Georgian Oil and Gas Corporation
1H17 update

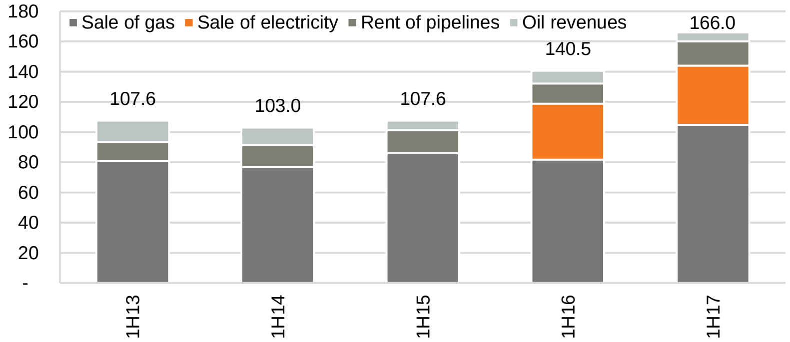
Georgia | Energy
Georgian Oil and Gas Corporation
October 3, 2017

S&P / B+ / Outlook Stable
Fitch / BB- / Outlook Stable

GOGC released strong 1H17 unaudited results. Revenue increased 18.1% y/y to US$ 166.0mn, largely due to a 28.1% y/y increase in sale of gas to US$ 104.8mn, while operating expenses were up 23.3% y/y to US$ 124.3mn. Adjusted EBITDA in 1H17 reached US$ 49.9mn, up 6.2% y/y. Strengthening of GEL vs. US$ in 1H17 led to a non-cash FX gain of US$ 18.7mn, which boosted net income to US$ 64.2mn, up 58.9% y/y. 14 companies expressed interest in the international tender announced by GOGC for the engineering, procurement, installation, and commissioning (EPIC) of the gas storage reservoir. Selected companies will be asked to submit technical and price proposals at the second stage of the tender in the beginning of 2018.

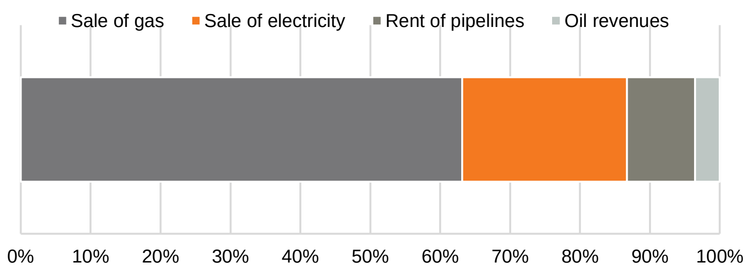
GOGC reported 1H17 revenue of US$ 166.0mn, up 18.1% y/y. Strong growth in sale of gas (+28.1% y/y) accounted for 90.4% of total revenue growth. The increase was driven by a surge in sales volume (+28.2% y/y) to 879mmcm. Based on our estimates, higher gas consumption by thermal power plants accounted for about 30% of the increase in gas sales volume. Pipeline rental revenues also increased 20.8% y/y to US$ 16.1mn, due to higher volumes of gas transported. Electricity sales were up 5.9% y/y to US$ 39.2mn. Revenue from the sale of crude oil dropped off 44.2% y/y to US$ 2.0mn, while oil transportation revenue was flat at US$ 3.9mn.

Figure 1: Revenue, US$



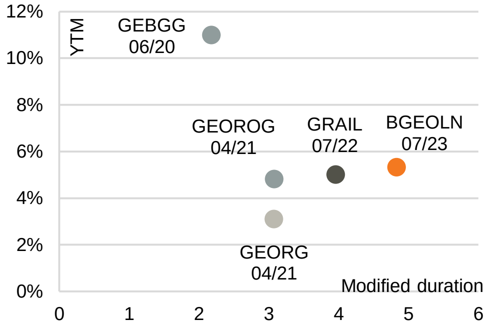
Note: oil revenues include the following revenue lines: oil transportation, sale of crude oil, and oil trading.
Source: Company data

Figure 2: 1H17 revenue composition



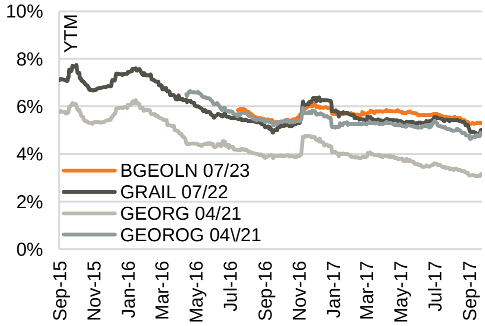
Note: oil revenues include the following revenue lines: oil transportation, sale of crude oil, and oil trading.
Source: Company data

Figure 3: Georgian Eurobond universe



Source: Bloomberg

Figure 4: Georgian Eurobonds



Source: Bloomberg

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

	1H16	1H17	Change, y/y
Revenue	140,546.2	166,025.7	*18.1%*
Gross profit	55,900.6	56,822.1	*1.6%*
Gross profit margin	*39.8%*	*34.2%*	*555bps*
EBITDA	53,724.9	51,054.2	*-5.0%*
EBITDA margin	*38.2%*	*30.8%*	*747bps*
Adjusted EBITDA*	47,001.7	49,938.0	*6.2%*
Adjusted EBITDA margin	*33.4%*	*30.1%*	*336bps*
EBIT	46,413.8	42,818.9	*-7.7%*
EBIT margin	*33.0%*	*25.8%*	*723bps*
Net income	40,401.5	64,188.5	*58.9%*
Net profit margin	*28.7%*	*38.7%*	*991bps*
Assets	661,027.6	643,260.2	*-2.7%*
Liabilities	315,897.6	262,882.2	*-16.8%*
Equity	345,129.6	380,378.0	*10.2%*
Net Debt	179,646.9	83,210.8	*-53.7%*

Source: Company data
** EBITDA is adjusted to exclude other income*

US$-GEL	1H13	1H14	1H15	1H16	1H17
Period-end	1.65	1.77	2.25	2.37	2.41
Average	1.65	1.76	2.18	2.32	2.51

Source: NBG

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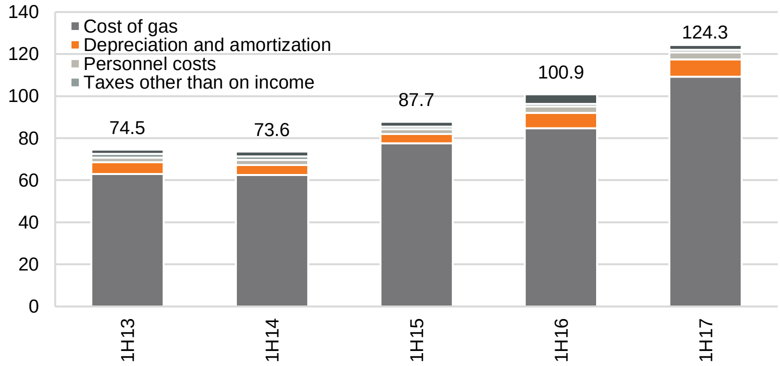
1H17 operating expenses increased 23.3% y/y to US$ 124.3mn, on the back of a 29.0% y/y increase in cost of gas. The latter includes cost of gas used in electricity generation and cost of gas sold. Cost of gas sold was the main driver, up 35.1% y/y and accounting for 85.6% of cost of gas. The increase was largely the result of higher purchase volumes, coupled with a slight increase in average purchase price (+5.5% y/y to US$ 103.6/mcm).

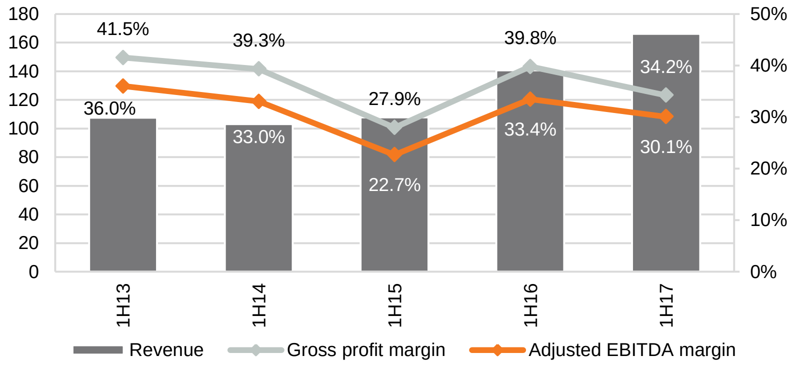
Figure 5: Operating expenses, US$



Source: Company data

Strong growth in sale of gas was the main driver behind a 6.2% y/y increase in adjusted EBITDA to US$ 49.9m. The adjusted EBITDA margin contracted from 33.4% in 1H16 to 30.1% in 1H17, largely as a result of the increase in operating expenses. Strengthening of GEL against US$ in 1H17 led to a non-cash FX gain of US$ 18.7mn, which boosted net income to US$ 64.2mn.

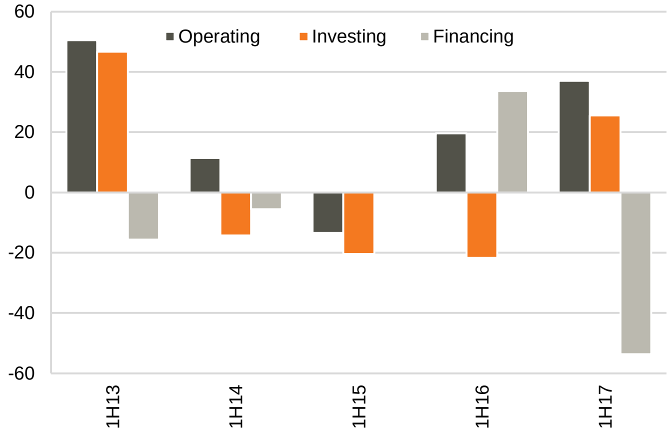
Figure 6: Revenue and profitability



Source: Company data

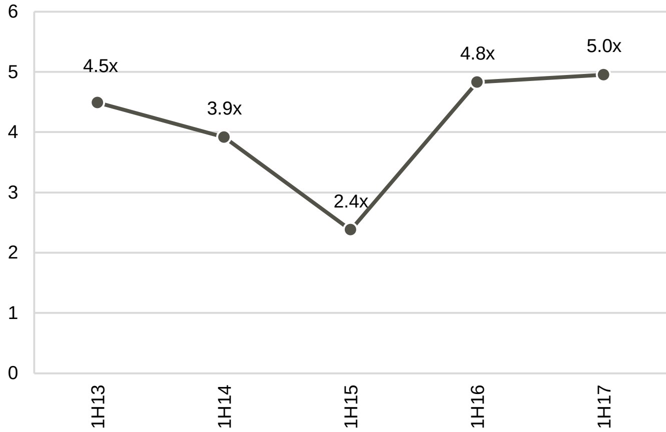
Operating cash flow was at US$ 37.1mn in 1H17, compared to US$ 19.6mn in 1H16. According to company sources, the increase was largely driven by collection of past receivables. However, the accounts receivable balance remains elevated at US$ 76.0mn. In May 2017, GOGC repaid the remaining portion (US$ 53.6mn) of the outstanding GEOROG 05/17 bonds. Investing cash flow was at US$ 25.6mn, reflecting a US$ 29.6mn increase in term deposits. The adjusted EBITDA coverage ratio was up from 4.8x in 1H16 to 5.0x in 1H17.

Figure 7: Cash flows, US$



Source: Company data

Figure 8: Adjusted EBITDA coverage ratio



Source: Company data

14 companies expressed interest in the international tender announced by GOGC for the engineering, procurement, installation, and commissioning (EPIC) of the gas storage reservoir, with storage capacity of 210-280mmcm. Selected companies will be asked to submit technical and price proposals at the second stage of the tender in the beginning of 2018. Construction of Gardabani CCPP II is expected to commence by end-2017.

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