



Georgian Railway – 9M23 update

Fixed Income Research | Georgia
Georgian Railway
December 11, 2023

Georgian Railway's revenue was up 11.9% y/y to US\$ 184.7mn in 9M23. Growth was driven by increased revenues from logistic services (+28.9% y/y) and passenger traffic (+89.5% y/y), while the freight traffic revenues (67.5% of total) was up only 2.8% y/y to US\$ 124.6mn in 9M23. On the other hand, Georgian Railway's operating expenses surged by 30.6% y/y to US\$ 145.9mn, driven by 39.2% y/y growth of employee benefits. The surge in operating expenses led to a 15.1% y/y decline in EBITDA to US\$ 62.3mn in 9M23. Consequently, the EBITDA margin stood at 33.7% in 9M23 vs. 44.5% in 9M22.

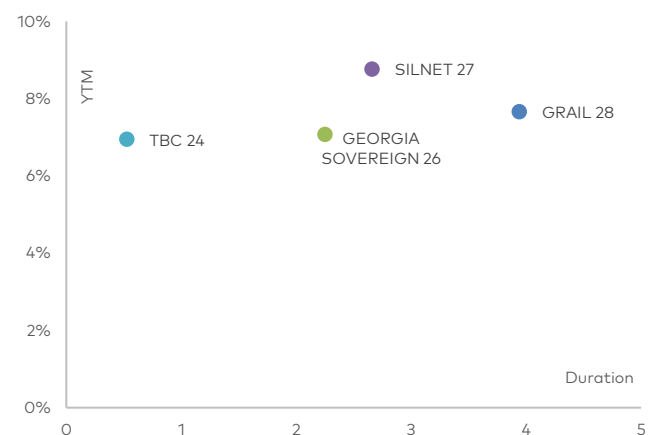
The volume of cargo transportation was down 5.9% y/y to 10.3mn tons in 9M23, reflecting last year's high base. This reduction was primarily attributed to an 11.4% y/y decline in dry cargo transportation (63.9% of total cargo) to 6.6mn tons in 9M23. However, liquid cargo transportation (36.1% of total cargo) was up 5.6% y/y to 3.7mn tons, partially mitigating the decline in dry cargo. In FY23, we expect revenues to reach US\$ 245mn and cargo volumes to total 13.8mn tons.

Financial highlights, US\$ mn

Category	9M22	9M23	% change y/y
Revenue	165.0	184.7	+11.9%
<i>of which:</i>			
Freight traffic	121.3	124.6	+2.8%
Logistic service	31.3	40.4	+28.9%
Passenger traffic	6.7	12.6	+89.5%
Freight car rental	3.4	5.6	+67.2%
Other	2.4	1.5	-38.6%
EBITDA	73.4	62.3	-15.1%
<i>EBITDA margin</i>	<i>44.5%</i>	<i>33.7%</i>	<i>-10.7ppts</i>
Adjusted EBITDA	68.9	62.6	-9.2%
<i>Adjusted EBITDA margin</i>	<i>41.8%</i>	<i>33.9%</i>	<i>-7.9ppts</i>
Net income	93.5	39.4	-57.9%
<i>Net profit margin</i>	<i>56.7%</i>	<i>21.3%</i>	<i>-35.4ppts</i>
Assets	839.6	932.7	+11.1%
Liabilities	604.9	602.7	-0.4%
Equity	234.7	330.0	+40.6%
Net Debt	421.2	406.0	-3.6%
Net Debt to EBITDA	5.19x	4.48x	

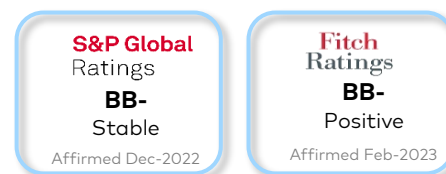
Source: Georgian Railway
Note: Net debt to EBITDA ratio calculated based on figures in GEL

Figure 1: Georgian Eurobond universe



Source: Bloomberg

Georgian Railway credit ratings



Source: Rating agencies

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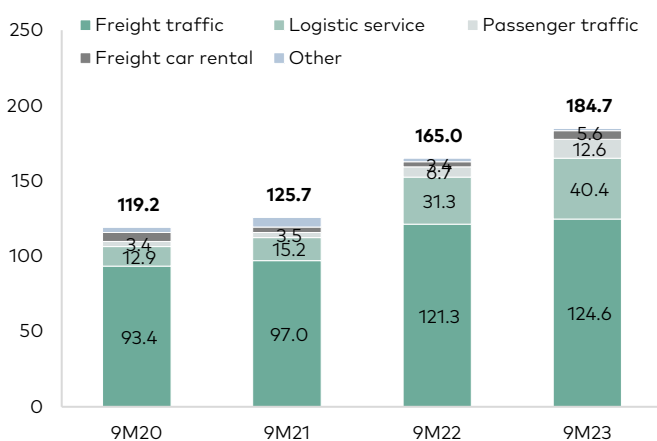


How Georgian Railway performed in 9M23

Georgian Railway's revenue was up 11.9% y/y to US\$ 184.7mn in 9M23. Growth decelerated to 5.0% y/y in 3Q23, after strong 14.9% y/y growth observed in 1H23. For the overview of each segment:

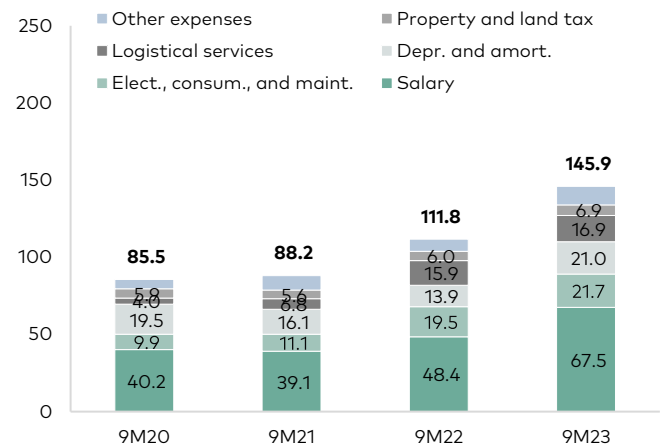
- **Freight traffic** revenue (67.5% of total) increased by 2.8% y/y, reaching US\$ 124.6mn in 9M23. The decline of dry cargo transportation revenues (mainly due to decline of transported chemicals & fertilizers, ferrous metals & scrap and sugar) was partially offset by increase in liquid cargo transportation revenues.
- **Logistic services** revenue (21.9% of the total), surged by 28.9% y/y, reaching US\$ 40.4mn in 9M23. This growth was propelled by an increase in container transportation (+9.1% y/y) facilitated by GR's subsidiaries.
- **Passenger traffic** revenue (6.8% of total), almost doubled to US\$ 12.6mn in 9M23. This significant growth stemmed from a 50.9% y/y rise in traffic to 1.8mn passengers and increased tariffs from Jul-22.
- **Freight car rental** revenue (3.0% of total) increased by 67.2% y/y, reaching US\$ 5.6mn in 9M23. The growth was driven from increased tariffs on the Azerbaijan direction and increased share of CIS countries of Group's railcar rental.

Figure 2: Georgian Railway's revenue, US\$ mn



Source: Georgian Railway

Figure 3: Operating expenses, US\$ mn



Source: Georgian Railway

Georgian Railway's operating expenses surged by 30.6% y/y to US\$ 145.9mn, mostly influenced by elevated employee benefits (up by 39.2% y/y to US\$ 67.5mn) and GEL appreciation in 9M23 (expenses are mostly GEL-denominated). Salary expenses made up almost half (46.2%) of total expenses, followed by electricity, consumables and maintenance costs (14.8% of total),

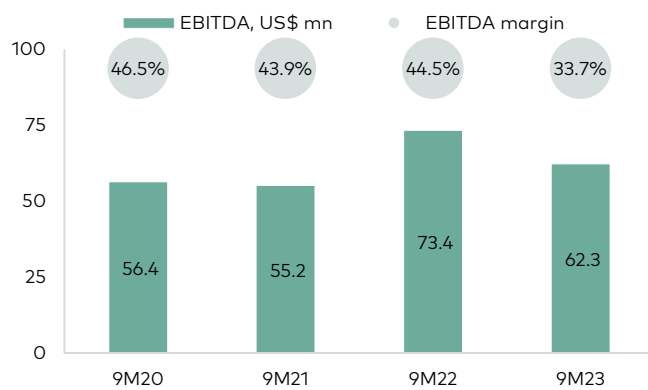


depreciation (14.4% of total), logistic service charges (11.6% of total) and other costs (12.9% of total) in 9M23.

The surge in operating expenses led to a 15.1% y/y decline in EBITDA to US\$ 62.3mn in 9M23. Consequently, the EBITDA margin for the period stood at 33.7% in 9M23 vs. 44.5% in 9M22.

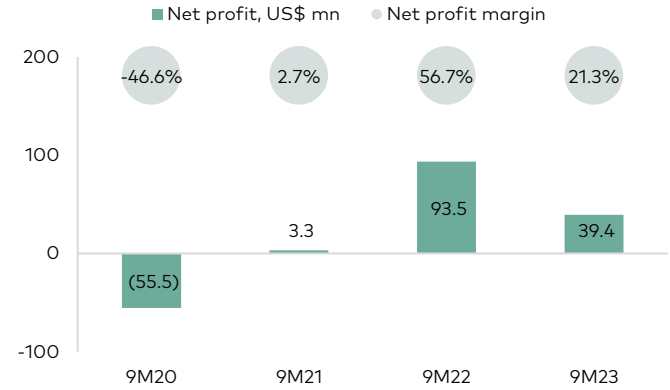
Net profit was down by 57.9% y/y to US\$ 39.4mn in 9M23. This notable reduction 1) stemmed from a decrease in FX gain and 2) a surge in operating expenses. Consequently, net profit margin stood at 21.3% in 9M23 vs. 56.7% in 9M22.

Figure 4: Georgian Railway's EBITDA and EBITDA margin



Source: Georgian Railway

Figure 5: Georgian Railway's net profit and net profit margin



Source: Georgian Railway

Cargo transportation slightly down, yet remaining elevated in 9M23

The volume of transported cargo was down 5.9% y/y to 10.3mn tons in 9M23, reflecting last year's high base. Notably, transportation volumes in 9M23 were 13.3% higher compared to volumes in 9M21.

Transit (57.8% of total cargo) was down 8.3% y/y to 5.9mn tons in 9M23. Majority of cargoes originated from Azerbaijan (25%), Kazakhstan (22%) and Turkmenistan (19%) in 9M23. In terms of cargo, petroleum products, urea and sugar accounted for majority of transit transportation.

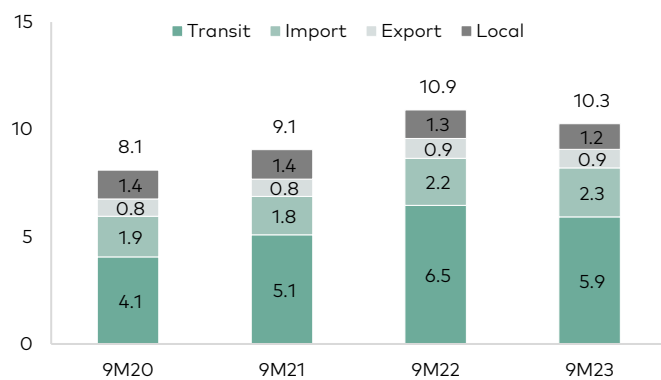
Import (22.2% of total cargo), was up 3.8% y/y to 2.3mn tons in 9M23. Majority of imported cargo originated from Russia (54%), followed by Azerbaijan (23%) in 9M23. Main imported cargoes were petroleum products (up 7.6% y/y to 0.9mn tons) and cement clinkers (up 19.9% y/y to 0.3mn tons) in 9M23.



Export (8.4% of total cargo), was down 6.4% y/y to 0.9mn tons in 9M23. Main export destinations were Armenia, Kazakhstan and Azerbaijan. Primary exported cargoes are ammonium nitrate (-0.5% y/y to 0.3mn tons) mineral waters (+4.3% y/y to 0.1mn tons) and silicon manganese (-48.7% y/y to 0.1mn tons).

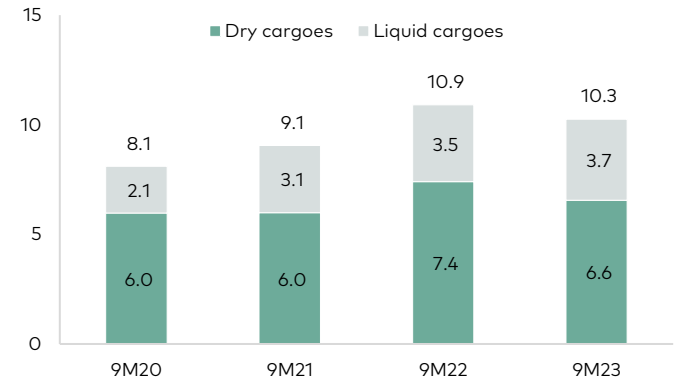
Local transportation (11.6% of total) was down 10.2% y/y to 1.2mn tons in 9M23. Downturn was influenced by a decrease in domestic transportation of manganese ores and concentrates (-51.5% y/y to 0.3mn tons). Other transported cargoes were limestone (0.4mn tons) and petroleum products (0.1mn tons) in 9M23.

Figure 6: Cargo breakdown by destination, mn tons



Source: Georgian Railway, Geostat

Figure 7: Cargo breakdown by category, mn tons



Source: Georgian Railway

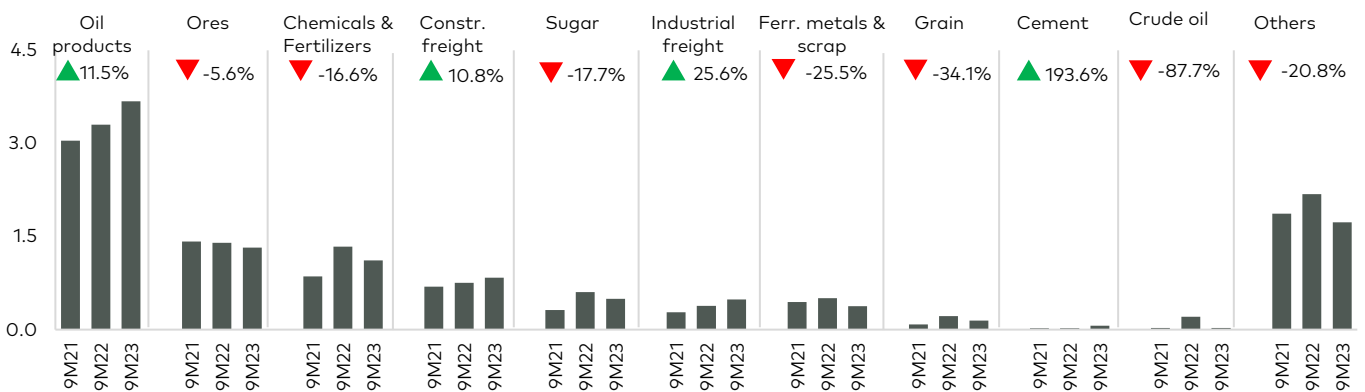
Dry cargo transportation (63.9% of total) decreased by 11.4% y/y to 6.6mn tons in 9M23. The decline in 9M23 was predominantly attributed to high base of 9M22. For the overview of each segment:

- **Ores** (12.8% of total cargo) declined by 5.6% y/y to 1.3mn tons in 9M23. Notably, decline was observed in 3Q23 (-22.0% y/y to 0.5mn tons).
- **Chemicals & fertilizers** (10.8% of total), was down by 16.6% y/y to 1.1mn tons and was the largest contributor to dry cargo decline in 9M23. Notably, chemical & fertilizer transportation accelerated in 3Q23, growing 8.0% y/y to 0.5mn tons.
- **Construction freight** (8.1% of total) grew by 10.8% y/y to 0.8mn tons in 9M23 attributed to increased imports of cement clinkers from Azerbaijan.
- **Sugar** (4.9% of total) transportation was down by 17.7% y/y to 0.5mn tons in 9M23, attributed to reduction in transit from Brazil to Azerbaijan, Armenia and Uzbekistan.
- **Ferrous metals & scrap** (3.7% of total) was down 25.5% y/y to 0.4mn tons, attributed to decreased transit from Kazakhstan.



Georgian Railway transported 3.7mn tons of liquid cargo (+5.6% y/y) partially offsetting decline of dry cargo in 9M23. Liquid cargo is almost entirely composed of oil products, which was up by 11.5% y/y to 3.7mn tons in 9M23. The growth was propelled by restored transit from Azerbaijan and Turkmenistan, while reduced transit from Kazakhstan in the 3Q23 contributed negatively. Notably, increased import of oil products (almost solely from Russia) in 9M23 also contributed positively.

Figure 8: Cargo transportation by volume, mn tons and % y/y change in 9M23

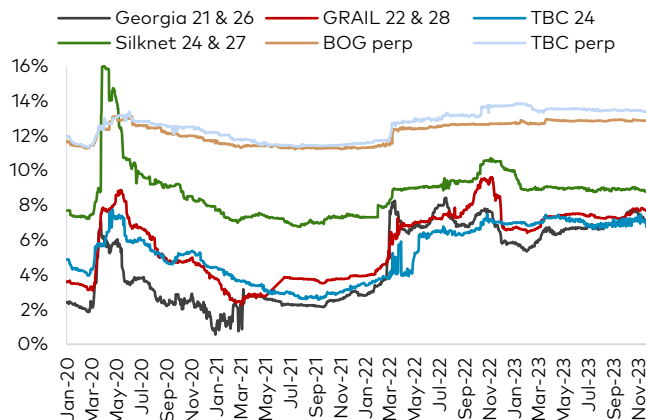


Source: Georgian Railway

Eurobond performance

The yield trends of Georgian Railway's Eurobond have been in line with Georgian Eurobonds, with yield on GRAIL 28 standing at 7.7% as of Nov-24, 2023. Notably, the spread between GRAIL 28 and GEORGIA 26 bonds has been declining from the beginning of 2023 and settled at 58.5 bps by the end of November 2023 with a slight increase in the previous month.

Figure 9: YTM on selected Georgian Eurobonds



Source: Bloomberg

Figure 10: GRAIL 22 & 28 spread over GEORGIA 21 & 26, bps



Source: Bloomberg



Annex

Table 1: Cargo transportation by Georgian Railway, mn tons

	9M20	9M21	9M22	9M23	9M22-9M23 % change	3Q22	3Q23	3Q22-3Q23 % change
Total	8.11	9.05	10.90	10.26	-5.9%	4.09	3.61	-11.8%
Liquid cargo	2.13	3.07	3.50	3.70	5.6%	1.26	1.26	-0.3%
Oil products	2.13	3.04	3.30	3.68	11.5%	1.26	1.26	0.0%
Crude oil	0.01	0.03	0.21	0.03	-87.7%	0.01	0.00	-51.0%
Dry cargo	5.98	5.98	7.40	6.56	-11.4%	2.82	2.35	-16.9%
Ores	1.42	1.42	1.40	1.32	-5.6%	0.59	0.46	-22.0%
Chemicals & fertilizers	0.73	0.86	1.33	1.11	-16.6%	0.42	0.45	8.0%
Construction freight	0.66	0.69	0.75	0.84	10.8%	0.32	0.31	-4.7%
Sugar	0.17	0.31	0.61	0.50	-17.7%	0.31	0.19	-40.1%
Industrial freight	0.26	0.28	0.39	0.48	25.6%	0.17	0.20	15.7%
Ferrous metals & scrap	0.41	0.44	0.50	0.38	-25.5%	0.16	0.13	-17.7%
Grain	0.24	0.08	0.22	0.15	-34.1%	0.11	0.03	-76.8%
Cement	0.03	0.02	0.02	0.06	193.6%	0.01	0.02	69.5%
Other	2.05	1.87	2.18	1.73	-20.8%	0.73	0.56	-22.8%

Source: Georgian Railway

Table 2: Cargo transportation by destination, mn tons

	9M20	9M21	9M22	9M23	9M22-9M23 % change	3Q22	3Q23	3Q22-3Q23 % change
Total	8.11	9.05	10.90	10.26	-5.9%	4.09	3.60	-11.8%
Transit	4.06	5.09	6.46	5.93	-8.3%	2.34	2.04	-12.5%
Import	1.89	1.79	2.19	2.27	3.7%	0.87	0.82	-6.2%
Local	1.35	1.37	1.33	1.19	-10.2%	0.56	0.48	-14.9%
Export	0.81	0.80	0.92	0.86	-6.4%	0.32	0.26	-16.5%

Source: Georgian Railway

Table 3: GR's revenue, US\$ mn

	9M20	9M21	9M22	9M23	9M22-9M23 % change	3Q22	3Q23	3Q22-3Q23 % change
Total	119.2	125.7	165.0	184.7	11.9%	63.8	66.9	5.0%
Freight traffic	93.4	97.0	121.3	124.6	2.8%	45.9	43.4	-5.4%
Logistic service	12.9	15.2	31.3	40.4	28.9%	11.3	14.2	25.3%
Passenger traffic	3.4	3.5	6.7	12.6	89.5%	3.5	5.7	60.5%
Freight car rental	6.1	3.5	3.4	5.6	67.2%	1.2	3.3	169.7%
Other	3.4	6.5	2.4	1.5	-38.6%	1.8	0.3	-81.5%

Source: Georgian Railway



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