

Weekly Market Watch

 Weekly Market Watch | Georgia
 July 30, 2018

Economy

NPLs at 2.4% in June 2018

In June 2018, the banking sector loan portfolio increased 18.4% y/y after growing 18.6% y/y in previous month, excluding the exchange rate effect. In unadjusted terms, loan portfolio was up 19.8% y/y and up 1.0% m/m to GEL 23.1bn (US\$ 9.4bn). Deposits were up 19.2% y/y excluding the exchange rate effect. In unadjusted terms, deposits were up 20.4% y/y and up 1.2% m/m to GEL 20.3bn (US\$ 8.3bn). Deposit dollarization declined to 60.8% (-6.8ppts y/y and -1.5ppts m/m). NPLs stood at 2.4% in June 2018 (-1.1ppts y/y and -0.2ppts m/m).

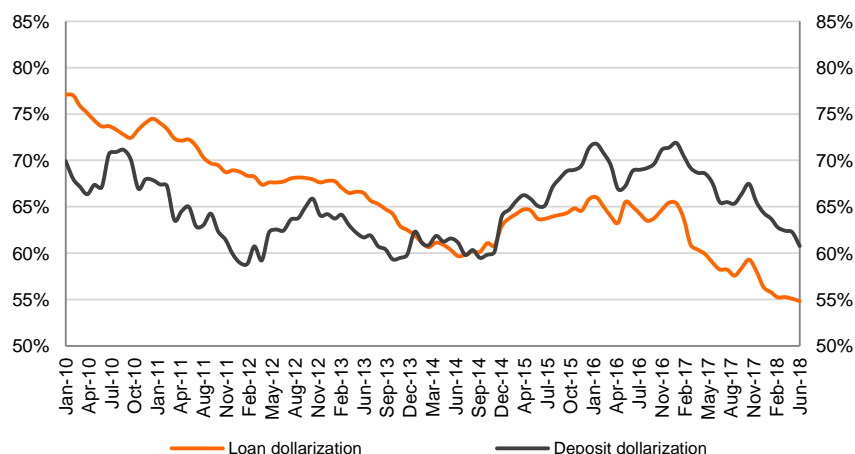
NBG reduced the monetary policy rate by 0.25ppts to 7.0%

At its meeting on 25 July 2018, NBG's monetary policy committee decided to reduce its key rate by 0.25ppts to 7.0%. Inflation was 2.2% in June, below the 3.0% target. The policy rate cut was mainly due to the reduced inflationary pressure stemming from higher than expected appreciation of the nominal exchange rate. The committee also decided to increase the minimum reserve requirements on short-term foreign currency funding from 20.0% to 25.0%. The next committee meeting is scheduled for 5 September 2018.

NBG continues to build reserves

On July 27, 2018, the NBG intervened on the FX market and purchased US\$ 10mn to curb GEL's appreciation. YTD, the NBG purchased US\$ 70mn and GEL strengthened 5.5% against USD.

Loan and deposit dollarization



Source: NBG

Key macro indicators

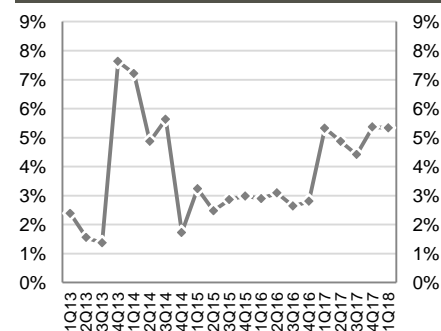
	1H18	2017	2016
GDP (% change)	6.1% ⁽¹⁾	5.0%	2.8%
GDP per capita (ppp)	...	10,644	10,043
GDP per capita (US\$)	...	4,068	3,857
Population (mn)	3.7	3.7	3.7
Inflation (eop)	2.2%	6.7%	1.8%
Gross reserves (US\$ bn)	3.0	3.0	2.8
CAD (% of GDP)	11.6% ⁽²⁾	8.9	13.2%
Fiscal deficit (% of GDP)	...	3.9%	4.1%
Total public debt (% of GDP)	...	44.6%	44.4%

Source: Official data, IMF

1) As of 5M18

2) As of 1Q18

Real GDP growth, %



Source: GeoStat

International ranking, 2017-18

Ease of Doing Business # 9 (Top 10)

Economic Freedom Index # 16 (mostly free)

Global Competitiveness Index # 67

Source: World Bank, Heritage Foundation and World Economic Forum

Georgia sovereign credit ratings

 BB- Stable Affirmed May-2017	 Ba2 Stable Upgraded Sep-2017	 BB- Positive Affirmed Mar-2018
---	---	---

Source: Rating agencies

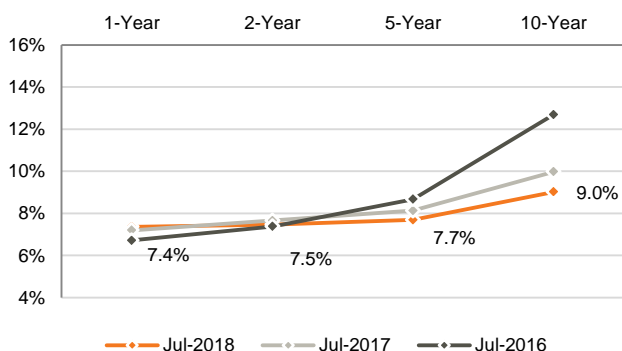
Money market

Refinancing loans: National Bank of Georgia (NBG) issued 7-day refinancing loans of GEL 790mn (US\$ 322.6mn).

Ministry of Finance Benchmark Bonds:

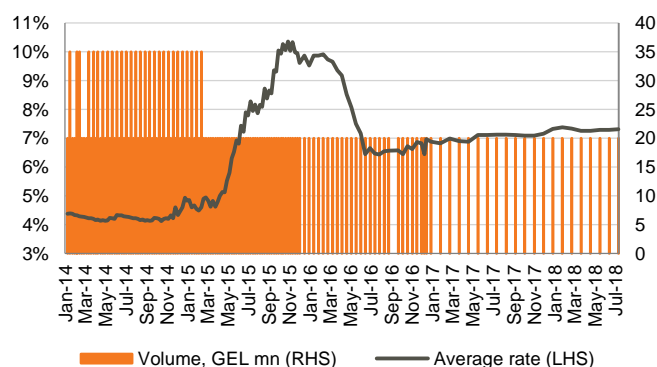
5-year GEL 30.0mn (US\$ 12.3mn) Benchmark Bonds of Ministry of Finance were sold at the auction held at NBG on July 25, 2018. The weighted average yield was fixed at 7.69%. The nearest treasury security auction is scheduled for August 1, 2018, where GEL 40mn nominal value 1-year T-Notes will be sold.

T-bills / T-notes, yield curve



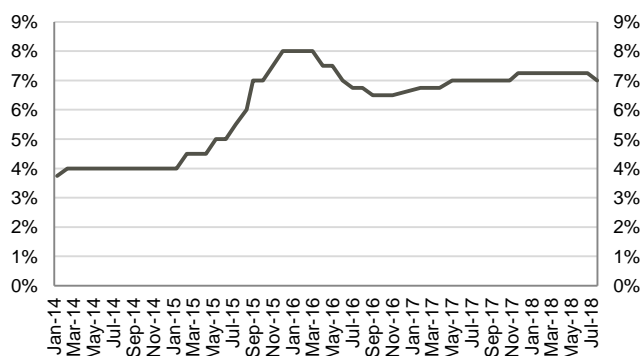
Source: NBG

Certificates of Deposits (weighted average rate)



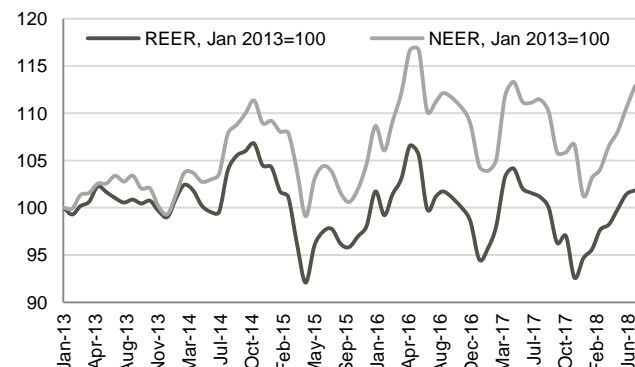
Source: NBG

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

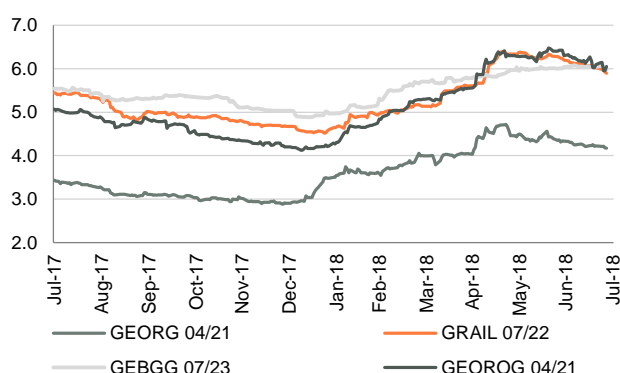
Fixed income

Corporate Eurobonds: Bank of Georgia Group Eurobonds (GEBGG) closed at 6.0% yield, trading at 100.1 (+0.3% w/w). Bank of Georgia GEL-denominated Eurobonds (GEBGG) were trading at 100.5 (unchanged w/w), yielding 10.7%. Georgia Capital Eurobonds (GEOCAP) were trading at 94.4 (-0.1% w/w), yielding 7.4%.

GOGC Eurobonds (GEOROG) were trading at 101.7 (-0.2% w/w), yielding 6.0%. Georgian Railway Eurobonds (GRAIL) traded at a premium at 106.4 (+0.4% w/w), yielding 5.9%.

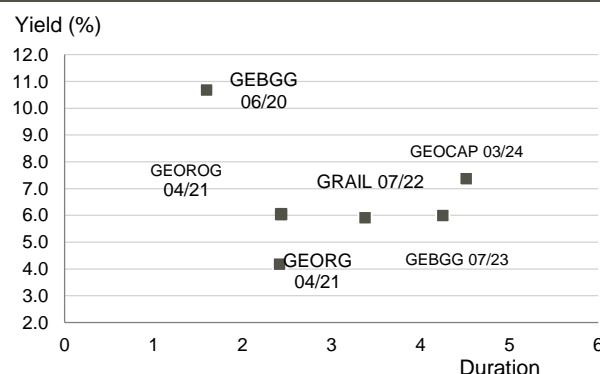
Georgian Sovereign Eurobonds (GEORG) closed at 106.8 (+0.1% w/w) at 4.2% yield to maturity.

Georgia Eurobonds, YTM (%)



Source: Bloomberg

Georgian Eurobond universe



Source: Bloomberg

Georgia bonds performance

Georgia Eurobonds 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-/Ba2	106.84	4.17	125.21
GRAIL 07/22	500	7.750%	18/07/2022	B+/B+/-	106.43	5.90	294.48
GEOROG 04/21	250	6.750%	18/04/2021	BB-/B+/-	101.73	6.05	313.05
GEBGG 06/20	500*	11.000%	18/06/2020	BB-/B2	100.50	10.67	n/a
GEBGG 07/23	350	6.000%	18/07/2023	BB-/B2	100.06	5.99	302.19
GEOCAP 03/24	300	6.125%	18/03/2024	-/B+/B2	94.40	7.36	439.01

Georgia local bonds performance

GWP 12/21	30*	10.75%**	06/12/2021	BB****-/-	n/a	n/a	n/a
M2RE 10/19	25	7.500%	07/10/2019	B+/-/-	102.30	5.50	n/a
GLC 08/20	10	7.000%	29/08/2020	-/-/-	101.95	6.00	n/a
GLC 06/21	5	6.500%	22/06/2021	-/-/-	n/a	n/a	n/a
Nikora 06/19	10	9.000%	28/06/2019	-/-/-	n/a	n/a	n/a
Silknet 08/22	34*	10.75%**	18/08/2022	B+****-/-	n/a	n/a	n/a
Crystal 12/19	10*	11.75%***	28/12/2019	B/-/-	101.05	11.25	n/a

Source: Bloomberg

*GEBGG 06/20 bonds, GWP 12/21 bonds, Silknet 08/22 and Crystal 12/19 bonds are in Georgian Lari

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

***Coupon rate 4.5% over the NBG's refinancing rate

****Company ratings

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-/Ba2	106.8	4.2	125.2
Azerbaijan	1,250	4.750%	18/03/2024	BB+/-/Ba2	100.4	4.7	169.7
Bulgaria	323	5.000%	19/07/2021	BBB-/-	114.8	0.0	-33.9
Croatia	1,250	3.875%	30/05/2022	BB+/BB+/Ba2	111.7	0.8	64.0
Hungary	3,000	6.375%	29/03/2021	BBB-/BBB-/Baa3	107.4	3.4	52.7
Romania	2,250	6.750%	07/02/2022	BBB-/BBB-/Baa3	109.8	3.7	78.6
Russia	3,500	5.000%	29/04/2020	BBB-/BBB-/Ba1	102.7	3.4	57.3
Turkey	2,000	5.625%	30/03/2021	BB+/-/Ba2	99.1	6.0	309.5

Source: Bloomberg

Equities

Bank of Georgia Group (BGEO LN) shares closed at GBP 18.15/share (+2.40% w/w and -4.95% m/m). More than 238k shares traded in the range of GBP 17.68 – 18.57/share. Average daily traded volume was 65k in the last 4 weeks. FTSE 250 Index, of which BGEO is a constituent, lost 0.43% w/w and lost 0.05% m/m. The volume of BGEO shares traded was at 0.49% of its capitalization.

Georgia Capital (CGEO LN) shares closed at GBP 10.00/share (+2.46% w/w and -9.26% m/m). More than 304k shares traded in the range of GBP 9.70 – 10.32/share. Average daily traded volume was 88k in the last 4 weeks. The volume of CGEO shares traded was at 0.64% of its capitalization.

TBC Bank Group (TBCG LN) closed the week at GBP 17.00 (-1.39% w/w and -0.12% m/m). More than 103k shares changed hands in the range of GBP 16.92 – 17.50/share. Average daily traded volume was 20k in the last 4 weeks. The volume of TBCG shares traded was at 0.19% of its capitalization.

Georgia Healthcare Group (GHG LN) shares closed at GBP 2.59/share (-0.58% w/w and +2.17% m/m). More than 172k shares were traded in the range of GBP 2.50 – 2.67/share. Average daily traded volume was 17k in the last 4 weeks. The volume of GHG shares traded was at 0.13% of its capitalization.

Eastern European Banks

	Ticker	Share price, US\$	MCap, US\$ mn	1M, chg	3M, chg	6M, chg	YTD, chg	1Y, chg
Bank of Georgia	BGEO	18.154*	1,171	-5.0%	-22.9%	-28.1%	-24.6%	-22.5%
TBC	TBC	17*	1,209	-0.1%	-6.4%	-0.4%	-2.9%	5.7%
Halyk Bank	HSBK	11.85	3,257	-1.3%	-3.3%	-9.2%	19.9%	24.9%
KKB	KKB	0.68	712	0.0%	0.0%	0.0%	0.0%	-9.5%
VTB Bank	VTBR	1.56	10,103	4.6%	-16.9%	-19.6%	-14.8%	-25.5%
Vozrozhdenie	VZRZ	5.77	137	-6.3%	9.7%	-37.3%	-33.7%	-48.6%
Sberbank	SBER	13.73	74,070	0.8%	-6.0%	-26.8%	-18.9%	16.3%

Source: Bloomberg

*BGEO and TBC share prices traded and shown in GBP

Investment Management Company Peers

	Ticker	Share price, US\$	MCap, US\$ mn	1M, chg	3M, chg	6M, chg	YTD, chg	1Y, chg
Georgia Capital	CGEO	10*	532	-9.3%	N/A	N/A	N/A	N/A
Creades	CREDA	29.68	N/A	-3.0%	-8.1%	-30.7%	-18.5%	-10.9%
CIE du Bois	COMB	460.33	N/A	-0.1%	-5.0%	-3.4%	7.0%	21.8%
Tinc Comm	TINC	13.98	N/A	0.2%	-3.4%	-11.1%	-7.4%	-1.8%
Edify	EDIFY	71.09	N/A	0.6%	-8.3%	-3.1%	3.7%	14.1%

Source: Bloomberg

*CGEO share price traded and shown in GBP

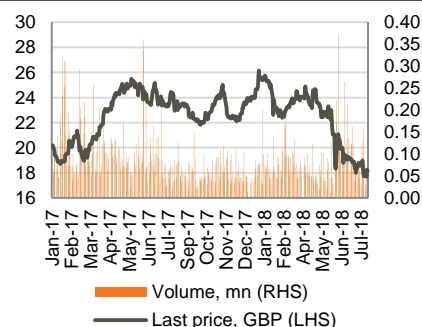
Healthcare Sector Peers

	Ticker	Share price, US\$	MCap, US\$ mn	1M, chg	3M, chg	6M, chg	YTD, chg	1Y, chg
GHG	GHG	2.585*	446	2.2%	-7.7%	-23.4%	-27.2%	-29.4%
Mouwasat	MOUWASAT	25.38	2,538	0.7%	1.8%	12.1%	25.7%	22.8%
Fortis	FORH	1.99	1,033	1.0%	-13.8%	-19.7%	-20.8%	-21.9%
Raffles	RFMD	0.83	1,491	12.3%	-6.0%	-3.1%	-0.9%	-12.2%
IHH	IHH	1.49	12,276	-0.1%	-3.8%	-3.9%	3.2%	7.0%
Bangkok Chain	BCH	0.50	1,240	8.8%	-8.8%	-1.9%	0.0%	16.0%
Netcare	NTC	2.04	3,001	4.1%	-16.0%	-4.8%	0.5%	8.2%

Source: Bloomberg

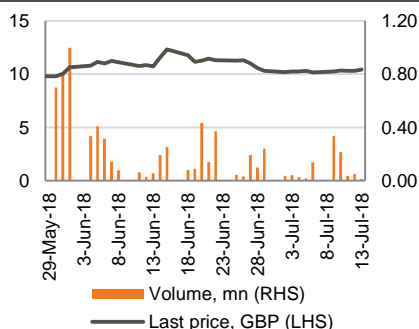
*GHG share price traded and shown in GBP

Bank of Georgia Group (BGEO LN)



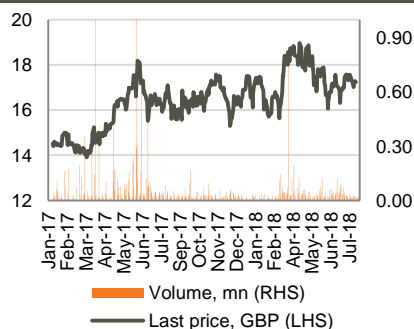
Source: Bloomberg

Georgia Capital (CGEO LN)



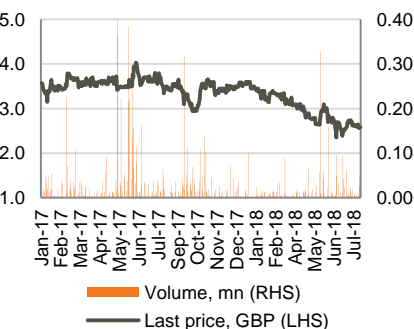
Source: Bloomberg

TBC Bank Group (TBCG LN)



Source: Bloomberg

Georgia Healthcare Group (GHG LN)



Source: Bloomberg



Disclaimer

This document is strictly confidential and has been prepared by JSC Galt & Taggart ("Galt & Taggart"), a member of Bank of Georgia group PLC ("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