



Georgian Railway – FY23 update

Fixed Income Research | Georgia
Georgian Railway
October 28, 2024

In 2023, GR maintained a positive revenue trend, growing 3.1% y/y to US\$ 238.7mn, slightly below our projected growth of 4.7% y/y. Although revenue from freight traffic, the primary source of income, declined due to a decrease in transported cargo volume, higher earnings from logistics services, freight car rentals, and passenger services drove overall growth. The 8.3% y/y decline in cargo volume was largely attributed to the high base established in 2022 (14.8mn tons), which was boosted by one-time surge in certain cargo traffic, particularly in sugar, chemicals, and fertilizers, following the Russian-Ukrainian war.

Modest revenue growth, coupled with an inflation-driven rise in operating expenses (+26.6% y/y to US\$ 205.0mn) suppressed company's Adjusted EBITDA by 34.2% y/y to US\$ 64.1mn in 2023, lowering the Adjusted EBITDA margin to 26.9%. This drop caused a deterioration in the net debt to Adjusted EBITDA ratio, which rose to 6.5x in 2023 from 3.9x in 2022, exceeding the historical average of 5.9x over 2018-21.

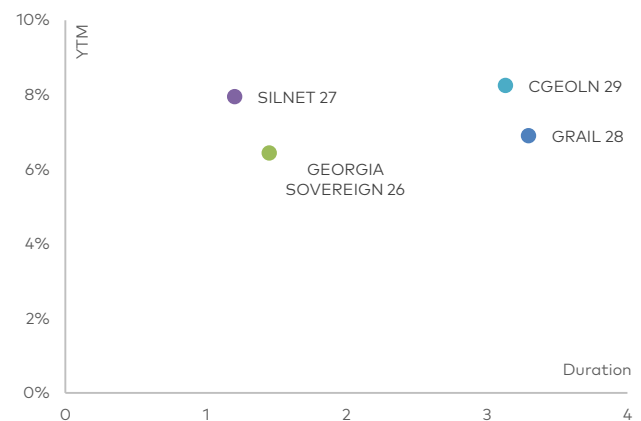
We expect slight revenue growth by 0.8% y/y to US\$ 240.5mn in 2024.

Financial highlights, US\$ mn

Category	2022	2023	% change y/y
Revenue	231.4	238.7	+3.1%
<i>of which:</i>			
Freight traffic	164.8	163.4	-0.9%
Logistic service	42.2	50.3	+19.2%
Passenger traffic	9.4	15.7	+66.8%
Freight car rental	4.7	7.6	+60.0%
Other	10.2	1.8	-82.9%
Adjusted EBITDA	97.5	64.1	-34.2%
<i>Adjusted EBITDA margin</i>	<i>42.1%</i>	<i>26.9%</i>	<i>-15.3ppts</i>
Net income	136.1	33.0	-75.7%
<i>Net profit margin</i>	<i>58.8%</i>	<i>13.8%</i>	<i>-45.0ppts</i>
Assets	888.1	928.1	+4.5%
Liabilities	598.9	605.3	+1.1%
Equity	289.1	322.8	+11.6%
Net Debt	412.2	406.3	-1.4%
Net Debt to Adjusted EBITDA	3.93x	6.49x	

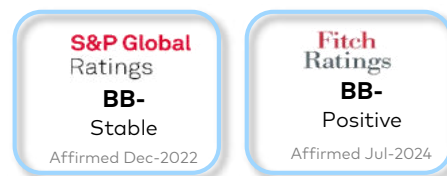
Source: Georgian Railway
Note: Net debt to Adjusted EBITDA ratio calculated based on figures in GEL

Figure 1: Georgian Eurobond universe



Source: Bloomberg

Georgian Railway credit ratings



Source: Rating agencies

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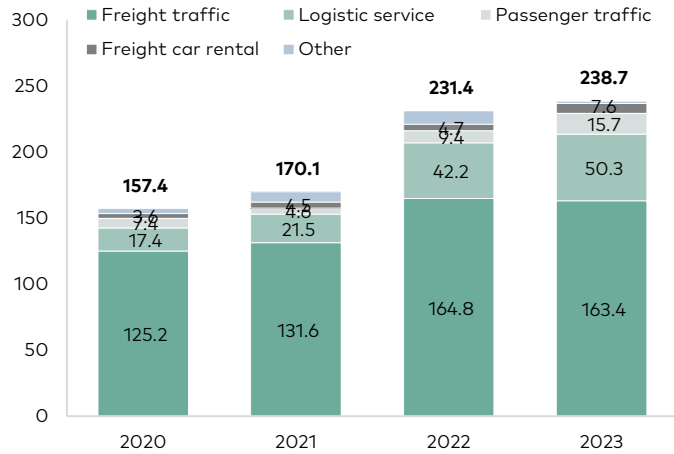
How Georgian Railway performed in 2023

Georgian Railway's revenue was up 3.1% y/y to US\$ 238.7mn in 2023, slightly below our projected growth of 4.7% y/y. While freight traffic continues to be the primary revenue driver, with transit as its main component, the company's operating revenue remains highly sensitive to external economic and political conjuncture. The company's impressive performance in 2022, marked by a 36.1% y/y revenue increase, was largely driven by shifts in trade routes and disruptions in the global supply chain following the Russia-Ukraine war, which made transit routes through Georgia more appealing. Although the company has continued to benefit from economic growth in the region and the rerouting of Asia-Europe cargo flows, the impact has lessened in 2023. For an overview of each segment:

- **Freight traffic** revenue (68.4% of total) decreased by 0.9% y/y to US\$ 163.4mn in 2023. The decline in dry cargo transportation revenue (mainly due to reduced volumes of sugar and grain transported) was partially offset by an increase in liquid cargo transportation revenues.
- **Logistic services** revenue (21.1% of the total), surged by 19.2% y/y, reaching US\$ 50.3mn in 2023. This growth was propelled by a higher share of containers transported to Azerbaijan and an increase in the average tariff for container transportation facilitated by GR's subsidiaries.
- **Passenger traffic** revenue (6.6% of total), increased by 66.8% to US\$ 15.7mn in 2023. This significant growth stemmed from a 42.3% y/y rise in traffic to 2.3mn passengers and a 40% tariff hike on the Tbilisi-Batumi route from Jul-22.
- **Freight car rental** revenue (3.2% of total) grew by 60.0% y/y, reaching US\$ 7.6mn in 2023. The increase was attributed to higher tariffs on the Azerbaijan route and a greater share of railcar rentals to CIS countries by the Group.

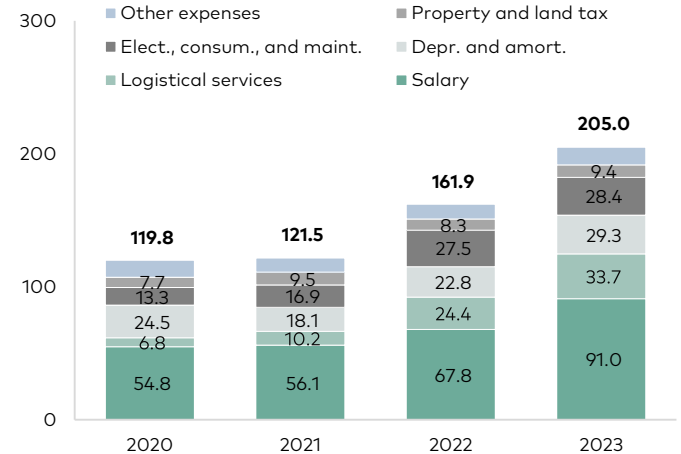


Figure 2: Georgian Railway's revenue, US\$ mn



Source: Georgian Railway

Figure 3: Operating expenses, US\$ mn



Source: Georgian Railway

Georgian Railway's operating expenses increased by 26.6% y/y to US\$ 205.0mn in 2023, primarily driven by increased staff costs (up by 34.2% y/y to US\$ 91.0mn). The company's cost structure is mostly stable, with staff costs making up about half of operating spending in 2023 (44.4% of total), followed by logistic service charges (16.4% of total), depreciation (14.3% of total), electricity, consumables and maintenance costs (13.9% of total) and other. Despite a steady reduction in headcount—averaging around 300 employees annually—staff costs increased in 2023, mainly due to a 22% y/y growth in average salaries since Jan-23. Inflation-driven cost increases in other areas also contributed to the rise in operating expenses, impacting Adjusted EBITDA performance for the year.

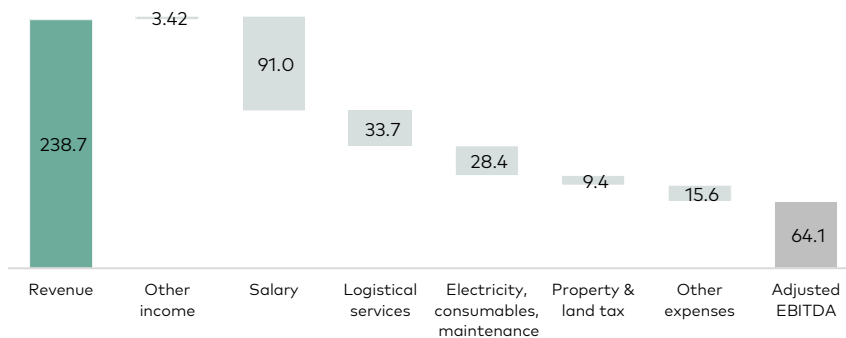
Operating performance weakened in 2023. The jump in operating expenses combined with more moderate growth in revenue, led to a 34.2% y/y drop in Adjusted EBITDA to US\$ 64.1mn in 2023. Additionally, GEL appreciation negatively affected results in 2023, as most of the company's revenue is in foreign currency, while costs are primarily in GEL. As a result, the Adjusted EBITDA margin fell to 26.9% in 2023, down from 42.1% in 2022 and an average of 43.0% over 2018-21. This drop also led to a deterioration in the net debt to Adjusted EBITDA ratio, which increased to 6.5x in 2023, compared to 3.9x in 2022 and above the historical average of 5.9x from 2018-21.

Despite weaker operating performance, the company maintained positive net profit for the 3-rd consecutive year, reaching US\$ 33.0mn in 2023. The record-high net profit achieved in 2022 was largely driven by strong operating results and significant FX gains due to GEL appreciation. However, in 2023, the decline in



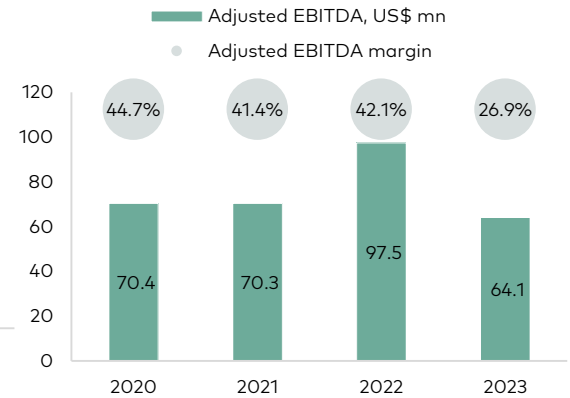
operational performance, along with a stable year-end exchange rate that limited FX gains, resulted in a sharp drop in the net profit margin to 13.8% in 2023 from 58.8% in 2022.

Figure 4: Georgian Railway's revenue to Adjusted EBITDA bridge, 2023, US\$ mn



Source: Georgian Railway
Note: Other expenses exclude impairment loss (gain) on trade receivables

Figure 5: Georgian Railway's Adjusted EBITDA and Adjusted EBITDA margin



Source: Georgian Railway

Cargo transportation down in 2023

The volume of transported cargo was down 8.3% y/y to 13.6mn tons in 2023. Meanwhile, transportation volumes in 2023 were 11.7% higher compared to volumes in 2021.

Transit (56.9% of total cargo) was down 10.9% y/y to 7.7mn tons in 2023. Decline was attributable to reduced volumes from Kazakhstan, down by 22.0% y/y (mainly due to liquid cargo and ferrous metals & scrap), Turkmenistan down by 19.9% y/y (mainly due to chemicals & fertilizers and other category) and Russia down by 24.6% y/y (mainly due to ores and ferrous metals & scrap). Majority of cargoes originated from Azerbaijan (25%), Kazakhstan (22%) and Turkmenistan (19%) in 2023. In terms of cargo, petroleum products, carbamide, sulfur and methanol accounted for majority of transit transportation.

Import (22.6% of total cargo), was up 3.7% y/y to 3.1mn tons in 2023. The growth was mainly fueled by a rise in oil product imports from Russia and an increase in industrial freight imports from Azerbaijan. Majority of imported cargo originated from Russia (47%), followed by Azerbaijan (27%) in 2023. Main imported cargoes were petroleum products (up 9.5% y/y to 1.3mn tons) and cement clinkers (up 27.5% y/y to 0.4mn tons) in 2023.

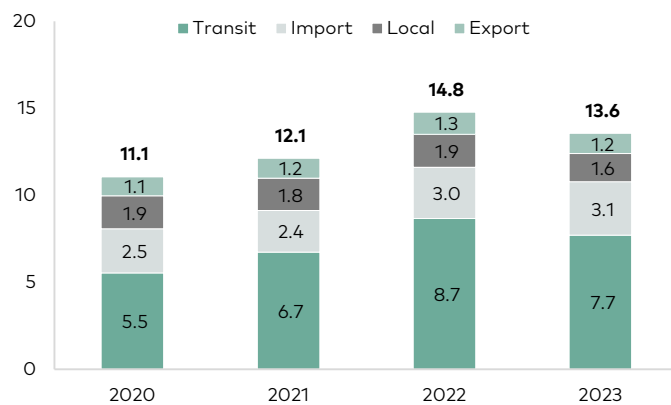
Local transportation (12.0% of total) was down 14.3% y/y to 1.6mn tons in 2023. Downturn was influenced by a decrease in



domestic transportation of manganese ores and concentrates (-49.3% y/y to 0.4mn tons). Other transported cargoes were limestone (0.6mn tons) and petroleum products (0.2mn tons) in 2023.

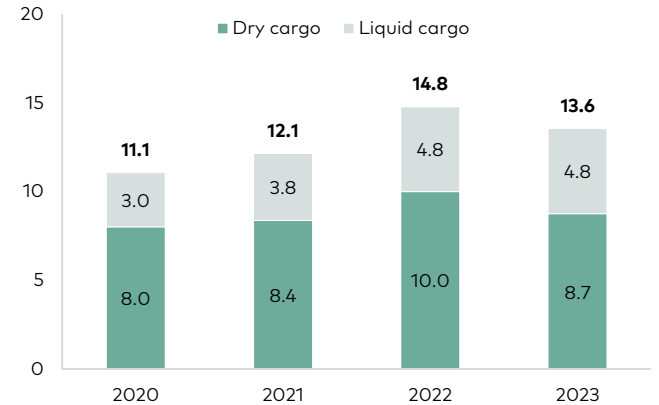
Export (8.5% of total cargo), was down 9.0% y/y to 1.2mn tons in 2023. Decline was attributable to reduced export volumes to Armenia (mainly grain), which was partially offset by increased volumes to Kazakhstan (mainly ores), Azerbaijan (other category) and Bulgaria (ores). Main export destinations were Kazakhstan (12%), Armenia (11%) and Russia (9%). Primary exported cargoes were ammonium nitrate (-2.2% y/y to 0.5mn tons), mineral waters (-6.7% y/y to 0.2mn tons) and silicon manganese (-33.6% y/y to 0.1mn tons).

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 (64.5% of total) decreased by 12.5% y/y to 8.7mn tons in 2023. This decline was mainly due to a high base in 2022 (dry cargo still up 4.5% compared to 2021 levels). For the overview of each segment:

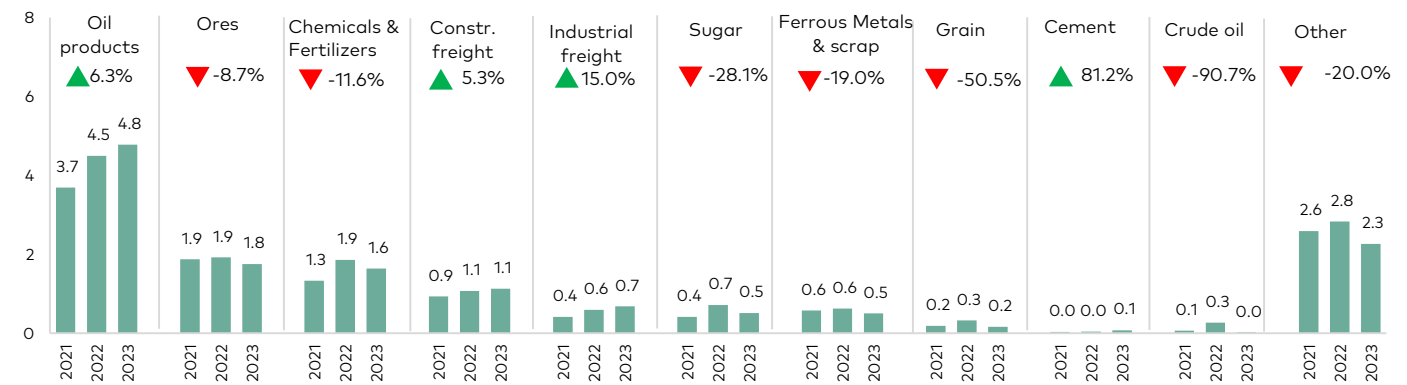
- **Ores** (13.0% of total cargo) declined by 8.7% y/y to 1.8mn tons in 2023.
- **Chemicals & fertilizers** (12.1% of total), down by 11.6% y/y to 1.6mn tons, significantly contributing to the overall dry cargo decline.
- **Construction freight** (8.3% of total) grew by 5.3% y/y to 1.1mn tons, driven by increased cement clinker imports from Azerbaijan.
- **Industrial freight** (5.0% of total) grew by 15.0% y/y to 0.7mn tons in 2023, mainly attributed to increased imports from Azerbaijan.
- **Sugar** (3.8% of total) transportation fell 28.1% y/y to 0.5mn tons in 2023, largely due to reduced transit from Brazil to Azerbaijan, Armenia, Kazakhstan, and Kyrgyzstan.



- **Ferrous metals & scrap** (3.7% of total) down 19.0% y/y to 0.5mn tons, attributed to decreased transit from Kazakhstan and reduced domestic transportation of manganese ores & concentrates in 2023.

Georgian Railway transported 4.8mn tons of liquid cargo (+0.7% y/y) partially offsetting the decline in dry cargo in 2023. Liquid cargo is almost entirely composed of oil products, which was up by 6.3% y/y to 4.8mn tons in 2023. This growth was driven by renewed transit from Azerbaijan and Turkmenistan, while reduced transit from Kazakhstan to Turkey had a negative impact. Additionally, a notable rise in oil product imports, mainly from Russia, contributed positively to the overall increase.

Figure 8: Cargo transportation by volume, mn tons and % y/y change in 2023



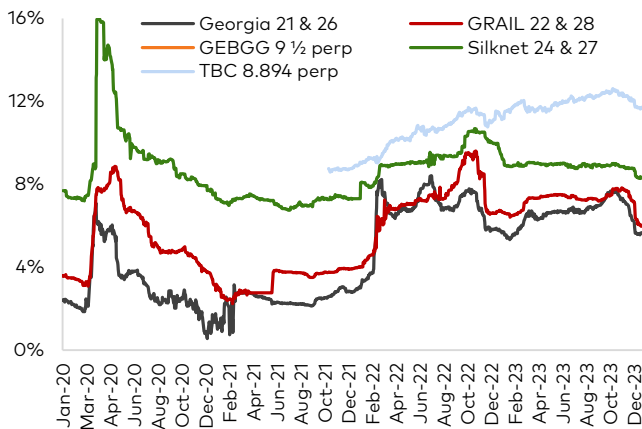
Source: Georgian Railway



Eurobond performance

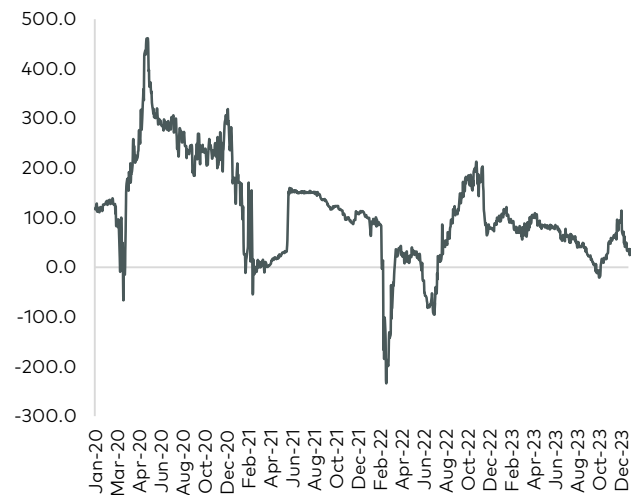
Since Georgian Railway is 100% state-owned, the yield trends of its Eurobond have closely mirrored those of Georgian sovereign Eurobonds. By Dec-29, 2023, the yield on GRAIL 28 was at 6.0%. Notably, the spread between GRAIL 28 and GEORGIA 26 bonds narrowed significantly throughout 2023, reaching 33.0 bps by year-end, reflecting GR's strong financial performance.

Figure 9: YTM on selected Georgian Eurobonds



Source: Bloomberg

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



Source: Bloomberg

Competitive landscape and future outlook

As mentioned above, the Georgian Railway network, as part of the Middle Corridor, has gained prominence as a trade route following the Russian invasion of Ukraine in 2022. The middle corridor serves as a viable alternative to:

- 1) **The Northern Corridor**, a key land-based route connecting Europe to China through Russia, which has become a political and financial liability amid war.
- 2) **Maritime shipping routes**, increased threats from Yemen's Houthi terrorists against vessels in the Suez Canal have prompted shippers to seek safer alternatives.

Despite the Middle Corridor's potential, several challenges have limited its effectiveness, leading some shippers to revert back to



traditional alternative routes in 2023. These challenges include outdated infrastructure, lengthy transit times, higher costs due to multimodal transfers, significant infrastructure bottlenecks, and competitive disadvantages that led to uncompetitive tariffs in the middle corridor. Therefore, the success of the Middle Corridor will depend on coordinated efforts among the countries involved, with a focus on aligning national goals, coordinated planning, and better integration of border management to fully unlock the corridor's potential as a reliable trade route between Europe and Asia.

After a 3.1% y/y revenue increase in 2023, we expect a slight 0.8% y/y growth, reaching US\$ 240.5mn in 2024, supported by a projected 4.3% y/y rise in cargo volume to 14.1mn tons.

We forecast Adjusted EBITDA to reach US\$ 86.4mn, up by 34.9% y/y in 2024. We expect this growth to be driven by 1) a reduction in operating expenses, particularly in logistics service costs and employee compensation, which stems from the decline in number of employees witnessed in 1H24 (by c. 270 employees), and 2) anticipated depreciation of the GEL against the USD, from 2.63 in 2023 to 2.74 in 2024F. Consequently, this projection results in an Adjusted EBITDA margin of 35.9% in 2024, an improvement from 26.9% in 2023.



Annex

Table 1: Income statement, '000 GEL

	2020	2021	2022	2023	2024F	2025F	2026F
Total revenue	489,370	547,867	674,773	627,173	659,061	654,652	683,138
Freight traffic	389,308	423,794	480,626	429,266	446,837	449,300	460,719
Logistic service	54,106	69,371	123,071	132,213	138,498	130,912	139,649
Passenger traffic	11,201	14,808	27,423	41,219	38,336	46,639	50,058
Freight car rental	22,985	14,557	13,775	19,863	21,753	18,518	20,913
Other	11,770	25,337	29,878	4,612	13,638	9,284	11,799
Adjusted EBITDA	218,962	226,575	284,162	168,440	236,853	197,607	218,454
Adjusted EBITDA margin	44.7%	41.4%	42.1%	26.9%	35.9%	30.2%	32.0%
D&A	-76,156	-58,397	-66,585	-76,895	-75,753	-75,692	-75,707
Financial income (costs), net	-293,376	-112,177	178,908	-10,166	-86,967	-29,898	-29,758
Profit before tax	-164,130	53,210	397,325	87,395	77,754	96,701	117,370
Tax expense	-514	-500	-644	-619	-469	-475	-705
Net income	-164,644	52,710	396,681	86,776	77,285	96,226	116,665
Net margin	-33.6%	9.6%	58.8%	13.8%	11.7%	14.7%	17.1%

Source: Georgian Railway, Galt & Taggart Research

Table 2: Income statement, '000 US\$

	2020	2021	2022	2023	2024F	2025F	2026F
Total revenue	157,368	170,096	231,435	238,664	240,533	233,804	243,978
Freight traffic	125,191	131,575	164,846	163,353	163,079	160,464	164,543
Logistic service	17,399	21,538	42,211	50,312	50,547	46,754	49,874
Passenger traffic	3,602	4,597	9,406	15,685	13,991	16,657	17,878
Freight car rental	7,391	4,520	4,725	7,559	7,939	6,614	7,469
Other	3,785	7,866	10,248	1,755	4,977	3,316	4,214
Adjusted EBITDA	70,412	70,345	97,463	64,098	86,443	70,574	78,019
Adjusted EBITDA margin	44.7%	41.4%	42.1%	26.9%	35.9%	30.2%	32.0%
D&A	-24,490	-18,130	-22,837	-29,262	-27,647	-27,033	-27,038
Financial income (costs), net	-94,342	-34,828	61,362	-3,869	-31,740	-10,678	-10,628
Profit before tax	-52,781	16,520	136,276	33,257	28,378	34,536	41,918
Tax expense	-165	-155	-221	-236	-171	-170	-252
Net income	-52,946	16,365	136,055	33,022	28,206	34,367	41,666
Net margin	-33.6%	9.6%	58.8%	13.8%	11.7%	14.7%	17.1%

Source: Georgian Railway, Galt & Taggart Research

Note 1: Average FX rates used in forecast: 2.74GEL/US\$ in 2024, 2.80 GEL/US\$ in 2025 and 2026



Table 3: Balance sheet, '000 GEL

	2020	2021	2022	2023	2024F	2025F	2026F
Non-current assets	1,959,028	1,987,717	2,060,644	2,133,352	2,240,016	2,304,364	2,402,129
Net PP&E	1,829,561	1,825,474	1,831,197	1,921,379	2,019,644	2,081,867	2,174,635
Other	129,467	162,243	229,447	211,973	220,373	222,496	227,494
Current assets	388,736	272,015	338,873	362,609	286,261	341,100	362,531
Cash & equivalents	322,986	212,224	274,629	283,547	212,244	268,834	285,671
Receivables & prepayments	25,521	19,600	22,866	34,467	24,639	25,552	29,644
Other	40,229	40,191	41,378	44,595	49,378	46,714	47,216
Total assets	2,347,764	2,259,732	2,399,517	2,495,961	2,526,277	2,645,464	2,764,660
Shareholders' equity	359,288	413,130	781,269	868,045	945,330	1,041,557	1,158,222
Non-current liabilities	1,803,109	1,693,609	1,454,983	1,423,147	1,467,897	1,484,976	1,488,515
LT interest bearing debt	1,702,980	1,590,817	1,378,147	1,339,840	1,376,062	1,400,849	1,399,904
Other	100,129	102,792	76,836	83,307	91,835	84,127	88,611
Current liabilities	185,369	152,994	163,266	204,770	113,050	118,931	117,924
ST loans	74,356	16,015	14,273	36,298	16,293	15,563	7,594
Trade payables & prepayments	82,331	105,873	122,242	142,117	74,907	81,536	88,033
Other	28,682	31,106	26,751	26,355	21,850	21,833	22,297
Total liabilities & equity	2,347,764	2,259,732	2,399,517	2,495,961	2,526,277	2,645,464	2,764,660

Source: Georgian Railway, Galt & Taggart Research

Table 4: Balance sheet, '000 US\$

	2020	2021	2022	2023	2024F	2025F	2026F
Non-current assets	597,884	641,696	762,637	793,245	794,332	817,150	851,819
Net PP&E	558,372	589,319	677,719	714,427	716,186	738,251	771,147
Other	39,513	52,377	84,917	78,818	78,146	78,899	80,672
Current assets	118,640	87,815	125,416	134,829	101,511	120,958	128,557
Cash & equivalents	98,574	68,512	101,639	105,431	75,264	95,331	101,302
Receivables & prepayments	7,789	6,327	8,463	12,816	8,737	9,061	10,512
Other	12,278	12,975	15,314	16,582	17,510	16,565	16,743
Total assets	716,524	729,511	888,052	928,074	895,843	938,108	980,376
Shareholders' equity	109,653	133,371	289,145	322,765	335,224	369,346	410,717
Non-current liabilities	550,299	546,749	538,484	529,169	520,531	526,587	527,842
LT interest bearing debt	519,740	513,564	510,047	498,193	487,965	496,755	496,420
Other	30,559	33,184	28,437	30,976	32,566	29,832	31,422
Current liabilities	56,574	49,391	60,424	76,140	40,089	42,174	41,817
ST loans	22,693	5,170	5,282	13,497	5,778	5,519	2,693
Trade payables & prepayments	25,127	34,179	45,241	52,843	26,563	28,913	31,218
Other	8,754	10,042	9,900	9,800	7,748	7,742	7,907
Total liabilities & equity	716,524	729,511	888,052	928,074	895,843	938,108	980,376

Source: Georgian Railway, Galt & Taggart Research

Note 1: End of period FX rates used in forecast: 2.82 GEL/US\$ in 2024, in 2025 and in 2026



Table 5: Transported cargo by product, mn tons

	2017	2018	2019	2020	2021	2022	2023	2022-2023 change
Total	10.67	10.00	10.86	11.06	12.13	14.77	13.55	-8.3%
Liquid cargoes	4.35	3.14	3.08	3.05	3.76	4.77	4.80	0.7%
Oil products	3.95	2.97	3.06	3.04	3.69	4.50	4.78	6.3%
Crude oil	0.40	0.17	0.01	0.01	0.07	0.28	0.03	-90.7%
Dry cargoes	6.33	6.86	7.78	8.02	8.37	10.00	8.75	-12.6%
Ores	1.42	1.58	2.02	1.88	1.87	1.93	1.76	-8.7%
Chemicals & fertilizers	0.57	0.55	0.72	0.94	1.34	1.86	1.64	-11.6%
Construction freight	1.16	1.17	1.03	0.91	0.93	1.07	1.13	5.3%
Ferrous metals & scrap	0.53	0.55	0.52	0.53	0.58	0.62	0.51	19.0%
Industrial freight	0.30	0.41	0.46	0.37	0.41	0.59	0.68	-15.1%
Sugar	0.38	0.36	0.33	0.28	0.42	0.72	0.52	-28.2%
Grain	0.30	0.47	0.42	0.31	0.19	0.33	0.16	-50.6%
Cement	0.09	0.12	0.11	0.05	0.04	0.04	0.08	81.2%
Other	1.57	1.65	2.17	2.75	2.59	2.83	2.27	-20.0%

Source: Georgian Railway

Table 6: Transported cargo by type, mn tons

	2017	2018	2019	2020	2021	2022	2023	2022-2023 change
Total	10.7	10.0	10.9	11.1	12.1	14.8	13.6	-8.3%
Transit	5.0	4.2	5.3	5.5	6.7	8.7	7.7	-10.9%
Import	2.7	2.9	2.6	2.5	2.4	3.0	3.1	3.7%
Local	1.9	1.8	1.7	1.9	1.8	1.9	1.6	-14.3%
Export	1.1	1.2	1.3	1.1	1.2	1.3	1.2	-9.0%

Source: Georgian Railway



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