



# Georgian Railway 9M17 update

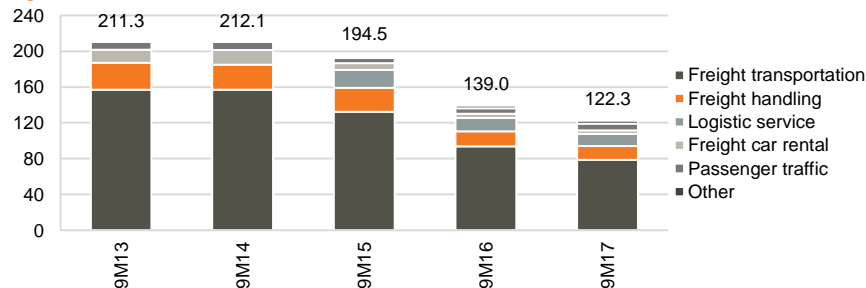
Georgia | Transportation  
Georgian Railway  
February 6, 2018

S&P / B+ / Outlook Negative  
Fitch / B+ / Outlook Stable

GR released 9M17 unaudited results and Management Discussion and Analysis. Revenue decreased 12.0% y/y to US\$ 122.3mn due to lower freight traffic volumes. Operating expenses, which are mostly fixed in GEL, decreased 5.4% y/y to US\$ 110.2mn. As a result, adjusted EBITDA declined 21.3% y/y, from an already low base, to US\$ 47.6mn. Strengthening of GEL vs. US\$ in 9M17 led to a non-cash FX gain of US\$ 31.6mn, which propped up net income at US\$ 37.8mn. In November 2017, the CEO of GR, Mamuka Bakhtadze, became the Minister of Finance of Georgia. David Peradze, previously Director of Mtkvari HPP, has been appointed as his replacement. In September 2017, S&P Global Ratings affirmed Georgian Railway's "B+" rating, but revised the outlook from stable to negative.

**Freight transportation revenue declined 16.1% y/y to US\$ 78.8mn in 9M17 from the low base of US\$ 93.9mn in 9M16.** Freight handling and logistic service revenue declined 6.5% y/y to US\$ 15.4mn and 10.8% y/y to US\$ 13.4mn, respectively. Freight car rental revenue also decreased 14.3% y/y to US\$ 4.0mn. Passenger traffic and other revenue, which accounted for 8.8% of 9M17 revenue, were the only categories that posted increases.

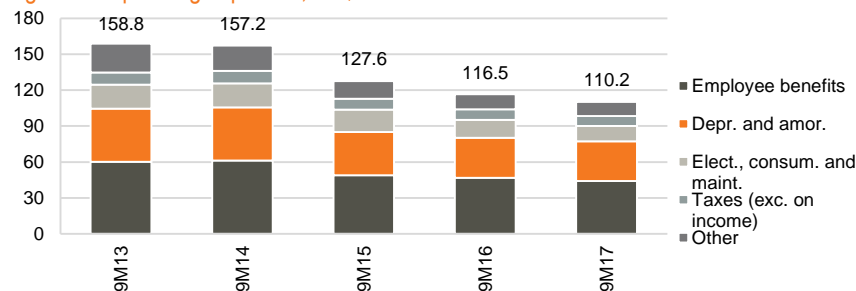
Figure 1: Revenue, US\$ mn



Source: Company data

**9M17 operating expenses, which are mostly GEL-denominated, declined 5.4% y/y to US\$ 110.2mn.** The decrease was attributed to GEL's 6.7% depreciation against US\$ in 9M17 vs 9M16. Electricity, consumables, and maintenance expense, down 14.1% y/y to US\$ 12.8mn, was the only category that posted a decrease in GEL terms. This decrease was largely driven by a 58.4% y/y decline in repair and maintenance expense to US\$ 0.9mn due to lower utilization of the company's rolling stock.

Figure 2: Operating expenses, US\$ mn



Source: Company data

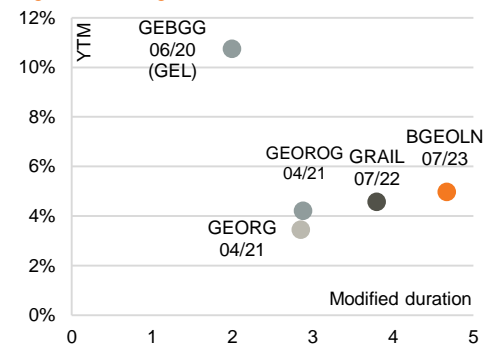
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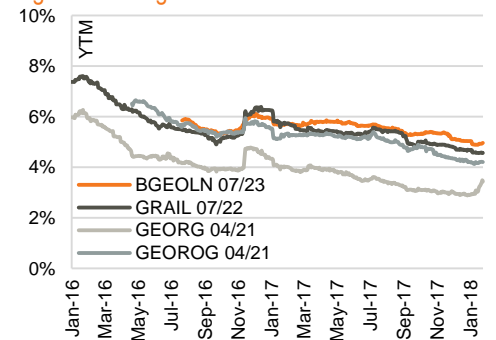
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Figure 3: Georgian Eurobond universe



Source: Bloomberg

Figure 4: Georgian Eurobonds



Source: Bloomberg

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

	9M16	9M17	Change, y/y
Revenue	139,025	122,292	-12.0%
EBITDA	95,418	50,739	-46.8%
EBITDA margin	68.6%	41.5%	-2,710bps
Adjusted EBITDA	60,513	47,598	-21.3%
Adjusted EBITDA margin	43.5%	38.9%	-460bps
EBIT	62,034	17,566	-71.7%
EBIT margin	44.6%	14.4%	-3,020bps
Net income	56,030	37,781	-32.6%
Net profit margin	40.3%	30.9%	-940bps
Assets	1,361,511	1,310,504	-3.7%
Liabilities	674,019	626,694	-7.0%
Equity	687,492	683,810	-0.5%

Source: Company data

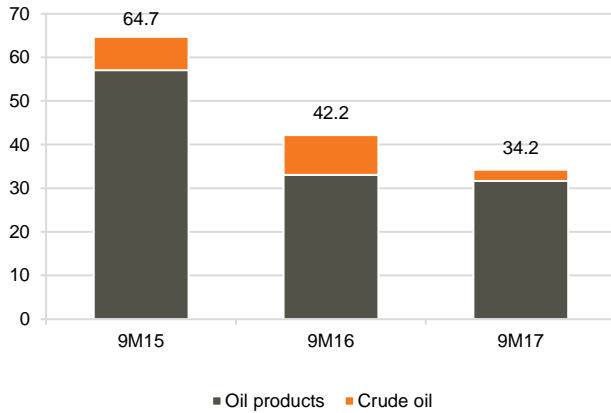
US\$-GEL	9M13	9M14	9M15	9M16	9M17
Period-end	1.66	1.75	2.38	2.33	2.48
Average	1.66	1.75	2.23	2.32	2.48

Source: NBG

Georgian Railway prepares and publishes financial statements in GEL; translations into US\$ are made by Galt & Taggart.

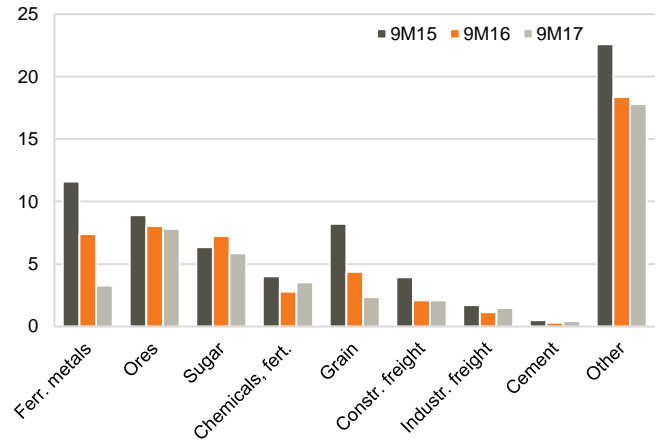


Figure 5: Liquid cargo transportation, US\$ mn



Source: Company data

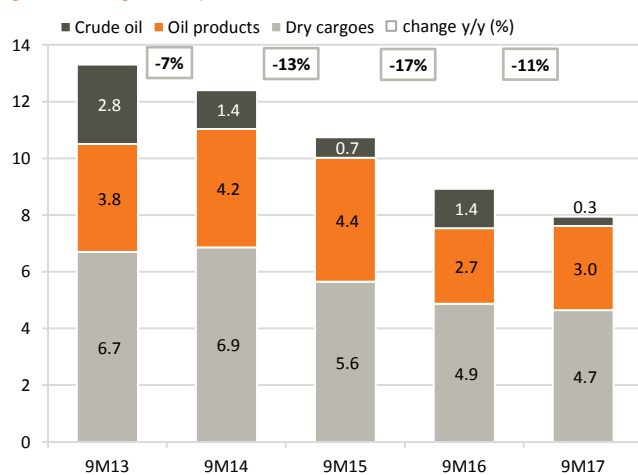
Figure 6: Dry cargo transportation, US\$ mn



Source: Company data

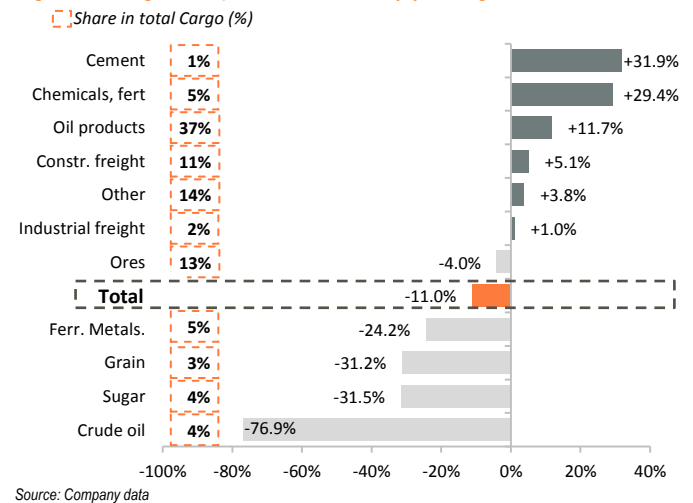
**The decline in freight transportation revenues was almost equally attributable to decreases in liquid and dry cargo revenues.** Oil transportation revenues declined 18.9% y/y to US\$ 34.2mn, as crude oil transportation revenue dropped 72.0% y/y to US\$ 2.6mn. The main driver was a 93.0% y/y decrease in the transportation of crude oil from Turkmenistan, which was redirected to the pipeline. Oil products transportation volume increased 11.7% y/y in 9M17. However, the decrease in tariffs on some oil products in 2016, coupled with a change in the direction mix, resulted in a 4.3% y/y decline in revenue to US\$ 31.7mn. Dry cargo transportation revenue (56.6% of total revenue in 9M17) decreased 13.7% y/y to US\$ 44.6mn. The major contributors to the decrease were ferrous metals, grain, and sugar. Ferrous metals and scrap revenue more than halved in 9M17 to US\$ 3.3mn due to lower volumes to Azerbaijan. Revenues from grain dropped 46.1% y/y to US\$ 2.4mn, as some of the volume was shipped by land instead. Sugar transportation revenue decreased 19.3% y/y to US\$ 5.9mn due to problems at a sugar factory in Azerbaijan where Brazilian sugar was being re-exported to from Georgia. Chemicals and fertilizers category posted the largest positive contribution in revenue, increasing 26.9% y/y to US\$ 3.5mn.

Figure 7: Cargo transportation volume, mn tons



Source: Company data

Figure 8: Cargo transportation volume, y/y change in 9M17

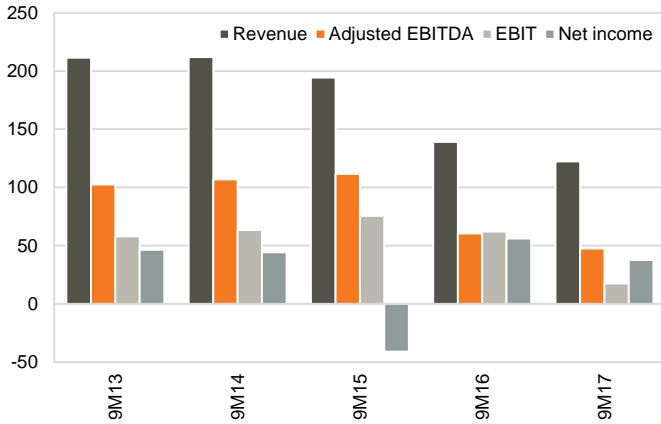


Source: Company data

**9M17 adjusted EBITDA declined 21.3% y/y to US\$ 47.6mn.** As a result, the adjusted EBITDA margin contracted from 43.5% in 9M16 to 38.9%. Strengthening of GEL against US\$ between end-2016 and 9M17 led to a non-cash FX gain of US\$ 31.6mn, accounted for as finance income, which propped up net income at US\$ 37.8mn.

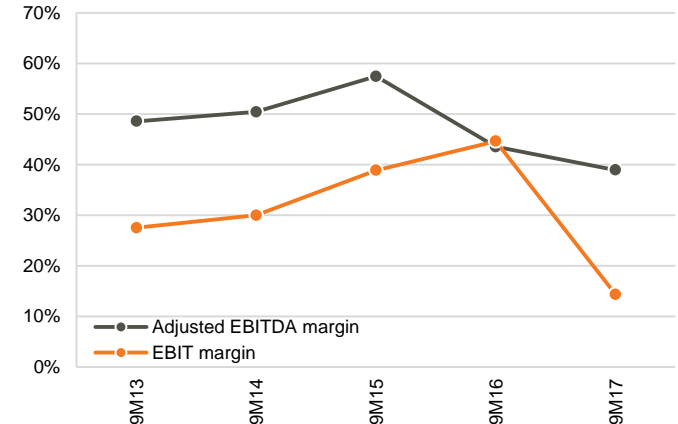


Figure 9: Income statement highlights, US\$ mn



Source: Company data

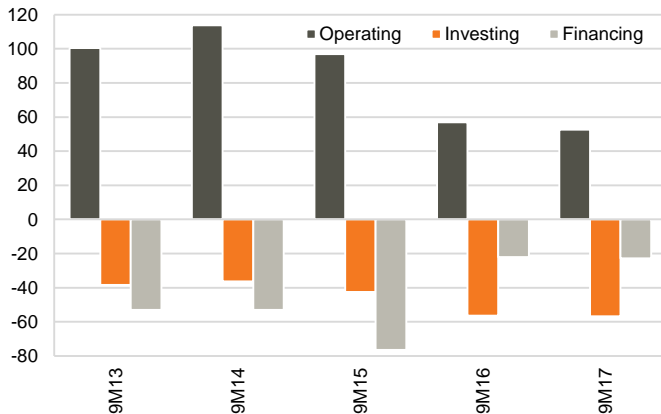
Figure 10: Profitability margins



Source: Company data

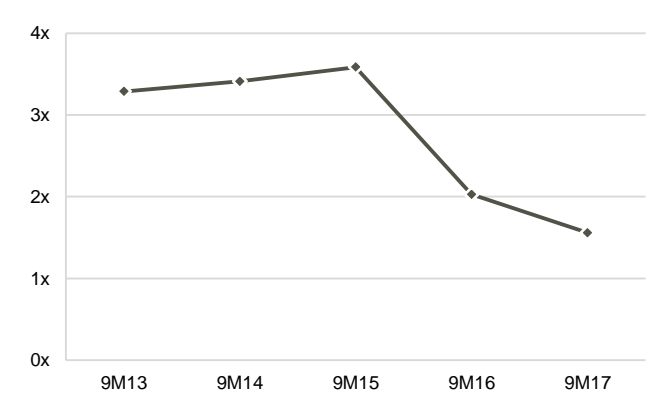
In 9M17 operating cash decreased 7.7% y/y to US\$ 52.6mn. Investing and financing cash flows remained relatively stable. The decrease in adjusted EBITDA contributed the most to the deterioration of the adjusted EBITDA coverage ratio from 2.0x in 9M16 to 1.6x in 9M17.

Figure 9: Cash flows, US\$ mn



Source: Company data

Figure 10: Adjusted EBITDA coverage ratio



Source: Company data

In November 2017, the CEO of GR, Mamuka Bakhtadze, became the Minister of Finance of Georgia. David Peradze, previously Director of the Georgian Co-Investment Fund-owned Mtkvari HPP, has been appointed as his replacement. In prior years, David Peradze served in various roles at the Georgian Industrial Group and on several Booz Allen Hamilton/USAID projects at Georgian Railway.

In September 2017, S&P Global Ratings revised its outlook on Georgian Railway from stable to negative and affirmed the rating at "B+".



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