

SECTORAL

FINANCIAL MARKETS



# The Transportation Sector & Georgian Railway

COMPANY COVERAGE  
INITIATION

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# KEY FINDINGS

## TRANSPORTATION SECTOR OVERVIEW

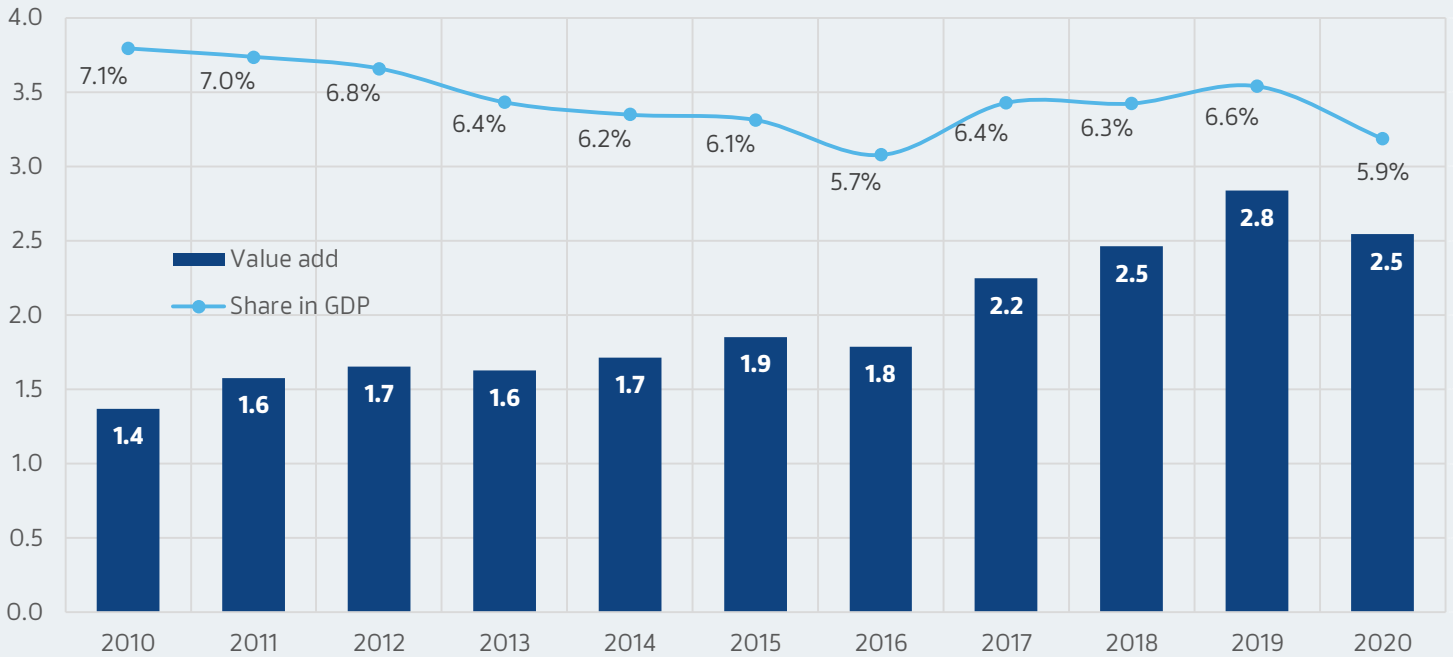
- The transportation and storage sector posted positive accelerating dynamics prior to the pandemic
- Georgia advanced in global transportation and logistics related indices, but room for further growth remains
- The decrease in the sector's turnover in 2020 is expected to rebound as international and domestic demand on goods recovers
- Regardless the pandemics, the freight transportation service external trade posted a minor decrease in 2020
- Relatively stable long-term price levels in Georgian freight transportation services facilitates the ease of long-term planning
- Road remains the preferred mode of transportation for the majority of market players
- Around half of the cargo transported in Georgia is domestic cargo
- Georgia has acted as a road cargo transit corridor for mostly the same 10 countries throughout the past 6 years
- The ports of Poti and Batumi came close to their full TEU throughput capacity in 2019

## GEORGIAN RAILWAY – 2020

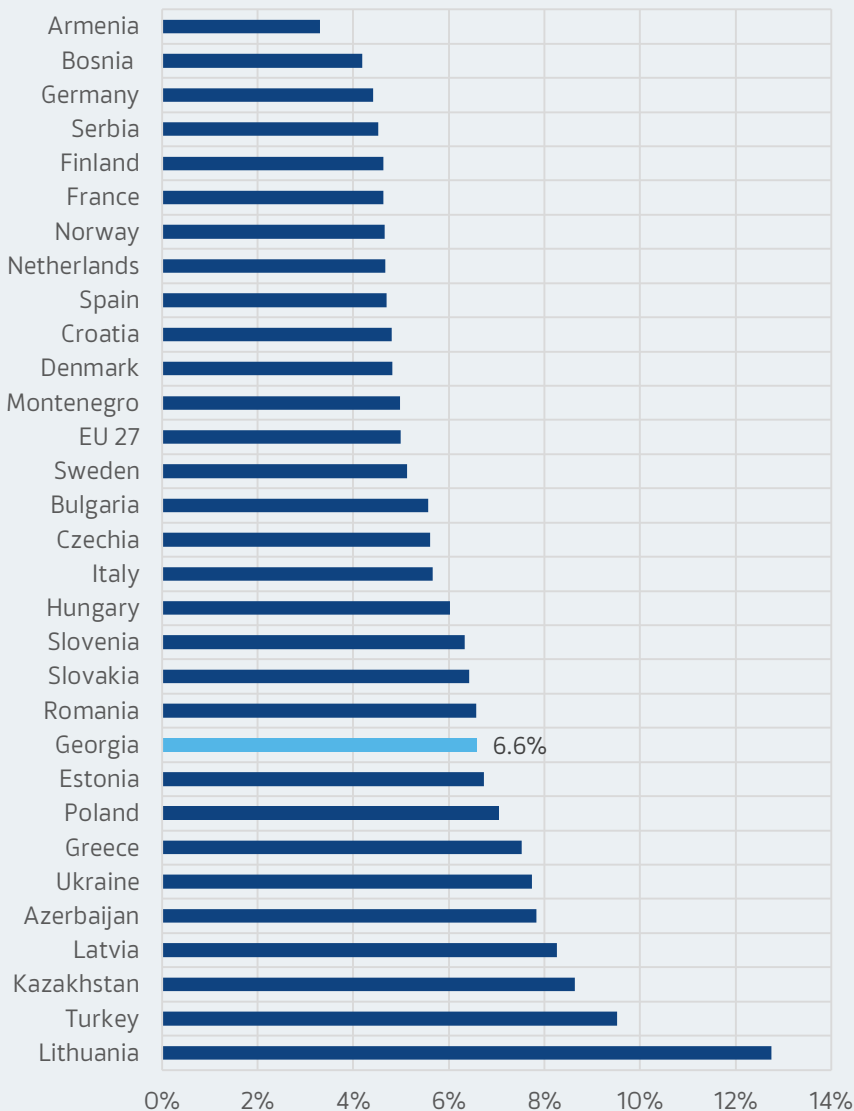
- Georgian Railway displayed resilience towards the pandemic related crisis but major room for further progress remains
- The stabilized oil product volumes creates positive expectations on further growth of rail cargo transportation
- Georgian Railway's revenue in 2020 displayed a minor decrease in domestic currency, with a sharper fall in USD terms
- Georgian Railway's revenue per ton-km decreased for the majority of its freight transportation categories in 2020
- Despite the 2020 setbacks, no major annual change observed in Georgian Railway's revenues
- A sharp decline in Georgian Railway's net profit in 2020, while only a minor setback in the group's operating performance
- Despite a 0.7 pp YoY decrease, the adjusted EBITDA margin, standing at 43.3% in 2020, represents an exemplary position among regional peer companies

# The transportation and storage sector posted positive accelerating dynamics prior to the pandemic

Transportation & storage value add (GEL bn) and share in GDP (%)



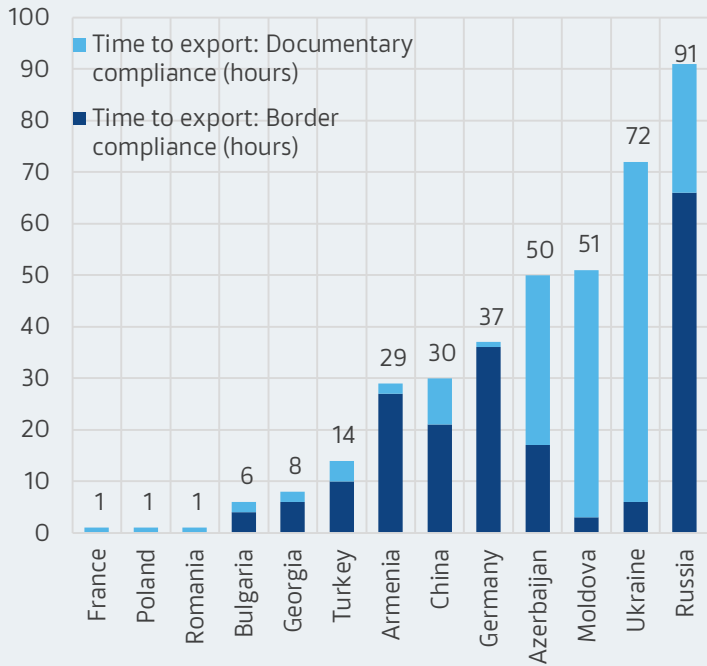
Share of transportation & storage in GDP (%), 2019



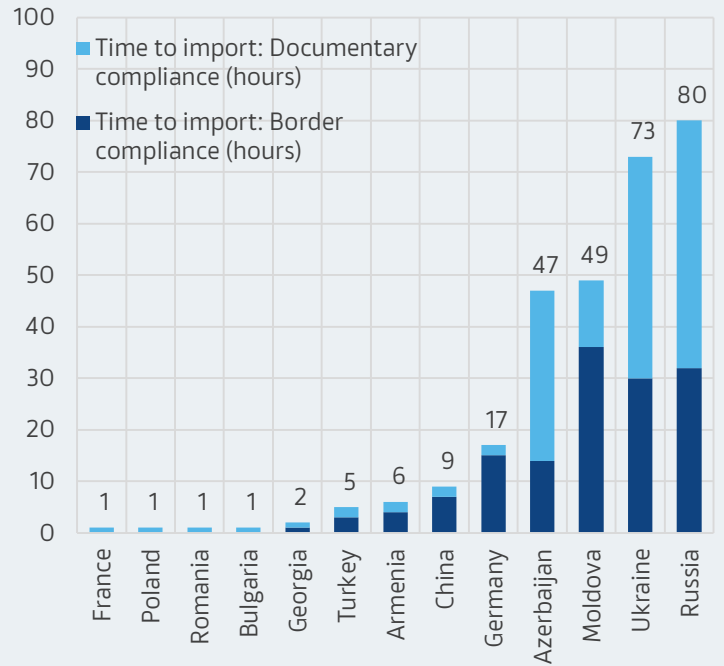
- **Transportation and storage sector’s total contribution to Georgia’s GDP has picked up pace since 2016, reaching 6.6% of GDP in 2019 but took a toll due to the pandemic in 2020 and dropped to 5.9%**
- **Prior to the pandemic, the sector has grown at 8.5% 9Y CAGR in 2010-2019, accelerating till 16.7% 3Y CAGR over 2016-2019**
- **By the sector’s share in GDP, Georgia surpassed the EU average in 2019, but trailed behind neighboring Azerbaijan and Turkey, as well as the extended regional countries of Ukraine and Kazakhstan**

# Georgia advanced in global transportation and logistics related indices, but room for further growth remains

## Export time of largest export product to its main purchaser (hours)



## Import time of standard shipment\* from main import partner (hours)



- In Doing Business 2020, among 190 countries only **31 performed better than Georgia in the time to export** the largest export product to its main purchaser. The short time for export attracts importers to re-sell abroad, utilizing the trade benefits Georgia enjoys in those third countries. This is one of the main drivers of re-export, constituting for c. 1/3 of total exports of Georgia
- As of 2018, **Georgia stood at 119th place (out of 160 countries) in the World Bank's Logistics Performance Index (LPI)**, up by 11 places since 2016. The most important improvement was in infrastructure, while the only component in which Georgia's ranking decreased during this period was tracking and tracing

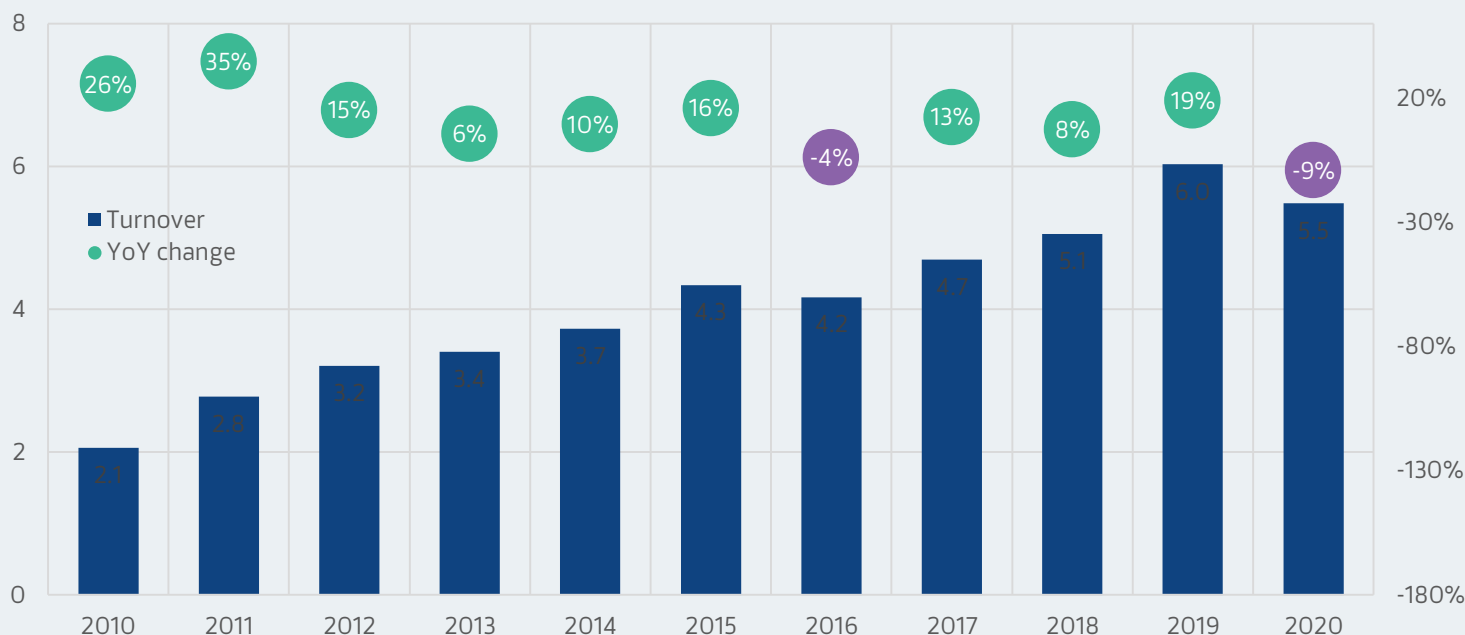
## World Bank's Logistics Performance Index, 2016-2018



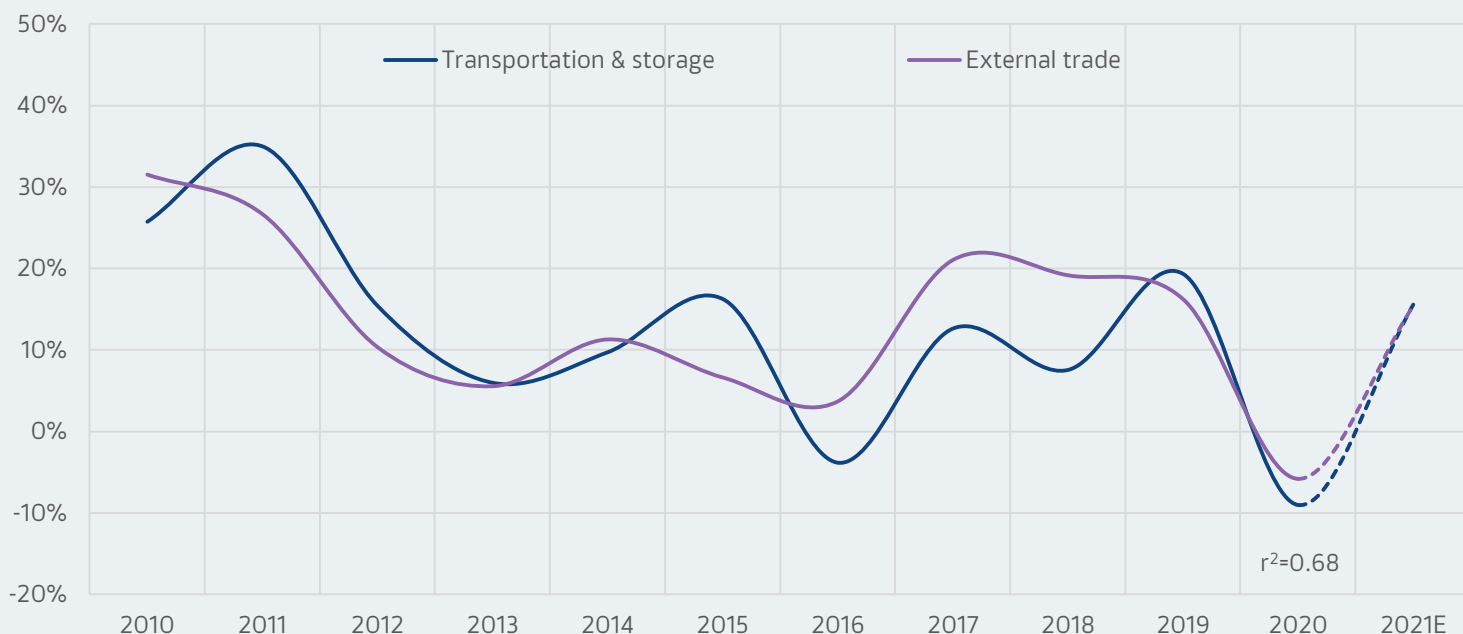
Index components (2018 vs 2016)	Score	Rank
Customs	2.42 ▲ 0.16	95 ▲ 23
Infrastructure	2.38 ▲ 0.22	102 ▲ 26
Timeliness	2.95 ▲ 0.14	105 ▲ 12
International shipments	2.38 ▲ 0.03	124 ▲ 7
Logistics quality and competence	2.26 ▲ 0.18	132 ▲ 14
Tracking and tracing	2.26 ▼ 0.18	139 ▼ 27
Overall	2.44 ▲ 0.09	119 ▲ 11

Source: World Bank, Logistics Performance Index; \*A shipment of 15 tons of containerized auto parts

## Turnover of transportation & storage sector (GEL bn) and YoY change (%)



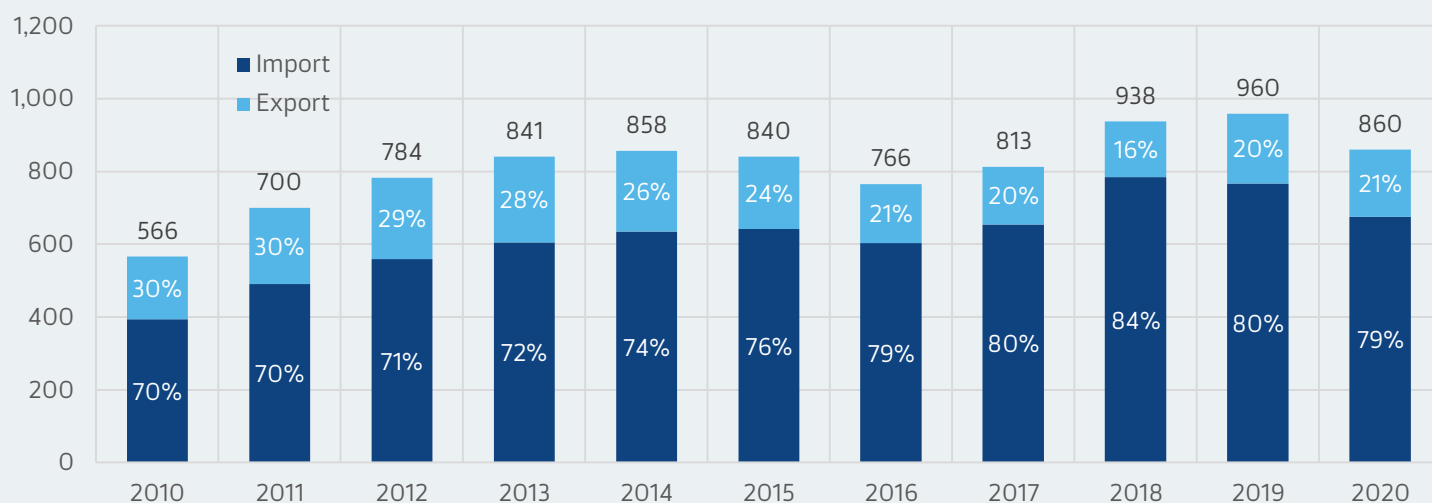
## YoY growth of transportation and domestic & external trade turnovers (%)



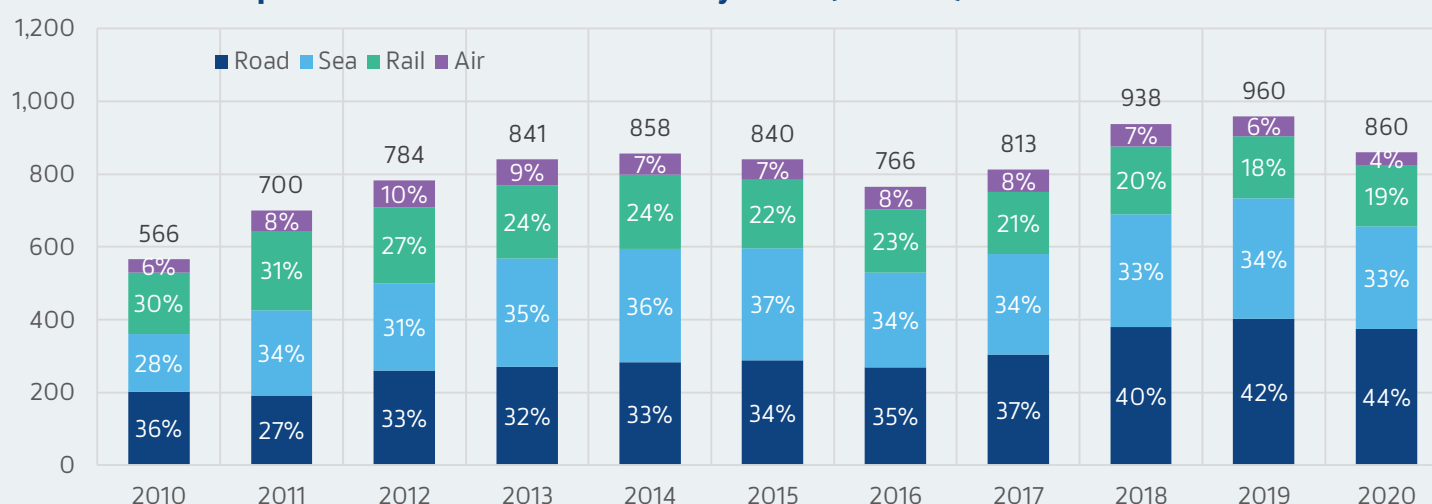
- Transportation and storage sector's turnover reached its maximum in 2019 at GEL 6 bn. **Prior to the pandemic, the sector grew by 9Y CAGR of 13%**
- Due to the pandemic and global mobility and border crossing restrictions **the sector's turnover decreased by 9% YoY in 2020**
- **The sector is in high correlation with the Georgian external trade turnover** and correspondingly with the retail and wholesale trade sector
- As domestic, as well as international demand will return to its normalized level and external and domestic trade will post full recovery, **the transportation and storage sector is expected to continue its upward dynamics of 2010-2019**

# The freight transportation service external trade posted a minor decrease in 2020

## Turnover of transportation service external trade (USD mln)



## Turnover of transportation service external trade by mode (USD mln)



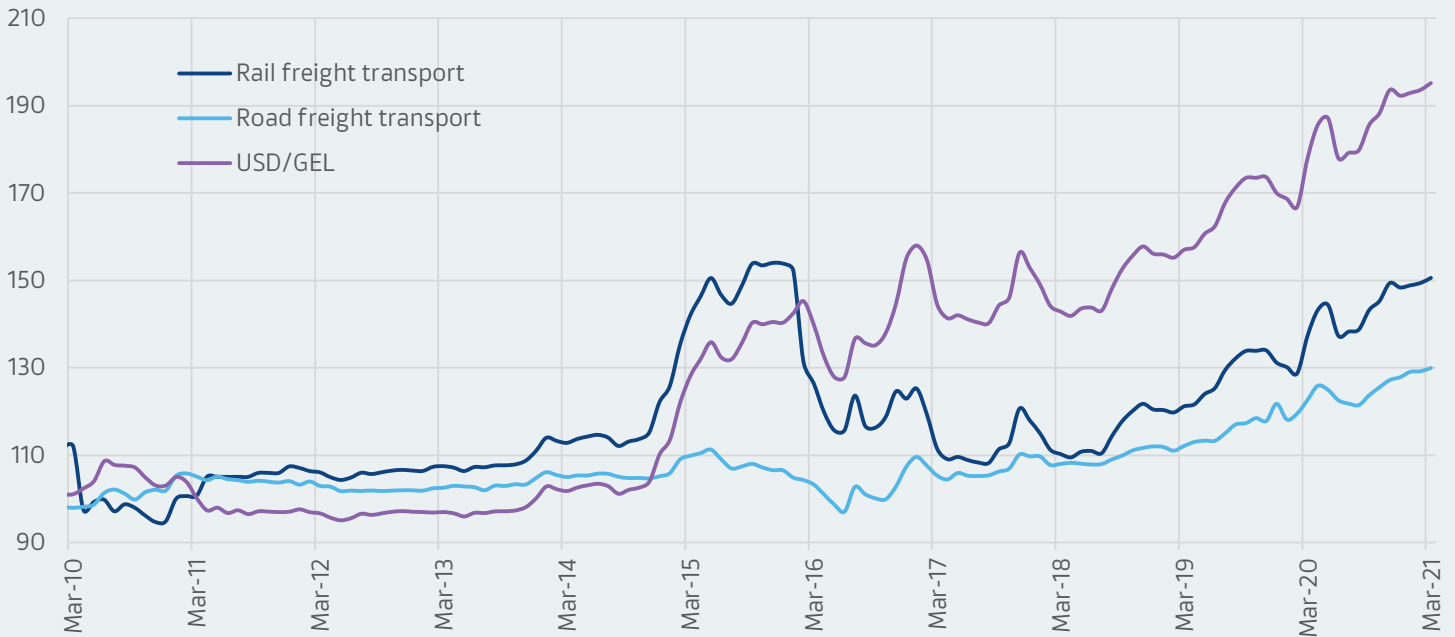
## Turnover of transportation service inflows and outflows by modes (USD mln)

		2019	2020	YoY change
Sea	Inflow	9.9	8.8	▼11%
	Outflow	320.0	273.5	▼15%
	<b>Turnover</b>	<b>329.9</b>	<b>282.2</b>	<b>▼14%</b>
Air	Inflow	16.1	5.1	▼68%
	Outflow	38.7	31.2	▼19%
	<b>Turnover</b>	<b>54.8</b>	<b>36.3</b>	<b>▼34%</b>
Rail	Inflow	71.9	68.5	▼5%
	Outflow	99.9	98.2	▼2%
	<b>Turnover</b>	<b>171.8</b>	<b>166.7</b>	<b>▼3%</b>
Road	Inflow	93.9	101.4	▲8%
	Outflow	309.1	273.2	▼12%
	<b>Turnover</b>	<b>403.0</b>	<b>374.6</b>	<b>▼7%</b>

- The transportation service external trade turnover declined by 34% YoY. However **the decline was mainly on the back of the 79% YoY drop in passenger transport**, while the freight transportation turnover declined by 7% YoY
- **Freight transportation service accounted for 39% of total service external trade in 2020**, up by 21 pp YoY due to a major decrease in tourism
- By different modes of transportation, **freight transportation turnover declined the most for air transport**, as the majority of air cargo is transported by commercial passenger flights
- The only growth in freight transportation service was observed in **road freight transportation inflows, posting a 8% YoY increase in 2020**

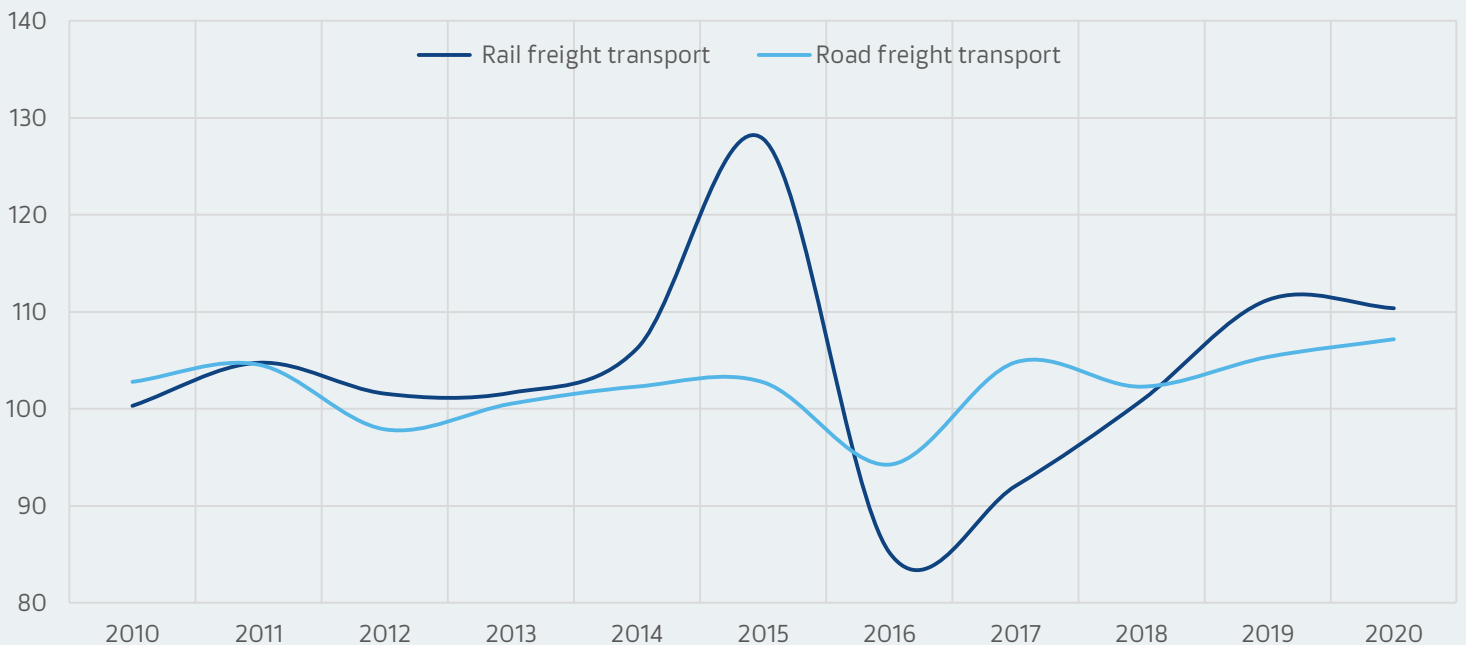
# Relatively stable long-term price levels in Georgian freight transportation services facilitates the ease of long-term planning

## PPI of freight transportation services & USD/GEL exchange rate (2010=100)

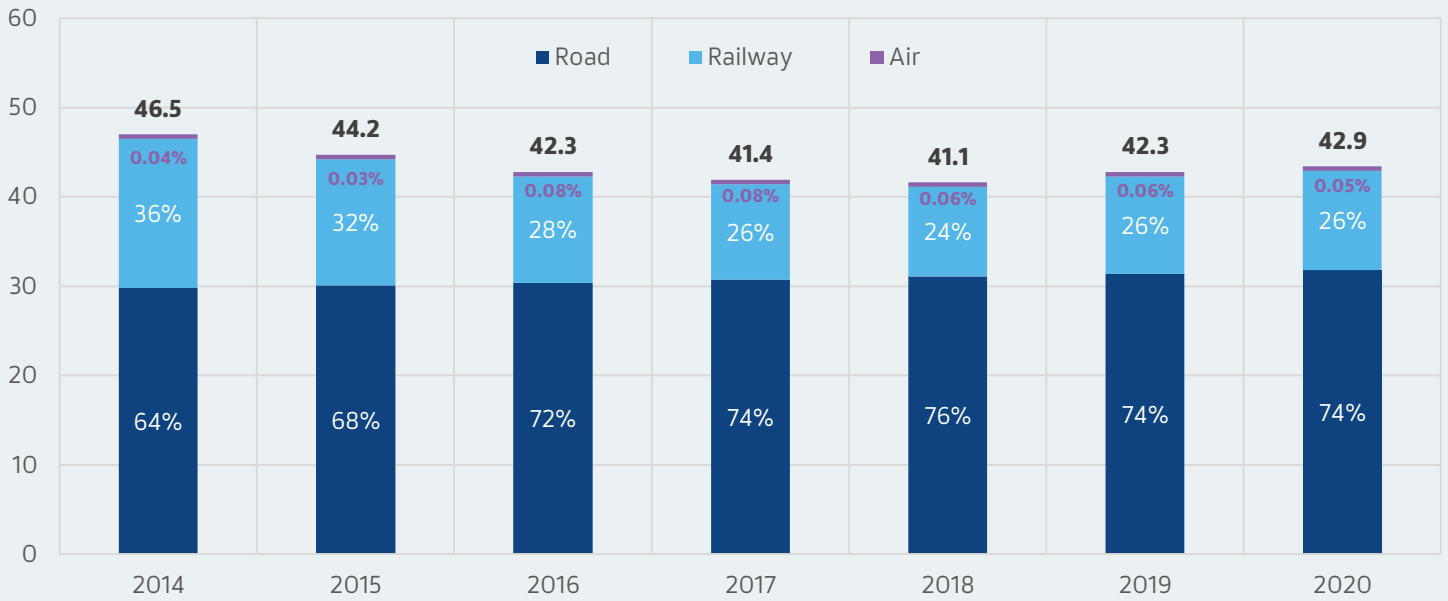


- As of March 2021, the general **price level in the land transportation service grew at a 0.20% CAGR since 2010** on a monthly basis. The price level in road freight transportation service grew by a 0.21% CAGR. As for railway service, the prices displayed a 0.22% CAGR growth
- The major **railway service price surge in home currency in 2014-2015, is mainly attributable to the depreciation of the GEL against the USD**, with contract prices adjusting from 2016 and consecutively normalizing the price level
- Due to the high dependency on foreign exchange rate volatility, **the rail freight transportation service prices display more instability** compared to road freight transportation service on a YoY annual PPI basis

## PPI of freight transportation services (YoY)

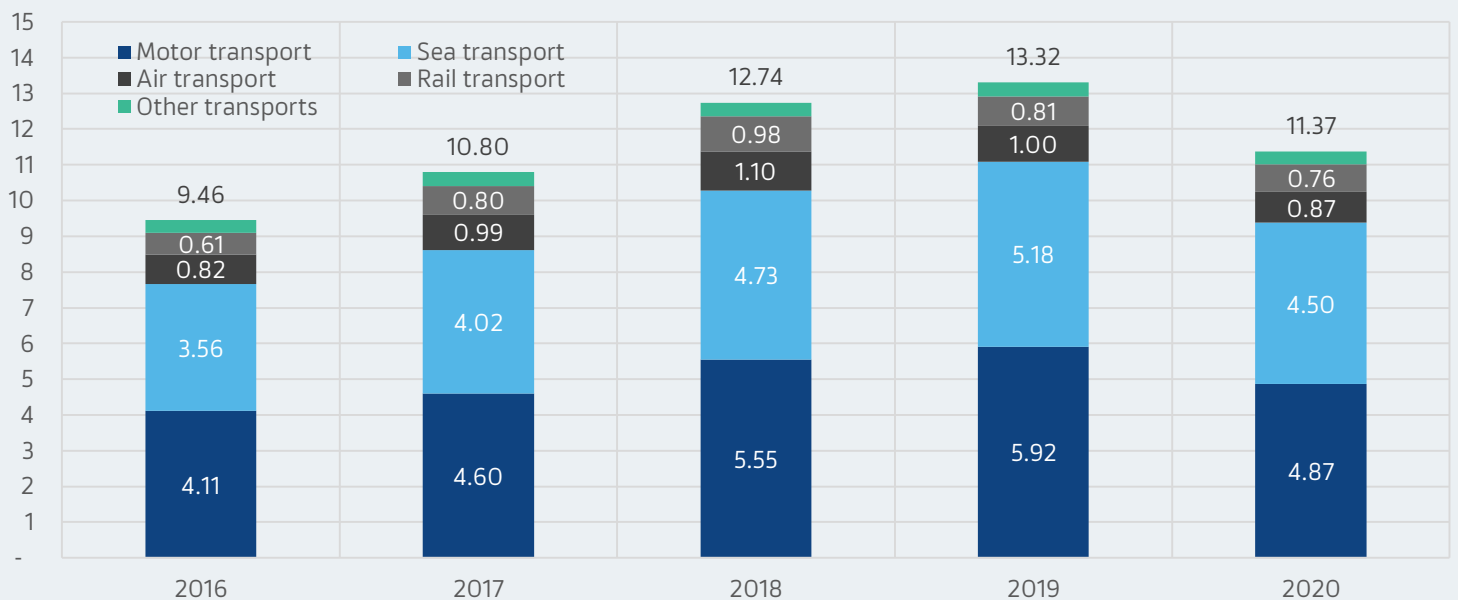


## Transported cargo in Georgia (mln tons)



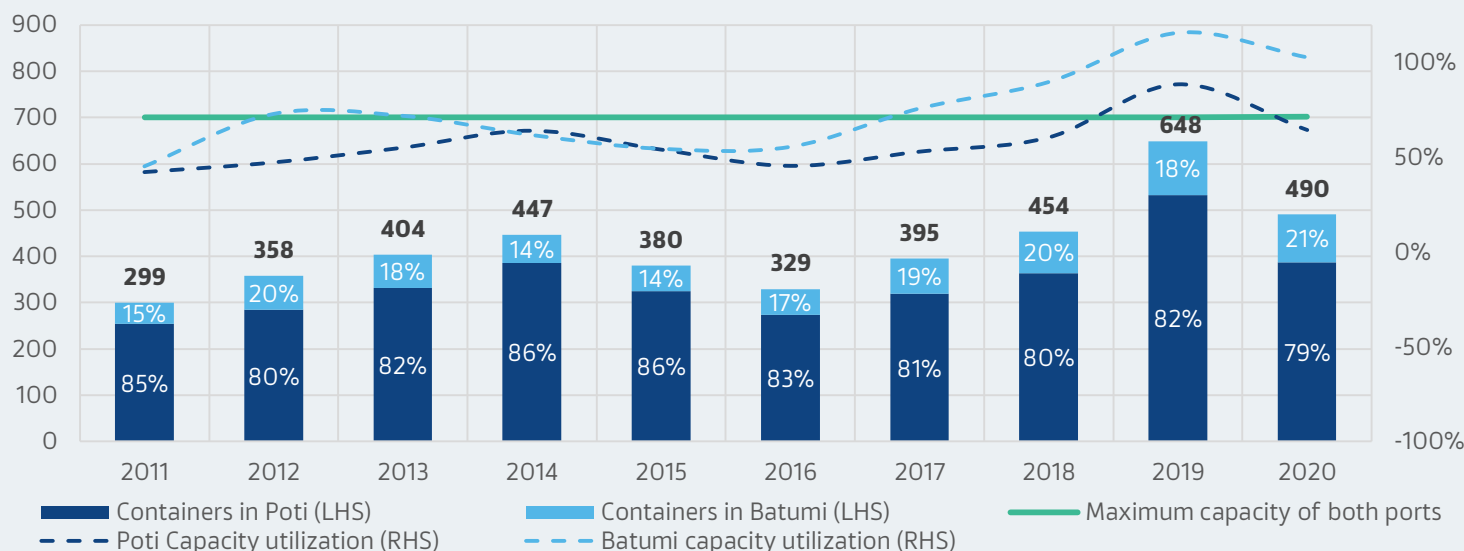
- In 2020, a total of **42.9mln tons of cargo was transported in Georgia, a 1.4% Y-o-Y increase** regardless the pandemic and a second consecutive year of growth after a downward sloping trend since 2014
- Historically, **road transportation has the largest share of total transported cargo**, averaging at c. 72% in 2014-2019 period, followed by railway and aviation standing at 28% and 0.06%, respectively, over the same period
- **Road freight transport’s share in total inland freight transportation has increased from 64% in 2014 to 76% in 2018**, mainly on the back of the decreasing volumes of railway freight. As railway freight picked up in 2019-2020, road freight’s share in total inland freight transportation reverted back to 74%
- **In terms of external trade in USD terms, the goods are mostly allocated among sea and motor transports**, with rail, air and other means being responsible for on average c. 20% over 2016-2020 period

## External trade turnover by modes of transport (USD bn)

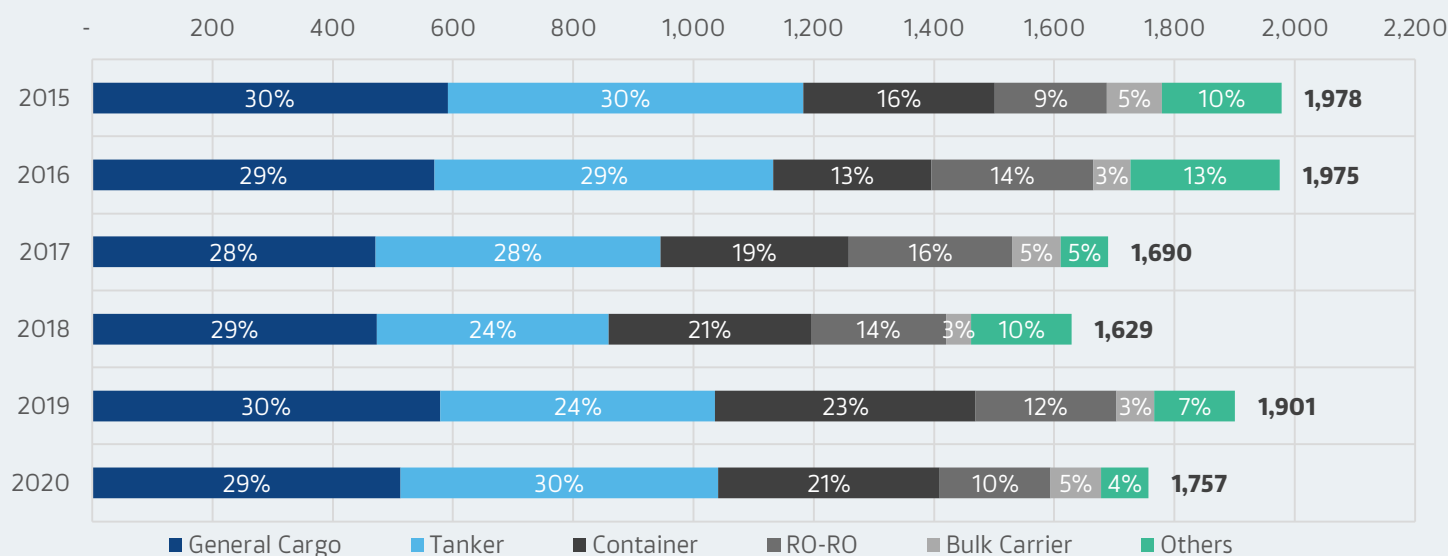




## Batumi and Poti port container throughput ('000 TEUs)



## Vessel throughput breakdown by type (units)

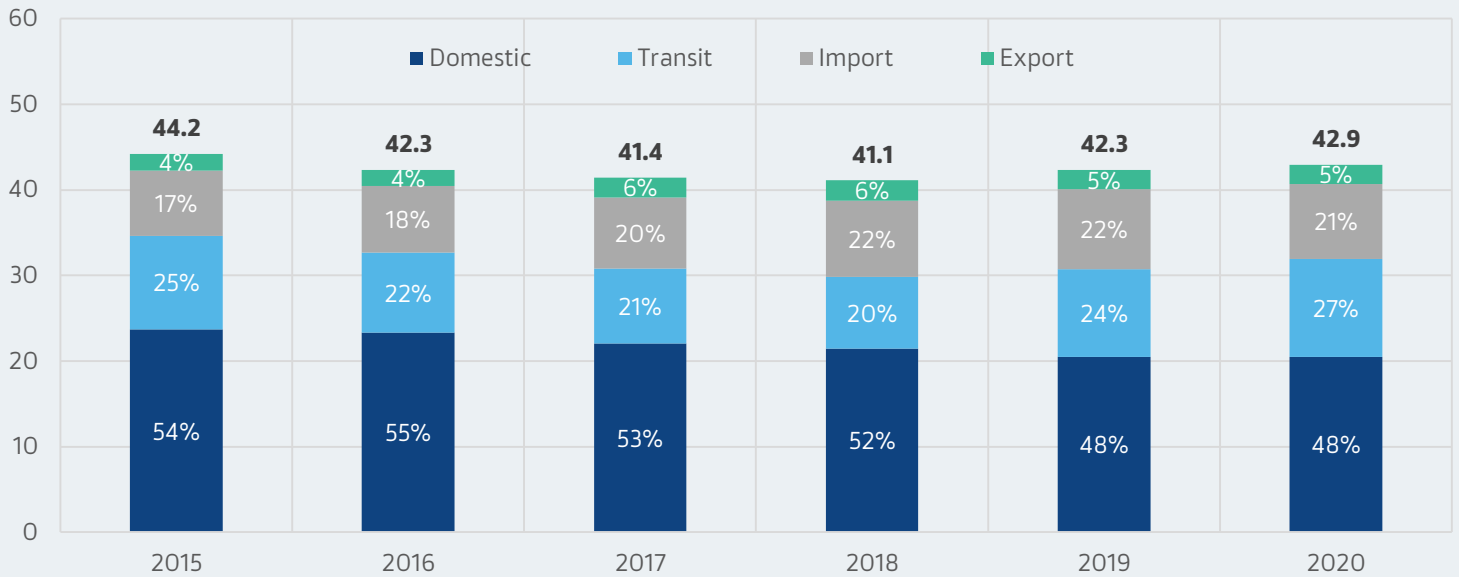


## Throughput capacity of Georgian ports and terminals

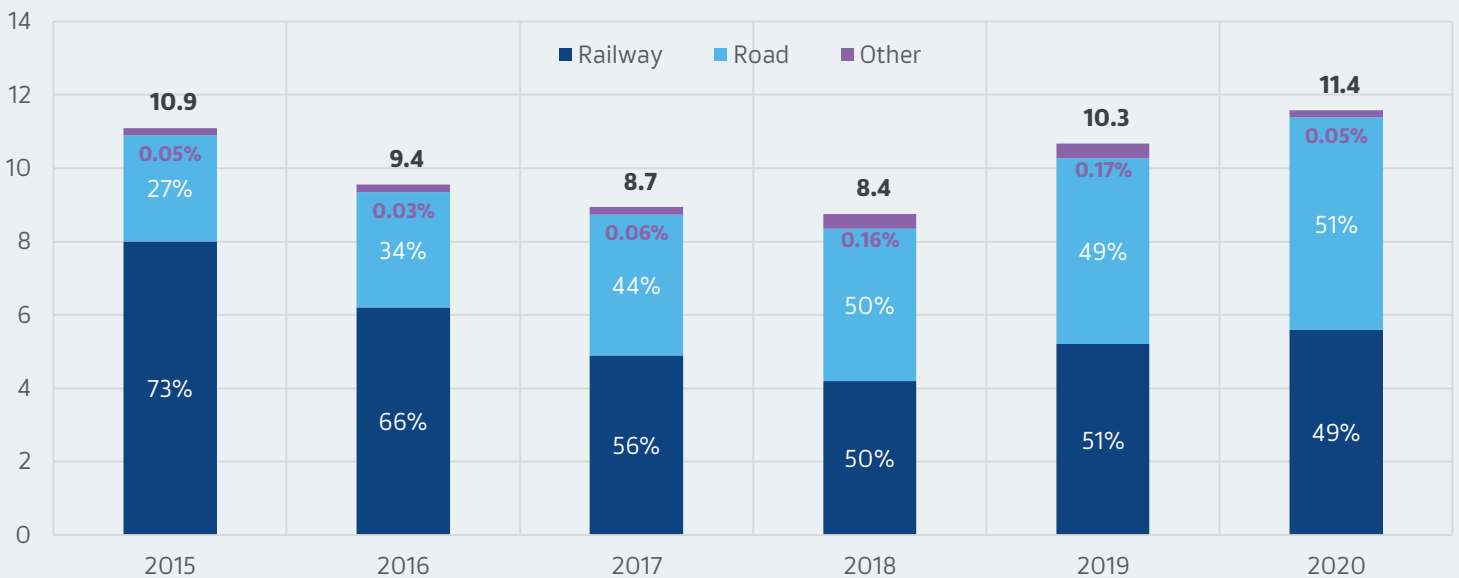
Port/Terminal	Dry cargo (mln tons)	Liquid cargo (mln tons)	TEU (000 units)
Port of Poti	4	1	600
Port of Batumi	2	15	100
Kulevi Oil Terminal	-	6	-
Supsa Terminal	-	8	-
<b>Total</b>	<b>6</b>	<b>30</b>	<b>700</b>

- In 2019, Georgia's two operating ports handled 647,816 TEUs, a historic maximum and a 43% YoY increase. Due to the pandemic and the wearing off of the one-off effect related to Armenia's car imports, the amount of handled TEUs dropped by 24% YoY in 2020
- Regardless the major decrease in the amount of TEUs handled at the ports, the amount of vessels accepted saw a less severe, -8% YoY decrease, with tankers and bulk carriers even posting growths of 16% and 25% YoY, respectively, in 2020

## Transported cargo in Georgia by destinations (mln tons)



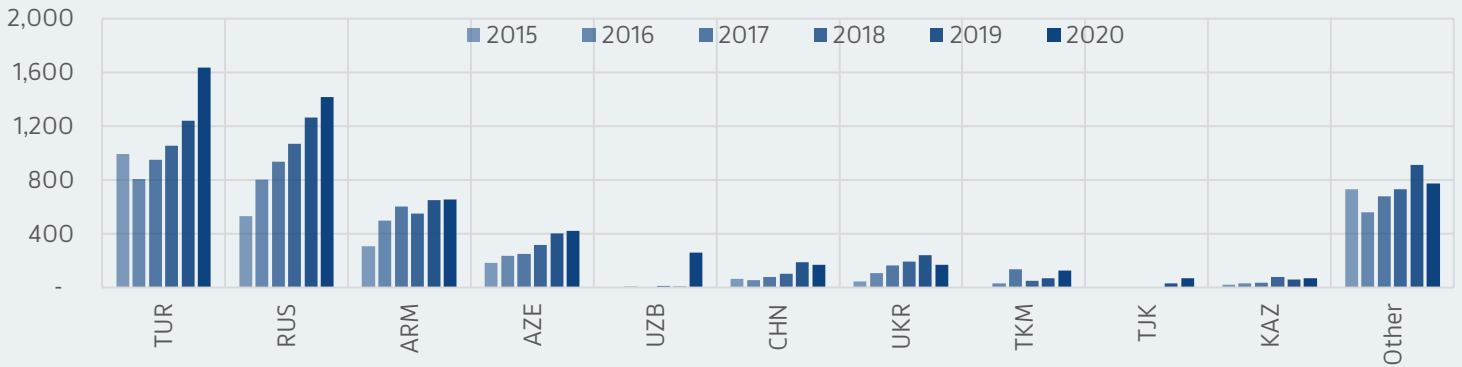
## Transit cargo in Georgia by mode of transport (mln tons)



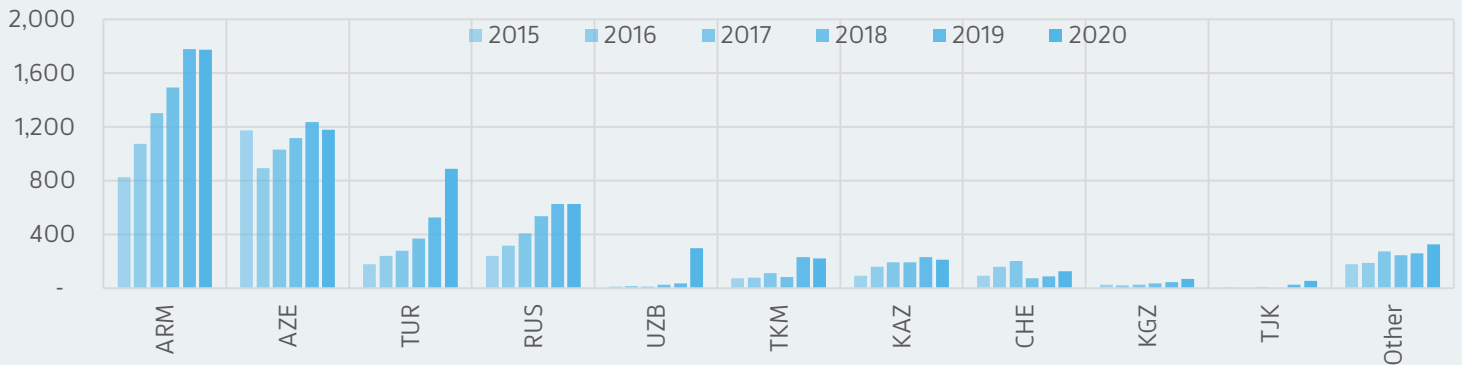
- **Freight transportation with domestic origin as well as destination accounts for roughly half of total inland freight transportation** Georgia, but as the external sector strengthens both in the form of international trade as well as transit, the share diminishes, dropping from 55% in 2016 to 48% in 2020
- **The transit volume has increased by a 4Y CAGR of 5% in the period of 2016-2020**, posting the highest growth in the external sector of Georgian freight transportation. Exports also posted a noticeable growth in the same period with a 4% CAGR, followed by imports at a 3% CAGR
- Even though road transit cargo transportation has consistently posted growth for the past 5 years, **railway cargo transportation has experienced losses at a higher pace**, resulting in the decrease of total cargo transportation till 2019
- After experiencing significant losses in prior years, **railway transit cargo transportation has posted a 2Y 15% CAGR growth in 2018-2020**, having a significant effect on the 11% YoY growth in total transit cargo transportation in 2020

# Georgia has acted as a road cargo transit corridor for mostly the same ten countries throughout the past 6 years

## Road transit cargo in Georgia by top countries of origin ('000 tons)



## Road transit cargo in Georgia by top recipient countries ('000 tons)



- Over the past six years, on average **around 82% of road transit cargo transported in Georgia originates from the same 10 countries**, with the immediate neighbors making up on average over 70%. The share has increased from 75% in 2015 to 87% in 2020, increasing the dependency on the countries
- The share of top 10 recipient countries as of 2020 remained more or less stable from 2015 to 2020. Over the same period, on average **c. 94% of the road transit cargo in Georgia was meant for the same 10 countries**
- In terms of specific trading partners, **in 2020 Georgia was used as a transit corridor the most by Armenia and the Russian Federation**, totaling at 1.8mln tons and 31% of total transit cargo throughput of the year

## 2020 transit cargo\* by top 15 directions ('000 tons)

Trading partners	Share	Tonnage
Russia → Armenia	23%	1,314
Turkey → Azerbaijan	12%	713
Armenia → Russia	8%	475
Azerbaijan → Turkey	5%	291
Turkey → Uzbekistan	5%	283
Uzbekistan → Turkey	4%	236
Turkey → Turkmenistan	3%	177
Turkey → Kazakhstan	3%	166
Turkey → Russia	3%	145
Turkmenistan → Turkey	2%	120
Rest	32%	1,864
<b>Total</b>		<b>5,785</b>

Source: Revenue Service, TBC Capital; \*excluding railway transit cargo

- On the back of increased cargo volumes (+2% YoY) and shifted product category mix, coupled with decreased tariffs for the majority of the categories, the 2020 top line remained largely unchanged, posting a decrease of only 0.34% YoY
- The revenue displayed a minor, 0.34%, decrease in 2020 in domestic currency, with a sharper, 9.66%, fall in USD terms
- As a result of the GEL depreciation, the net debt/EBITDA ratio increased further to 6.35 in 2020, remaining above the 3.5 Eurobond covenant since 2017
- Despite a 0.7 pp YoY decrease, the adjusted EBITDA margin, standing at 43.3% in 2020, represents an exemplary position among regional peer companies
- A sharp decline in Georgian Railway’s net profit in 2020, while only a minor setback in the group’s operating performance

## Georgian Railway key financial figures

	2019	2020	YoY change
Revenue ('000 GEL)	491,038	489,370	-0.3%
EBITDA margin	45.50%	44.70%	-0.8 pp
Adjusted EBITDA margin	44.00%	43.30%	-0.7 pp
Operating ratio	73.70%	73.40%	-0.3 pp
Interest coverage ratio	1.29	1.22	-0.07 pp
Net debt ('000 GEL)	1,160,949	1,389,584	+19.7%
EBITDA ('000 GEL)	223,178	218,962	-1.9%
Net debt/EBITDA	5.2	6.35	+1.15
Debt/equity	3	5	+2.0

## Georgian Railway key infrastructural and operating figures

	2019	2020	YoY change
Network length	1,436 km	1,436 km	-
Freight stations	99	99	-
Railroad tunnels	40	40	-
Railroad bridges	1,323	1,323	-
Transported cargo (mln tons)	10.9	11.1	+1.9%
Transported passengers ('000)	3,027	939	-69.0%
Freight revenue per ton-km (GEL)	0.132	0.134	+1.5%
Passenger revenue per passenger-km (GEL)	0.046	0.045	-2.2%

## Georgian Railway issuer credit rating

**FitchRatings**

**BB-**  
**Negative**

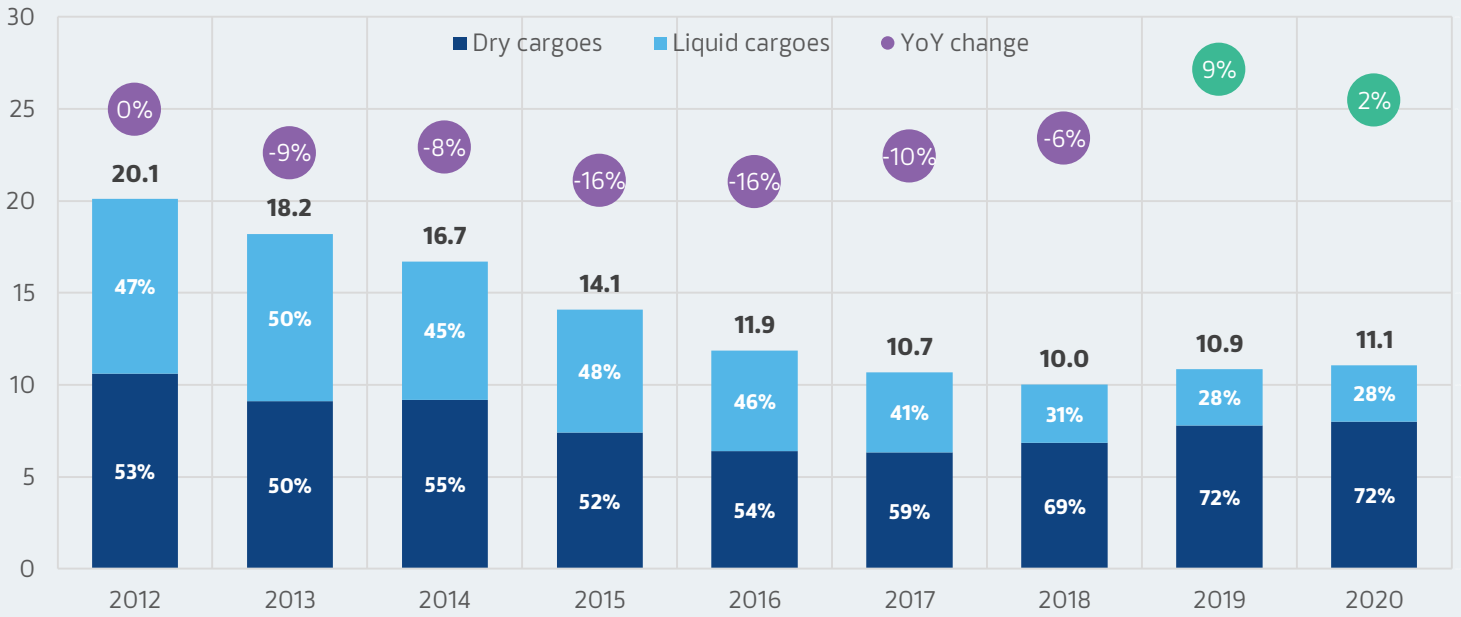
Last action: Dec-2020

**S&P Global**

**B+**  
**Negative**

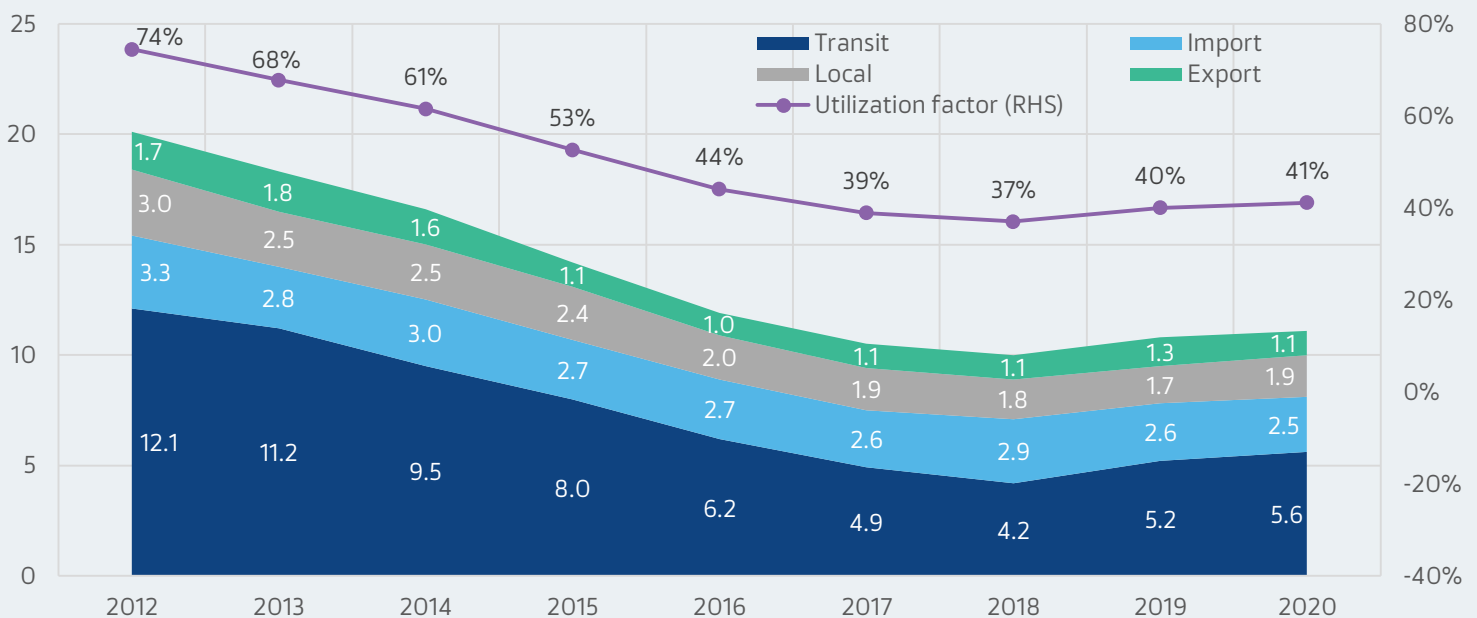
Last action: Mar-2021

## Rail cargo by type and growth rate (mln tons, % YoY)

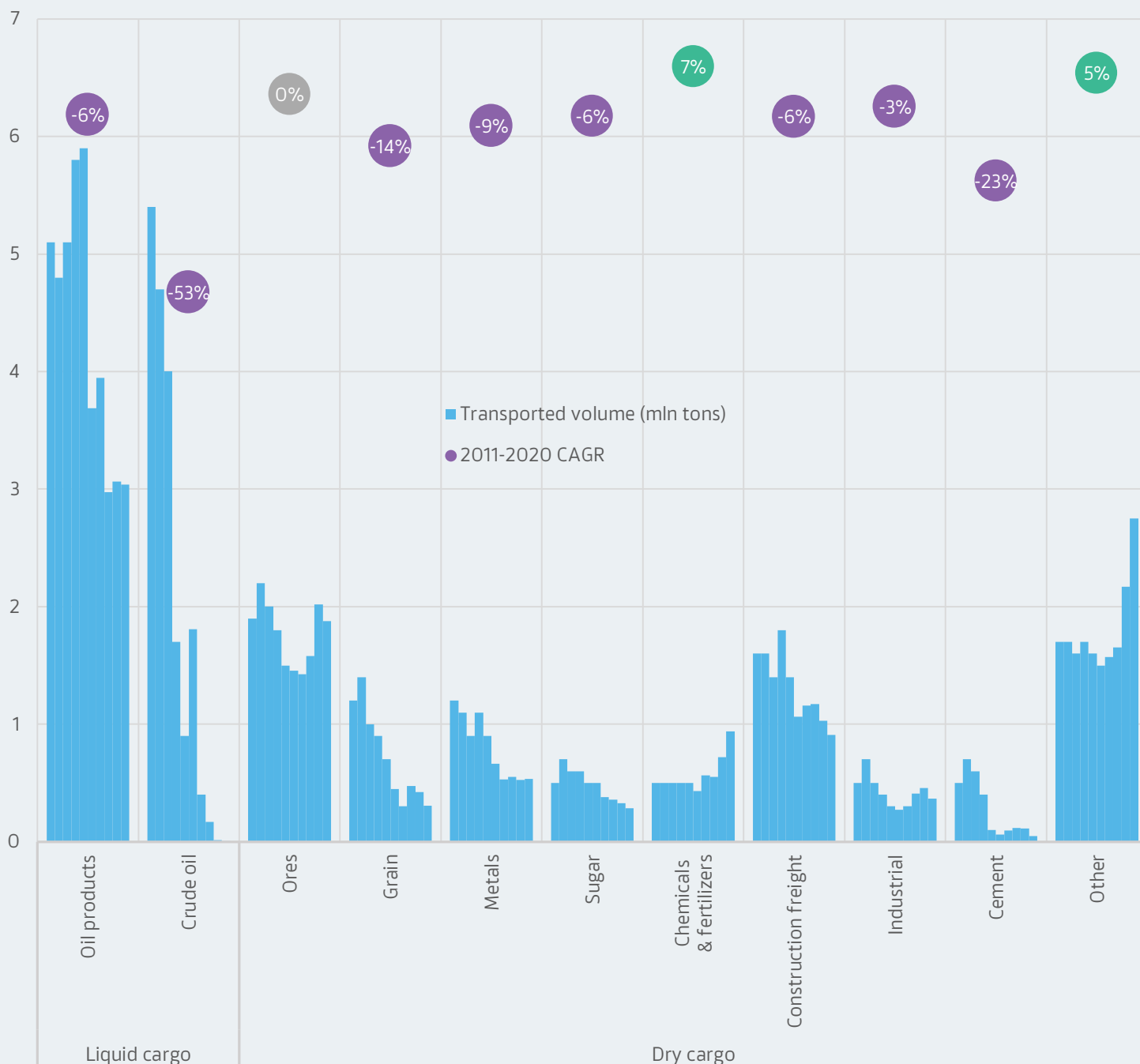


- Despite the pandemic and various restrictions in 2020, **Georgian Railway's cargo throughput posted a 2% YoY growth in 2020**, marking a second consecutive year of growth following a -9% 7Y CAGR in 2011-2018
- **The increase in railway cargo transported in 2019 as well as 2020 is attributable to a 13% YoY and 3% YoY increase, respectively, in transported dry cargo.** However, it must be noted that the negative growth rate of transported liquid cargo has cooled off and following a -16% 7Y CAGR in 2011-2018 posted minor decreases in 2019 and 2020 (-2% YoY and -1% YoY, respectively)
- In terms of destinations, while goods transported for local and external trade means have remained relatively stable over the years, **transit cargo transportation, the largest share holder in rail cargo, has been responsible for the overall decrease, consistently posting decreases in 2011-2018** and recovering in 2019 and 2020 at +24% YoY and +8% YoY, respectively

## Breakdown of rail cargo by destinations (mln tons)

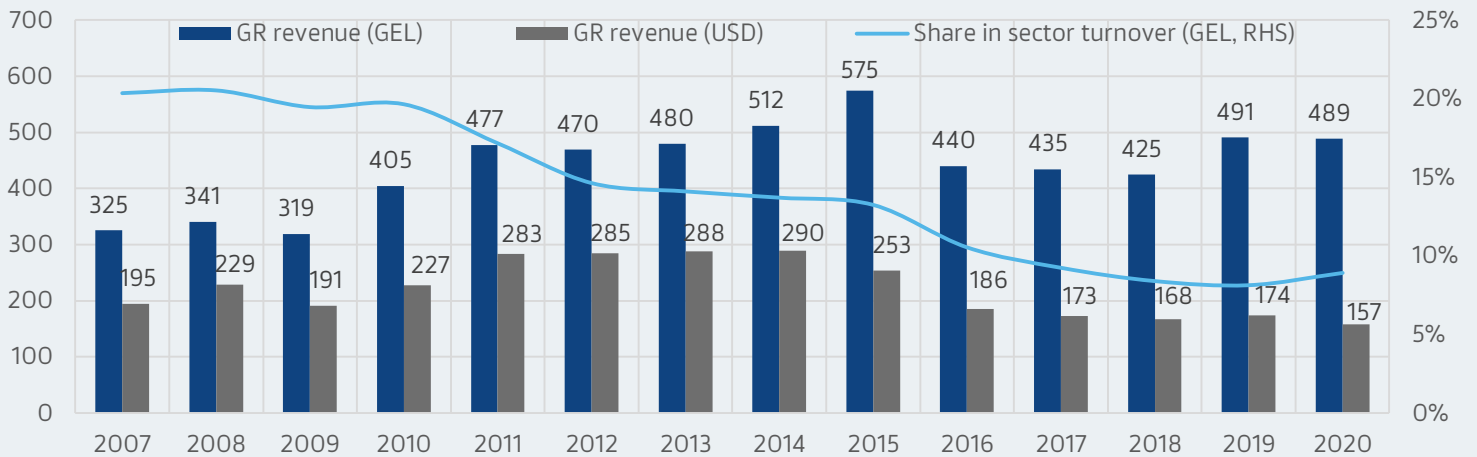


Georgian Railway cargo by product categories (2011-2020; mln tons)



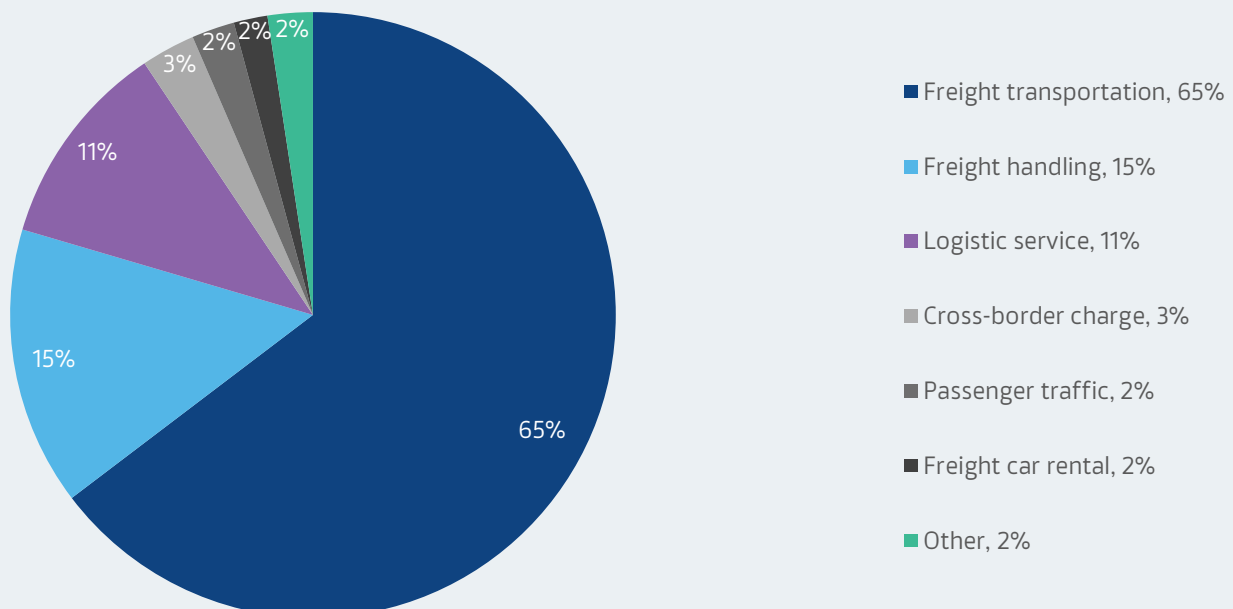
- Over the course of the past nine years only two product categories, **chemicals and fertilizers and other products, posted positive 9Y CAGRs in Georgian Railway’s freight transportation**
- Georgian Railway’s **freight transportation’s recovery starting from 2019 is partially attributable to the stabilization of the largest product category, oil products**, volumes paired with noticeable increases in the volumes of ores, chemicals and fertilizers, and other products
- **In 2020 the major growth driver was the other product category, posting a 27% YoY growth**, followed by chemicals and fertilizers at +31% YoY, and ferrous and scrap metals also slightly contributing to the overall increase at +2% YoY

## Georgian Railway revenue dynamics and share in sector turnover (GEL mln, %)

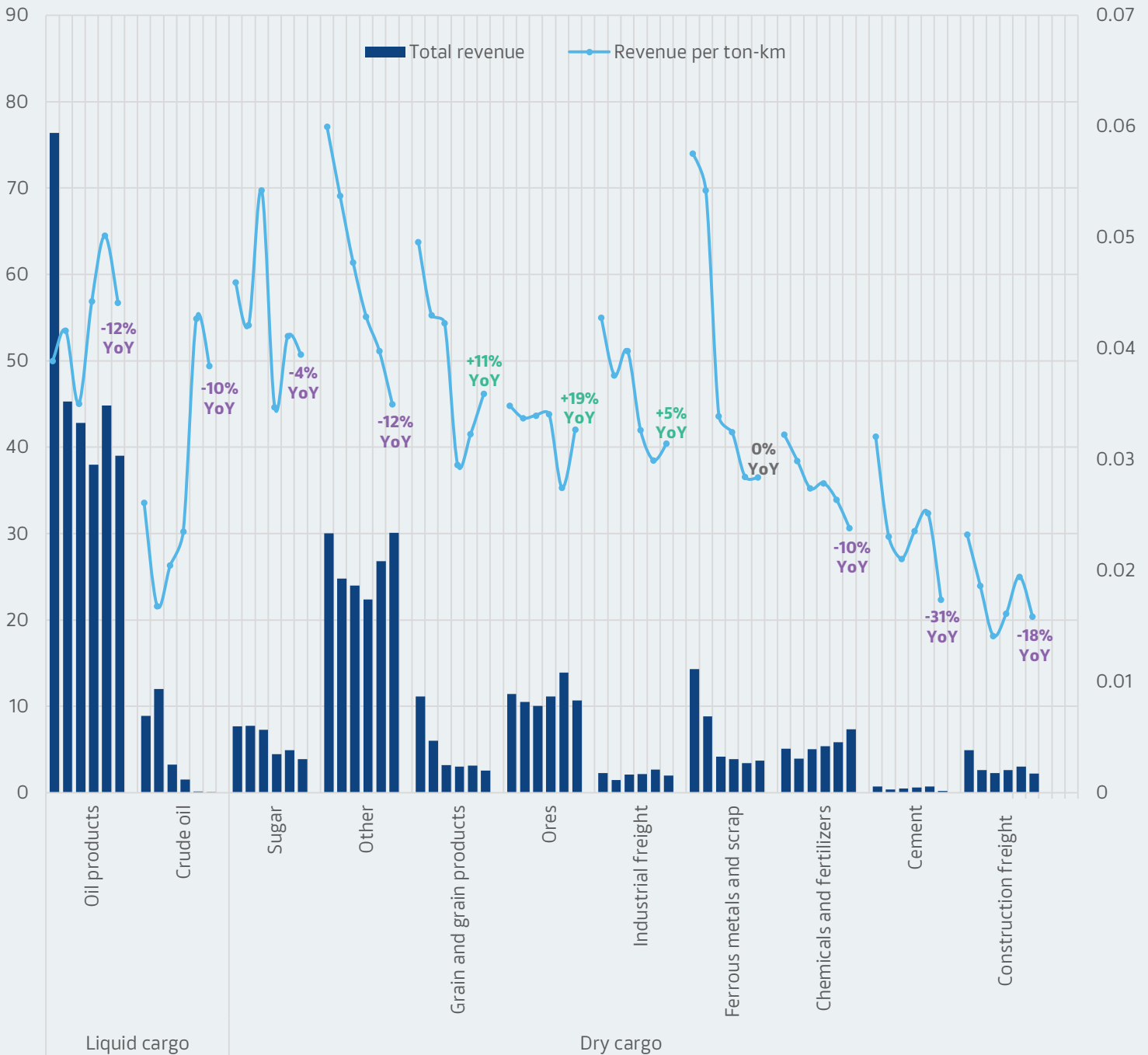


- Since most of Georgian Railway's tariffs are denominated in foreign currency (c. 89% of total revenues in 2020), the **major surge in turnover in home currency observed in 2014-2015 and 2019-2020, is mainly attributable to the depreciation of the GEL against the USD**. After contract price adjustments following the 2015 surge the revenues normalized until 2019, when the domestic currency once again depreciated against the USD
- A minor decrease is observed in Georgian Railway's revenues in 2020 in the domestic currency, standing at -0.3% YoY. However **the decline in revenues is more noticeable in USD terms at -10%**
- **Georgian Railway's share in the country's transportation & storage sector has increased for the first time since 2007**, posting a 1 pp increase at 9% of total turnover
- Historically, **freight transportation has held the highest share in Georgian Railway's revenue structure**, however, it was characterized with a decreasing tendency, dropping from 76% in 2007 to 57% in 2018. The recent increase in transported cargo in 2019 and 2020 has correspondingly translated into increased revenue from freight transportation, standing at GEL 3.6mln (65% of total revenues)

## Georgian Railway revenue structure - 2020 (GEL mln)



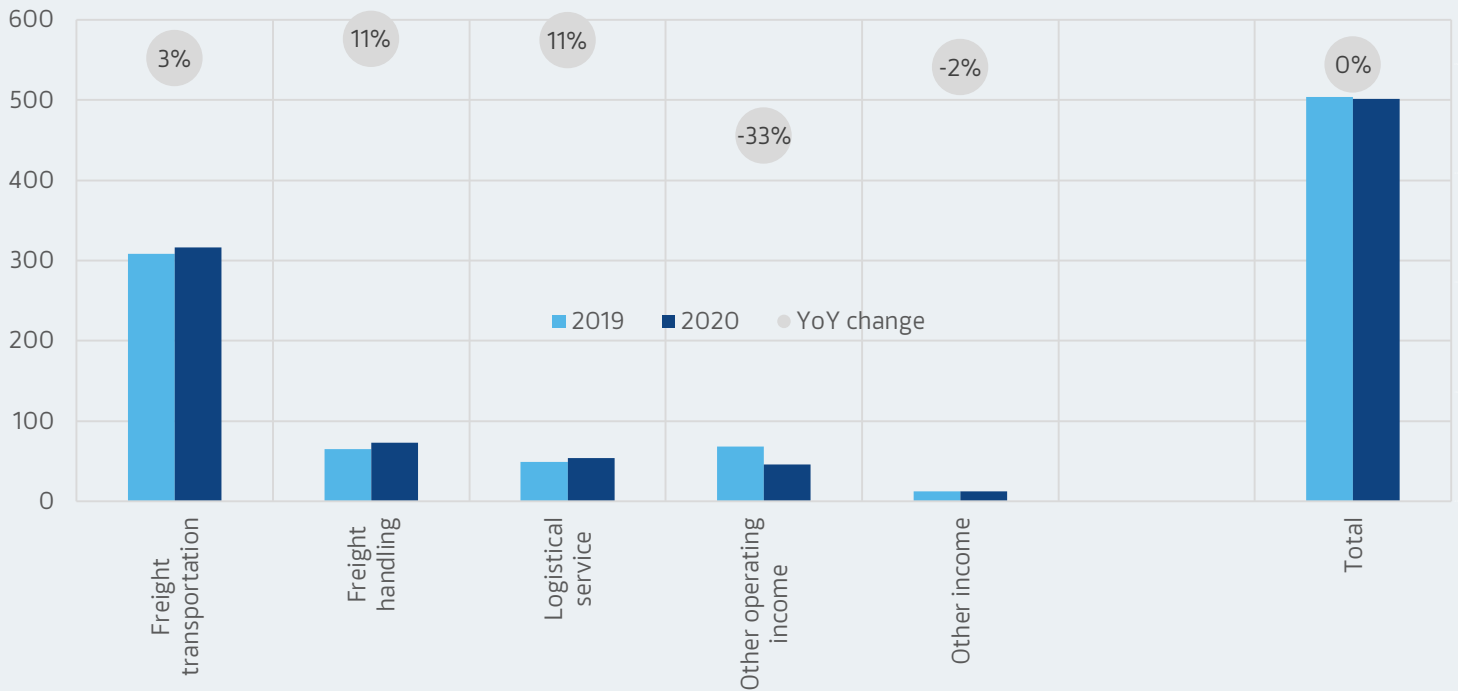
Georgian Railway cargo transportation total revenue and revenue per ton-km (2015-2020; current USD)



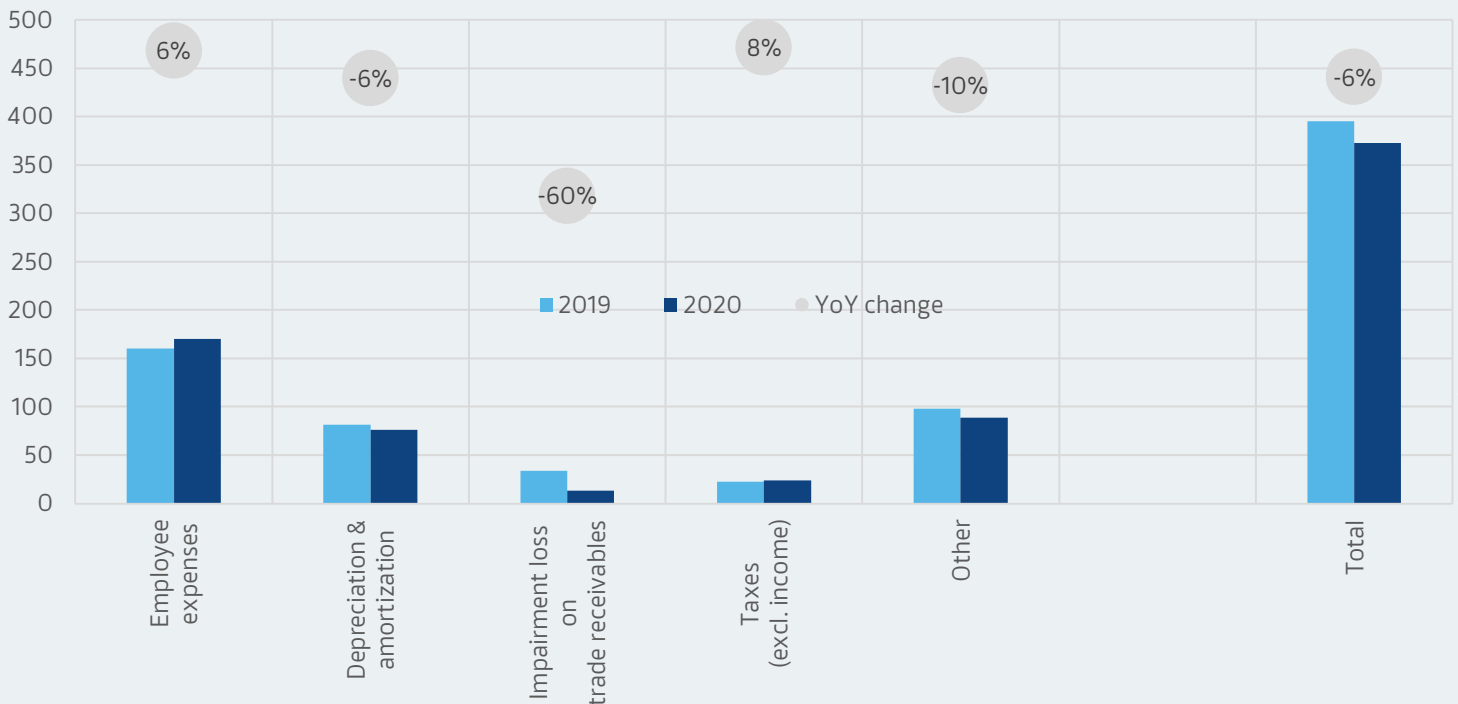
- Throughout 2020, **Georgian Railway's revenue per ton-km decreased for most of its cargo categories** with the exception of ferrous metals, which posted no change, grain and grain products, ores, and industrial freight (+11% YoY, +19% YoY, and +5% YoY, respectively). The largest decrease in transportation tariffs was observed in cement (-31% YoY) and construction freight (-18% YoY)
- While **the revenue per ton-km for Georgian Railway's largest revenue generating category**, other categories, has decreased by 12% YoY, it has posted a more sizable increase at +19% YoY for the second runner up, ores



## Revenue breakdown (GEL mln)

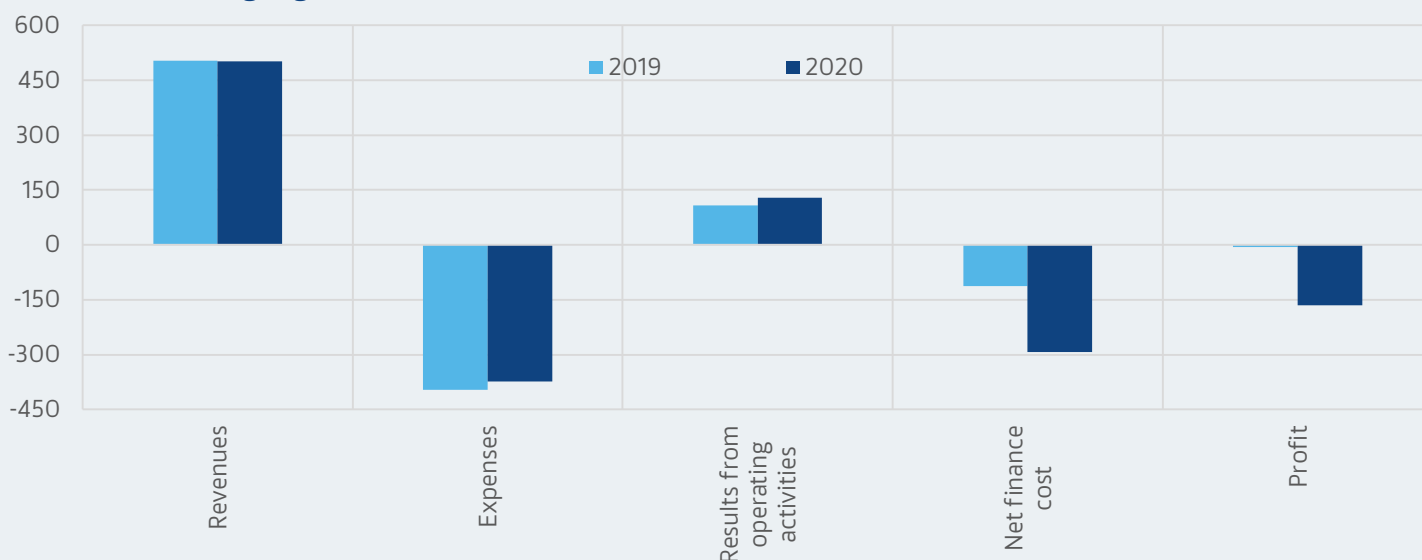


## Operating expenses (GEL mln)

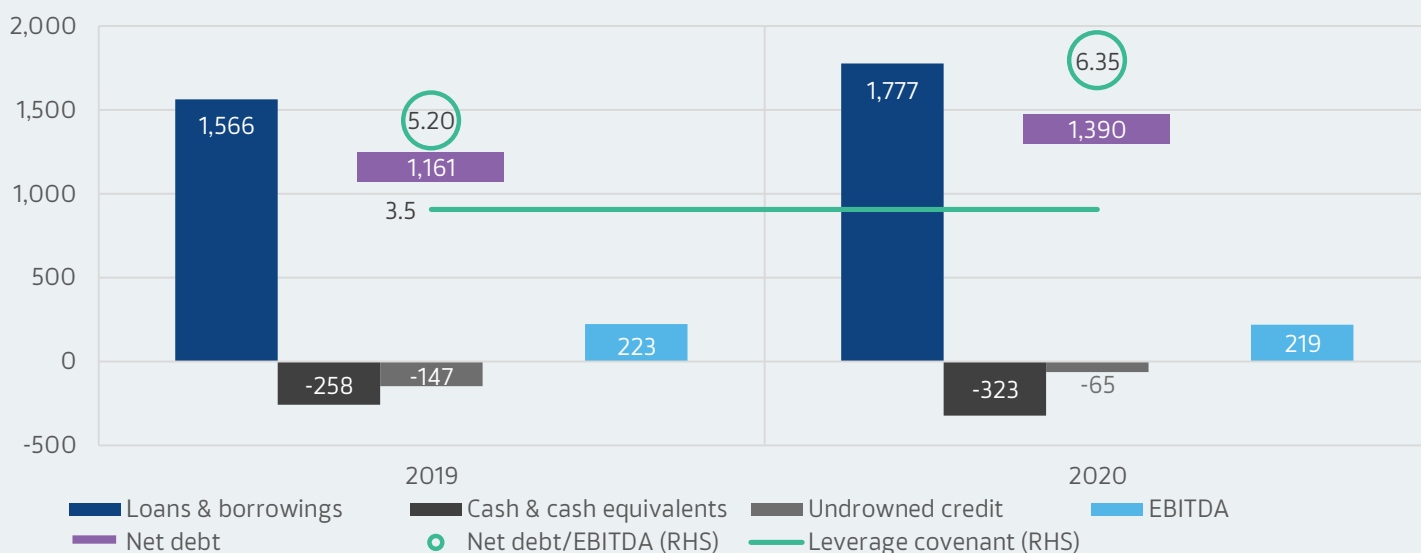


- Revenues from freight transportation (+3% YoY), the largest revenue generating category for Georgian Railway, together with the runner ups, freight handling (+11% YoY) and logistical service (+11% YoY), posted sufficient annual growth to compensate the major decrease in other operating income, mainly driven by a 64% YoY decrease in passenger traffic revenues, resulting an insignificant, **less than 1% YoY decrease, in total revenues for 2020**
- While the largest operating expense category, employee benefits expenses, posted a 6% YoY increase in 2020, all other major expense categories decreased in the same period, resulting in **a 6% YoY decrease in Georgian Railway's operating expenses**

## Profit and loss highlights (GEL mln)



## Net debt breakdown and net debt/EBITDA ratio (GEL mln, %)



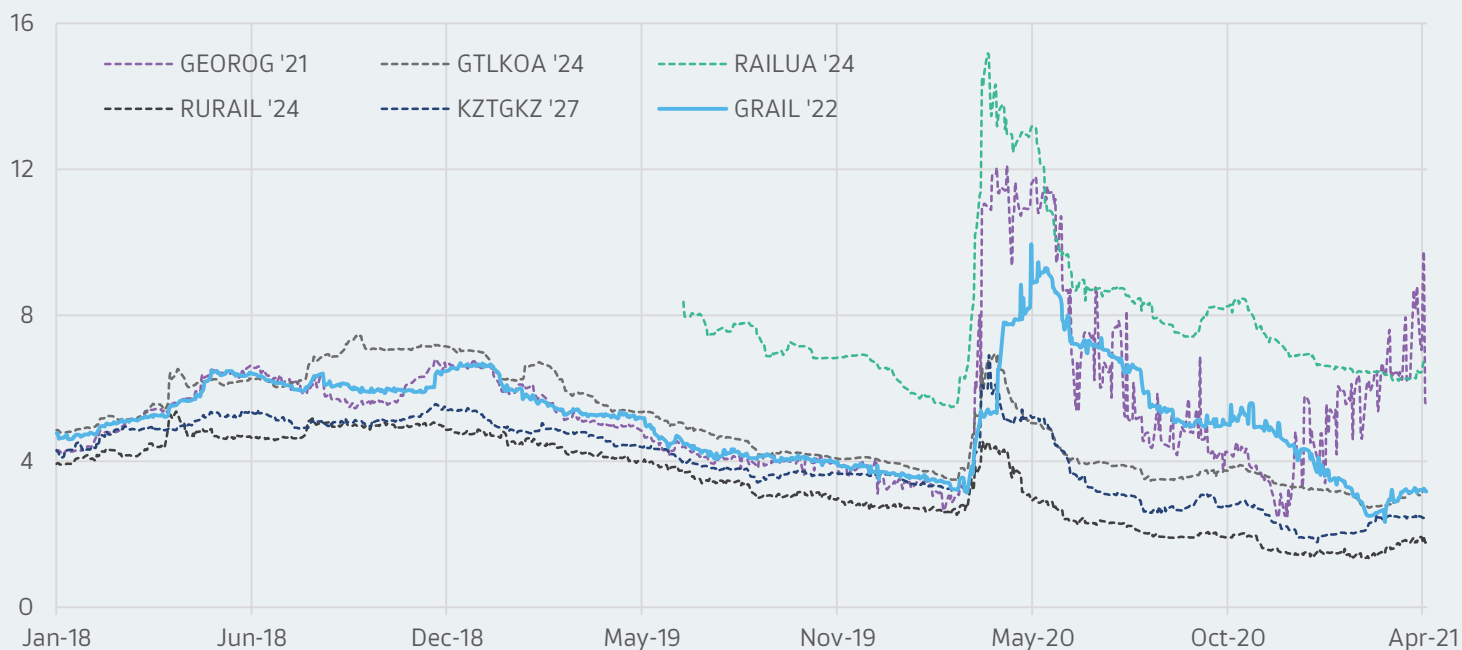
- While Georgian Railway posted a 19% YoY increase in its results from operating activities in 2020 due to almost identical revenues and a 6% decrease in expenses, **the net finance cost increased dramatically by 159% YoY resulted by a major FX loss** due to the GEL depreciation against the USD in 2020
- Due to the increased net finance loss, **Georgian Railway posted the highest net loss in 2020 since 2007 with the exception of 2017 and 2018** when major impairment losses on PP&E occurred as a result of the uncertainties regarding the Tbilisi Bypass project
- **Georgian Railway's operating performance saw a 2% YoY decrease**, with EBITDA standing at GEL 219mln in 2020
- Despite the increase in cash in 2020, a major 14% YoY growth in loans (due to FX) and a 56% YoY decrease in undrawn credit pushed the group's net debt to c. GEL 1.4bn in 2020. The increased net debt, coupled with a worsened operating performance, **pushed the net debt/EBITDA ratio higher above the Eurobond covenant of 3.5 to 6.35 in 2020**

- Georgian Railway has an outstanding USD 500m Eurobond maturing in July 2022. The majority of the proceeds of the bond were focused on infrastructural projects, most importantly the Modernization Projects, 93% of which was completed as of December 2020
- **Georgian Railway's Eurobond has been trading with a premium to par**, with yield below its coupon rate, throughout the years with the exception of the Spring 2020 hike due to the COVID related uncertainties
- Given the fact that the bond is currently trading with a lower yield compared to the initial yield, the group is confident in its investors' sentiments and has the capacity to successfully **refinance the existing 10-year Eurobond in June 2021** with a new Eurobond issuance

## Georgian Railway Eurobond details

Issuer	Georgian Railway JSC
Issuer Ratings (Standard & Poor's/Fitch)	B+/BB-
Status	Senior Unsecured
Format	REGS
Issued Amount	USD 500m
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)

	2019	2020
<b>Revenue</b>	<b>491,038.4</b>	<b>489,370.2</b>
Other Income	12,751.1	12,547.0
Employee benefits expense	(160,561.5)	(170,502.5)
Depreciation and amortization expenses	(81,234.7)	(76,155.8)
Electricity, inventory and repair work	(47,921.0)	(41,410.8)
Impairment loss on trade receivables	(33,728.7)	(13,559.5)
Other Expenses	(72,128.4)	(71,042.1)
<b>Operating activities</b>	<b>108,215.3</b>	<b>129,246.5</b>
Finance income	14,849.4	26,508.0
Finance cost	(128,131.3)	(319,884.4)
Profit before income tax	(5,066.6)	(164,129.9)
Income tax expense	(518.9)	(513.8)
<b>Profit and total comprehensive income</b>	<b>(5,585.6)</b>	<b>(164,643.7)</b>
<b>EBITDA</b>	<b>223,178.6</b>	<b>218,961.8</b>
EBITDA margin	45.45%	44.74%
Adjusted EBITDA	216,224.5	211,741.4
<b>Adjusted EBITDA margin</b>	<b>44.03%</b>	<b>43.27%</b>

## Balance sheet highlights ('000 GEL)

	2019	2020
Total Non-current assets	1,983,274.2	1,959,028.1
Total current assets	330,288.8	388,736.0
<b>Total assets</b>	<b>2,313,563.0</b>	<b>2,347,764.1</b>
<b>Total equity</b>	<b>523,365.2</b>	<b>359,286.1</b>
Total non-current liabilities	1,547,280.2	1,803,108.5
Total current liabilities	242,917.8	185,369.4
<b>Total liabilities</b>	<b>1,790,198.1</b>	<b>1,988,477.9</b>
<b>Total equity and liabilities</b>	<b>2,313,563.2</b>	<b>2,347,764.1</b>

## Cash flow highlights ('000 GEL)

	2019	2020
Cash flows from operations before income taxes and interest paid	215,486.4	212,716.0
<b>Net cash from operating activities</b>	<b>215,236.4</b>	<b>212,716.0</b>
Net cash used in investing activities	(85,663.1)	(37,313.4)
Net cash (used in)/from financing activities	(122,376.3)	(131,610.0)
Net change in cash and cash equivalents	7,197.0	43,792.6
<b>Cash and cash equivalents</b>	<b>257,975.5</b>	<b>322,985.5</b>

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