

SECTORAL

FINANCIAL MARKETS



# Georgian Railway

Q1 2021 UPDATE

04.06.2021

Andro Tvaliashvili  
Senior Research Associate

[www.tbccapital.ge](http://www.tbccapital.ge)

- On May 26<sup>th</sup> Georgian Railway has announced a tender for an early buyback of its outstanding USD 500mln Eurobond (GRAIL 22). The buyback will be subject to **issuing a new 7-year USD denominated senior unsecured Green Eurobond** planned to be priced on June 10<sup>th</sup> 2021
- TBC Capital is the only Georgian company acting as the Joint Lead Manager** together with J.P. Morgan, Citi, and Renaissance Capital syndicate for the new issue, with Galt and Taggart acting as a co-manager of the transaction
- S&P Global Ratings affirmed its B+ long-term issuer credit rating for Georgian Railway with a Negative Outlook due to the Georgian economy remaining under pressure
- Georgian Railway posted a **4.8% YoY increase in its revenues** in 1Q 2021 in GEL terms (-7.5% YoY in USD terms due to the GEL depreciation)
- The net finance loss improved by 57.8% YoY, resulting in a **net loss of GEL 54.4mln** in 1Q 2021, up 70.2% YoY
- Georgian Railway's overall freight transportation **tariff decreased by 10.0%** in Q1 2021 in USD terms
- Georgian Railway **increased containerized cargo throughput by 3.5% YoY**
- The decline in maritime containerized cargo can be explained by a 219.5% increase in transportation prices, providing further **positive outlook for future railway containerized cargo**

## Georgian Railway key financial figures

	1Q 2020	1Q 2021	YoY change
Revenue ('000 GEL)	122,024	127,886	+4.8%
Revenue ('000 USD)	41,717	38,584	-7.5%
EBITDA	58,116	57,584	-0.9%
Assets ('000 GEL)	2,347,764	2,338,948	-0.4%
Equity ('000 GEL)	359,286	304,905	-15.1%
Total liabilities ('000 GEL)	1,988,478	2,034,043	+2.3%
Net debt ('000 GEL)	1,389,584	1,432,731	+3.1%
Net debt/EBITDA	5.94	6.54	+0.60 pp

## Georgian Railway key operating figures

	1Q 2020	1Q 2021	YoY change
Transported cargo (mln tons)	2.77	2.98	+7.5%
Transported passengers ('000)	553	53	-90.3%
Freight revenue per ton-km (GEL)	0.0984	0.1003	+1.9%
Freight revenue per ton-km (USD)	0.0336	0.0303	-10.0%

## Georgian Railway issuer credit rating

**FitchRatings**

**BB-  
Negative**

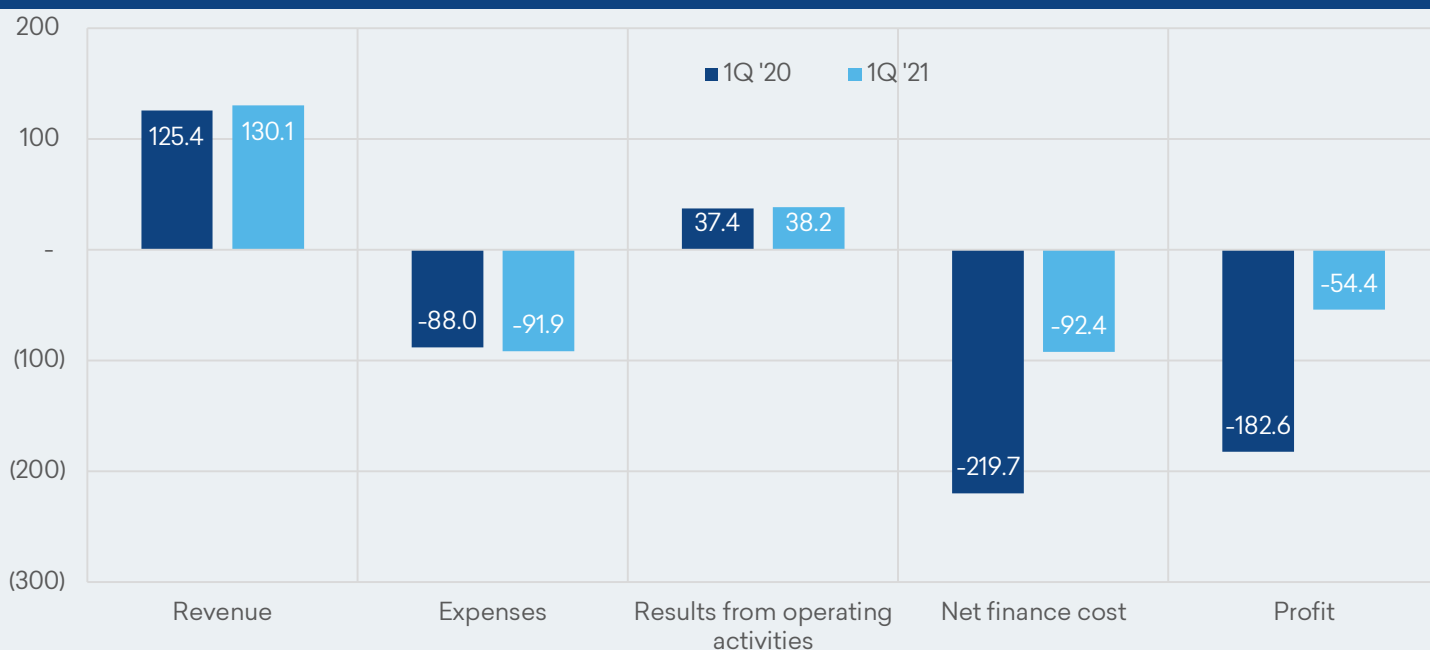
Last action: Dec-2020

**S&P Global**

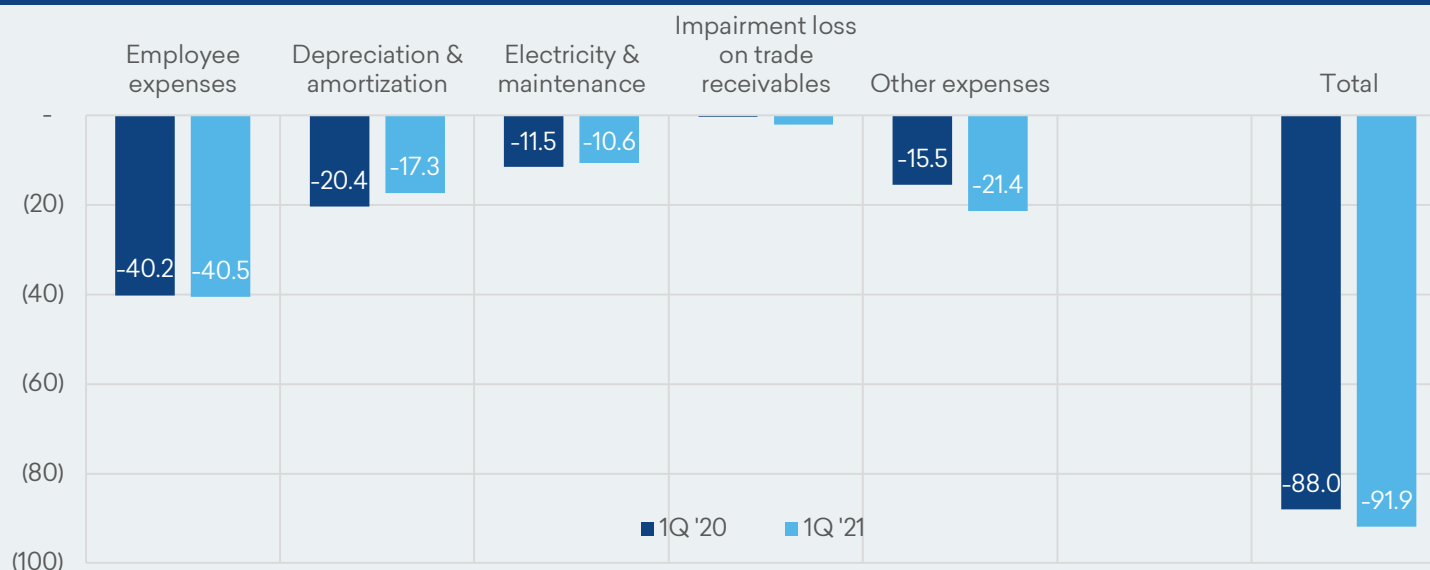
**B+  
Negative**

Last action: May-2021

**Profit and loss highlights (GEL mln)**



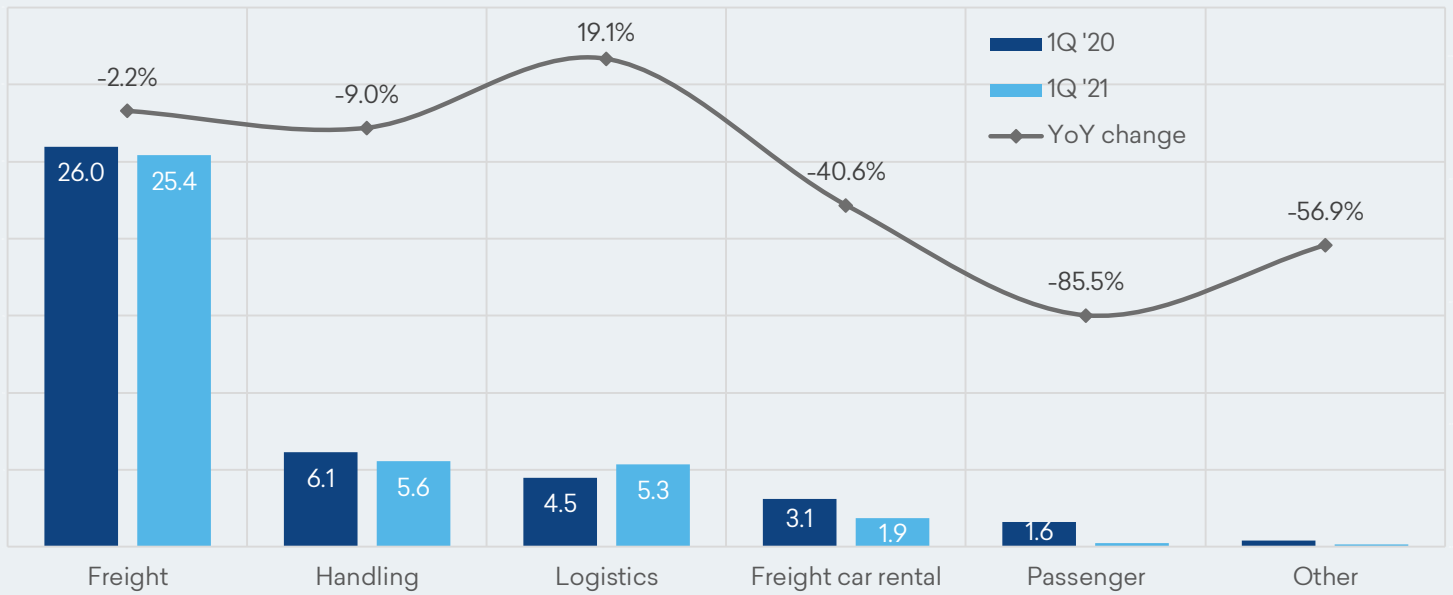
**Operating expenses (GEL mln)**



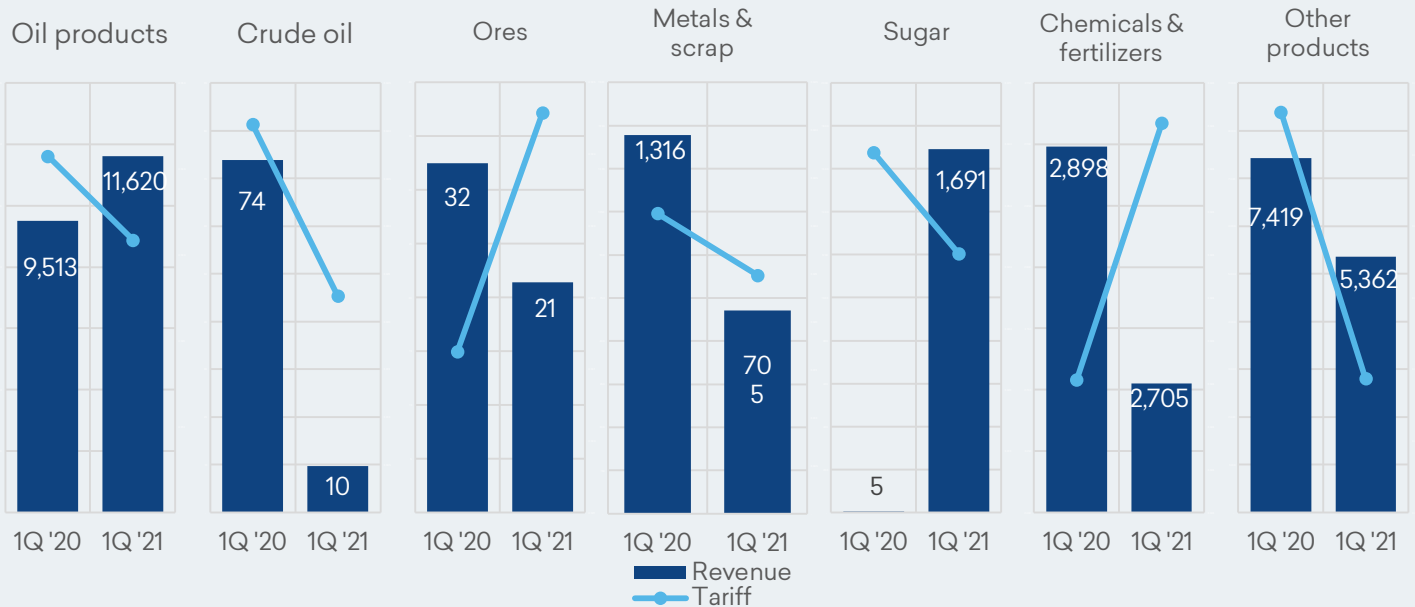
- Georgian Railway posted a **4.8% YoY increase in its revenues in 1Q 2021** in GEL terms (-7.5% YoY in USD terms due to the GEL depreciation)
- Due to GEL fluctuations against foreign currencies, the **net finance loss improved by 57.8% YoY** in the same period, resulting in a **net loss of GEL 54.4mln in 1Q 2021**, a 70.2% annual improvement
- Georgian Railway’s operating performance saw a 2.3% YoY increase, with **EBITDA standing at GEL 57.6 mln in 1Q 2021**
- While the largest operating expense category, employee benefits expenses, remained relatively unchanged in Q1 2021, posting only a minor, 1% YoY increase, freight car rental and logistics service expenses posted noticeable annual increases in the same period (+57% and +183% YoY, respectively), resulting in a **4% YoY increase in Georgian Railway’s operating expenses**

# Shifts in product direction mix and category mix negatively affected Q1 2021 freight revenue

## Revenue breakdown by service categories (USD mln)

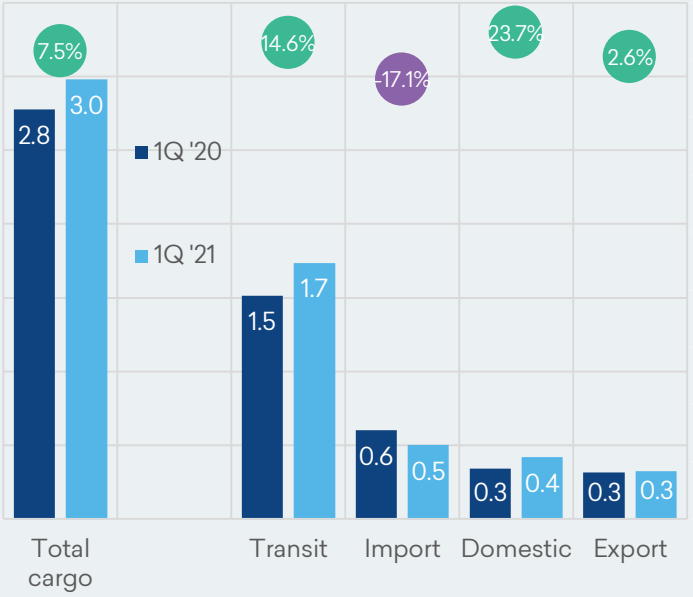


## Freight revenues by product categories (USD '000) and respective tariffs (USD)

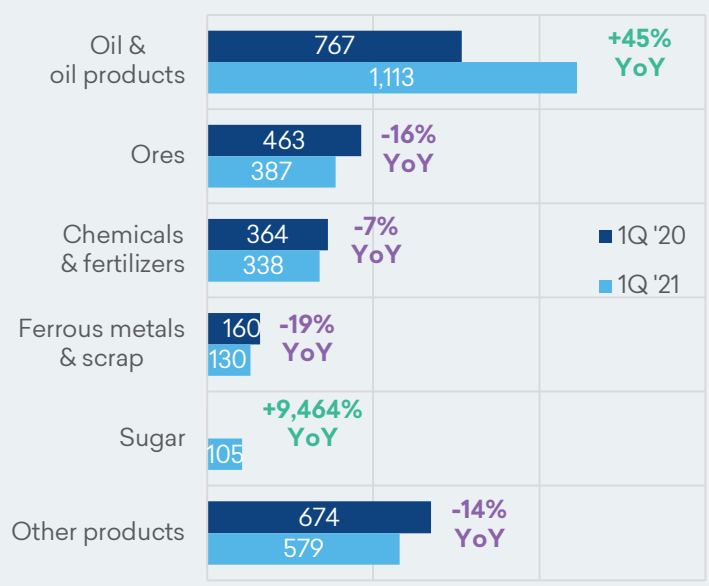


- Freight transportation remained the largest share holder in Georgian Railway's revenues in 1Q 2021. An **annual decrease is observed in the majority of revenue categories in 1Q 2021 in USD terms** with logistics being an exception, posting an annual 19% growth
- The largest, 86% YoY decline, was recorded in the passenger transportation category,** attributable to the COVID-19 related mobility restrictions in Q1 2021
- Georgian Railway's overall **freight transportation tariff decreased by 10.0% in Q1 2021** in USD terms, resulting in a 2.2% decline in freight revenues regardless a noticeable increase in total transported cargo
- Regardless a 23.6% decrease in tariff, **transportation of oil products, the largest revenue generating category in freight transportation, posted a 22.2% increase in Q1 2020** in USD terms

## Transported rail cargo volumes by destination (mln tons; YoY change)

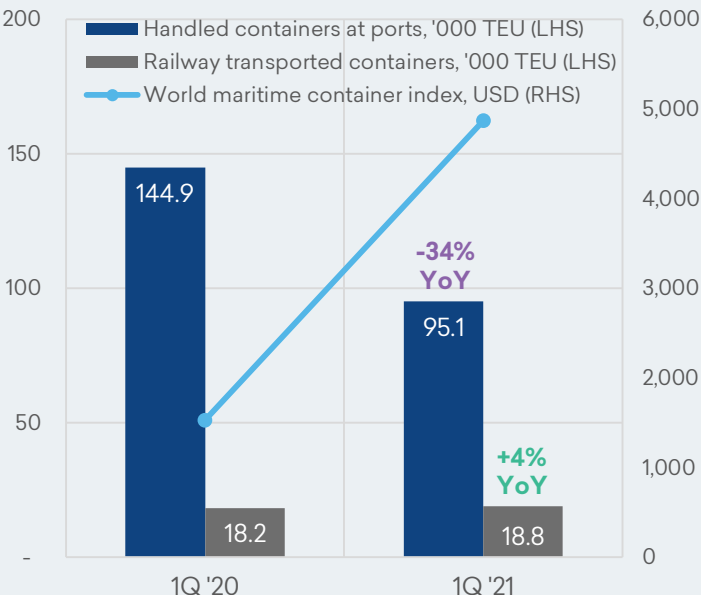


## Transported rail cargo volumes by product categories ('000 tons)

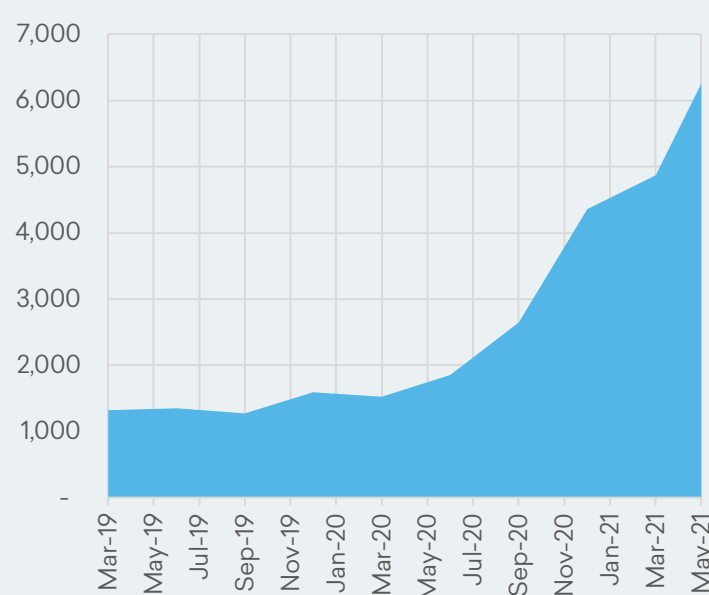


- Georgian Railway’s **cargo transportation posted a 7.5% YoY growth in Q1 2021**, attributable to a 45.2% YoY increase in oil & oil products, outweighing the declines in all other major categories
- In terms of destinations, **all categories have posted growths in 1Q 2021 with the exception of import**, the second largest destination category, posting a 17.1% YoY decline in the same period
- **Georgian Railway increased its containerized cargo throughput by 3.5% YoY**, while the amount of TEUs handled in Georgian ports decreased by 34.4% in Q1 2021
- In addition to the pandemic related restrictions, **the decline in maritime containerized cargo can be explained by a 219.5% increase in transportation prices**, providing further positive outlook for future railway containerized cargo

## Container throughput and maritime container index ('000 TEUs; USD)



## Composite World Container Index\* (USD per 40ft container)



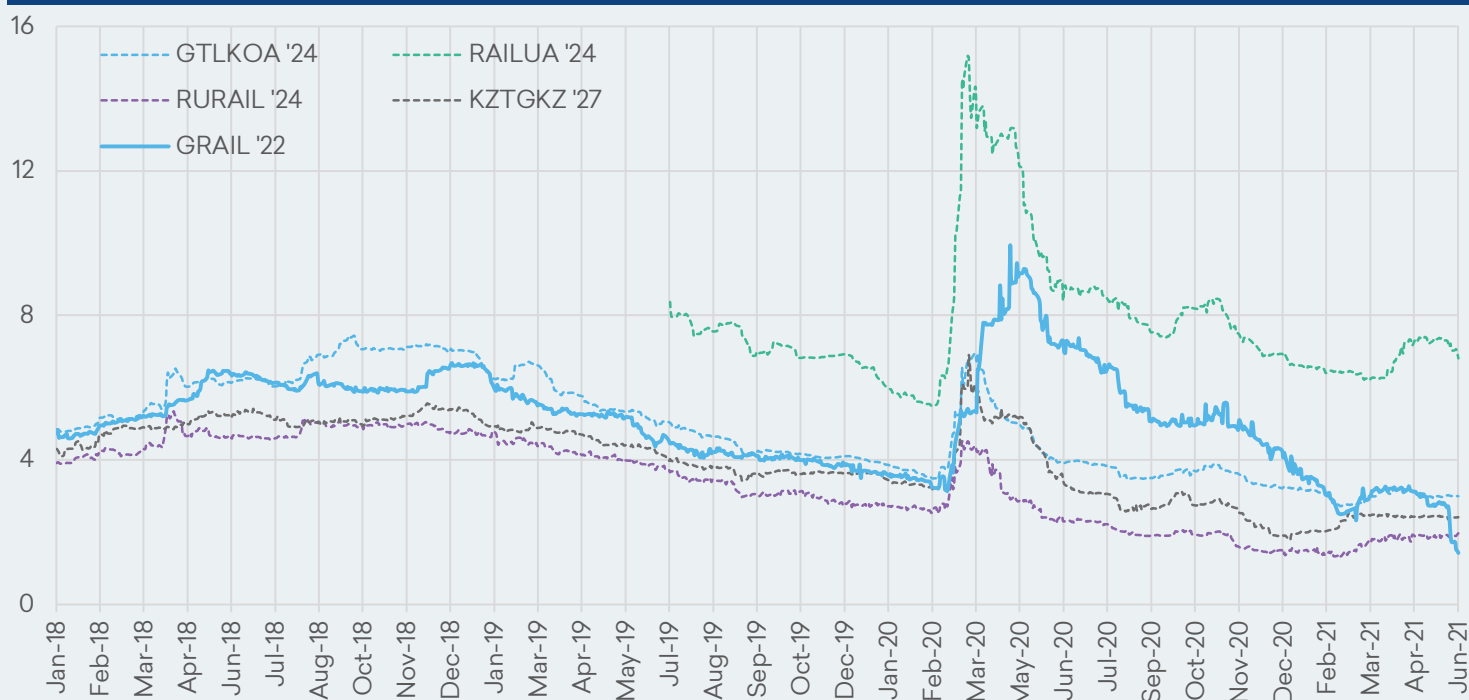
Source: Georgian Railway

- **Georgian Railway has announced a tender offer of its outstanding USD 500mln Eurobond** maturing in July 2022
- The existing Eurobond will be refinanced by **issuing a new 7-year USD denominated senior unsecured Green Eurobond**. The proceeds of the bond will be focused on refinancing the existing bond with up to USD 50 mln allocated for financing eligible infrastructural projects. According to the indicative offer timetable, **the new notes are planned to be priced on June 10<sup>th</sup> 2021**
- **TBC Capital is the only Georgian company acting as the Joint Lead Manager** together with J.P. Morgan, Citi, and Renaissance Capital syndicate for the new issue, with Galt and Taggart acting as a co-manager of the transaction

## Georgian Railway Eurobond details

Issuer	Georgian Railway JSC
Issuer Ratings (Standard & Poor's/Fitch)	B+/BB-
Status	Senior Unsecured
Format	REGS
Issued Amount	USD 500mln
Settlement Date	5-Jul-2012
Maturity Date	11-Jul-2022
Coupon/Frequency	7.750%/Semi-annual
Price at issue	99.998
Use of proceeds	General corporate purposes
Index/Weight	Morningstar EM Corporate/0.042
Book runner	Goldman Sachs, JP Morgan, Merrill Lynch

## Georgian Railway and selected peer Eurobonds' yield to maturity (%)



## Profit and loss highlights ('000 GEL)

	Q1 2020	Q1 2021
<b>Revenue</b>	<b>122,024</b>	<b>127,866</b>
Other Income	3,382	2,265
Employee benefits expense	(40,230)	(40,537)
Depreciation and amortization expenses	(20,379)	(17,346)
Electricity, inventory and repair work	(11,533)	(10,594)
Impairment loss on trade receivables	(359)	(2,004)
Other Expenses	(15,527)	(21,416)
<b>Operating activities</b>	<b>37,378</b>	<b>38,234</b>
Finance income	3,862	4,802
Finance cost	(223,610)	(97,245)
Profit before income tax	(182,370)	(54,209)
Income tax expense	(221)	(172)
<b>Profit and total comprehensive income</b>	<b>(182,591)</b>	<b>(54,381)</b>
<b>EBITDA</b>	<b>58,116</b>	<b>57,584</b>
EBITDA margin	47.63%	45.03%
Adjusted EBITDA	54,382	56,138
<b>Adjusted EBITDA margin</b>	<b>44.57%</b>	<b>43.90%</b>

## Balance sheet highlights ('000 GEL)

	Q1 2020	Q1 2021
Total Non-current assets	1,959,028	1,917,693
Total current assets	388,736	421,255
<b>Total assets</b>	<b>2,347,764</b>	<b>2,338,948</b>
<b>Total equity</b>	<b>359,286</b>	<b>304,905</b>
Total non-current liabilities	1,803,109	1,870,439
Total current liabilities	185,369	163,604
<b>Total liabilities</b>	<b>1,988,478</b>	<b>2,034,043</b>
<b>Total equity and liabilities</b>	<b>2,347,764</b>	<b>2,338,948</b>

## Cash flow highlights ('000 GEL)

	Q1 2020	Q1 2021
Cash flows from operations before income taxes and interest paid	56,377	53,465
<b>Net cash from operating activities</b>	<b>56,377</b>	<b>53,465</b>
Net cash used in investing activities	(8,727)	(41)
Net cash (used in)/from financing activities	(55,637)	(63,992)
Net change in cash and cash equivalents	(7,987)	(10,568)
<b>Cash and cash equivalents</b>	<b>272,836</b>	<b>319,065</b>

## LEGAL NOTICE

This publication (the "Publication") has been prepared and distributed by TBC Capital LLC ("TBC Capital") for informational purposes only and independently of the respective companies mentioned herein. TBC Capital is operating and performing its professional services on the territory of Georgia and is duly authorized to prepare and distribute this Publication on the territory of Georgia. Nothing in this Publication constitutes or forms part of an offer or solicitation or invitation to an offer to buy, sell or subscribe for any assets or securities and nothing herein shall form the basis of any contract or commitment whatsoever or shall be considered as a recommendation to take any such actions. Since distribution of this Publication may be restricted by law in certain jurisdictions, persons into whose possession this Publication comes are required by TBC Capital to inform themselves about and to observe any and all restrictions applicable to them. As this Publication is not directed to or intended for distribution, directly or indirectly, to or use by any person or entity in any jurisdiction where such distribution, publication, availability or use would be contrary to the applicable law or which would require any registration or licensing within such jurisdiction, neither TBC Capital nor its affiliates accept any direct or indirect liability to any person in relation to the publication, distribution or possession of this Publication in or from any jurisdiction. This Publication is not intended to provide any investment, business, tax and/or legal advice, and credit or any other evaluation. Recipients of this Publication are strongly 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. All information contained in this Publication is subject to change without notice, and neither TBC Capital nor any of its affiliates is under any obligation to update or keep current information contained in this Publication. Distribution of this Publication, at any time, does not imply that information herein is correct, accurate and/or complete as of any time after its preparation date or that there has been no change in business, financial condition, prospects, credit worthiness, status or affairs of the respective companies or anyone else since that date. Accordingly, this Publication should not be considered as a complete description of the markets, industries and/or companies referred to herein and no reliance should be placed on it. TBC Capital does not undertake to update this Publication or to correct any inaccuracies therein which may become apparent. The Publication may include forward-looking statements, but not limited to, statements as to future operating results. Any "forward-looking statements", which include all statements other than statements of historical facts, involve known and unknown risks, uncertainties and other important factors beyond TBC Capital's control that could cause the actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding present and future business strategies and the environment operating in the future. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. No assurances can be given that the forward-looking statements in this document will be realized. TBC Capital does not intend to update such forward-looking statements. All statements of opinion and all projections, forecasts, estimates and/or statements relating to expectations regarding future events or the possible future performance of investments represent TBC Capital's own assessment and interpretation of information available to them currently. Information obtained from the third party sources believed to be reliable, but that there is no guarantee of the accuracy and/or completeness of such information. TBC Capital does and seeks to do business with companies covered in this Publication. Thus, investors should be aware that TBC Capital may have a potential conflict of interest that could affect the objectivity of the information contained in this Publication. This Publication may not be reproduced, redistributed or published, in whole or in part, in any form for any purpose, without the written permission of TBC Capital, and neither TBC Capital nor any of its affiliates accepts any liability whatsoever for the actions of third parties in this respect. TBC Capital makes no expressed or implied representation or warranty of usefulness in predicting the future performance or in estimating the current or future value of any security or asset, and expressly disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to any data included in this Publication. Without limiting any of the foregoing and to the extent permitted by law, TBC Capital or its respective director(s), partner(s), employee(s), affiliate(s), adviser(s) or agent(s) expressly disclaim all liability whatsoever (in negligence or otherwise) for any loss or damages however arising, directly or indirectly, from any use of this Publication or its contents (including without limitation to the accuracy and/or completeness of information therein) or otherwise arising in connection with this Publication or for any act or failure to act by any party on the basis of this Publication.

**Andro Tvaliashvili**  
Senior Research Associate

**Luka Chigilashvili**  
Research Associate

**Maka Koridze**  
Intern

**Otar Nadaraia**  
Chief Economist, TBC Group

**Ana Mzhavanadze**  
Acting Head of Macro-Financial Analysis Division,  
TBC Bank

**Juli Avlokhshvili**  
Analyst





**TBC CAPITAL**