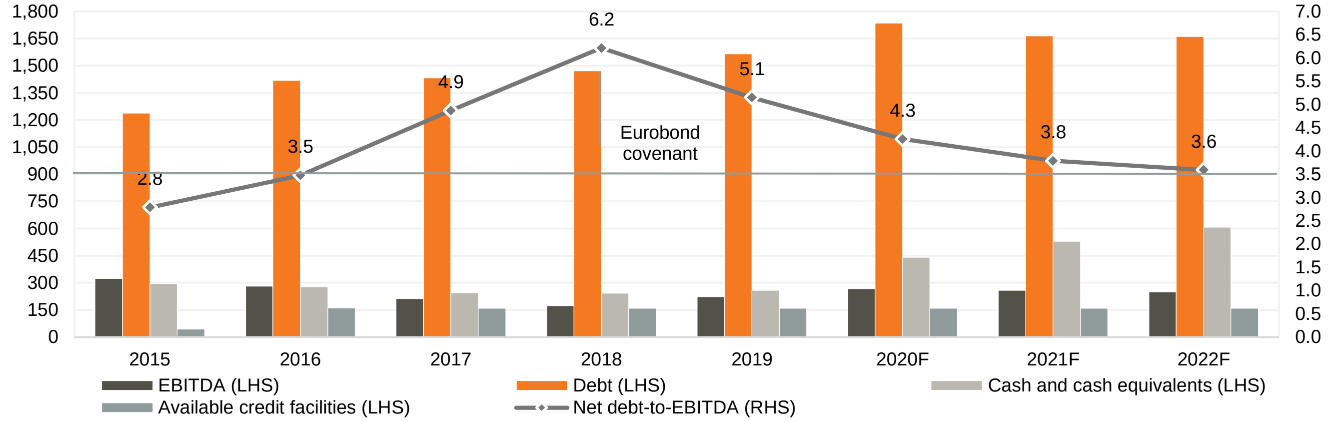


Source: Georgian Railway, Galt & Taggart Research

GR's operating performance strengthened, with EBITDA up 16.4% y/y to US$ 79.2 in 2019, helped by higher revenues on the one hand and reduced operating expenses on the other. Adjusted EBITDA was also up 23.9% y/y to US$ 76.7mn in the same period, resulting in adjusted EBITDA margin of 44.0% in 2019 vs 36.9% in 2018.

Despite the improvement in operating performance, GR's net debt-to-EBITDA ratio remains above the Eurobond covenant. Improved EBITDA pushed net debt-to-EBITDA ratio down from 6.1x in 2018 to 5.2x in 2019, still higher than the Eurobond covenant of 3.5x. **We forecast net debt-to-EBITDA margin to continue declining from 2020, however will remain elevated in the medium term.** Net debt-to-EBITDA margin is forecasted to retreat to around 4.0x in 2020-21 years, however this level is still above the Eurobond covenant and might create issues for the company for its upcoming Eurobond placement in 1Q22.

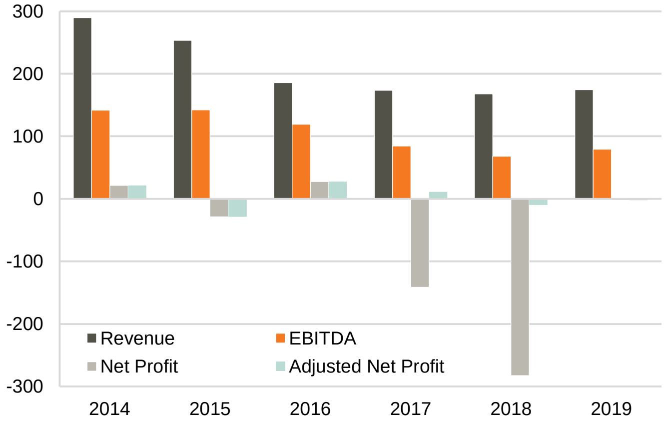
Figure 12: Net debt-to-EBITDA breakdown, GEL mn



Source: Georgian Railway, Galt & Taggart Research

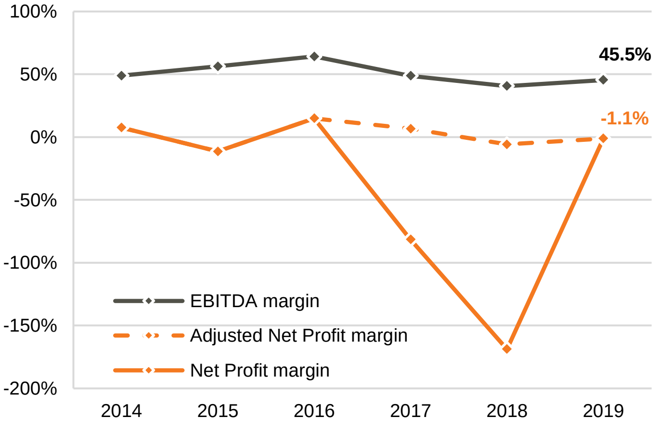
GR recorded US$ 2.0 net loss in 2019 on the back of significant depreciation of GEL. The company recognized US$ 12.0mn impairment loss on trade receivables in 2019 vs US$ 4.7mn in 2018. This, together with US$ 30.2mn FX loss offset improved operating performance of 2019 and dragged net profit to a negative US$ 2.0mn.

Figure 13: Income statement highlights, US$ mn



Source: Georgian Railway
Note: Adjusted Net Profit excludes impairment costs

Figure 14: Profitability margins



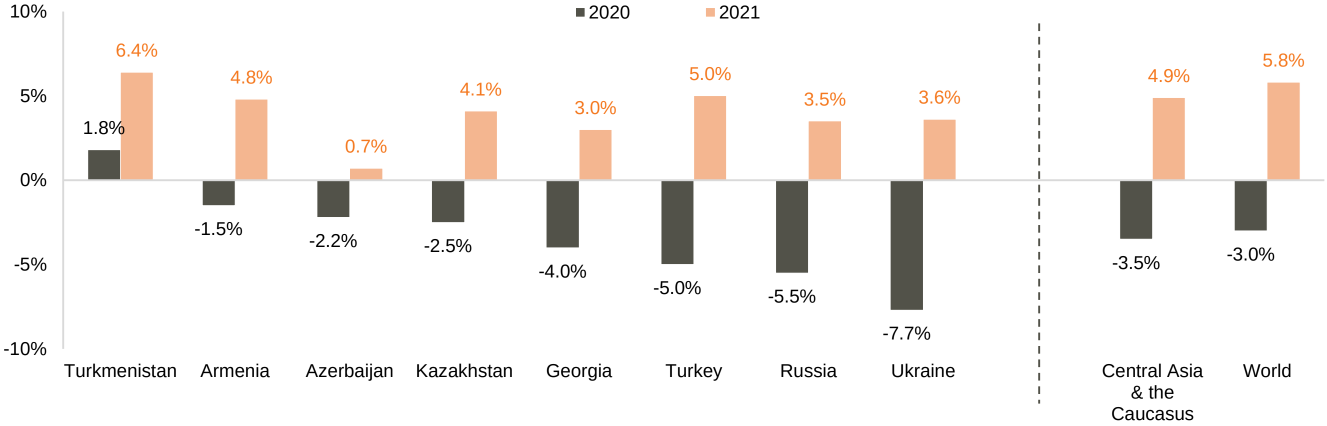
Source: Georgian Railway

FY19 operating cash flow grew 8.1% y/y to US$ 76.3mn. Investing cash outflows remain mostly flat, up 2.0% y/y to US$ 30.4mn, while cash flows from financing activities reduced 2.1% y/y to US$ 43.4mn in 2019.

COVID-19 has put pressure on global trade

COVID-19 outbreak led global economy into recession, with global GDP expected to contract by 4.9% in 2020 according to IMF. All economies will be affected, albeit at varying degree. Emerging and Developing Europe is forecasted to shrink by 5.8% in 2020, and to rebound to 4.9% y/y in 2021 based on IMF.

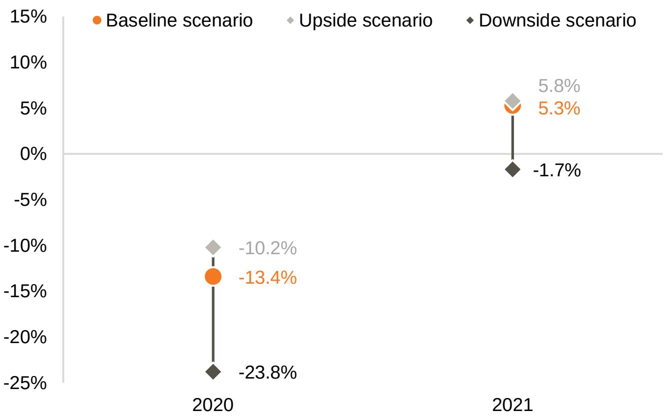
Figure 15: Expected real GDP growth, %



Source: IMF April 2020 update

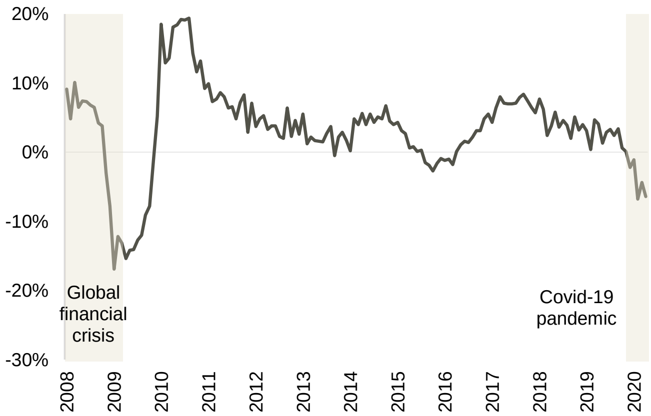
Transportation and logistics sector is particularly vulnerable to the recession. The spread of the pandemic has significantly contracted both supply and demand worldwide, disrupting global supply chains and reducing trade volume and container throughput. The global trade is expected to fall in the range of 10%-24% y/y in 2020, rebounding to 5% y/y growth (baseline scenario) in 2021, according to the World Bank.

Figure 16: Y/Y change in global trade[1]



Source: World Bank

Figure 17: Y/Y change in container throughput volumes globally



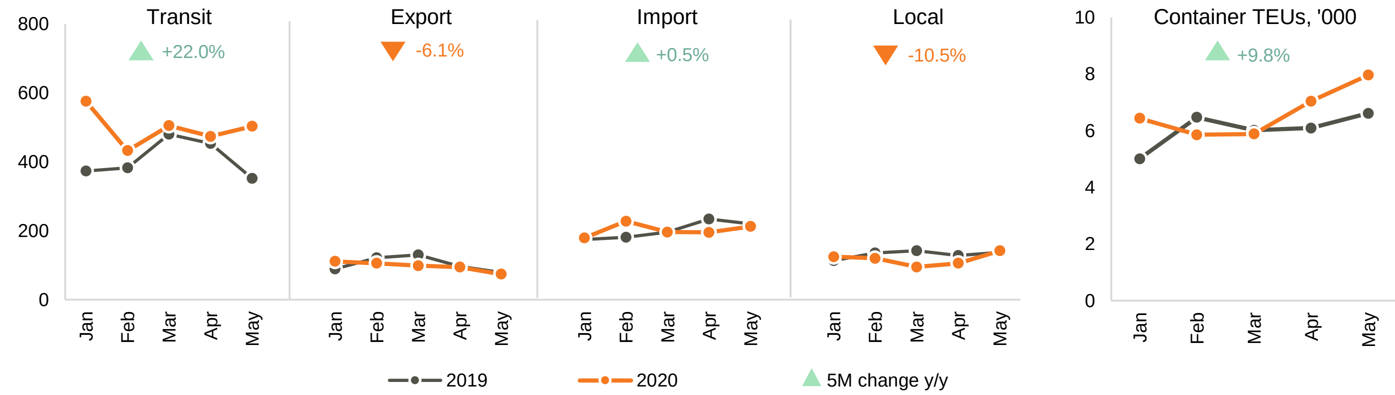
Source: World Bank
Note: Last observation is Apr-20

GR - resilient to shock

Surprisingly, despite COVID-19 related disruptions globally, cargo transportation by GR continued growth in 2020, up 8.4% y/y in 5M20. Growth in transit cargo, up 22.0% y/y to 2.5mn tons was the driving force behind this increase. Importantly, imports, which made up 22% of total cargo flows posted a significant growths in 2M20, offsetting the reduced flows since Mar-20, resulting in minor (0.5% y/y) uplift in 5M20.Meanwhile, export and local cargo transportation declined, down 6.1% and 10.5% y/y in 5M20, respectively.

[1] Baseline scenario: three months of mitigation measures would be enough to stem the pandemic. A recovery would get underway once mitigation measures are lifted but would be hesitant. Downside scenario: Three months of stringent lockdowns would prove insufficient and another three months of mitigation would be required before the pandemic can be brought under control. Upside scenario: Mitigation measures would be lifted after three months, and all major economies would sputter back to life in the third quarter of 2020. Monetary and fiscal stimulus would remain in place and would be highly effective in supporting growth over the next 18 months.

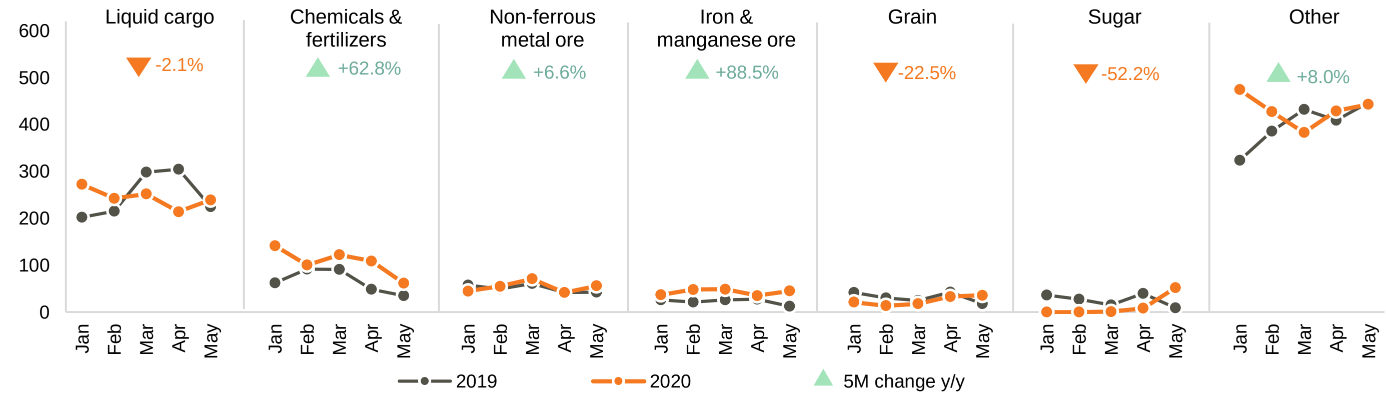
Figure 18: Freight transportation in Georgia by rail and destination, '000 tons



Source: Georgian Railway

Dry cargo transportation was up 12.8% y/y in 5M20, while liquid cargo transportation slightly declined (-2.1% y/y). Notably, transportation volumes increased for every major industrial and construction products in 5M20, while consumer goods, such as grain and sugar continued decline, down 22.5% y/y and 52.2% y/y, respectively.

Figure 19: Freight transportation in Georgia by rail and product mix, '000 tons



Source: Georgian Railway

The increase could be explained by multiple reasons:

- GR has attracted new customers by modifying tariffs and improving service attracting new customers;
- Throughput in BTK rail line has continued growth in the first 5 months of 2020, with cargo volumes jumping 2.6x y/y;
- Transportation volumes in the middle corridor (TITR) increased strongly, up 34% y/y in 5M2020;
- Rail cargo is becoming a preferred transportation solution in the wake of COVID-19;
- Demand on regional production increased as lockdown of China has created massive disruptions in global supply chain.

We forecast GR's topline to decline 4.2% y/y in 2020 as passenger traffic and logistics service revenues are expected to remain under pressure, however the rebound in revenue is expected from 2021, with revenue growing 4.3% y/y. EBITDA margin is expected to hover around 50% in 2020-22 up from 45% in 2019.

Georgian Railway – 1Q20 update

Along with the FY19 financial results, GR published 1Q20 unaudited financial statements. Revenue was up 7.4% y/y to US$ 41.9mn in 1Q20 (GEL's 9.7% depreciation against USD in 1Q20 vs 1Q19 dragged down the higher growth rate in GEL terms - at 17.8% y/y). Pick up in freight handling and logistic service revenues drove the growth in 1Q20.

Freight transportation revenues slightly declined standing at US$ 26.1mn in 1Q20 -1.4% y/y). Dry cargo transportation was up 2.7% y/y to US$ 16.5mn in 1Q20, mostly compensating a 7.7% y/y drop in liquid cargo transportation revenues (mainly oil products) over the same period.

Chemicals & fertilizers, ferrous metals & scrap and other product categories contributed most to the growth of dry cargo transportation in 1Q20. Revenue from chemicals & fertilizers grew 30.9% y/y to US$ 2.9mn in 1Q20, related to increased transportation from Turkmenistan and Azerbaijan. Ferrous metals and scrap transportation surged 38.5% y/y to US$ 1.3mn in 1Q20, driven by increased demand from Russia and Ukraine. Revenue from transportation of other product categories increased 18.2% to US$ 7.5mn in the same period. The strong growth in the above-mentioned categories was partly offset by a sharp decline in sugar, cement, grain and construction freight transportation. Sugar transportation fell to almost zero in 1Q20, while cement transportation dropped 62.8% y/y to US$ 0.1mn. Construction freight and grain revenues also plummeted, down 31.4% y/y and 20.4% y/y to US$ 0.6mn and US$ 0.3mn in 1Q20, respectively.

Freight handling and logistics service revenues, together accounting for the one-fourth of the 1Q20 revenue, posted strong growths in the reporting period. Freight handling revenue doubled to US$ 6.2mn in 1Q20 vs US$ 3.1mn in previous year, while income from logistic services rose by 19.8% y/y to US$ 4.5mn in 1Q20. Growth in logistic services was mainly attributed to improved performance of GR's subsidiary company, mostly related to the growing containerization.

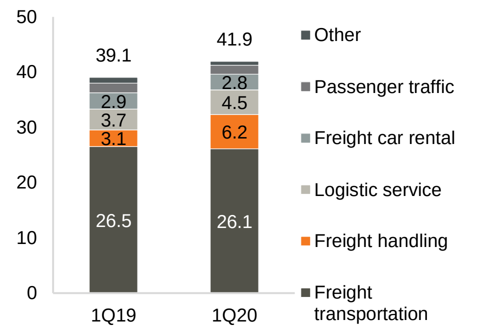
Revenue from passenger transportation was down 9.8% y/y to US$ 1.6mn in 1Q20. Notably, passenger traffic load increased before COVID-19 outbreak, up 18% y/y in 2M20. Not surprisingly, worsened epidemiological situation and countrywide restrictions from mid Mar-20 ceased passenger transportation.
Freight car rental and other revenue streams also shrank, down 3.5% y/y and 31.3% y/y to US$ 2.9mn and US$ 0.7mn in 1Q20, respectively.

Operating expenses, which are mostly GEL denominated, declined 11.0% y/y to US$ 29.8mn (down 2.3% y/y in GEL terms). Employee benefits, the largest expense category, remained relatively stable at US$ 13.7mn in 1Q20 (7.1% y/y increase in GEL). Electricity, consumables, and maintenance expenses were down 5.3% y/y to US$ 4.0mn (+3.9% y/y in GEL) in 1Q20, while other expense categories decreased 10.7% y/y to US$ 5.2mn (-2.1% y/y in GEL).

Rising revenues and strengthened operating performance pushed adjusted EBITDA up 23.9% y/y to US$ 18.9mn in 1Q20. This translated into a 44.9% adjusted EBITDA margin in 1Q20 vs 39.0% in 1Q19. Nevertheless, GR posted net loss of US$ 55.9mn in 1Q20, compared to US$ 2.9mn net profit in 1Q19, explained by significant FX loss in the period (US$ 64.6mn, due to GEL's 14.5% depreciation against USD over 1Q20).

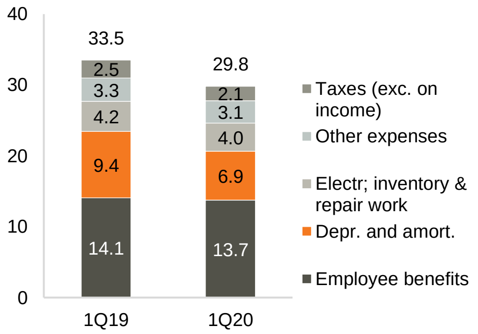
With deteriorated economic outlook amid COVID-19, Fitch Ratings lowered the stable outlook for Georgian sovereign in April, followed by negative outlooks for Georgian Railway as well as Georgian Oil and Gas Corporation (another quasi-government entity) in Apr-May.

Figure 20: Revenue, US$ mn



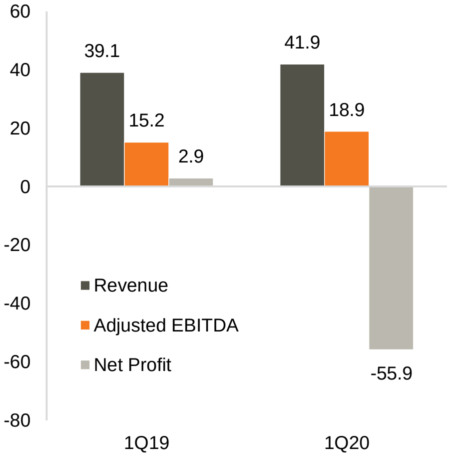
Source:Georgian Railway

Figure 21: Operating expenses, US$ mn



Source:Georgian Railway

Figure 22: Profitability, US$ mn



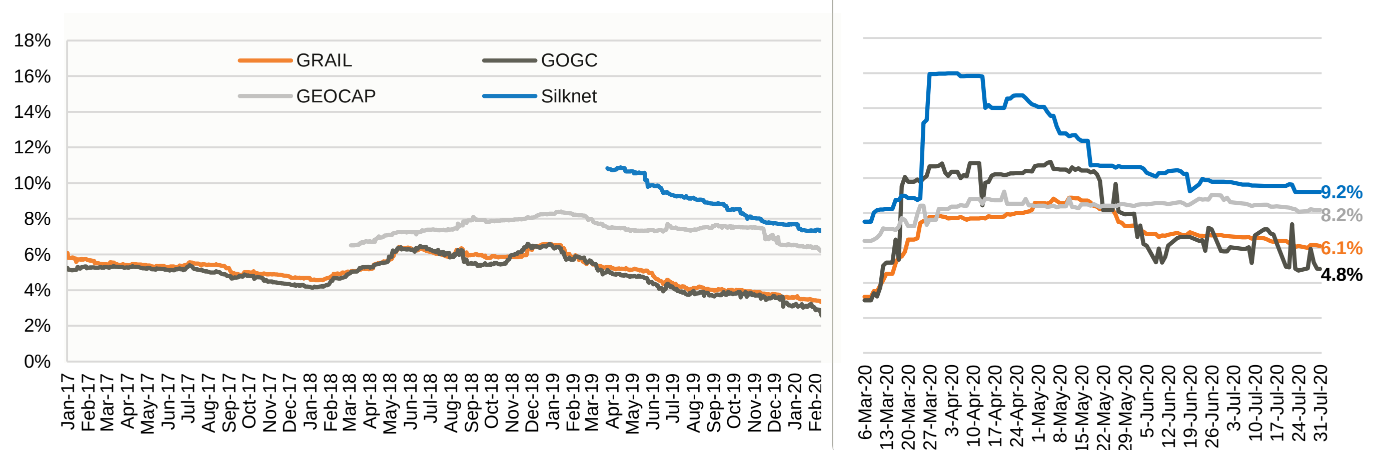
Source:Georgian Railway

Eurobond performance

Throughout 2018-19 yields on Georgian Eurobonds have been on the downward trajectory. By end-19, the yield on sovereign GEORGIA 21 bond dropped to a historical minimum of 2.4%. Yields on quasi-government GOGC and GRAIL also followed the trend, dropping to 3.1% and 3.6%, respectively by Dec-19. The declines continued in 2M20, with the yields further decreasing to 1.9% for GEORGIA 21, 2.7% for GOGC and 3.0% for GRAIL by end Feb-20.

Since the COVID-19 outbreak the yields started to hike, with YTM of GRAIL up 468bps to 7.8% by end Mar-20, this is close to 436bps increase in sovereign Eurobond and far below 818bps rise in GOGC's yield over the same period.

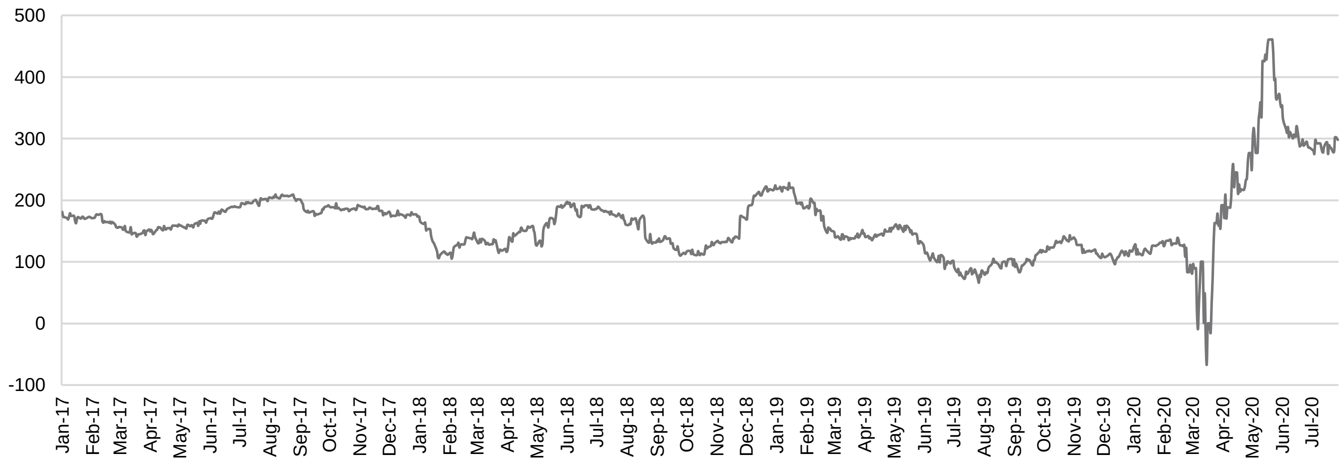
Figure 23: YTM on selected Georgian Eurobonds



Source: Bloomberg

Notably, GRAIL's spread vs. sovereign bond reached historical maximum (461bps) in May-20, before retreating to an average 290bps in July 2020. Since the end of May, the yields on GRAIL started to decline, standing at 6.1% as of 31 Jul-20, translating into a 102.9% price per par.

Figure 11: GRAIL spread over Georgian sovereign bond, bps



Source: Bloomberg

Financial statements

Income statement

US$, '000	2016	2017	2018	2019	2020F	2021F	2022F
Revenue	**185,879**	**173,215**	**167,531**	**174,179**	**166,893**	**174,137**	**180,663**
Freight transportation	123,636	104,747	95,210	109,435	110,210	113,943	117,821
Freight handling	22,383	20,006	20,379	23,198	22,260	23,014	23,797
Logistic service	22,217	29,408	27,744	17,315	14,682	14,040	14,518
Freight car rental	5,893	6,689	10,006	9,663	9,919	10,255	10,604
Passenger traffic	7,608	9,106	10,812	11,045	6,854	9,699	10,529
Other	4,140	3,259	3,380	3,523	2,967	3,186	3,393
Income from the transferred property	33,926	9,335	-	-	-	-	-
Other income	8,080	6,203	7,698	4,523	5,026	5,244	5,441
Operating expenses							
Impairment loss on PPE	-	(152,520)	(272,786)	-	-	-	-
Employee benefits expense	(61,953)	(59,116)	(60,894)	(56,954)	(52,511)	(56,939)	(61,224)
Electricity, invent. and repair work	(19,981)	(16,538)	(17,245)	(16,998)	(15,450)	(15,708)	(16,849)
Other expenses	(26,901)	(28,649)	(29,101)	(25,585)	(20,955)	(19,101)	(20,465)
Operating expenses excl. depr. and amort.	108,835	256,823	380,026	99,537	88,916	91,748	98,538
EBITDA	119,049	84,449	67,989	79,165	83,003	87,633	87,565
Adjusted EBITDA	**82,455**	**72,320**	**61,883**	**76,698**	**81,493**	**82,004**	**81,806**
Depreciation and amortization expense	(44,901)	(43,730)	(44,901)	(28,815)	(33,006)	(35,880)	(38,685)
Results from operating activities	74,148	(111,801)	(249,698)	50,349	49,997	51,752	48,881
Finance Income	10,091	17,253	5,734	5,262	4,987	29,380	9,889
Finance Costs	-73,141	-46,346	-38,285	-57,415	-75,501	-26,661	-27,162
Net finance costs	-63,050	-29,093	-32,551	-52,147	-70,514	3,294	-16,641
Profit before income tax	11,098	-140,894	-282,248	-1,798	-20,780	54,814	32,272
Income tax expense	16,419	-258	-461	-184	-	-	-
bProfit and total comprehensive income for the year	**27,517**	**-141,152**	**-282,709**	**-1,982**	**-20,780**	**54,814**	**32,272**

Source: Company data, Galt & Taggart Research

Statement of financial position

US$, '000	2016	2017	2018	2019	2020F	2021F	2022F
Assets							
Property, plant and equipment	991,232	913,656	682,430	650,470	590,555	619,307	643,407
Investment property	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-
Loan receivable	13,494	6,988	7,651	8,416	-	-	-
Other non-current assets	55,752	47,667	36,436	32,705	31,163	32,135	33,290
Non-current assets	1,060,479	968,311	726,517	691,591	621,718	651,442	676,697
Inventories	11,241	12,656	12,285	14,027	14,536	14,989	15,527
Loan receivable current	1,501	-	-	-	-	-	-
Current tax assets	2,693	910	1,457	2,226	2,120	2,186	2,265
Trade and other receivables	37,649	28,398	15,285	8,486	6,275	3,883	3,464
Prepayments and other current assets	132	148	155	478	431	450	466
Term deposits	-	-	-	-	-	-	-
Cash and cash equivalents	105,015	93,750	90,155	89,959	138,337	173,444	205,993
Current assets	158,231	135,862	119,336	115,176	162,222	195,688	228,490
Total assets	**1,218,711**	**1,104,173**	**845,854**	**806,766**	**784,653**	**848,255**	**906,404**
Equity and liabilities							
Share capital	397,840	406,323	393,676	367,323	331,249	345,367	357,075
Non-cash owner contribution reserve	37,144	37,880	37,452	34,983	31,548	32,892	34,007
Retained earnings	169,246	36,026	(233,409)	(219,803)	(208,984)	(166,171)	(142,761)
Total equity	**604,230**	**480,229**	**197,719**	**182,503**	**151,078**	**204,721**	**235,562**
Loans and borrowings	514,433	530,192	499,389	523,307	523,134	523,134	540,062
Advance received from the government	27,886	17,974	17,408	16,248	23,210	24,200	25,020
Trade and other payables	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-
Non-current liabilities	542,319	548,166	516,797	539,554	546,344	547,333	565,082
Loans and borrowings current	21,600	22,687	50,136	22,647	22,666	22,666	22,666
Trade and other payables current	41,423	43,292	71,587	52,259	50,936	53,147	55,139
Liabilities to the government	3,173	2,929	1,986	1,707	1,664	1,736	1,801
Provisions	3,229	3,068	4,243	5,589	6,628	8,566	10,575
Dividend payable	-	-	-	(165)	-	-	-
Other taxes payable	-	-	-	-	-	-	-
Current tax liabilities	-	-	-	-	-	-	-
Other current liabilities	2,735	3,802	3,385	2,672	2,546	2,625	2,719
Current liabilities	72,161	75,778	131,337	84,708	84,497	88,832	93,000
Total liabilities	**614,481**	**623,944**	**648,134**	**624,263**	**630,841**	**636,165**	**658,082**
Total equity and liabilities	**1,218,711**	**1,104,173**	**845,853**	**806,766**	**784,653**	**848,255**	**906,404**

Source: Company data, Galt & Taggart Research

Statement of cash flows

US$, '000	2016	2017	2018	2019	2020F	2021F	2022F
Cash flows from operating activities							
Cash receipts from customers	192,986	178,388	179,771	178,741	173,155	182,054	186,668
Cash paid to suppliers and employees	-111,590	-107,067	-109,025	-102,305	-87,905	-94,840	-96,031
VAT refund from the State	`-	-	-	-	-	-	-
Cash flows from operations before income taxes and interest paid	81,395	71,321	70,746	76,436	**85,250**	**87,214**	**90,637**
Income tax paid	-2,209	-1,070	-107	-89	-162	-2	8
Net cash from (used in) operating activities	**79,186**	**70,251**	**70,640**	**76,348**	**85,088**	**87,212**	**90,646**
Cash flows from investing activities							
Acquisition of property, plant and equipment	-84,621	-65,878	-41,307	-39,782	-30,672	-39,485	-47,403
Proceeds from sale of property, plant and equipment	1,415	2,046	6,848	4,907	-	-	-
Finance income	9,479	5,902	4,678	4,488	4,987	8,670	10,521
Issuance/repayment of the loan	-13,759	-	-	3,788	7,589	-	-
Repayment of loans given	15,988	-	-	-	-	-	-
Other investing	454	-	-	-	-	-	-
Net cash from (used in) investing activities	**-71,043**	**-57,931**	**-29,781**	**-30,386**	**-18,096**	**-30,638**	**-36,403**
Cash flows from financing activities							
Proceeds from borrowings	17,894	20,030	-	-	4,419	-	-
Repayment of borrowings	-	-4,383	-4,469	-4,378	-	-1,978	-
Interest paid	-38,850	-41,109	-39,858	-39,030	-34,256	-35,358	-36,191
Dividends to equity holders	-679	-	-	-	-	-	-
Net cash from (used in) financing activities	**-21,636**	**-25,462**	**-44,327**	**-43,409**	**-29,687**	**-37,337**	**-36,191**
Net increase in cash and cash equivalents	-13,493	-13,142	-3,468	2,553	37,305	19,237	18,051
Cash and cash equivalents, 1 January	124,554	110,798	95,882	85,596	89,958	118,768	139,681
Effect of exchange rate fluctuations on cash and cash equivalents	6,381	-784	3,012	-	-	-	-
FX rate translation adjustment	-10,962	2,661	-3,139	5,223	-5,463	6,878	5,014
Cash and cash equivalents, 31 December	**117,442**	**96,873**	**95,208**	**91,508**	**121,800**	**147,916**	**170,980**

Source: Company data, Galt & Taggart Research
Note: Financial statements have been prepared by translating company-reported audited GEL numbers into US$ (using year-end and average annual FX rates, whichever more appropriate)

Financial ratios

	2016	2017	2018	2019	2020F	2021F	2022F
Profitability							
EBITDA margin	64.0%	48.8%	40.6%	45.5%	50.3%	48.5%	46.7%
Adjusted EBITDA margin	44.4%	41.8%	36.9%	44.0%	48.8%	47.1%	45.3%
EBIT margin	39.9%	-64.5%	-149.0%	28.9%	30.6%	27.9%	25.3%
EBT margin	6.0%	-81.3%	-168.5%	-1.0%	-11.8%	29.7%	16.1%
Net profit margin	14.8%	-81.5%	-168.8%	-1.1%	-11.8%	29.7%	16.1%
Return on Investment							
Operating ROA / Basic earning power	5.4%	-9.8%	-28.0%	6.1%	6.5%	5.7%	5.0%
Return on average assets (ROAA)	2.1%	-11.6%	-28.0%	-0.2%	-2.6%	6.2%	3.3%
Return on average equity (ROAE)	4.2%	-24.4%	-78.3%	-1.0%	-12.1%	27.8%	12.4%
Return on capital employed (ROCE)	5.9%	-9.8%	-27.6%	7.1%	7.5%	6.5%	5.7%
Solvency							
Component percentage / debt ratios							
Liabilities to assets	50.4%	56.5%	76.6%	77.4%	80.4%	75.0%	72.6%
Liabilities to equity	99.9%	127.0%	311.0%	324.3%	410.1%	300.0%	265.0%
Liabilities to EBITDA	5.8x	7.7x	9.7x	7.9x	7.1x	7.7x	7.8x
Debt-to-assets	44.0%	50.1%	65.0%	67.7%	69.6%	64.3%	62.1%
Debt-to-invested capital	46.6%	53.0%	72.5%	73.9%	78.0%	72.0%	69.4%
Debt-to-equity	87.2%	112.5%	263.7%	283.6%	354.8%	257.3%	226.6%
Debt-to-EBITDA	4.7x	6.7x	8.4x	6.8x	6.2x	6.6x	6.7x
Net debt-to-EBITDA	**3.5x**	**4.9x**	**6.2x**	**5.1x**	**4.3x**	**3.8x**	**3.6x**
Net debt-to-adjusted EBITDA	5.0x	5.7x	6.8x	5.3x	4.4x	3.9x	3.7x
Long-term debt-to-assets	42.2%	48.0%	59.0%	64.9%	66.7%	61.7%	59.6%
Long-term debt-to-equity	83.6%	107.9%	239.6%	271.9%	340.1%	246.7%	217.5%
Financial leverage (equity multiplier)	2.0x	2.2x	4.1x	4.2x	5.1x	4.0x	3.7x
EBITDA coverage	3.1x	2.1x	1.7x	2.0x	2.5x	2.4x	2.3x
Liquidity							
Current ratio	2.2x	1.8x	0.9x	1.4x	1.9x	2.2x	2.4x
Quick ratio (acid test)	2.0x	1.6x	0.8x	1.2x	1.7x	2.0x	2.2x
Cash ratio	1.5x	1.2x	0.7x	1.1x	1.6x	1.9x	2.1x

Source: Company data, Galt & Taggart Research

Disclaimer

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