

Weekly Market Watch

Weekly Market Watch | Georgia
March 27, 2017

Economy

Real GDP up 2.8% y/y in 4Q16 and up 2.7% y/y in 2016

Real GDP increased 2.8% y/y in 4Q16 after growing 2.2% y/y in 3Q16, according to GeoStat's preliminary figures. As a result, annual GDP growth was 2.7% in 2016 (revised upward by 0.5ppts compared to rapid estimates). The growth base in 2016 was diversified, with all sectors posting increases other than transport (-0.9% y/y) and communication (-0.2% y/y) sectors. Fastest growing sectors in 2016 were: hotels and restaurants (+9.9% y/y), financial intermediation (+9.3% y/y), and construction (+8.1% y/y).

Exports up 12.7% y/y in February 2017

In February 2017, exports increased 12.7% y/y to US\$ 178.9mn, imports were up 13.8% y/y to US\$ 590.7mn, and the trade deficit widened 14.2% y/y to US\$ 411.8mn according to GeoStat. Increased exports of ferro-alloys (+337.1% y/y), wine (+35.1% y/y), pharmaceuticals (+80.6% y/y) and mineral waters (+20.5% y/y) were the major commodities positively affecting exports growth in February 2017, while copper (-23.0% y/y), and cars (-22.1% y/y) re-exports decreased.

Gases (+62.8% y/y), petroleum (+53.8% y/y), copper (+77.0% y/y), cars (-16.8% y/y), and pharmaceuticals (+48.9% y/y) represented the top 5 imported commodities in February 2017. In 2M17, trade deficit was up 9.6% y/y to US\$ 0.7bn, as imports were up 14.8% y/y to US\$ 1.1bn and exports were up 26.6% y/y to US\$ 0.4bn.

Producer price index up 1.0% m/m and up 9.6% y/y in February 2017

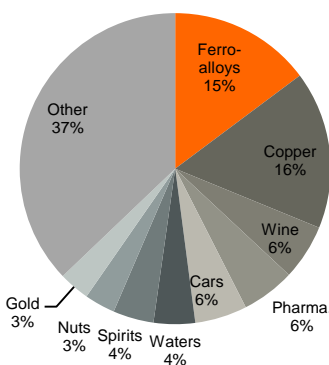
PPI for industrial goods increased 1.0% m/m in February 2017, according to GeoStat. A 0.7% price increase for manufacturing contributed the most to the overall index change as prices were up for manufacture of food products, beverages and tobacco (+1.8% m/m), and rubber and plastic products (+5.3% m/m).

Annual PPI was up 9.6% in February 2017. Rising prices in manufacturing (+8.5% y/y) contributed the most to the overall index change. Prices were also up for supply of electricity, gas and water (+12.8% y/y) and for mining and quarrying (+21.0% y/y).

NPLs at 3.8% y/y in February 2017

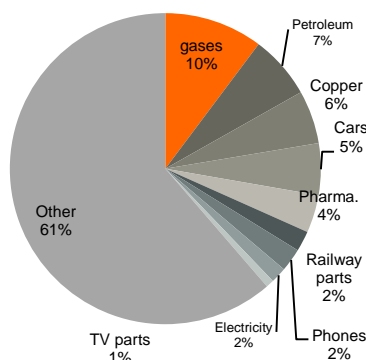
In February 2017, the banking sector loan portfolio increased 12.4% y/y after growing 11.7% y/y in previous month, excluding the exchange rate effect. In unadjusted terms, loan portfolio was up 15.3% y/y to GEL 18.7bn (US\$ 7.2bn). Deposits were up 9.8% y/y excluding the exchange rate effect. In unadjusted terms, deposits were up 13.1% y/y to GEL 16.5bn (US\$ 6.4bn). Deposit dollarization was down to 70.4% (-1.4ppts y/y and m/m). NPLs stood at 3.8% in February 2017, up 0.5ppts y/y and flat m/m.

Exports by commodities, 2M17



Source: GeoStat

Imports by commodities, 2M17



Key macro indicators

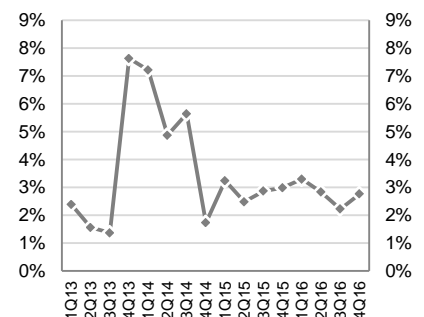
	2M17	2016	2015
GDP (% change)	5.2% ⁽²⁾	2.7%	2.9%
GDP per capita (ppp)	9,630
GDP per capita (US\$)	...	3,853	3,767
Population (mn)	3.7	3.7	3.7
Inflation (eop)	5.5%	1.8%	4.9%
Gross reserves (US\$ bn)	2.8	2.8	2.5
CAD (% of GDP)	...	8.4% ⁽¹⁾	11.9%
Fiscal deficit (% of GDP)	...	4.1%	3.7%
Total public debt (% of GDP)	41.4%

Source: Official data, IMF, G&T

(1) As of 3Q16

(2) As of 1M17

Real GDP growth, %



Source: GeoStat

International ranking, 2016-17

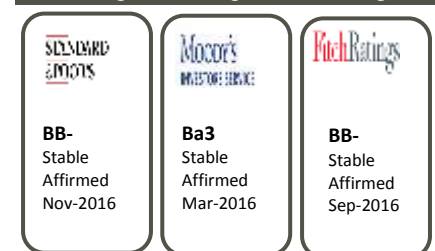
Ease of Doing Business # 16 (Top 20)

Economic Freedom Index # 13 (mostly free)

Global Competitiveness Index # 59 (improving trend)

Source: World Bank, Heritage Foundation and World Economic Forum

Georgia sovereign credit ratings



Source: Rating agencies

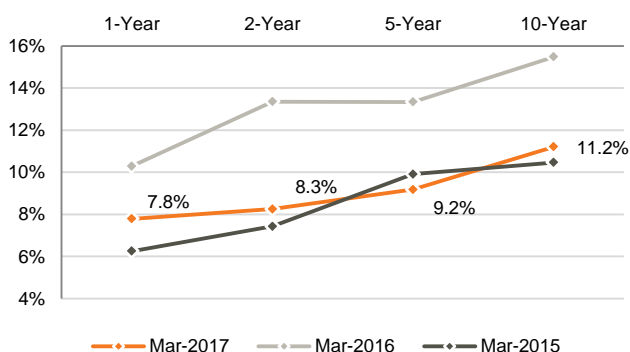
Money market

Refinancing loans: National Bank of Georgia (NBG) issued 7-day refinancing loans of GEL 1,240mn (US\$ 504.1mn).

Certificates of deposit: NBG sold 91-day, GEL 20mn (US\$ 8.2mn) certificates of deposit, with an average yield of 6.90% (down by 9bps from previous issue).

Ministry of Finance Treasury Securities: There was no treasury securities auction last week. The nearest treasury securities auction is scheduled for March 29, 2017, where GEL 20mn nominal value 5-year T-Notes will be sold.

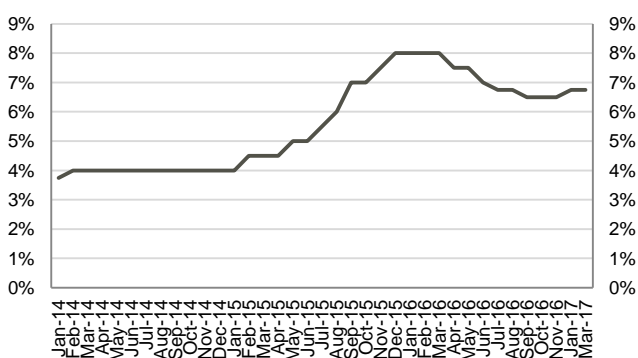
T-bills / T-notes, yield curve



Source: NBG

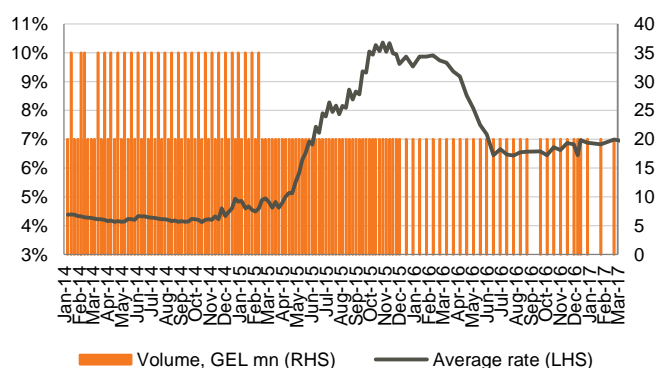
*Note: As of latest auction.

Monetary policy rate



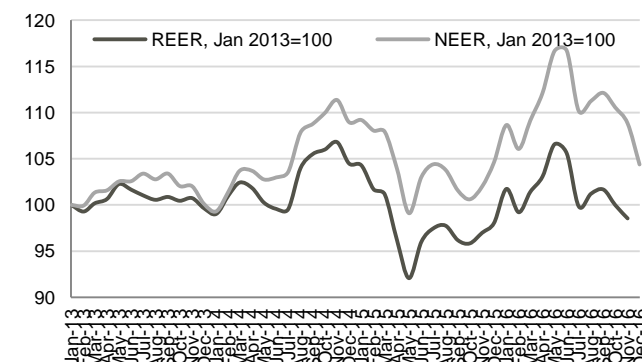
Source: NBG

Certificates of Deposits (weighted average rate)



Source: NBG

Nominal Effective Exchange Rate and Real Effective Exchange Rate



Source: NBG

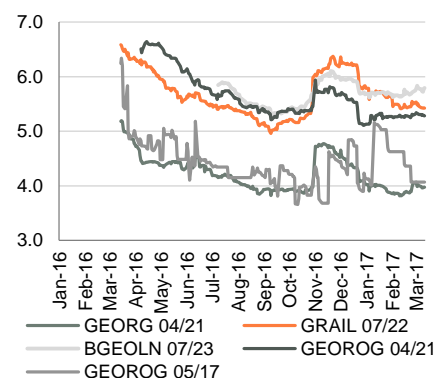
Note: Index growth means appreciation of exchange rate, decline means depreciation of exchange rate

Fixed income

Corporate Eurobonds: BGEO Group Eurobonds (BGEOLN) closed at 5.8% yield, trading at 101.1 (unchanged w/w). GOGC Eurobonds (GEOROG) were trading at 105.3 (unchanged w/w), yielding 5.3%. Georgian Railway Eurobonds (GRAIL) traded at a premium at 110.6 (+0.2% w/w), yielding 5.4%.

Georgian Sovereign Eurobonds (GEORG) closed at 110.8 (+0.2% w/w) at 3.9% yield to maturity.

Georgia Eurobonds, YTM (%)



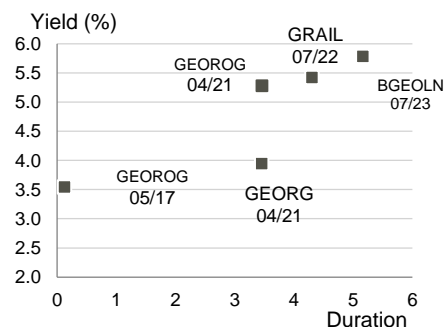
	Local bonds					Eurobonds				
	GWP 12/21	M2RE 10/19	Nikora 03/18	EVEX 05/17	GLC 09/17	GEOROG 04/21	GEOROG 05/17	BGEOLN 07/23	GEORG 04/21	GRAIL 07/22
Amount, US\$ mn	30*	15.0	5.0	15.0	10.0	250	53.5	350	500	500
Issue date	12/16	05/15	03/16	05/15	09/14	04/16	05/12	07/16	04/11	07/12
Maturity date	12/21	05/17	03/18	05/17	09/17	04/21	05/17	07/23	04/21	07/22
Coupon, %	3.50**	9.5	11.0	9.5	8.8	6.750	6.875	6.000	6.875	7.750
Fitch/S&P/Moody's	BB-/I-/	-/-	-/-	-/-	-/-	BB-/B+/-	BB-/B+/-	BB-/B1	BB-/BB-/Ba3	B+/B+/-
Mid price, US\$	n/a	101.7	101.9	101.2	100.8	105.3	100.4	101.1	110.8	110.6
Mid yield, %	n/a	6.75%	9.00%	2.75%	7.25%	5.3	3.5	5.8	3.9	5.4
Z-spread, bps	n/a	n/a	n/a	n/a	n/a	307.6	-158.1	359.5	327.4	326.6

Source: Bloomberg

*GWP 12/21 bonds are in Georgian lari

**Coupon rate 3.5% over the NBG's refinancing rate

Georgian Eurobond universe



Eastern European sovereign 10-year bond performance

Issuer	Amount, US\$ mn	Coupon, %	Maturity date	Ratings (Fitch/S&P/Moody)	Mid price, US\$	Mid yield, %	Z-spread, bps
Georgia	500	6.875%	12/04/2021	BB-/BB-/Ba3	110.8	3.9	327.4
Azerbaijan	1,250	4.750%	18/03/2024	BB+/BB+/Ba1	100.6	4.6	244.2
Bulgaria	323	5.000%	19/07/2021	BBB-/BB+/Baa2	119.7	0.4	-232.4
Croatia	1,250	3.875%	30/05/2022	BB/BB/Baa2	109.5	1.9	163.2
Hungary	3,000	6.375%	29/03/2021	BBB-/BBB-/Baa3	112.7	3.0	107.7
Romania	2,250	6.750%	07/02/2022	BBB-/BBB-/Baa3	116.1	3.2	113.4
Russia	3,500	5.000%	29/04/2020	BBB-/BB+/Ba1	106.8	2.7	82.9
Turkey	2,000	5.625%	30/03/2021	BB+/BB/Ba1	104.8	4.3	234.8

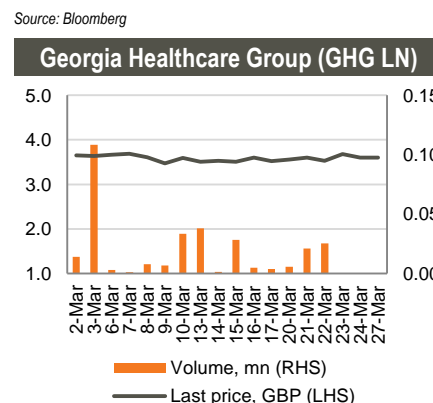
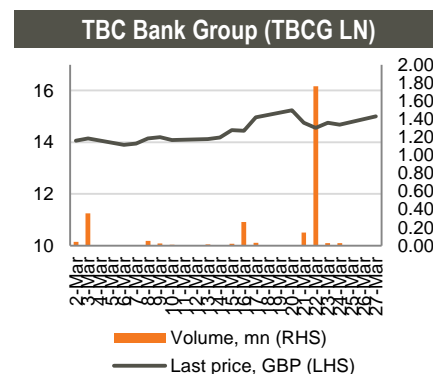
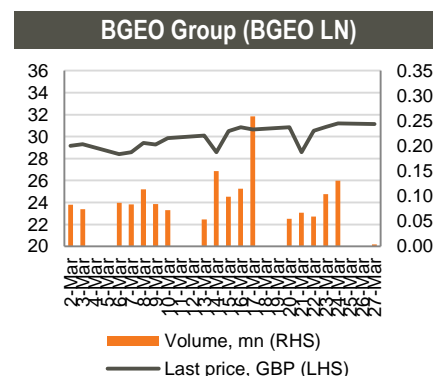
Source: Bloomberg

Equities

BGEO Group (BGEO LN) shares closed at GBP 31.21/share (+1.79% w/w and +8.97% m/m). More than 366k shares traded in the range of GBP 30.03 – 31.46/share. Average daily traded volume was 107k in the last 4 weeks. FTSE 250 Index, of which BGEO is a constituent, lost 0.60% w/w and gained 2.11% m/m. The volume of BGEO shares traded was at 0.93% of its capitalization.

TBC Bank Group (TBCG LN) closed the week at GBP 14.68 (-0.77% w/w and +4.13% m/m). More than 1,959k shares changed hands in the range of GBP 14.10 – 15.25/share. Averaged daily traded volume was 135k in the last 4 weeks.

Georgia Healthcare Group (GHG LN) shares closed at GBP 3.60/share (+2.20% w/w and -2.70% m/m). More than 52k shares were traded in the range of GBP 3.46 – 3.70/share. Average daily traded volume was 18k in the last 4 weeks. The volume of GHG shares traded was at 0.04% of its capitalization.



Eastern European Banks

	Ticker	Share price, US\$	MCap, US\$ mn	1M, chg	3M, chg	6M, chg	YTD, chg	1Y, chg
BGEO*	BGEO	39.11	1,544	11.9%	7.7%	5.4%	39.4%	32.1%
TBC*	TBC	18.85	983	5.6%	64.6%	50.8%	86.6%	83.0%
Halyk Bank	HSBK	7.39	2,031	13.3%	18.2%	15.6%	49.3%	62.4%
KKB	KKB	1.22	486	-16.4%	-11.6%	-23.3%	-0.4%	22.0%
VTB Bank	VTBR	2.24	14,542	0.0%	-1.7%	0.4%	6.4%	7.4%
Vozrozhdenie Bank	VZRZ	13.05	310	-0.4%	5.6%	20.1%	58.1%	72.7%
Sberbank	SBER	11.63	62,737	2.6%	2.9%	23.1%	97.7%	77.6%

Source: Bloomberg

*BGEO and TBC are traded in GBP and are shown in US\$ equivalent

Note: 6M, YTD, and 1Y changes in TBC share prices calculated using GDR prices on those dates.

Healthcare Sector Peers

	Ticker	Share price, US\$	MCap, US\$ mn	1M, chg	3M, chg	6M, chg	YTD, chg	1Y, chg
GHG*	GHG	4.50	592	-1.4%	3.4%	10.0%	97.0%	93.4%
Mouwasat	MOUWASAT	37.27	1,863	0.5%	-5.5%	18.5%	14.8%	18.1%
Fortis	FORH	2.73	1,414	-6.8%	3.9%	3.8%	0.5%	3.0%
Raffles	RFMD	1.01	1,765	-0.5%	4.5%	-10.1%	3.1%	-7.0%
IHH	IHH	1.36	11,175	2.5%	-4.1%	-11.0%	-11.2%	-16.0%
Bangkok Chain	BCH	0.37	934	-4.1%	-5.7%	4.5%	49.2%	22.5%
Netcare	NTC	2.44	3,575	-1.5%	11.2%	0.4%	11.6%	7.9%

Source: Bloomberg

*GHG is traded in GBP and is shown in US\$ equivalent

Disclaimer

This document is strictly confidential and has been prepared by JSC Galt & Taggart ("Galt & Taggart"), a member of JSC Bank of Georgia group ("Group") solely for informational purposes and independently of the respective companies mentioned herein. This document does not constitute or form part of, and should not be construed as, an offer or solicitation or invitation of an offer to buy, sell or subscribe for any securities or assets and nothing contained herein shall form the basis of any contract or commitment whatsoever or shall be considered as a recommendation to take any such actions.

Galt & Taggart is authorized to perform professional activities on the Georgian market. The distribution of this document in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by Galt & Taggart to inform themselves about and to observe any and all restrictions applicable to them. This document is not directed to, or intended for distribution, directly or indirectly, to, or use by, any person or entity that is a citizen or resident located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would require any registration or licensing within such jurisdiction.

Investments (or any short-term transactions) in emerging markets involve significant risk and volatility and may not be suitable for everyone. The recipients of this document must make their own investment decisions as they believe appropriate based on their specific objectives and financial situation. When doing so, such recipients should be sure to make their own assessment of the risks inherent in emerging market investments, including potential political and economic instability, other political risks including without limitation changes to laws and tariffs, and nationalization of assets, and currency exchange risk.

No representation, warranty or undertaking, express or implied, is or will be made by Galt & Taggart or any other member of the Group or their respective directors, employees, affiliates, advisers or agents or any other person as to, and no reliance should be placed on, the fairness, accuracy, completeness or correctness of this document and the information contained herein (and whether any information has been omitted from this document) and no reliance should be placed on it. This document should not be considered as a complete description of the markets, industries and/or companies referred to herein. Nothing contained in this document is, is to be construed as, or shall be relied on as legal, investment, business or tax advice, whether relating to the past or the future, by Galt & Taggart any other member of the Group or any of their respective directors, employees, affiliates, advisers or agents in any respect. Recipients are required to make their own independent investigation and appraisal of the matters discussed herein. Any investment decision should be made at the investor's sole discretion. To the extent permitted by law, Galt & Taggart, any other member of the Group and their respective directors, employees, affiliates, advisers and agents disclaim all liability whatsoever (in negligence or otherwise) for any loss or damages however arising, directly or indirectly, from any use of this document or its contents or otherwise arising in connection with this document, or for any act, or failure to act, by any party, on the basis of this document.

The information in this document is subject to verification, completion and change without notice and Galt & Taggart is not under any obligation to update or keep current the information contained herein. The delivery of this document shall not, under any circumstances, create any implication that there has been no change in the information since the date hereof or the date upon which this document has been most recently updated, or that the information contained in this document is correct as at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. No representation or warranty, expressed or implied, is made by Galt & Taggart or any other member of the Group, or any of their respective directors, employees, affiliates, advisers or agents with respect to the accuracy or completeness of such information.

The information provided and opinions expressed in this document are based on the information available as of the issue date and are solely those of Galt & Taggart as part of its internal research coverage. Opinions, forecasts and estimates contained herein are based on information obtained from third party sources believed to be reliable and in good faith, and may change without notice. Third party publications, studies and surveys generally state that the data contained therein have been obtained from sources believed to be reliable, but that there is no guarantee of the accuracy or completeness of such data. Accordingly, undue reliance should not be placed on any such data contained in this document. Neither Galt & Taggart, any other member of the Group, nor their respective directors, employees, affiliates, advisers or agents make any representation or warranty, express or implied, of this document's usefulness in predicting the future performance, or in estimating the current or future value, of any security or asset.

Galt & Taggart does, and seeks to do, and any other member of the Group may or seek to do business with companies covered in its research. As a result, investors should be aware of a potential conflict of interest that may affect the objectivity of the information contained in this document.

This document is confidential to clients of Galt & Taggart. Unauthorized copying, distribution, publication or retransmission of all or any part of this document by any medium or in any form for any purpose is strictly prohibited.

The recipients of this document are responsible for protecting against viruses and other destructive items. Receipt of the electronic transmission is at risk of the recipient and it is his/her responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

Galt & Taggart

Address: 79 D. Agmashenebeli Avenue, Tbilisi 0102, Georgia

Tel: + (995) 32 2401 111

Email: gt@gt.ge