



Weekly Market Watch

Weekly Market Watch | Georgia
October 5, 2020

Economy

Real GDP shrinks 5.3% y/y in August 2020

Georgia's economic contraction eased to 5.3% y/y in August 2020 after falling 5.5% y/y in July 2020 and 12.3% y/y in 2Q20, according to Geostat's rapid estimates. In August, real growth was positive only in mining sector. Overall, real GDP growth was down 5.6% y/y in 8M20. Monthly rapid estimates are based on VAT turnover, fiscal and monetary statistics.

Inflation was 3.8% y/y and 0.7% m/m in September 2020

Annual CPI inflation retreated to 3.8% in September 2020 from 4.8% in previous month, according to Geostat. Core inflation (non-food, non-energy) was 5.2% in September 2020, while core inflation excluding tobacco was 4.7%. Annual price changes were driven by price increases in food and non-alcoholic beverages (+6.3% y/y, +1.97ppts) and health (+7.5% y/y, +0.61ppts) categories and price drop in transport (-7.0% y/y, -0.87ppts) category. On a monthly basis, inflation was 0.7% in September 2020.

Current account deficit doubled in 2Q20

Current account deficit came in at 9.4% of GDP or US\$ 337.1mn (+97.3% y/y), according to NBG. Merchandise trade deficit, traditionally the major contributor to deficit creation, declined by 39.8% y/y to US\$ 530.1mn, as exports fell by 23.4% y/y, while imports were down by 30.3% y/y. Positive service balance declined by 98.4% y/y to US\$ 9.0mn (0.3% of GDP), reflecting the drop of tourism inflows due to COVID pandemic. Surplus in current transfers amounted to US\$ 339.1mn (9.5% of GDP, up 1.4% y/y). Together, services and transfers financed 66% of the trade deficit. Notably, other investments at US\$ 603mn were key funding source of CA deficit and net FDI stood at US\$ 148.9mn. The international reserves were up by US\$ 190.6mn.

Government projects a 5.1% deficit in the 2021 draft budget

The government has submitted a first draft of 2021 budget to the Parliament, in which fiscal deficit is set at 5.1% of GDP. Tax revenues are expected to increase by 16.1% y/y to 22.4% of GDP in 2021. Current expenditures are projected at 22.5% of GDP (-5.2% y/y), but is subject to revisions in final draft based on more complete information about the vaccine, the IMF's updated world economic forecasts and consultations with the IMF mission in Georgia in October. Capital expenditures remain high, and is set at 8.3% of GDP in 2021. Notably, the government plans to repay US\$ 500mn Eurobonds in 2021 if there are no complications with the virus and economic parameters (the source will be accumulated deposits, which expected to reach GEL 4.2bn at the end of 2020). Public debt is projected to decline from 57.9% of GDP in 2020 to 55.9% GDP in 2021.

NBG sold US\$ 20mn

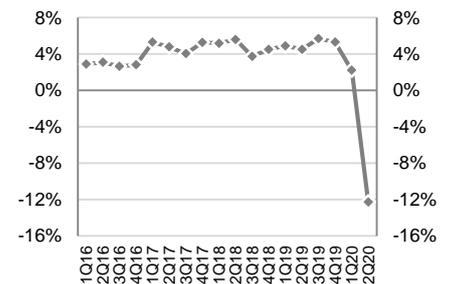
On 2 October 2020, the NBG intervened on the FX market and sold US\$ 20mn to limit GEL volatility. This was 15th FX intervention YTD for a total sale of US\$ 469.7mn through FX auctions.

Key macro indicators

| | 2017 | 2018 | 2019 |
|------------------------------|--------|--------|--------|
| GDP (% change) | 4.8% | 4.8% | 5.1% |
| GDP per capita (ppp) | 11,485 | 12,417 | 13,559 |
| GDP per capita (US\$) | 4,359 | 4,722 | 4,763 |
| Population (mn) | 3.7 | 3.7 | 3.7 |
| Inflation (eop) | 6.7% | 1.5% | 7.0% |
| Gross reserves (US\$ bn) | 3.0 | 3.3 | 3.5 |
| CAD (% of GDP) | 8.1% | 6.8% | 5.1% |
| Fiscal deficit (% of GDP) | 2.7% | 2.3% | 2.0% |
| Total public debt (% of GDP) | 39.4% | 38.9% | 39.8% |

Source: Official data, Galt & Taggart

Real GDP growth, %



Source: Geostat

International ranking, 2019-20

Ease of Doing Business # 7 (Top 10)
Economic Freedom Index # 12 (mostly free)
Global Competitiveness Index # 74

Source: World Bank, Heritage Foundation and World Economic Forum

Georgia sovereign credit ratings

| | | |
|---|--|---|
| BB Stable Affirmed Aug-2020 | Ba2 Stable Affirmed Mar-2020 | BB Negative Affirmed Aug-2020 |
|---|--|---|

Source: Rating agencies



Money market

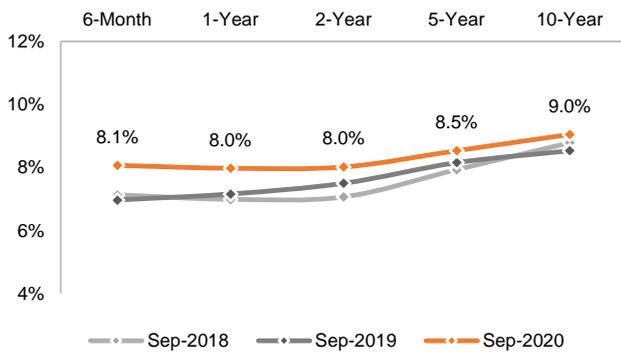
There were no treasury securities auction last week. The nearest treasury security auction is scheduled for October 6, 2020, where GEL 20.0mn nominal value 6-month T-Bills and GEL 70.0mn nominal value 2-year Benchmark bonds will be sold.

T-bills / T-notes in 2020

| Maturity | YTD placements, GEL mn | Remaining placements, GEL mn | Outstanding amount, GEL mn* |
|--------------|------------------------|------------------------------|-----------------------------|
| 6-month | 290 | 60 | 180 |
| 1-year | 510 | 150 | 680 |
| 2-year | 630 | 210 | 1,250 |
| 5-year | 720 | 240 | 1,928 |
| 10-year | 110 | 40 | 1,197 |
| Total | 2,260 | 700 | 5,235 |

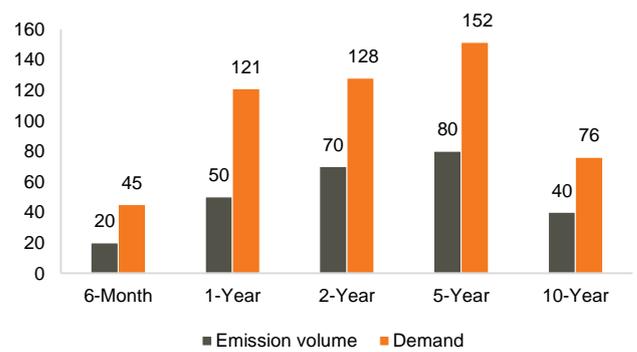
Source: MoF
Note: * As of 31 August 2020

T-bills / T-notes, yield curve



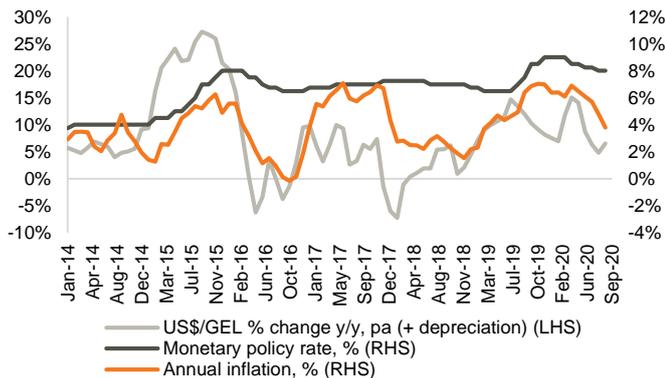
Source: NBG

Emission volume vs. demand on latest T-bill0s / T-notes auctions, GEL mn



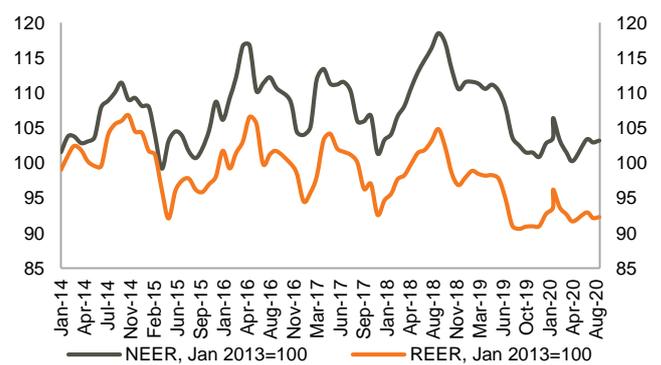
Source: NBG

Monetary policy rate, inflation and FX rate



Source: NBG

Nominal effective exchange rate and Real effective exchange rate



Source: NBG
Note: Index growth means appreciation of exchange rate, decline means depreciation of exchange rate

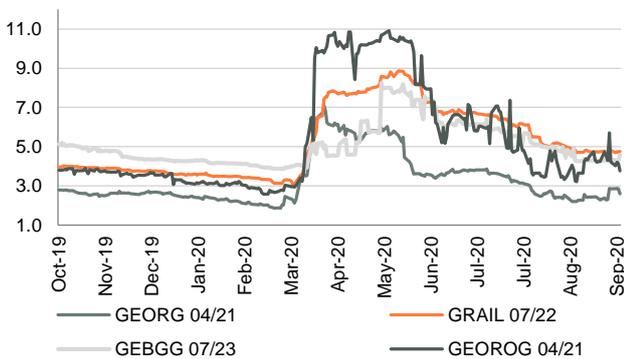
Fixed income

Corporate Eurobonds: Bank of Georgia Group Eurobonds (GEBGG) closed at 4.29% yield, trading at 104.48 (+0.18% w/w). Georgia Capital Eurobonds (GEOCAP) were trading at 96.26 (+0.06% w/w), yielding 7.38%.

GOGC Eurobonds (GEOROG) were trading at 101.65 (+0.22% w/w), yielding 3.72%. Georgian Railway Eurobonds (GRAIL) traded at a premium at 104.95 (-0.01% w/w), yielding 4.78%.

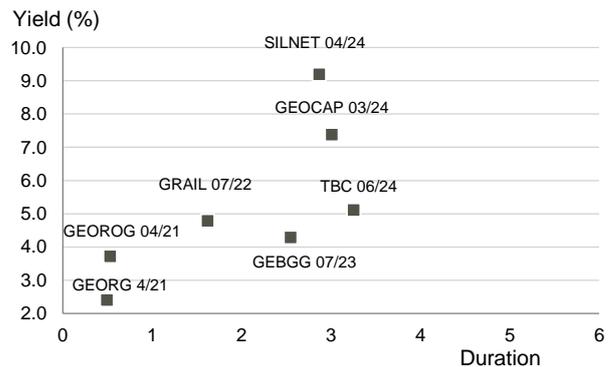
Georgian Sovereign Eurobonds (GEORG) closed at 102.28 (+0.16% w/w) at 2.40% yield to maturity.

Georgian Eurobonds, YTM (%)



Source: Bloomberg

Georgian Eurobond universe



Source: Bloomberg

Georgian bonds performance

Georgian Eurobonds performance

| Issuer | Currency | Amount, mn | Coupon | Maturity date | Ratings (Fitch/S&P/Moody/Scope) | Mid price | Mid yield, % | Z-spread, bps |
|-------------------|----------|------------|---------|---------------|---------------------------------|-----------|--------------|---------------|
| Georgia | US\$ | 500 | 6.875% | Apr-21 | BB/BB/Ba2 | 102.28 | 2.40 | 216.55 |
| GRAIL 07/22 | US\$ | 500 | 7.750% | Jul-22 | BB-/B+/- | 104.95 | 4.78 | 456.65 |
| GEOROG 04/21 | US\$ | 250 | 6.750% | Apr-21 | BB/BB/- | 101.65 | 3.72 | 348.10 |
| GEBGG 07/23 | US\$ | 350 | 6.000% | Jul-23 | BB-/Ba2 | 104.48 | 4.29 | 404.75 |
| GEBGG 11 1/8 PERP | US\$ | 100 | 11.125% | n/a | B-/- | 102.64 | 9.42 | 997.46 |
| GEOCAP 03/24 | US\$ | 300 | 6.125% | Mar-24 | -/B/B2 | 96.26 | 7.38 | 711.80 |
| SILKNET 04/24 | US\$ | 200 | 11.000% | Apr-24 | B+/-/B1 | 105.29 | 9.19 | 893.25 |
| TBC 06/24 | US\$ | 300 | 5.750% | Jun-24 | BB-/Ba2 | 102.12 | 5.11 | 483.76 |
| TBC PERP | US\$ | 125 | 10.775% | n/a | B-/-/- | 99.05 | 9.97 | 1,079.38 |
| GGU 07/25 | US\$ | 250 | 7.750% | Jul-25 | -/B/- | 100.94 | 7.51 | 717.97 |

Georgian local bonds performance

| | | | | | | | | |
|-----------------------|------|----|--------|--------|-----------|--------|-------|-----|
| GWP 12/21 | GEL | 30 | 12.50% | Dec-21 | BB-/-/- | n/a | n/a | n/a |
| M2CA 12/21 | US\$ | 30 | 7.50% | Dec-21 | -/-/- | 99.41 | 8.00 | n/a |
| M2RE 10/22 | US\$ | 35 | 7.50% | Oct-22 | -/-/- | 97.09 | 8.00 | n/a |
| GLC 06/21 | US\$ | 5 | 6.50% | Jun-21 | -/-/- | 99.10 | 7.75 | n/a |
| GLC 08/21 | US\$ | 10 | 7.50% | Aug-21 | -/-/- | 99.98 | 7.50 | n/a |
| GLC 08/22 | US\$ | 10 | 7.50% | Aug-22 | -/-/- | 100.00 | 7.50 | n/a |
| CRYSTAL 02/21 | GEL | 15 | 13.00% | Feb-21 | B/-/- | 100.00 | 12.00 | n/a |
| Nikora Trade 08/21 | GEL | 25 | 9.00% | Aug-21 | -/-/B+ | n/a | n/a | n/a |
| SILKNET 04/24 | GEL | 34 | 12.50% | Apr-24 | B+/-/B1/- | n/a | n/a | n/a |
| Geo. Beer Company | GEL | 25 | 13.00% | Dec-23 | -/-/BB- | n/a | n/a | n/a |
| Lisi Lake Development | US\$ | 12 | 8.00% | Dec-21 | -/-/B+ | n/a | n/a | n/a |
| Tegeta 04/22 | GEL | 30 | 10.75% | Apr-22 | -/-/BB- | n/a | n/a | n/a |
| Swiss Capital 09/21 | GEL | 10 | 13.25% | Sep-21 | B-/-/- | 100.00 | 14.25 | n/a |
| EVEX 11/24 | GEL | 50 | 12.10% | Nov-24 | -/-/BB | n/a | n/a | n/a |

Source: Bloomberg



Fixed income, continued

Eastern European sovereign 10-year bonds performance

| Issuer | Currency | Amount, mn | Coupon | Maturity date | Ratings (Fitch/S&P/Moody) | Mid price | Mid yield, % | Z-spread, bps |
|------------|----------|------------|--------|---------------|------------------------------|-----------|--------------|---------------|
| Georgia | US\$ | 500 | 6.875% | Apr-21 | BB/BB/Ba2 | 102.28 | 2.40 | 216.55 |
| Azerbaijan | US\$ | 174 | 2.820% | Sep-21 | BB+/-/Ba2 | 100.70 | 2.03 | 181.05 |
| Belarus | US\$ | 800 | 6.875% | Feb-23 | B/B/B3 | 97.81 | 7.89 | 766.23 |
| Kazakhstan | US\$ | 1,500 | 3.875% | Oct-24 | BBB/BBB-/Baa3 | 109.25 | 1.50 | 120.82 |
| Russia | US\$ | 3,000 | 4.875% | Sep-23 | BBB/BBB-/Baa3 | 109.91 | 1.43 | 118.26 |
| Turkey | US\$ | 2,000 | 5.625% | Mar-21 | BB-/-/B1 | 100.64 | 4.26 | 402.64 |
| Ukraine | US\$ | 1,409 | 7.750% | Sep-21 | B/B/Caa1 | 102.71 | 4.65 | 442.52 |

Source: Bloomberg

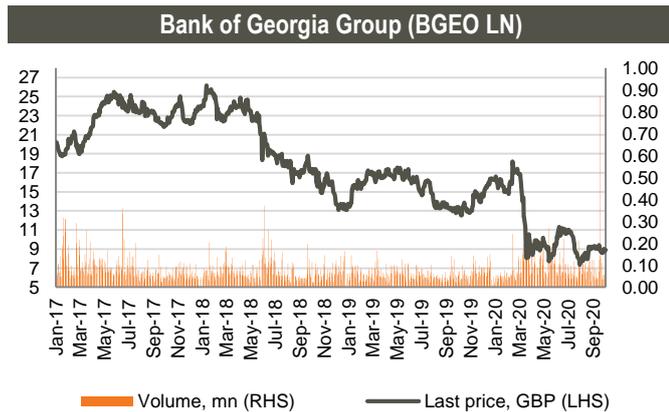


Equities

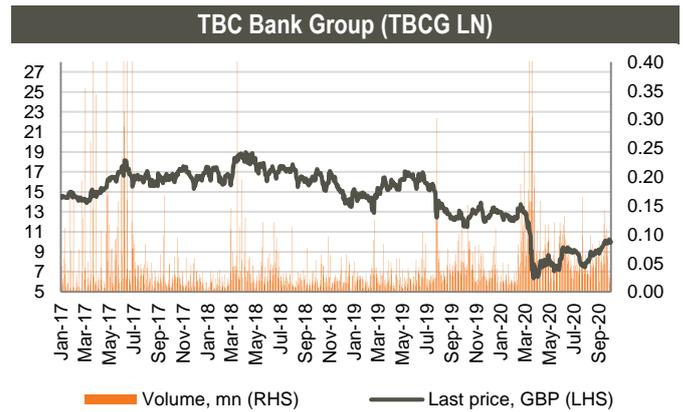
Bank of Georgia Group (BGEO LN) shares closed at GBP 8.90/share (+3.37% w/w and -3.68% m/m). More than 235k shares traded in the range of GBP 8.40 - 9.00/share. Average daily traded volume was 105k in the last 4 weeks. The volume of BGEO shares traded was at 0.48% of its capitalization.

Georgia Capital (CGEO LN) shares closed at GBP 3.75/share (+3.73% w/w and -4.70% m/m). More than 398k shares traded in the range of GBP 3.51 - 3.81/share. Average daily traded volume was 124k in the last 4 weeks. The volume of CGEO shares traded was at 1.08% of its capitalization.

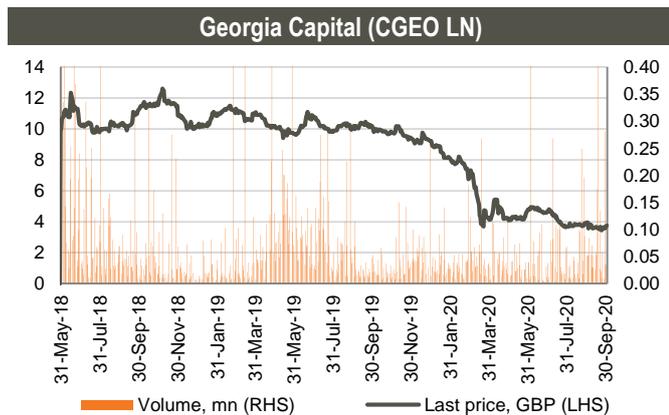
TBC Bank Group (TBCG LN) closed the week at GBP 10.04/share (+1.41% w/w and +11.56% m/m). More than 210k shares changed hands in the range of GBP 9.53 - 10.26/share. Average daily traded volume was 66k in the last 4 weeks. The volume of TBCG shares traded was at 0.38% of its capitalization.



Source: Bloomberg



Source: Bloomberg



Source: Bloomberg



Equities, continued

Eastern European banks

| | Ticker | Currency | Share price | Mcap, mn | 6M chg | y/y chg | YTD chg | P/E | | P/B | |
|--------------------|--------|----------|-------------|----------|--------|---------|---------|---------------|--------------|--------------|--------------|
| | | | | | | | | 2020F | 2021F | 2020F | 2021F |
| Bank of Georgia | BGEO | GBP | 8.90 | 438 | -1.8% | -33.1% | -45.2% | 7.38x | 3.89x | 0.74x | 0.62x |
| TBC | TBC | GBP | 10.04 | 552 | 41.0% | -13.0% | -22.8% | 6.94x | 4.59x | 0.80x | 0.69x |
| Halyk Bank | HSBK | US\$ | 10.50 | 3,085 | 23.5% | -13.6% | -21.3% | 4.17x | 3.83x | 0.84x | 0.78x |
| VTB Bank | VTBR | US\$ | 0.82 | 5,285 | -0.7% | -35.4% | -44.3% | 4.22x | 3.04x | 0.32x | 0.29x |
| Akbank | AKBNK | TRY | 5.15 | 26,780 | -5.7% | -34.6% | -36.5% | 6.35x | 4.49x | 0.64x | 0.56x |
| Garanti | GARAN | TRY | 7.11 | 29,862 | -6.4% | -28.4% | -36.2% | 6.00x | 4.40x | 0.70x | 0.59x |
| Isbank | ISCTR | TRY | 5.35 | 24,075 | 15.8% | -12.4% | -16.5% | 5.51x | 4.20x | 0.53x | 0.47x |
| PKO | PKO | PLN | 21.32 | 26,650 | -2.3% | -43.0% | -38.1% | 10.41x | 9.51x | 0.59x | 0.58x |
| PEKAO | PEO | PLN | 50.24 | 13,186 | -7.0% | -49.4% | -50.0% | 12.53x | 9.29x | 0.53x | 0.52x |
| Millennium | MIL | PLN | 2.69 | 3,268 | -15.8% | -53.1% | -53.9% | 12.21x | 8.05x | 0.36x | 0.36x |
| Mbank | MBK | PLN | 169.10 | 7,159 | -20.8% | -50.5% | -56.6% | 14.26x | 9.99x | 0.42x | 0.42x |
| BRD | BRD | RON | 12.84 | 8,948 | 15.7% | -8.4% | -18.9% | 12.02x | 11.68x | 1.00x | 1.05x |
| Banca Transilvania | TLV | RON | 2.27 | 11,814 | 28.7% | -5.2% | -12.7% | 13.67x | 11.83x | 1.45x | 1.40x |
| OTP | OTPD | USD | 22.80 | 12,768 | 0.0% | 7.5% | 7.5% | 14.13x | 12.48x | 0.74x | 0.70x |
| Komercni | KOMB | CZK | 482.00 | 91,604 | -2.0% | -37.0% | -41.9% | 12.14x | 10.03x | 0.81x | 0.79x |
| Mean | | | | | | | | 9.46x | 7.42x | 0.70x | 0.66x |
| Median | | | | | | | | 10.41x | 8.05x | 0.70x | 0.59x |

Source: Bloomberg, S&P Capital IQ

Investment management companies

| | Ticker | Currency | Share price | Mcap, mn | 6M chg | y/y chg | YTD chg | P/E | | P/B | |
|-----------------------|--------|----------|-------------|----------|--------|---------|---------|--------------|--------------|--------------|--------------|
| | | | | | | | | 2020F | 2021F | 2020F | 2021F |
| Georgia Capital | CGEO | GBP | 3.75 | 138 | -10.7% | -62.3% | -59.3% | n/a | n/a | n/a | n/a |
| Tinc Comm | TINC | EUR | 13.40 | 365 | 8.5% | 0.2% | 0.4% | n/a | n/a | n/a | n/a |
| Sabancı Holding | SAHOL | TRY | 8.38 | 17,099 | 13.2% | -8.2% | -12.2% | 5.41x | 4.71x | 0.65x | 0.55x |
| Deutsche Beteiligungs | DBAN | EUR | 31.65 | 476 | 24.1% | -6.1% | -19.8% | nmf | 11.26x | 1.04x | 0.99x |
| Eurazeo | RF | EUR | 45.84 | 3,611 | 19.3% | -31.2% | -24.9% | 18.79x | 6.37x | 0.65x | 0.60x |
| Carlyle Group | CG | USD | 25.21 | 2,790 | 24.8% | 3.6% | -21.4% | 4.45x | 3.70x | 3.57x | 3.96x |
| Mean | | | | | | | | 9.55x | 6.51x | 1.48x | 1.53x |
| Median | | | | | | | | 5.41x | 5.54x | 0.85x | 0.80x |

Source: Bloomberg, S&P Capital IQ

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