

Weekly Market Watch

 Weekly Market Watch | Georgia
 Sep 11, 2017

Economy

Tourist arrivals up 27.2% y/y in August 2017

Total international arrivals to Georgia increased 27.4% y/y to 1.08mn visitors in August 2017, according to the Ministry of Internal Affairs. Arrival growth was mainly driven by surge in tourist arrivals increasing 27.2% y/y to 0.57mn persons (53.1% of total) in August after posting a 32.9% y/y growth in July 2017. Out of top countries by arrivals, in August 2017, visitors continued to increase from Armenia (+11.7% y/y), Russia (+27.8% y/y), Iran (+85.1% y/y), Azerbaijan (+18.5% y/y) and Turkey (+42.2% y/y). Arrivals from EU were up 29.8% y/y to over 36,500 visitors. In 8M17 international arrivals increased 18.9% y/y to 5.1mn visitors, while tourist arrivals increased 29.4% y/y to 2.4mn.

Inflation was 5.7% y/y and 0.2% m/m in August 2017

The annual CPI inflation was 5.7% in August 2017 after 6.0% inflation in previous month, according to GeoStat. Core inflation was 4.3% in August, same as in previous month. Overall price changes were driven by price increases in food and non-alcoholic beverages (+6.2% y/y, +1.88ppts), transport (+11.6% y/y, +1.46ppts), and alcoholic beverages and tobacco (+17.5% y/y, +1.14ppts) categories. On a monthly basis, there was 0.2% inflation in August 2017. Price increases in housing, water, electricity, gas and other fuels (+1.9% m/m, +0.17ppts) and in food and non-alcoholic beverages (+0.5% y/y, +0.16ppts) categories and price decrease in transport category (-0.7% m/m, -0.09ppts) were the major drivers of monthly inflation dynamics.

NBG keeps its policy rate unchanged at 7.0%

At its meeting on 6 September 2017, NBG's monetary policy committee decided to keep the policy rate unchanged at 7.0%. The decision is based on the macroeconomic forecast, according to which the inflation is expected to be above 4.0% target rate during 2017 due to one-offs. NBG added that the increase in inflation is temporary and the inflation will get close to the 3.0% target level in the beginning of 2018, once temporary factors expire. NBG also noted that inflation expectations are stable and it expects the key rate to gradually decrease to its neutral level in the medium term given the absence of additional factors affecting price level. The next committee meeting is scheduled for 25 October, 2017 (NBG increased the key rate to 6.75% on January 25 and to 7.0% on May 2, and kept the rate unchanged at two previous meetings, on June 14 and on July 26).

FDI down 14.3% y/y in 2Q17

FDI in Georgia stood at US\$ 346.6mn (-14.3% y/y) in 2Q17, according to GeoStat's preliminary figures. Similar to previous quarters, the transport and communications sector was the largest FDI recipient at US\$ 130.4mn (-25.1% y/y, 37.6% of total) in 2Q17, followed by the construction at US\$ 70.0mn (+408.5 y/y, 20.2% of total). Azerbaijan topped the list of investors with US\$ 126.9mn, followed by Netherlands at US\$ 42.9mn, Turkey at US\$ 39.3mn, and United Kingdom at US\$ 31.5mn.

International reserves up 0.9% y/y in August 2017

Gross international reserves were up 0.9% y/y to US\$ 2.9bn in August 2017, while reserves were down 0.8% on a monthly basis, according to NBG. The change in reserves was related to FX interventions and/or government FX operations.

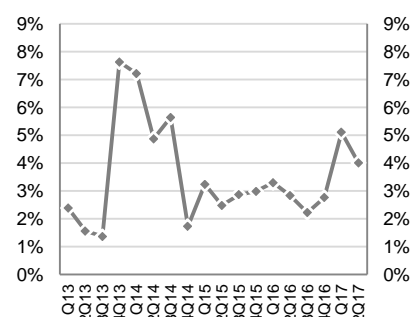
Key macro indicators

	8M17	2016	2015
GDP (% change)	4.4% ⁽¹⁾	2.7%	2.9%
GDP per capita (ppp)	...	10,044	9,601
GDP per capita (US\$)	...	3,853	3,767
Population (mn)	3.7	3.7	3.7
Inflation (eop)	5.7%	1.8%	4.9%
Gross reserves (US\$ bn)	2.9	2.8	2.5
CAD (% of GDP)	...	13.5%	12.0%
Fiscal deficit (% of GDP)	...	4.1%	3.7%
Total public debt (% of GDP)	...	44.6%	41.4%

Source: Official data, IMF

(1) As of 7M17

Real GDP growth, %




Source: GeoStat

International ranking, 2017

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

 BB- Stable Affirmed May-2017	 Ba3 Stable Affirmed Mar-2016	 BB- Stable Affirmed Mar-2017
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Source: Rating agencies

Money market

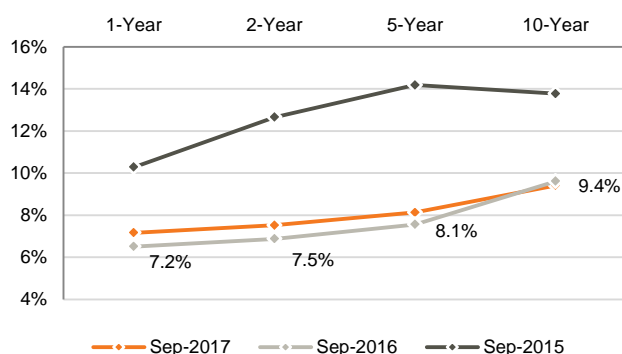
Refinancing loans: National Bank of Georgia (NBG) issued 7-day refinancing loans of GEL 830mn (US\$ 334.7mn).

Certificates of deposit: NBG sold 91-day, GEL 20mn (US\$ 8.0mn) certificates of deposit, with an average yield of 7.11% (down 1bps from previous issue).

Ministry of Finance Treasury Bills:

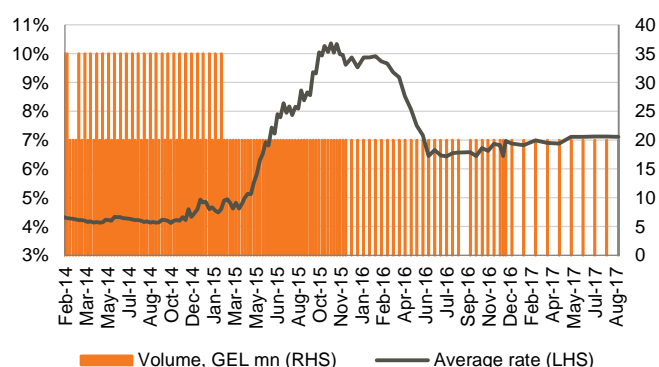
1-year GEL 20.0mn (US\$ 8.0mn) T-Bills of Ministry of Finance were sold at the auction held at NBG on September 6, 2017. The weighted average yield was fixed at 7.160%. The nearest treasury security auction is scheduled for September 13, 2017, where GEL 20.0mn nominal value 2-year T-Notes and GEL 20.0mn nominal value 182-days T-Bills will be sold.

T-bills / T-notes, yield curve



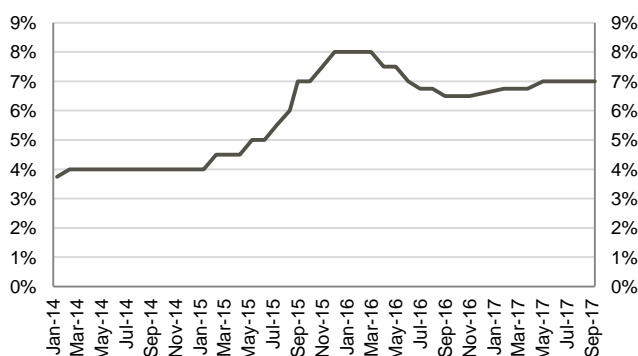
Source: NBG

Certificates of Deposits (weighted average rate)



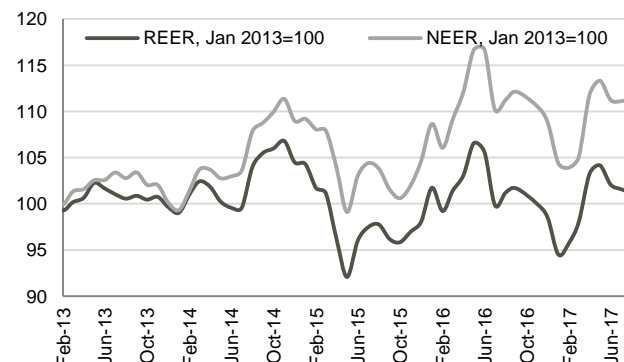
Source: NBG

Monetary policy 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 5.3% yield, trading at 103.4 (+0.6% w/w). Bank of Georgia GEL-denominated Eurobonds (GEBGG) were trading at 100.0 (+0.2% w/w), yielding 11.0%. GOGC Eurobonds (GEOROG) were trading at 106.9 (+0.4% w/w), yielding 4.7%. Georgian Railway Eurobonds (GRAIL) traded at a premium at 111.9 (+1.0% w/w), yielding 5.0%.

Georgian Sovereign Eurobonds (GEORG) closed at 112.7 (+0.6% w/w) at 3.1% yield to maturity.

	Local bonds				Eurobonds				
	GWP 12/21	M2RE 10/19	Nikora 03/18	Nikora 06/19	GEBGG 06/20	GEOROG 04/21	BGEOLN 07/23	GEORG 04/21	GRAIL 07/22
Amount, US\$ mn	30*	25.0	5.0	10.0	500*	250	350	500	500
Issue date	12/16	10/16	03/16	08/17	06-17	04/16	07/16	04/11	07/12
Maturity date	12/21	10/19	03/18	06/19	06-20	04/21	07/23	04/21	07/22
Coupon, %	10.50**	7.5	11.0	9.0	11.0	6.750	6.000	6.875	7.750
Fitch/S&P/Moody's	BB-/-/-	-/-/-	-/-/-	-/-/-	BB-/Ba3	BB-/B+/-	BB-/B1	BB-/BB-/Ba3	B+/B+/-
Mid price, US\$	n/a	101.4	101.2	100.0	100.0	106.9	103.6	112.7	111.9
Mid yield, %	n/a	6.75%	8.5%	9.0%	11.0	4.7	5.3	3.1	5.0
Z-spread, bps	n/a	n/a	n/a	n/a	346.1	302.0	146.4	324.5	349.7

Source: Bloomberg

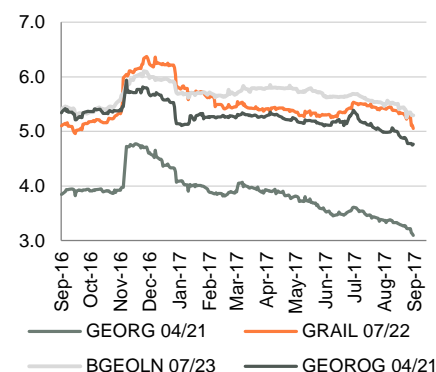
*GWP 12/21 bonds and GEBGG 06/20 bonds are in Georgian lari

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

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	112.7	3.1	146.4
Azerbaijan	1,250	4.750%	18/03/2024	BB+/BB+/Ba1	104.2	4.0	219.4
Bulgaria	323	5.000%	19/07/2021	BBB-/BB+/Baa2	118.7	0.1	-28.4
Croatia	1,250	3.875%	30/05/2022	BB-/BB-/Ba2	113.0	1.0	94.8
Hungary	3,000	6.375%	29/03/2021	BBB-/BBB-/Baa3	113.7	2.3	71.4
Romania	2,250	6.750%	07/02/2022	BBB-/BBB-/Baa3	117.2	2.6	91.0
Russia	3,500	5.000%	29/04/2020	BBB-/BB+/Ba1	106.3	2.5	95.8
Turkey	2,000	5.625%	30/03/2021	BB+/BB-/Ba1	107.5	3.4	175.2

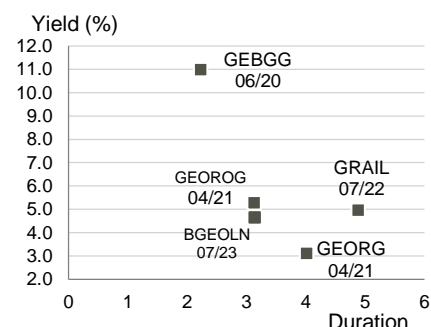
Source: Bloomberg

Georgia Eurobonds, YTM (%)



Source: Bloomberg

Georgian Eurobond universe



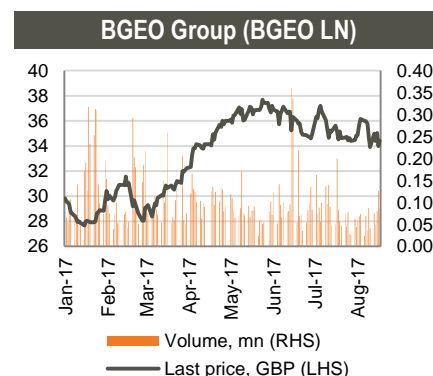
Source: Bloomberg

Equities

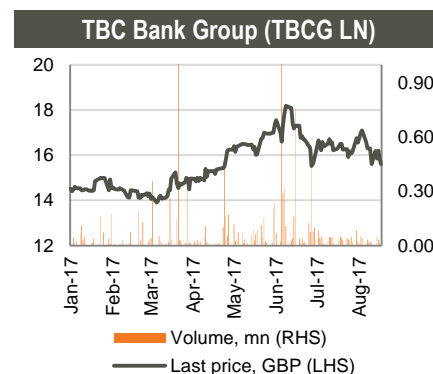
BGEO Group (BGEO LN) shares closed at GBP 33.17/share (-4.30% w/w and -7.84% m/m). More than 256k shares traded in the range of GBP 32.92 – 34.83/share. Average daily traded volume was 60k in the last 4 weeks. FTSE 250 Index, of which BGEO is a constituent, lost 0.91% w/w and lost 1.72% m/m. The volume of BGEO shares traded was at 0.65% of its capitalization.

TBC Bank Group (TBCG LN) closed the week at GBP 16.20 (+0.12% w/w and -0.61% m/m). More than 131k shares changed hands in the range of GBP 15.80 – 16.85/share. Averaged daily traded volume was 22k in the last 4 weeks.

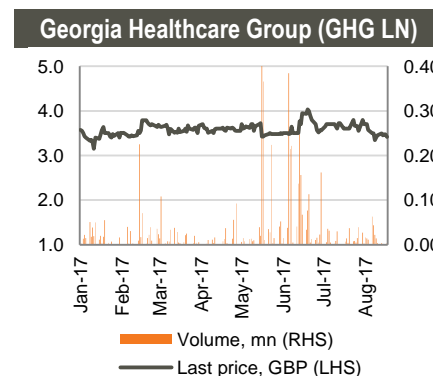
Georgia Healthcare Group (GHG LN) shares closed at GBP 3.50/share (+0.68% w/w and +0.21% m/m). More than 39k shares were traded in the range of GBP 3.40 – 3.65/share. Average daily traded volume was 9k in the last 4 weeks. The volume of GHG shares traded was at 0.03% of its capitalization.



Source: Bloomberg



Source: Bloomberg



Source: Bloomberg

Eastern European Banks

	Ticker	Share price, US\$	MCap, US\$ mn	1M, chg	3M, chg	6M, chg	YTD, chg	1Y, chg
BGEO*	BGEO	44.55	1,755	-5.3%	-6.9%	20.5%	14.7%	16.4%
TBC*	TBC	21.56	1,141	-3.1%	-2.6%	19.1%	14.0%	79.6%**
Halyk Bank	HSBK	9.75	2,680	2.6%	29.1%	49.1%	62.8%	62.5%
KKB	KKB	0.68	271	0.0%	-38.2%	-38.2%	-52.9%	-41.1%
VTB Bank	VTBR	2.08	13,485	4.5%	-7.1%	-5.8%	-12.8%	-6.4%
Vozrozhdenie Bank	VZRZ	9.86	234	-1.3%	-24.7%	-23.5%	-19.5%	-7.4%
Sberbank	SBER	13.64	73,611	14.2%	21.4%	19.6%	17.8%	43.7%

Source: Bloomberg

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

** 1Y change in TBC share prices calculated using GDR price

Healthcare Sector Peers

	Ticker	Share price, US\$	MCap, US\$ mn	1M, chg	3M, chg	6M, chg	YTD, chg	1Y, chg
GHG*	GHG	4.49	591	-3.5%	-1.4%	-5.9%	-3.4%	18.2%
Mouwasat	MOUWASAT	42.97	2,148	6.7%	8.6%	13.1%	9.1%	27.6%
Fortis	FORH	2.37	1,231	-9.0%	-21.6%	-13.1%	-10.8%	-10.5%
Raffles	RFMD	0.79	1,394	-11.1%	-20.9%	-20.8%	-20.3%	-30.6%
IHH	IHH	1.41	11,604	0.4%	0.3%	5.3%	-0.5%	-13.2%
Bangkok Chain	BCH	0.45	1,121	4.7%	17.7%	24.1%	8.9%	37.0%
Netcare	NTC	1.89	2,769	5.0%	-6.3%	-20.1%	-18.4%	-19.3%

Source: Bloomberg

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

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