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The Silk Connection

Initiation of Coverage - Silknet



Fixed Income Research | Telecommunications | Georgia

Silknet

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10 things you need to know about Georgia's telecom sector and Silknet

Initiating coverage of Silknet, Georgia's second largest telecom operator

1. Georgia was one of the first post-Soviet countries to liberalize the telecom market. The country's telecom industry has seen a number of mergers and acquisitions in recent years, enabling original operators to maintain the dominant market positions. In Georgia's three-carrier mobile industry, Magticom and Silknet are the only full-service telecom operators, while Veon is focused on the mobile industry.
2. We find both the mobile and fixed market in Georgia to be attractive especially when compared to European markets. We believe that Georgia's telecom market will benefit from rising urbanization, changing lifestyle and increased mobile data usage.
3. **Mobile segment** expected to grow from mobile migration and increased data usage as Georgians use low levels of mobile internet compared to EU and CIS countries.
4. **Fixed broadband** segment expected to benefit from increasing penetration in rural parts and shrinking household size in Georgia. After record breaking growth levels, we expect fixed broadband market to shift to steady growth path as penetration is still low in Georgia vs. EU.
5. **Pay-TV sector** was the fastest growing segment, with penetration reaching 56.5% of the Georgia's households. Despite the trend, Pay TV penetration still low in Georgia, particularly in rural parts. We estimate, urbanization trend and growing number of households to support the sector going forward. However, we acknowledge that the prevalent content piracy in Georgia hinders the sector's growth outlook.
6. **Fixed voice segment** expected to continue decline, reflecting global trend of fixed-to-mobile substitution. Not surprising that more and more people, especially young Georgian families, do not have a fixed phone line at home.
7. **We initiate coverage of JSC Silknet**, the largest fixed voice and second largest fixed broadband, Pay TV and mobile operator in Georgia. Silknet has transformed into a fully four-play-enabled telecom operator with the acquisition of Geocell in March 2018, then second largest mobile operator in Georgia. We believe that this acquisition enhances company's market position and product profile, and better equips Silknet to compete with its rival.
8. **Silknet placed its debut US\$ 200mn Eurobond on 2 April 2019**, with 5-year tenor and 11% coupon rate. Major portion of the Eurobond proceeds was used to refinance the obligations incurred for Geocell acquisition and the remainder improved company's liquidity profile.
9. Geocell acquisition almost **doubled** Silknet's revenue as mobile sector became the largest and most profitable business line for the company. Silknet expected to benefit from the surge in mobile data traffic as well as growing fixed segment penetration in Georgia.
10. We believe that Silknet's financial metrics will remain at **comfortable levels** compared to the Eurobond covenants in the medium term. Silknet's credit profile is backed by robust profitability, moderate leverage and strong growth prospects, while key risks facing the company are related to competition in the sector and FX exposure.



Georgia's telecommunications sector overview

Georgia was one of the first post-Soviet countries to liberalize the telecom sector. The liberalization of Georgia's telecommunication market began in 1999 when the Law of Georgia on telecommunications and postal services was enforced and an independent regulatory authority - Georgian National Communication Commission (GNCC) - was created (July 2000).

Georgia's three-carrier industry is dominated by the original market players. Magticom, the leader in Georgia's telecom sector, was founded in 1996, while soon afterwards Geocell, the second-largest mobile operator, was founded (Geocell was part of the Teliasonera group from 2007-18). Since the entrance of Russian telecom operator – Veon (Beeline) – in 2007, the Georgian mobile industry has operated with three major mobile network operators.

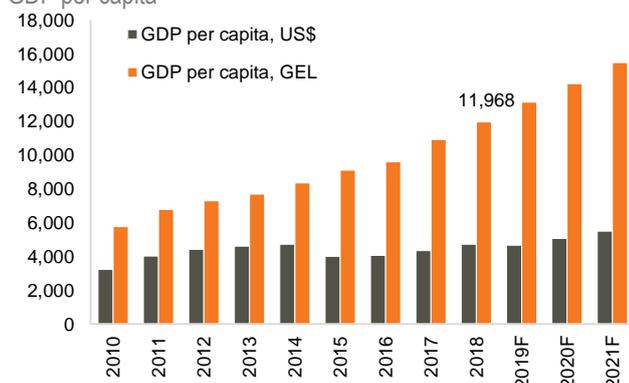
Georgia's three-player market is similar to other developed markets, where competition has forced out the weaker players, leaving at most 3-4 players in each country. After the wave of industry consolidation, three mobile operators are active in Georgia, in contrast to other developing markets that typically have more than 5 players. Azerbaijan, for example, has five mobile operators, while in Ukraine six market players compete.

Georgia's telecom industry has seen a number of mergers and acquisitions in recent years. Magticom, acquired the fixed-line broadband internet network platform from Caucasus Online in 2016. The last mobile consolidation took place in 2018 when Silknet, the incumbent fixed line operator, acquired the second-largest mobile operator, Geocell. As a result of all the consolidation to date, Magticom and Silknet have emerged as the only full-service telecom operators, while Veon is focused on the mobile industry.

The demand drivers for Georgian telecom market

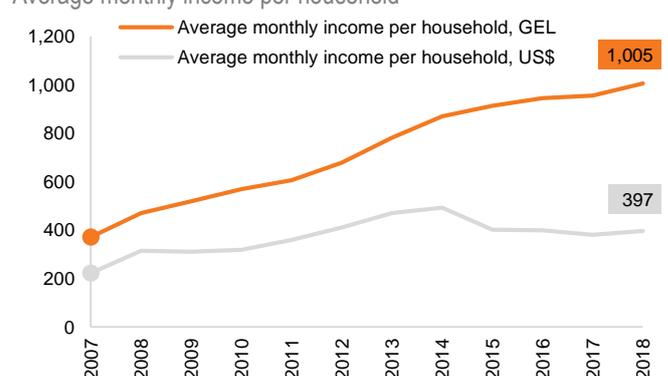
Economic dynamics will lead to increased use of Information and communications technology (ICT) in the next few years in Georgia. Real GDP growth in Georgia averaged 4.0% annually over the last 5 years, with per capita GDP, rising from GEL 7,222 in 2013 to GEL 11,014 in 2018. Average monthly household income also followed the trend, growing from GEL 781 to GEL 1,005 over 2013-18. As economy expected to grow at an average annual rate of 5.2% over 2019-23, related increase in purchasing power will fuel the sector growth in our view.

Figure 1: GDP per capita in Georgia expected to grow further
GDP per capita



Source: Geostat, IMF, Galt & Taggart Research

Figure 2: ...along with average monthly household income
Average monthly income per household

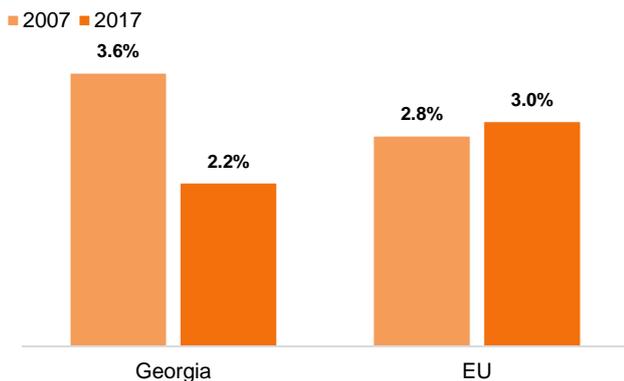


Source: Geostat, IMF



Georgian households spend on average 2.2% of their income on telecommunications, lower than 3.0% spent by European peers. Total household spending in Georgia on telecommunications reached GEL 496mn in 2017, a mere increase from GEL 450mn in 2007. Although, the number of subscribers and use of ICT has grown substantially in Georgia, significant reduction in telecom prices (due mostly to increased competition) over the same period, was the sole reason for a marginal increase in overall telecom spending.

Figure 3: Although total spending on telecom increased in nominal terms, its share in total has decreased in Georgia Share of telecom spending in total household income



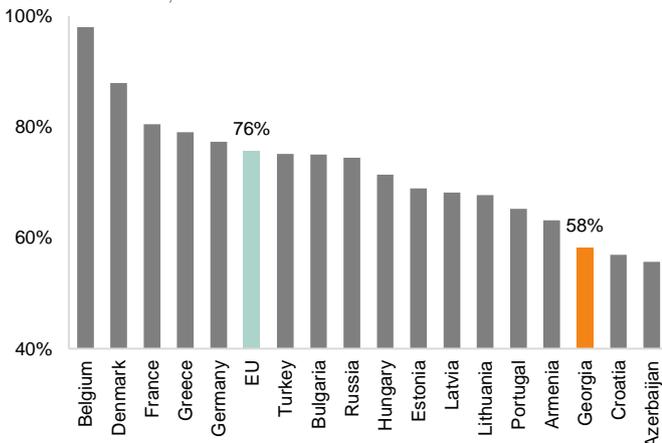
Source: Geostat, Eurostat

Urbanization should fuel the growth of ICT use in Georgia. Despite a positive trend, the urbanization rate in Georgia (+1.8ppts to 58.3% over 2008-18) remains low compared to emerging economies in Europe and Central Asia (66.8%) and is far below the EU average of 76.0%. Expected growth in urbanization and changes in lifestyle will contribute to increased popularity of smartphones and other connected devices, helping the telecom sector going forward.

Growth in urbanization rate and high proportion of population aged under 40 expected to fuel telecom sector growth

Figure 4: Georgia falls behind most European countries by urbanization rate

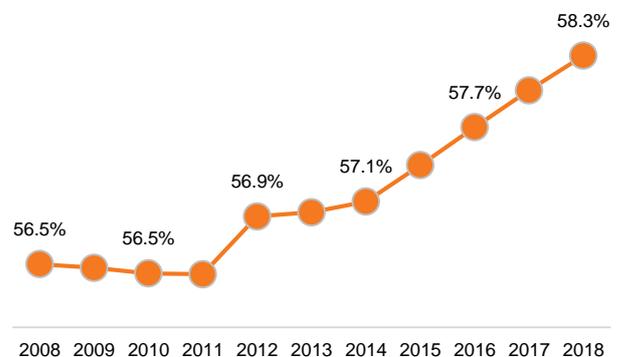
Urbanization rate, 2018



Source: Eurostat, Geostat

Figure 5: Urbanization rate in Georgia on a positive trajectory

Urbanization rate in Georgia



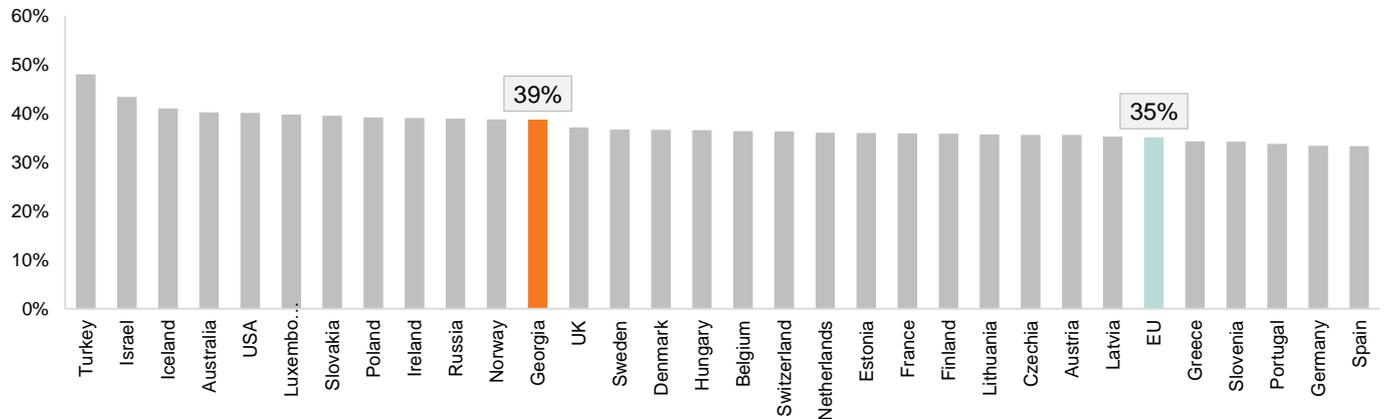
Source: Geostat

Georgia's small (3.7mn) but relatively young population is another attractive prerequisite for telecom sector growth. In contrast to many countries in Europe, the proportion of young population (aged 10-40) in Georgia is high, standing at 38.5% compared to 35.2% in the EU as of 2019.



Figure 6: C. 40% of the population is aged under 40

Share of population aged 10-40 in Europe, Jan 2019



Source: World Bank, Geostat

Subscriber base and income structure

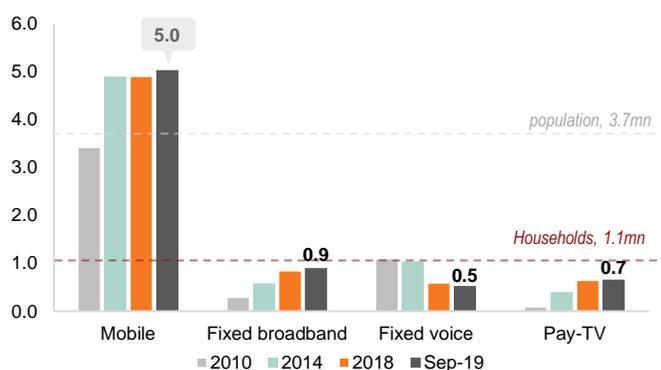
Georgia's telecom sector has seen substantial growth in its subscriber base over the last decade. There were 5.0mn mobile, 0.9mn fixed broadband, 0.5mn fixed voice and 0.7mn pay-TV subscribers as of Sep-19 for the country's 3.7mn population. Fixed broadband and TV subscribers grew fastest, up 3.0x and 7.9x, respectively, while the number of fixed voice subscribers almost halved over 2010-9M19.

GEL 844mn (US\$ 333mn) was generated by the telecom sector in 2018 compared to GEL 736mn in 2010, and the growth was driven entirely by the increased fixed broadband and TV revenues. Mobile revenues remain the most significant revenue stream, accounting for 57% of total telecom revenues in 2018, however compared to 2010, mobile revenues have been on a downward trajectory, driven by intensified competition and gradual decline in Average revenue per user (ARPU). In the meantime, excise tax on mobile services has been declining and was fully abolished from 2018, the full effect was absorbed by the telecom players. On the back of the surge in subscriber base, revenue from fixed broadband and pay-TV services has increased 3.0x and 13.0x, respectively, over 2010-18. Over the same period, revenue from fixed voice dropped 3.0x to GEL 40.8mn, in line with the global trend of decreasing use of fixed voice services.

Fixed broadband and TV grew fastest, with number of subscribers up 3.0x and 7.9x respectively, over 2010-18

Figure 7: Number of telecom subscribers in Georgia skyrocketed, with fixed broadband and TV subscribers growing fastest...

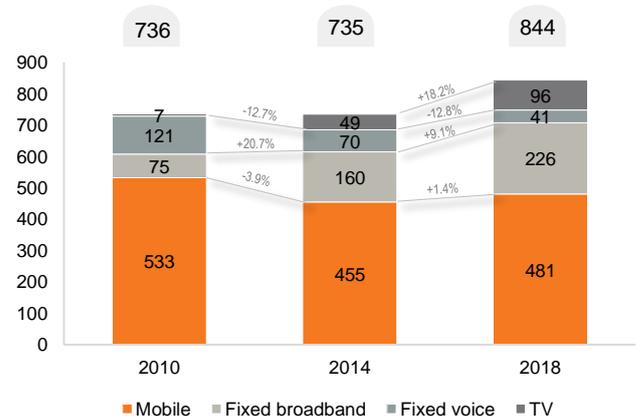
Telecom subscribers, mn



Source: GNCC

Figure 8: ...telecom revenues increased, but at a slower pace

Telecom revenue breakdown, GEL mn



Source: GNCC

Mobile Telecom Industry



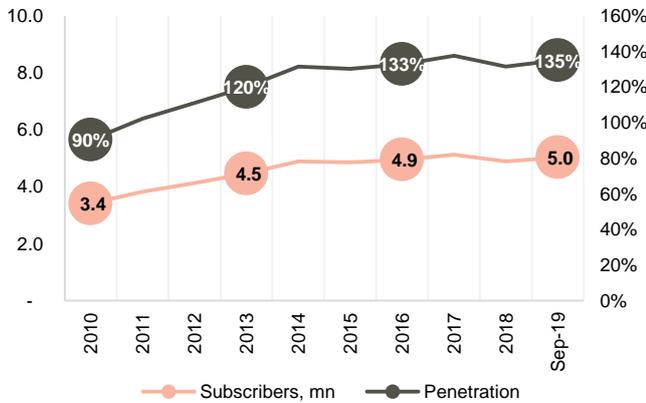
Mobile industry – set to grow further

Mobile development mirrored global trends in Georgia. There are around 5.0mn SIM connections in Georgia, which is a very high penetration rate for the country of 3.7mn population. This is mainly due to, multi-SIM ownership practice. Despite Georgia’s relatively high mobile penetration, we believe that solid economic growth and continued growth in mobile data usage should further continue to drive industry’s growth. Notably, Georgians use extremely low level of mobile internet compared to the EU and CIS, despite surge in mobile data traffic in recent years. As more and more Georgians are shifting their lifestyle to mobile, including to social media, video content and so-called mobile commerce, we expect mobile data usage to grow 3-times by 2022. Competition in the mobile market in Georgia is fierce, and three established mobile operators followed trend of developed markets starting offering convergent bundles to customers.

Overall mobile penetration is high in Georgia, due partly to high levels of multi-SIM ownership. There were around 5.0mn SIM connections in Georgia as of Sep-19 or 135% penetration of the 3.7mn population (more than 100% penetration is due to the prevalence of consumers owning multiple SIMs, including for kids use). Georgia is one of the more highly-penetrated countries, trailing behind Estonia, Kazakhstan and Russia, but significantly ahead of other regional countries as well as some European peers with significantly higher income levels. Considering the already high level of SIM cards outstanding, we do not expect mobile penetration to increase substantially over the medium term.

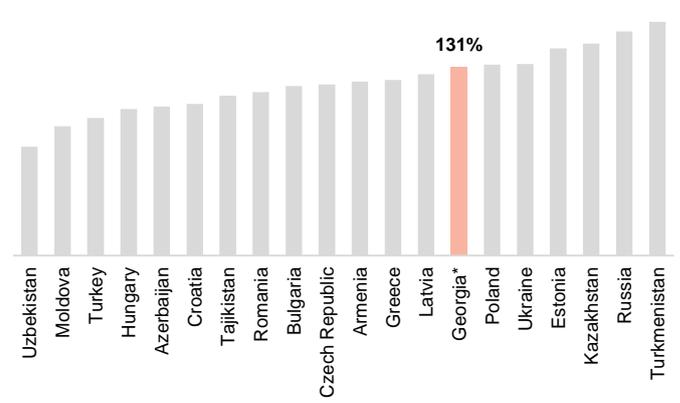
Popularity of multi-SIM ownership results in high mobile penetration in Georgia, standing at 131% vs. 122% in Europe

Figure 9: Mobile subscribers grew 1.5x over 2010-Sep-19 Mobile subscribers and penetration in Georgia



Source: GNCC, Galt & Taggart Research

Figure 10: Mobile penetration in Georgia higher than the peers Mobile penetration, 2018



Source: ITU, GNCC, Galt & Taggart Research

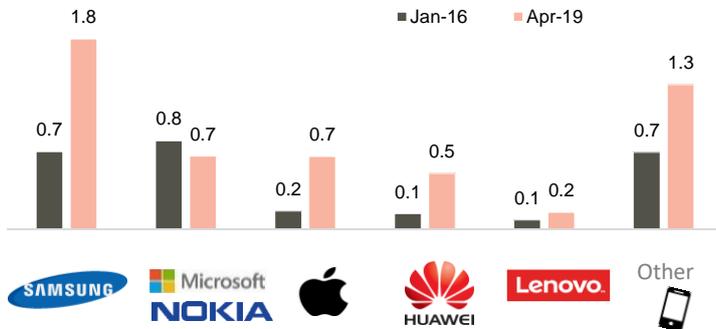
The rapid growth in subscriber numbers was accelerated by the increased popularity of smartphones in Georgia. There were around 5.2mn active mobile phones in Georgia as of April 2019. Apple and Samsung are the most popular brands, accounting for more than half of total phones. Although most of the mobile phones imported since January 2016 are smartphones (2.5mn devices), a significant portion of the Georgian population still owns old/ordinary phones (without internet connection). The increasing skillset of using modern connected devices will positively affect demand for mobile services, in our view.

2.5mn mobile phone devices imported in Georgia over 2016-19



Figure 11: Number of mobile phones has doubled in Georgia since 2016

Number of mobile phones by type, mn



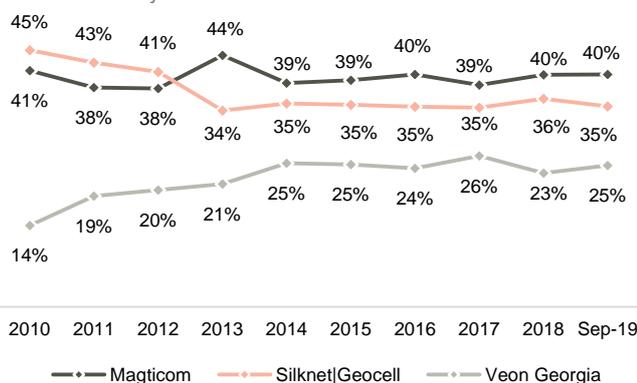
Source: GNCC

Georgia has had three mobile network operators for the past 12+ years. Magticom, a traditional leader of the Georgian mobile telecom industry, had 40.5% or 2.0mn mobile subscribers as of Sep-19. With the acquisition of Geocell in March 2018, Silknet, the incumbent fixed line operator, moved into second position in the mobile sector, with 34.9% share as of Sep-19. While, Veon since entering the Georgian telecom market in 2007, has successfully captured one quarter of Georgia's mobile subscriber base.

Some 74.1% of total mobile subscribers are individuals, although the number of corporate subscribers is growing. The number of corporate subscribers increased 4.7x from 2010 till Sep-19, reaching 1.3mn as of Sep-19 or 25.9% of the total. This is mostly explained by the shift of individual subscribers into corporate segment. In the retail sector, Magticom is the largest player, with a current share standing at 41.0% vs. 33.9% for Silknet. In the corporate sector the market shares of the three companies have been volatile over the last 10 years. Magticom and Silknet have been serving the Government, the largest player in the corporate sector, interchangeably in the past.

Figure 12: Market shares of the mobile operators stable in recent years

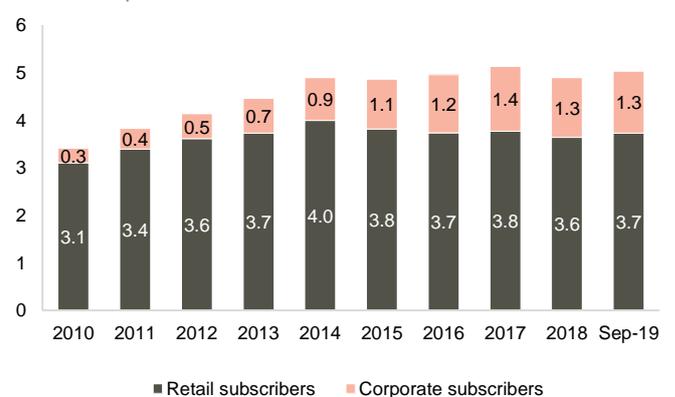
Market shares by mobile subscribers



Source: GNCC

Figure 13: Share of corporate subscribers is on the rise

Retail & corporate subscribers, mn



Source: GNCC



Box 1: Market Regulation

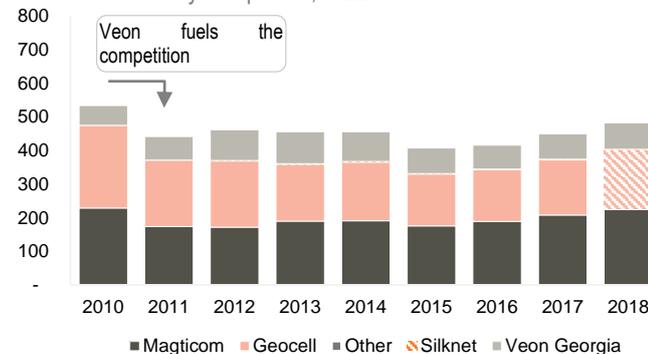
In recent years, GNCC, the independent regulatory body for the mobile telecom sector, has taken actions to reduce mobile tariffs in Georgia. The first tariff cut took place in 2015 when interconnection rates were reduced from GEL0.05 to GEL0.035 (including taxes). As a result, total sector revenues decreased 3.8% y/y in 2015. In October 2017, GNCC proposed calculating the new local interconnection rates based on the Long-Run Incremental Costing (LRIC) methodology developed by EY. The new rates, which are significantly lower compared to previous rates, became partially effective from July 2018, with full effect from January 2019. Namely:

	<i>In GEL 0.01</i>	Before 2018 <i>Incl. taxes</i>	From 1 July 2018 <i>excl. taxes</i>	From 1 January 2019 <i>excl. taxes</i>
Mobile - initiation		3.50	2.16	1.44
Mobile - termination		3.50	1.81	0.75
Fixed (local) - initiation		2.00	1.04	0.38
Fixed (transit) - initiation		3.00	1.05	0.41
Fixed (local) - termination		2.00	0.99	0.28
Fixed (transit) - termination		2.00	1.01	0.32

Total mobile revenues generated by the Georgian mobile operators reached GEL 481.2mn, up 7.3% y/y in 2018. The sector revenues notably reduced twice – in 2011 and in 2015. The drop in revenues in 2011 was associated with intensified competition in the mobile sector, coupled with the cut in interconnection rates from GNCC (see box 1 for more details). After the entrance of Veon, which positioned itself as the cheapest mobile operator, the competition in the Georgian mobile sector intensified, leading to reduction in overall mobile tariffs. Notably, during this period ARPUs gradually decreased from GEL 13.7 in 2010 to GEL 9.6 in 2012. The sector revenues reduced in 2015 also, after the emergence of 4G technology and price competition triggered by Veon as well as additional rate cuts from GNCC.

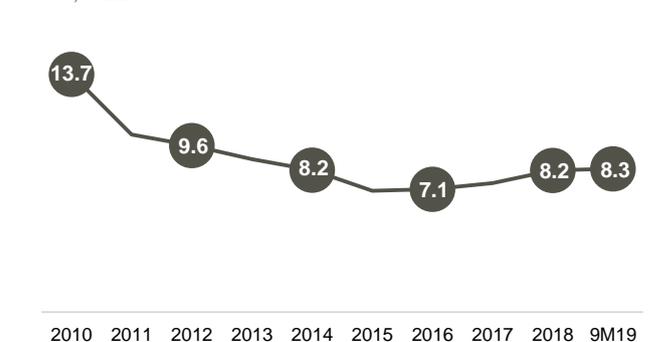
Figure 14: Mobile revenues grew at 5.7% CAGR over 2015-18

Mobile revenues by companies, GEL mn



Source: GNCC

Figure 15: Intensified competition has pressured sector ARPUs



Source: GNCC

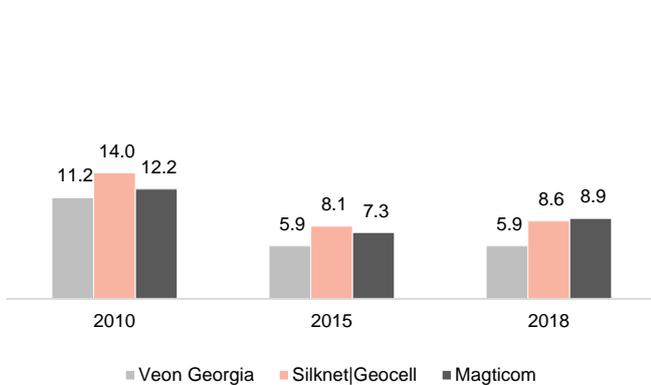
Note: Average monthly ARPUs

Magticom grabs 47% of the industry's revenue, with having only 40% of the subscribers. Notably, Magticom earns higher ARPUs on corporate clients, which are mostly Government entities with large employee pool and intense data users compared to Silknet's corporate clients.



Figure 16: In retail, Magticom and Silknet earn similar ARPUs...

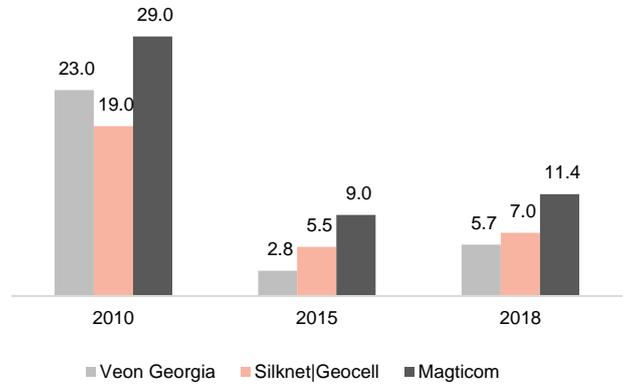
ARPUs in retail segment, GEL



Source: GNCC

Figure 17: ...However, in corporate segment Magticom earns significantly higher ARPUs compared to its competitors

ARPUs in corporate segment, GEL

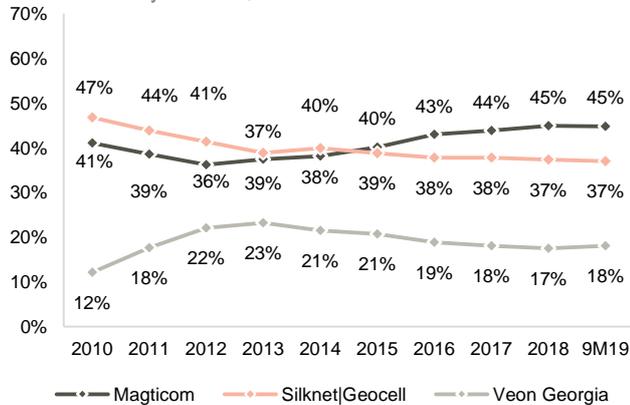


Source: GNCC

Magticom's market position is mostly explained by high ARPUs in corporate segment as well as the higher number of retail subscribers. Notably, in retail segment, Magticom and Silknet earn similar ARPUs. In contrast Veon, the cheapest mobile operator, generated only 18% of the industry's revenues from its 24% of the subscriber base.

Figure 18: Market shares by revenue remain stable since 2015

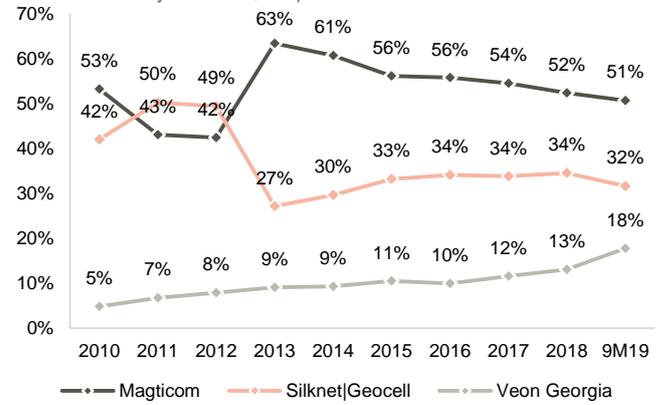
Market shares by revenue, retail sector



Source: GNCC

Figure 19: The same trend observed in corporate segment

Market shares by revenue, corporate sector

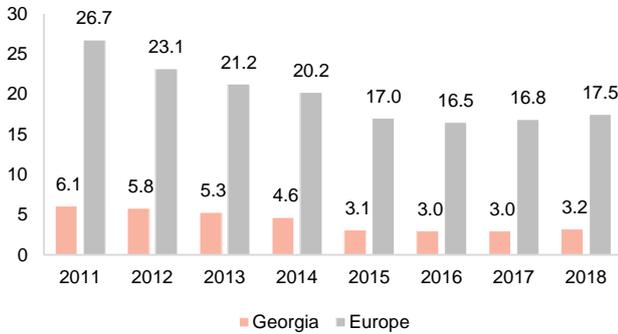


Source: GNCC

Mobile service prices in Georgia are significantly lower compared to the European markets. The average ARPUs earned by Georgian mobile operators is almost 4.5x lower compared to the average ARPUs earned in Europe.



Figure 20: Mobile ARPUs in Georgia are significantly lower compared to European markets
Mobile ARPUs in Georgia vs Europe, US\$



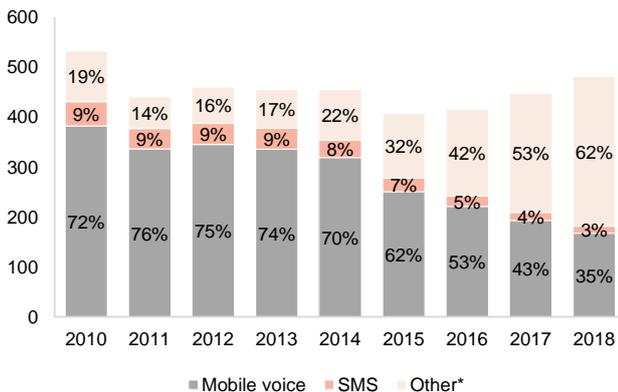
Source: GNCC, Analysys Mason, Galt & Taggart Research

The mobile revenue structure in Georgia is changing, with mobile voice and SMS revenues being replaced by other (mostly mixed) revenue streams. The share of mobile voice (Pay as You Go) revenues, traditionally the largest revenue category, has halved from 72% or GEL 382.1mn in 2010 to 35% or GEL 167.9mn in 2018. Notably, with the increased use of online communication platforms like Messenger, WhatsApp, Viber and others the mobile voice traffic growth rate has slowed down.

Other services, which combines revenues from bundled offers, has become the largest revenue category, accounting for 62.3% of total mobile revenues or GEL 300.0mn in 2018. The growth is explained by the rapid proliferation of convergent bundles by the mobile operators in Georgia. In developed markets telecom operators have been successfully using convergent tariffs to differentiate from competitors. This bundling benefits operators from cross-selling and reduces churn rates. With increased competition in the sector, Georgian telecom operators also started offering convergent bundles to customers.

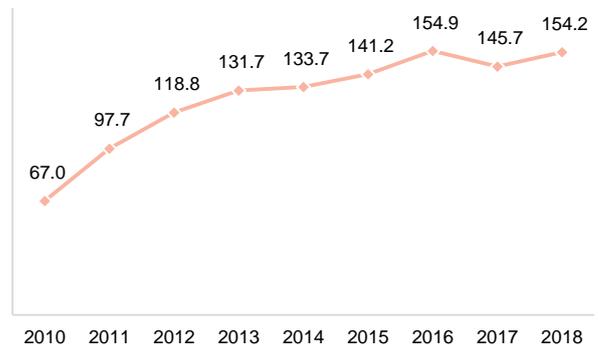
Figure 21: Pay as You Go voice revenues replaced by bundled offers

Breakdown of mobile revenues by service, GEL mn



Source: GNCC
Note: other includes revenues from bundles services

Figure 22: The growth in mobile voice traffic has slowed explained by the growing use of other means of communication
Minutes of use



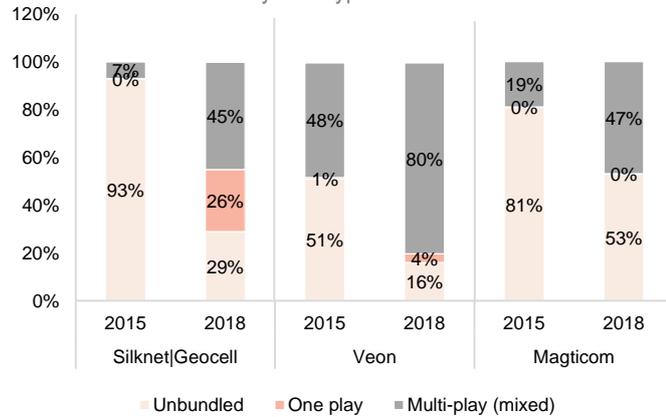
Source: GNCC
Note: Minutes of use is calculated by dividing number of minutes by the number of subscribers in the period



Although the number of convergent offers in Georgia is still low, the shift has been rapid over 2015-18. The share of multi-play (mostly 2-play and 3-play) offers in mobile voice services increased substantially over the last three years, with a higher portion of mobile services offered as part of multi-play offers, rather than one-play or unbundled. Notably, the volume of mobile data offered as part of bundled voice services is very low, making one-play mobile data offers more attractive for internet-driven customers. Not surprisingly, in mobile-internet offers one-play offers remain the more popular choice.

Figure 23: The share of multi-play (mixed) offers in voice has grown substantially over 2015-18

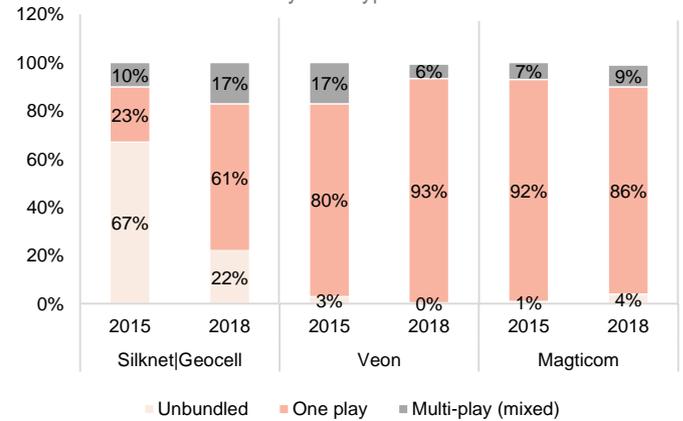
Mobile voice breakdown by offer type



Source: GNCC

Figure 24: The share of multi-play offers in mobile internet remains low

Mobile internet breakdown by offer type



Source: GNCC

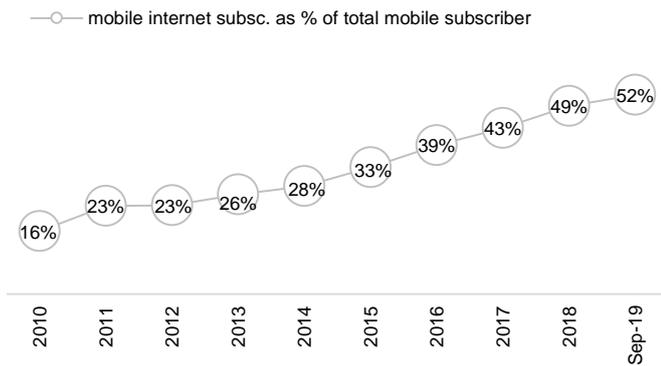


Mobile internet

Over 2010-Sep-19, the number of mobile broadband subscribers in Georgia has grown rapidly, up 4.7x reaching 2.6mn as of Sep-19 (notably out of these customers c. 0.2mn are M2M data users¹, where Silknet is the ultimate leader). This represents a 52% (c.48% excluding M2M users) penetration ratio of total mobile subscribers as of Sep-19.

Figure 25: Mobile internet penetration ratio reached 52% in 2018, up from only 16% in 2010

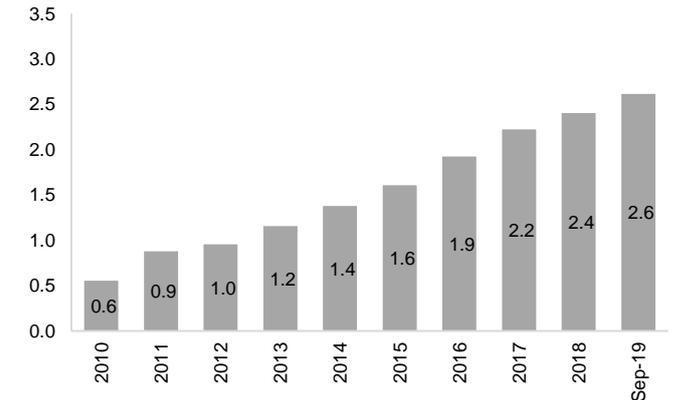
Mobile internet subscribers as % of mobile subscribers



Source: GNCC

Figure 26: Number of mobile internet subscribers skyrocketed, up 4.7x over 2010-Sep-19

Mobile internet subscribers, mn

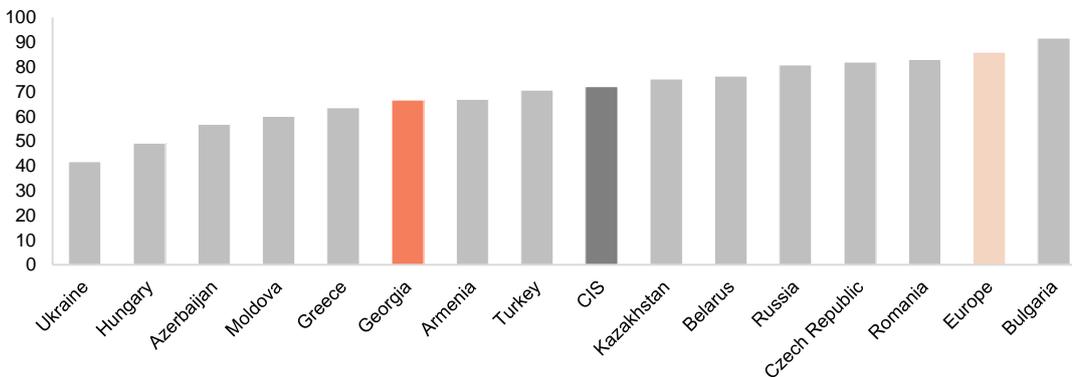


Source: GNCC

Despite growth, Georgia falls behind some of the regional as well as European peers by the ratio of active mobile broadband subscriptions. According to ITU's calculations, there were c.67 mobile internet sims among 100 inhabitants in Georgia in 2018, compared to average of 72 in the CIS region and 86 in Europe. On the back of Georgian population's improved skillset and increased number of smartphones, this number is forecasted to grow in the future. In line with the global trend, we expect number of mobile data users to grow in Georgia, with penetration reaching c. 69% of mobile subscribers by 2021 from current 51%.

Figure 27: Georgia falls below the European/CIS average for use of mobile internet

Active mobile-broadband sims per 100 inhabitants, June 2018



Source: ITU

¹ M2M data users are Machine to Machine subscribers, that use data to connect to each other but the rates earned and used traffic is significantly lower compared to other types of subscribers.



Silknet is the market leader in the mobile internet sector, with 1.1mn mobile internet subscribers or 37.5% of the total as of Sep-19. Silknet is the only mobile operator with significant number of M2M clients, c. 132,000 users as of Sep-19. Without M2M clients, Silknet's market share stood at 34.3% as of Sep-19, closely followed by Magticom and Veon with 33.5% and 32.2% market share, respectively. Notably, in the past couple of years, Veon has increased its emphasis on mobile data, launching relatively cheaper mobile data offers. As a result, Veon has transformed into a second-sim solution for data-intensive customers. This explains the significantly higher share (65%) of mobile subscribers using mobile data in Veon, compared to the competitors.

Figure 28: Market shares by mobile data subscribers

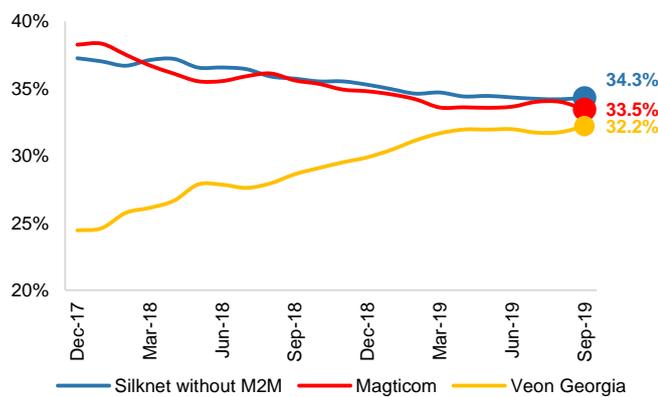
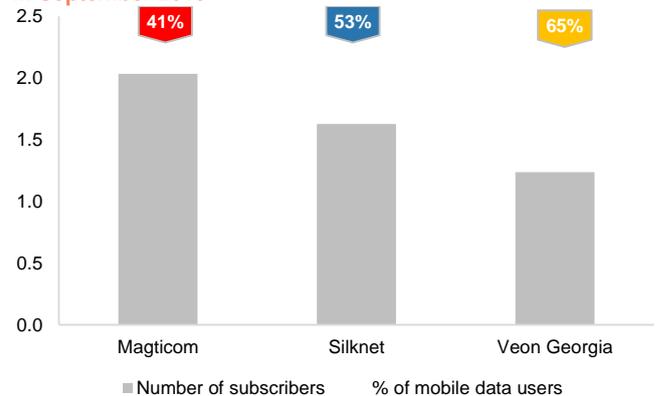


Figure 29: Share of mobile subscribers using mobile internet in September 2019

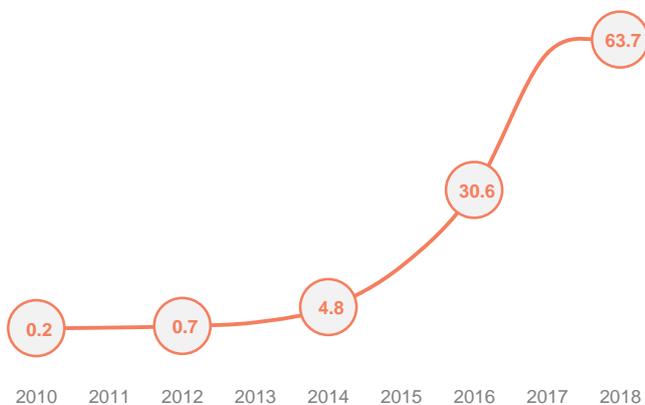


Source: GNCC
Note: Silknet data is adjusted to exclude M2M clients

Global trends are reflected in Georgia, with internet traffic growing from 1.5mn GB in 2013 to 63.7mn GB in 2018. Internet access and use are growing rapidly in Georgia, on the back of improved device capabilities and more affordable data plans, as well as an increase in data-intensive content, particularly video and social networks. In addition, strong growth in the number of smartphones is fuelling an explosion in data traffic growth in Georgia. It's notable that the share of LTE (4G) traffic in total has increased from 39% in 2016 to 64% in 2018.

Figure 30: Mobile internet traffic spiked

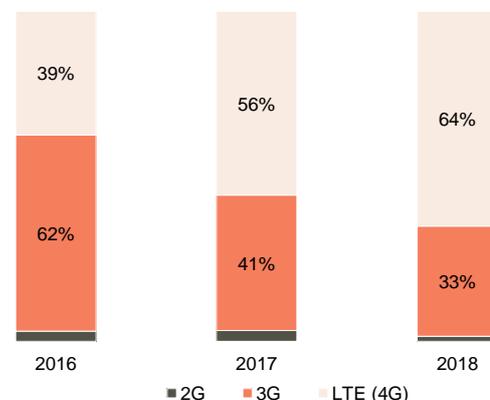
Mobile internet traffic, GB mn



Source: GNCC

Figure 31: The share of 4G in technology mixed increased

Mobile internet traffic by technology



Source: GNCC

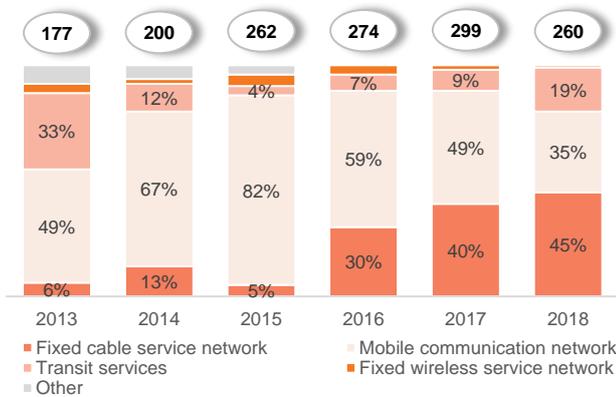


The increase in traffic was facilitated by the significant investments made by Georgian mobile operators to improve telecom infrastructure and achieve higher coverage. GEL 1.5bn or US\$ 673mn was spent by Georgia's telecom players over 2013-18, of which 57% or GEL 834mn was spent on mobile network services. This has resulted in significant improvements in coverage, with c. 73% of the population having access to LTE (4G) technology while 3G coverage stood at 90% as of 2018. Notably, Silknet has been actively investing in its network quality, increasing 4G coverage to c. 92% as of Sep-19 up from 75% by end-18 (and 57% by end-17).

Silknet has been actively investing in its network quality, increasing 4G coverage to c. 92% as of Sep-19, vs. 75% by end-2018

Figure 32: GEL 1.5bn (c. US\$ 700mn) was invested over 2013-18 in Georgia's telecom sector

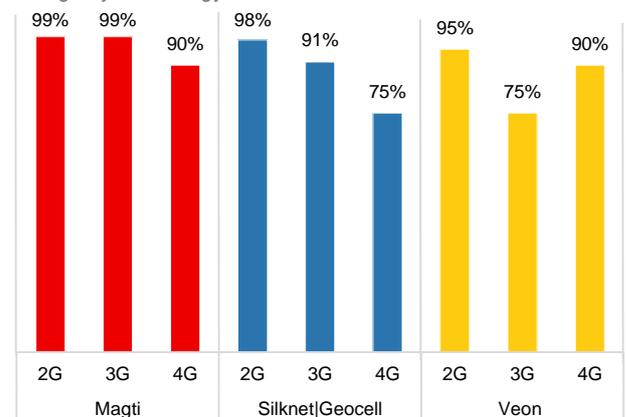
Capital expenditures, GEL mn



Source: GNCC

Figure 33: 2G, 3G and 4G coverage of Georgian population

Coverage by technology, end 2018

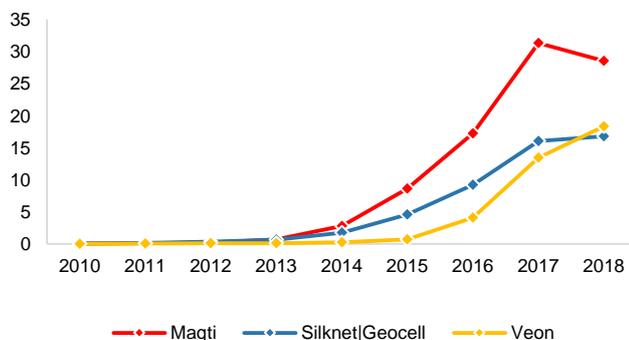


Source: GNCC

Magticom and Veon have higher mobile internet traffic per user than Silknet. As mentioned above, Veon offers cheaper data plans to its customers, as a result Veon's customers used on average 3.5GB mobile data per month, while Magticom's customers use 3.3GB/month in 9M19. Silknet's average customer used only 2.0GB mobile data per month, almost 1.5x lower than competitors. Magticom's superior network coverage and Veon's affordable data plans drive intense mobile internet users to the above-mentioned operators. Notably, on the back of improved 4G coverage, already from 2019, Silknet's per user data usage has almost doubled in 3Q19 reaching average 2.7GB/month.

Figure 34: Mobile data traffic take off since 2014...

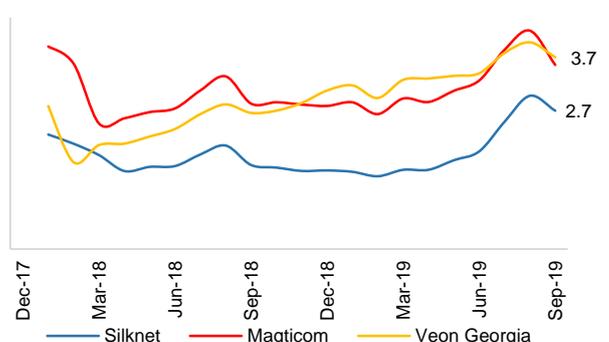
Mobile internet traffic by companies, '000 terabytes



Source: GNCC

Figure 35: ...Traffic per user is almost 1.3x higher for competitors vs. Silknet

Average traffic per user per month GB



Source: GNCC

Note: Silknet data is adjusted to exclude M2M subscribers



Despite the significant growth in data usage, Georgians use extremely low levels of mobile internet per month. On average Georgians use 2.4GB/month (in 2018, while in 9M19 data usage increased to 3.3GB/month), by this ratio Georgia falls behind EU/CIS (6.0GB/month) and other markets, leaving room for substantial growth going forward.

Mobile data traffic in the CIS is forecasted to grow 6.0x between 2017 and 2022 based on GSMA. Widening 4G coverage and rising smartphone adoption are fuelling rapid growth in data traffic. Consumers are using their devices on a more regular basis to access not only social media platforms (Facebook, Whatsapp), but also entertainment content (especially video). Notably, video is expected to become the largest driver of traffic growth in the region, in line with global trends.

Mobile traffic per capita is forecasted to skyrocket in Georgia too. In line with the global trend of growing per capita data traffic, we forecast per capita data traffic to increase 2.9x over 2019-22 in Georgia, from 1.4GB/month in 2017 to 4.1GB/month in 2022. Notably, different studies forecast far higher growth in per capita data traffic in the region Georgia is a constituent.

Figure 36: Georgian subscribers use significantly less mobile internet monthly

GB per subscriber per month



Source: GSMA, Galt & Taggart Research

Figure 37: ...Mobile traffic per capita is forecasted to skyrocket everywhere, including Georgia

Average mobile traffic per capita, GB per month

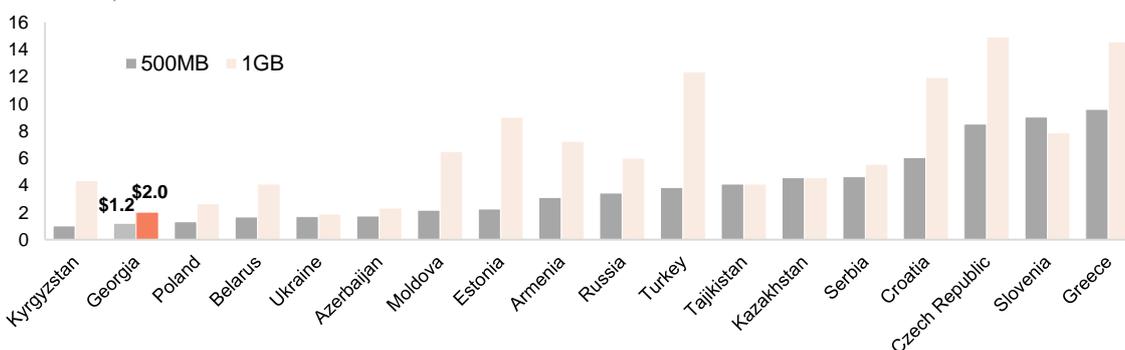


Source: Cisco, VNI Forecast Highlights, Galt & Taggart Research

Mobile data prices in Georgia are extremely low compared to many other regional and European countries. The prices have been on a downward trajectory since 2010, following the entrance of Veon into Georgia and related increase in competition.

Figure 38: Mobile data prices in Georgia low compared to peer countries

Mobile data price, US\$/GB 2017



Source: ITU



Veon is the cheapest mobile data provider in Georgia. As the comparison below illustrates, the cost of 3GB internet from Magticom and Silknet is GEL 9, while it costs only GEL 6 to purchase 4GB from Veon. By this measure Magticom and Silknet’s mobile internet is almost twice as expensive per GB (GEL 3 vs. GEL 1.5 for Veon). Similarly in multi-play offers, Veon offers the cheapest bundles. Superior network coverage as well as the long-lasting brand value of Magticom and Silknet are the likely reasons behind the premium prices charged by the companies. In addition, in recent years Veon’s strategy has been targeting the younger population by offering data-plans with more internet at affordable prices.

Figure 39: Pricing comparison

Mobile internet price by companies, GEL

GB	Magti	Silknet Geocell	Veon
1	5	n/a	n/a
3	9	9	n/a
4	n/a	n/a	9
5	12	12	n/a
10	n/a	n/a	15
20	30	30	n/a
30	n/a	n/a	25
∞	150	n/a	n/a

Source: Company data as of November 2019, Galt & Taggart Research

Figure 40: Multi play offers pricing comparison

Mobile internet price in addition to unlimited minutes and SMS, GEL

GB	Magti	Silknet Geocell	Veon
0.7	n/a	10	6
1	25	25	n/a
3	n/a	n/a	25
7	n/a	35	n/a
∞	60	n/a	n/a

Source: Company data as of November 2019, Galt & Taggart Research

Fixed Broadband



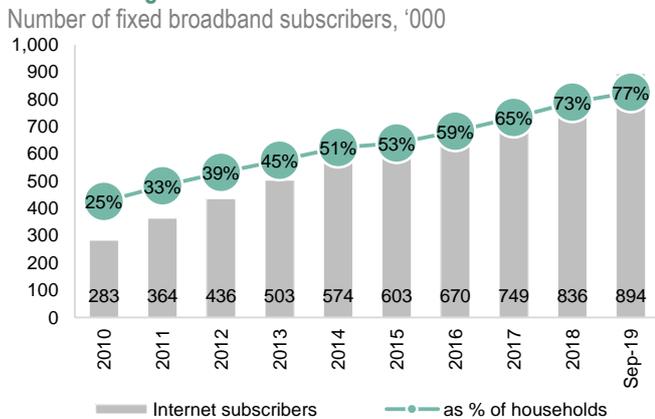
Fixed broadband - still an under-penetrated market

Around 77% of homes in Georgia have fixed internet access, as a result of growing popularity since early 2000s. Despite this rapid growth, fixed broadband penetration is significantly lower in Georgia vs. EU, mostly explained by poor coverage of Georgia's regions. After record breaking growth levels, we expect fixed broadband market to shift to steady growth path helped by the shrinking household size and growing urbanization. We forecast fixed broadband penetration to reach 83% by 2021. After a wave of industry consolidation in recent years, Silknet and Magticom have emerged as the only full-service telecom operators, being able to offer convergent offers and increase revenue streams.

The internet (fixed broadband) was first introduced in Georgia at the end of the 1990s followed by the launch of broadband internet in 2002 (DSL). Since then, due to significant expansion in broadband infrastructure, the internet became available to almost everyone with a telephone line in Tbilisi. Internet subscriptions have also proliferated in other large cities, while expansion in rural parts of Georgia has been slower. As a result, the number of fixed broadband subscribers has tripled between 2010 and 2018.

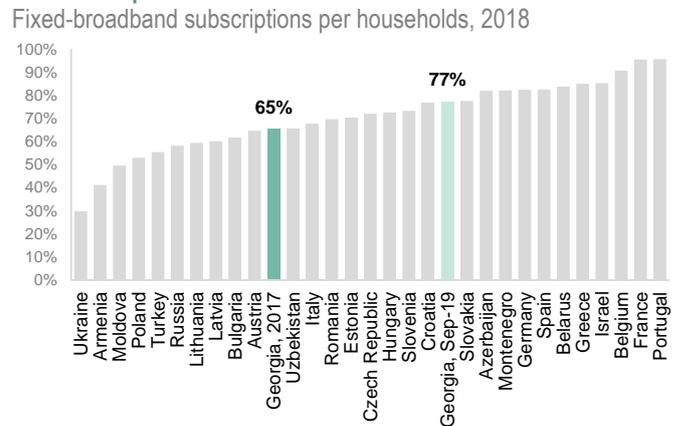
There were 893,590 fixed broadband subscribers in Georgia, or 77% household penetration as of Sep-19. By this measure Georgia stands relatively high compared to regional economies, but below the EU. Notably, 95% of the subscribers are residential, as most of the companies are using the retail tariffs instead of the corporate rates.

Figure 41: Number of fixed broadband subscribers skyrocketed, but room for growth remains



Source: GeoStat, GNCC, Galt & Taggart Research

Figure 42: Georgia compared with the European peers by fixed broadband penetration ratio

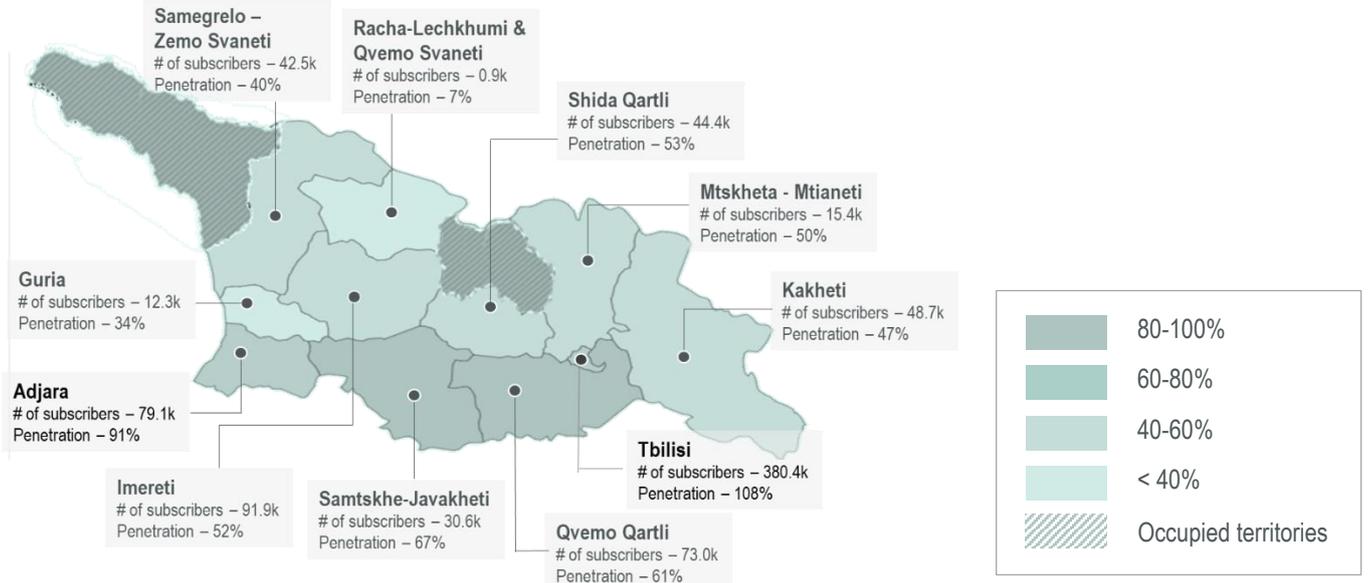


Source: ITU, GNCC, Galt & Taggart Research



Map 1: Fixed broadband penetration of households standing at 71.1% as of 4Q18

Fixed broadband penetration in Tbilisi and regions of Georgia

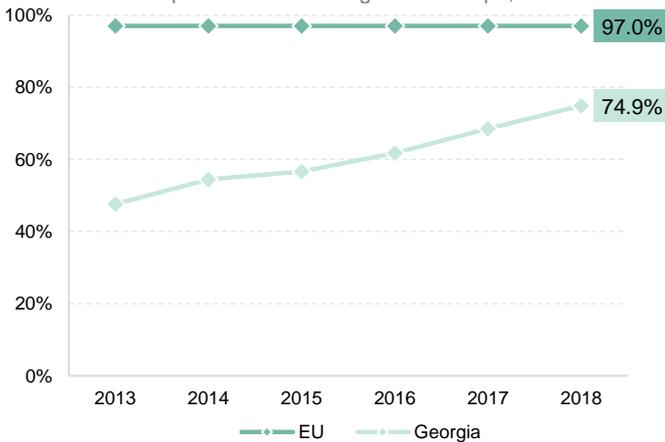


Source: GNCC

Despite significant improvement, fixed broadband penetration remains low in Georgia, especially in rural parts. Fixed broadband penetration stood at 54.4% in rural parts of Georgia compared to 87% in Europe. There is room for further growth, especially in the regional parts of the country, as the gap between Georgia's rural parts and Europe's less inhabited regions remains substantial, notably 50% of villages of Georgia still don't have access to fixed internet.

Figure 43: Georgia is quickly catching up with Europe by fixed broadband penetration

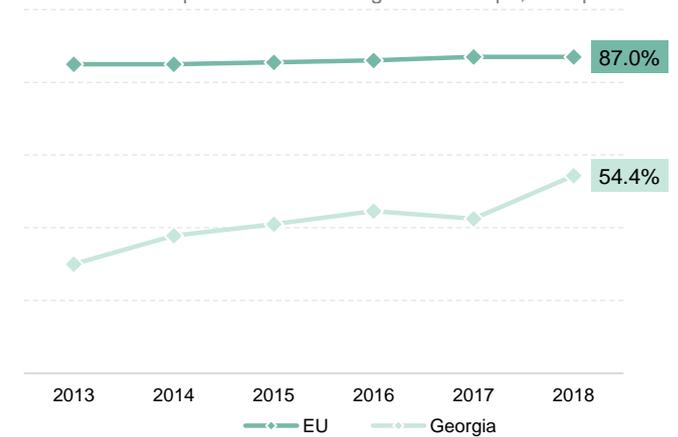
Fixed broadband penetration in Georgia and Europe, total



Source: GNCC, Eurostat

Figure 44: ...Gap remains in rural parts

Fixed broadband penetration in Georgia and Europe, rural parts



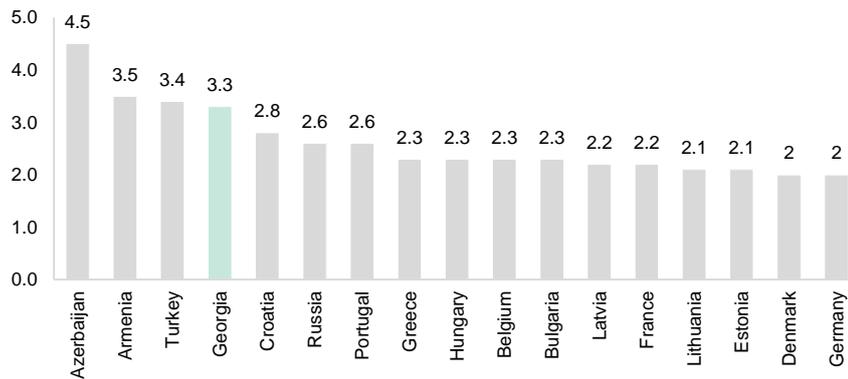
Source: GNCC, Eurostat



Decreasing household size coupled with growing urbanization will fuel the demand for fixed broadband services in Georgia. An increasing number of young Georgians are seeking for individual housing already (compared to historic tradition of living with parents). As a result, Georgia’s household size fell from 3.8 persons to 3.3 over 2006-18, but it is still significantly higher than in EU member countries, at 2.3 in 2018. Rising household income and decreasing household sizes will contribute to the further growth of fixed broadband penetration in Georgia. The growth will be further supported by growing urbanization, particularly migration to Tbilisi.

Figure 45: Average household size in Georgia significantly higher than in EU

Average household size Georgia vs peers, 2018



Source: GeoStat, EuroStat, respective statistics offices

We forecast fixed broadband penetration to reach 83% by 2021 from a 73% level of 2018. Growing coverage has already reflected in 9M19, with the overall penetration reaching 77% as of Sep-19 (up 4ppts from Dec-18 level).

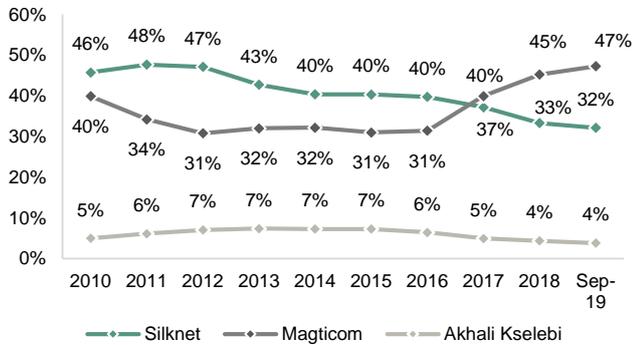
Of the 171 companies providing fixed internet services in Georgia as of end-2018, two main operators – Magticom and Silknet – shared c. 80% of total subscribers. Before 2016, Silknet and Caucasus Online were the market leaders in the fixed broadband sector, with Silknet retaining c. 40% market share, followed by Caucasus Online with c. 27%.

After the acquisition of Caucasus Online in 2016, followed by large investments, Magticom became market leader in the fixed broadband sector, holding a 47.3% market share as of Sep-19. The growth in subscriber base was entirely driven by the increase in retail customers mostly in rural areas, reaching 422,426 by Sep-19. Notably, Silknet, second largest fixed broadband provider, had 287,110 subscribers and held 32.1% of the market in the same period.



Figure 46: Strategic acquisition of Caucasus Online, changed rankings on the market

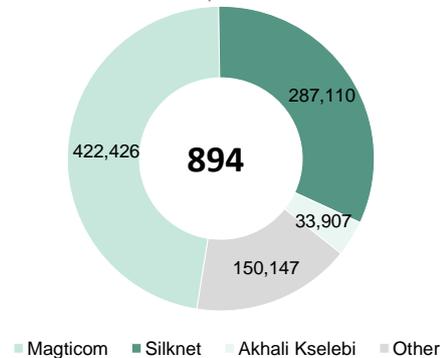
Market shares in fixed broadband sector



Source: GNCC

Figure 47: Silknet and Magticom together hold c. 80% of the fixed broadband market

Fixed broadband subscribers Sep-2019



Source: GNCC

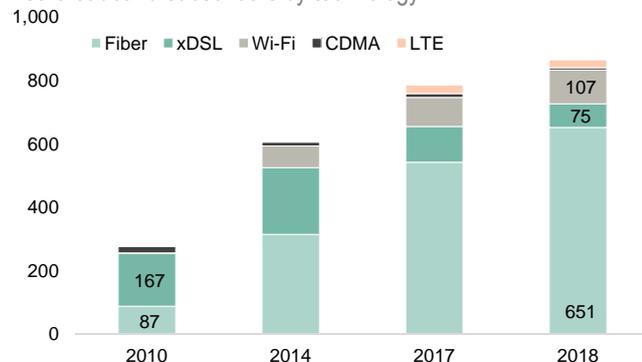
In the corporate segment, Silknet became the leader in 2018. It is notable that, although the corporate segment in Georgia remains small, accounting for a mere 5.2% of total subscribers, it generated 30.7% of sector revenues in 2018. After significant growth in its corporate client base (up 13.8% y/y to 17,879 in 2018), Silknet became the market leader, with 42.2% of total corporate subscribers as of Sep-19 compared to 30.1% for Magticom.

The technology mix among subscribers has changed significantly over the last five years, with FTTx technology gradually replacing xDSL technology in Georgia. Optical fibre cable connections have been expanding in Georgia in recent years, with 75% of total subscribers or 651,177 using FTTx technology in 2018, compared to only 31% in 2010 (when xDSL accounted for 59% of total subscribers). In addition, the number of fixed Wi-Fi connections has also grown rapidly, with 106,694 customers using fixed Wi-Fi technology mostly in rural parts of Georgia, where FTTx connections aren't available.

The proliferation of fiber technology in Georgia has increased the share of customers with faster internet connection. Only 24% of total subscribers had internet slower than 24 Mbps in 2018, while this number stood at 70% in 2013.

Figure 48: Fiber replaced xDSL as the most popular technology used by subscribers in Georgia

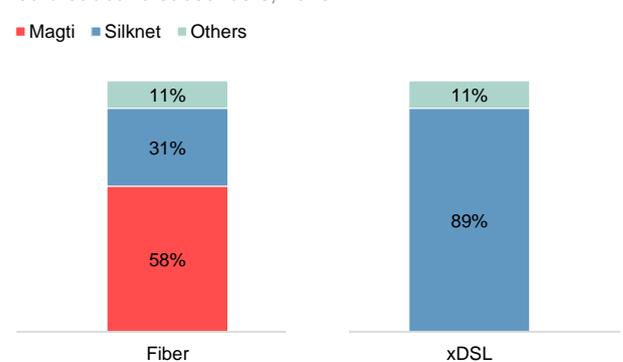
Fixed broadband subscribers by technology



Source: GNCC

Figure 49: Magticom is the leader in fiber technology, while Silknet leads the xDSL sector

Fixed broadband subscribers, 2018



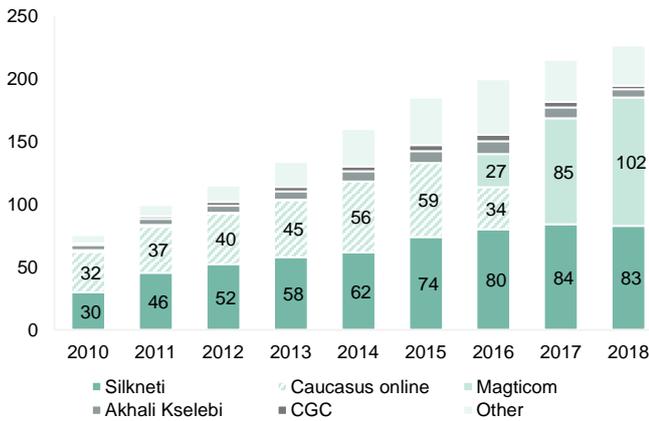
Source: GNCC



On the back of increased subscribers, the revenue from fixed broadband services grew 3.0x to GEL 226.7mn in 2018 compared to 2010. GEL 157.1mn or 69% of total revenue was generated by retail customers. Magticom is the leader in both retail and corporate segments by revenue, with 44% and 48% market share, respectively. Although Silknet managed to outpace Magticom in terms of the number of corporate clients in 2018, this hasn't yet translated into higher revenues from the corporate segment for the company.

Figure 50: Silknet accounted for 37% of total fixed broadband revenues in 2018

Revenue from fixed broadband by company, GEL mn



Source: GNCC

Figure 51: Silknet held 39% market share in retail and 36% in corporate

Market shares in fixed broadband segment by revenue, 2018



Source: GNCC

Retail fixed broadband prices have been on a downward trajectory since 2010, as competition in the sector intensified. Average ARPUs of retail customers declined from GEL 22 in 2010 to GEL 17 in 2018. The decrease in average retail ARPUs was partly related to the increased presence in regional parts of Georgia (outside Tbilisi), where telecom operators offer relatively cheaper services (slower internet) on top of the promotions. Contrary to the trend in the retail segment, corporate ARPUs have been increasing, reaching GEL 140 in 2018 (vs. GEL 106 in 2010).

Corporate segment, which accounts for 5% of the fixed broadband subscribers, accounted for c. 30% of the sector revenues. Significantly higher prices charged for corporate clients is the reason behind the difference. Notably, most of the Georgian companies are using retail tariffs for fixed broadband services in Georgia.

Figure 52: Retail prices have been on a downward trajectory, while corporate prices increase

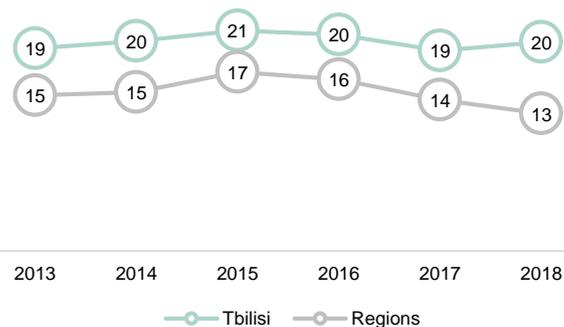
Average monthly ARPUs, GEL



Source: GNCC

Figure 53: The decline in retail ARPUs is partially explained by cheaper services offered outside Tbilisi

Average monthly ARPUs, GEL

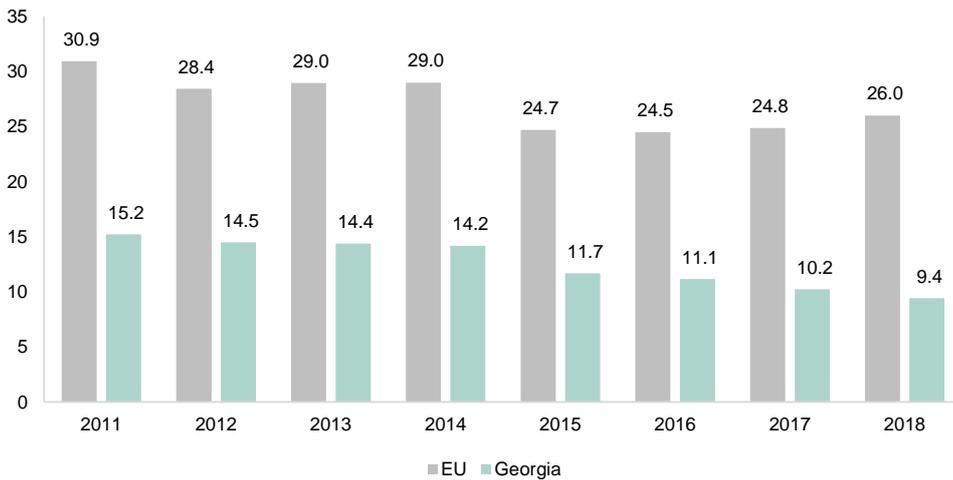


Source: GNCC



Fixed broadband prices in Georgia are relatively low compared to European countries. Average ARPUs on fixed broadband services in Georgia stood at US\$ 9.4/month almost 2.7x lower than that in European countries.

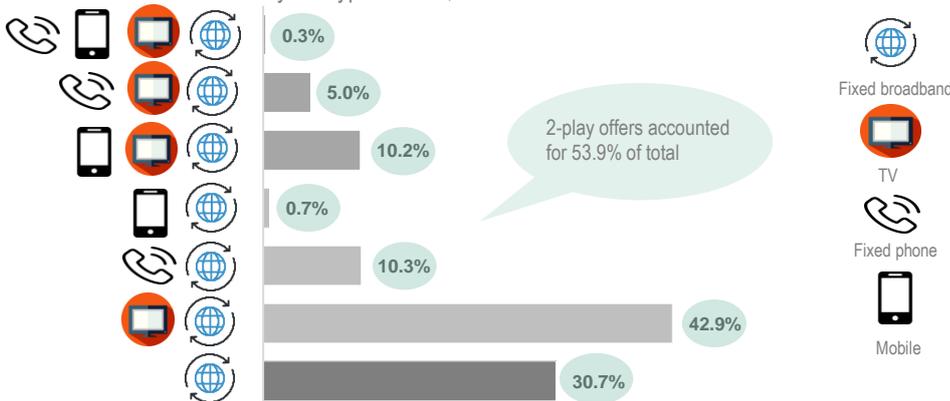
Figure 54: ARPUs on Fixed broadband services are low in Georgia compared to EU countries Fixed broadband ARPUs, US\$/month



Source: GNCC, Analysys Mason, Galt & Taggart Research Note: Notably the decline in ARPUs for Georgia is explained by GEL's significant depreciation against USD (from 1.68GEL/USD in 2011 vs. 2.53GEL/USD in 2018)

The consolidation of the sector has contributed to the emergence of multi-play offers from the telecom players in the recent years. Telecom operators now offer mobile, TV and fixed voice services in addition to fixed broadband to customers. As of end-2018, only one-third of total customers used 1-play offers (fixed broadband), with 2-play and 3-play offers accounting for 53.9% and 15.2% of total subscribers, respectively. Going forward, the number of converged offers is forecast to grow further. Notably, for Silknet more than 80% of the subscribers used 2-play offers.

Figure 55: More than two-thirds of the subscribers used multi-play offers in 2018 Fixed broadband subscribers by the type of offer, 2018



Source: GNCC Note: Cross-company uses of different services are not accounted

Pay-TV



TV subscription - the fastest growing segment

Over the last decade pay-TV sector has experienced tremendous growth, with penetration reaching 56.5% of the Georgian households. Notably, pay-TV penetration remains very low in rural parts, where people use free set-top boxes for transmitting selected TV channels. We estimate, pay-TV penetration to reach 62% by 2021 supported by urbanization trend and growing number of households. In addition, increasing demand for digital content and the related uptake in IPTV is expected to accelerate the sector's growth. Globally, pay-TV operators lose share to global over-the-air broadcast TV operators such as Netflix, Amazon, iTunes, HBO and Disney. This trend is not yet present in Georgia. Although the major telecom operators offer subscriptions for video-on-demand services in Georgia, demand remains limited, partially explained by well-established content piracy in Georgia (Adjaranet, Imovies etc), which is not expected to change in medium term.

Pay-TV subscriptions in Georgia have grown very rapidly, up 8.1x over 2010-Sep-19. There were 654,134 paid TV subscribers in Georgia as of Sep-19, which represents a household penetration ratio of 56.5%, or 17.6% penetration of the total population (compared to only 7.2% and 2.1% in 2010, respectively).

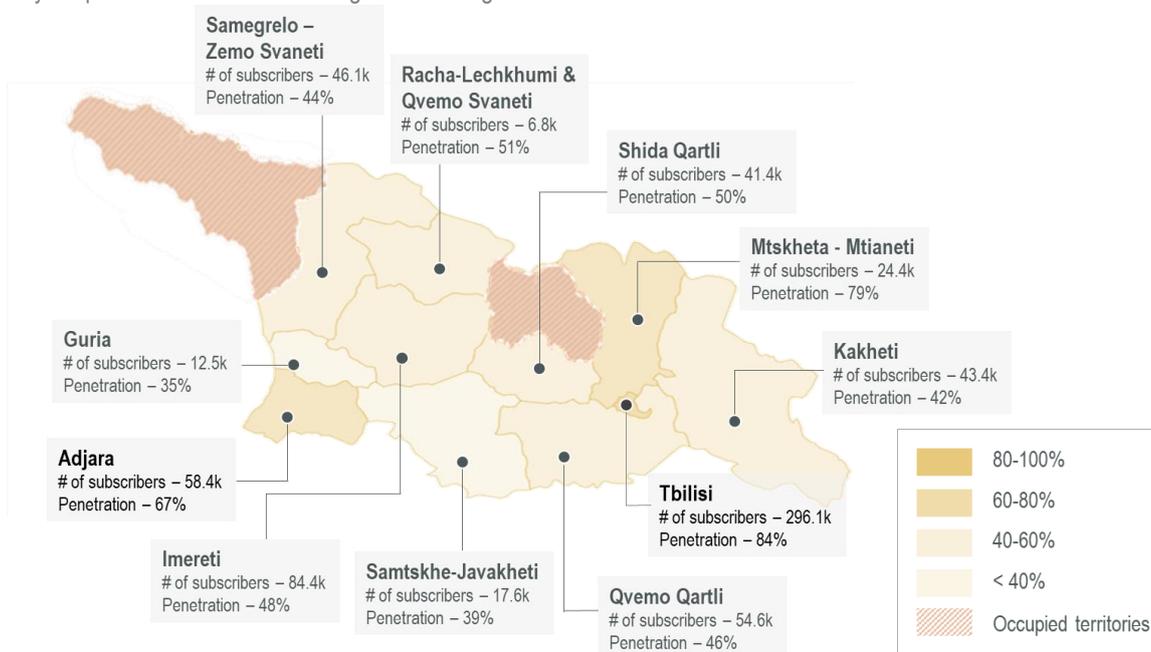
Almost half of Georgian population still live in rural areas. Despite the growing urbanization rate, significant portion of Georgian population (41%) still live in rural areas, with lower income levels. Not surprisingly, in rural areas subscription-TV (pay TV) penetration is significantly lower than in Tbilisi as people use free set-top boxes for transmitting selected TV channels. Regional penetration rates range from as low as 35% in Guria to c. 85% in Tbilisi.



56.5% of households have pay-TV subscription in Georgia

Map 2: Pay TV penetration of households in Georgia at 60.3% as of 4Q18

Pay TV penetration in Tbilisi and regions of Georgia



Source: GNCC

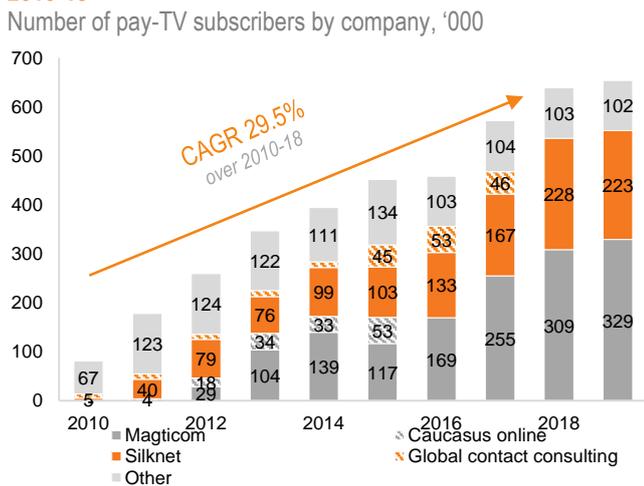


Pay-TV sector is still underpenetrated and expected to grow steadily in the medium term. On the back of increased urbanization and growing pay-TV penetration, we expect overall pay-TV penetration to reach 62% by 2021, from a current 56.5%. We forecast growing rural penetration coupled with increased number of households living in Tbilisi to have the largest effect on the overall growth.

Magticom is the market leader in the pay-TV sector with 50.3% market share as of Sep-19. Magticom strengthened its market position by the acquisition of Caucasus Online in 2016. Silknet, the number two pay-TV provider with 34.0% market share, increased its subscriber base substantially in 2018 (up 36.3% y/y), after the acquisition of the TV operating segment from JSC Global TV Group, adding c. 50,000 customers.

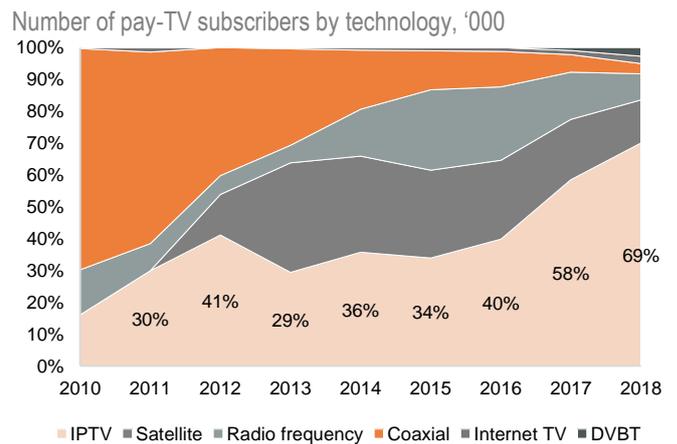
IPTV has been gaining momentum in Georgia's pay-TV sector over the last decade. IPTV is the most popular technology in Georgia, with 69% of total pay-TV subscribers using IPTV in 2018. Growth in IPTV's share in total subscribers accelerated in 2017, on the back of increased investments from the telecom operators, while the share of satellite, radio frequency and coaxial technologies are declining.

Figure 56: Number of pay-TV subscribers increased 7.9x over 2010-18



Source: GNCC

Figure 57: IPTV is the most popular technology used in Georgia

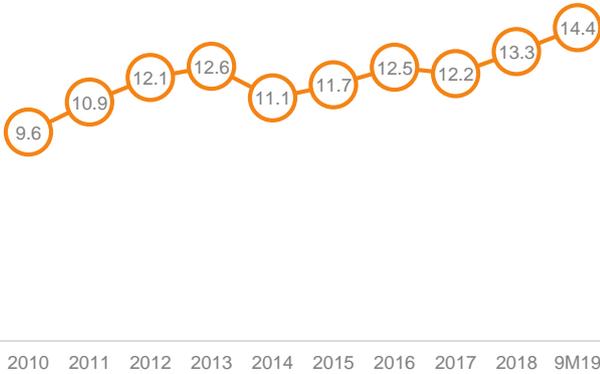


Source: GNCC

Average ARPUs for pay-TV services have been growing in Georgia, reaching GEL 14.4 in 9M19. However, compared to European countries the prices are significantly low (estimated at c. US\$ 23 or GEL 65). Notably, Silknet has historically been earning almost twice higher ARPUs compared to the main competitor Magticom. That's the main reason behind the difference in market shares by subscribers and revenue. From 2018 Magticom has increased average prices charged and grabbed 47% of the sector revenues in 2018.



Figure 58: Pay-TV ARPUs are growing gradually
Average monthly ARPUs on pay-TV services, GEL



Source: GNCC

Figure 59: Average prices charged by the top players is similar
Price of different IPTV packages, GEL/month

N of channels	Silknet	Magticom
62/59	12	11
171/166	24	25
208/216	35	37
238	45	N/A

Source: Company data as of November 2019, Galt & Taggart Research

Demand for subscription video-on-demand remains low in Georgia. Although the major telecom operators offer subscriptions for video-on-demand services and global operator Netflix expanded in Georgia in 2016, demand remains limited. One reason for this could be well-established content piracy in Georgia. There are a number of online websites offering a wide range of content, including movies, famous TV shows and local TV channels for free. Over the last three years, the number of unique visitors to the above-mentioned websites has increased 3.1x, with c. 550,000 or 15% of the population visiting the selected websites monthly in 2018 (based on Top.ge data). This trend is supported particularly by young Georgians, who watch less traditional TV than their older counterparts and use the internet.

Fixed Voice



Fixed voice substituted by mobile

Fixed voice segment has been facing increasing competition from the mobile segment in recent years. As a result, number of fixed voice subscribers has been declining at an accelerating rate since 2012. As mobile usage continues to grow and more and more people especially young Georgian families do not have a fixed phone line at home. Therefore, we believe the fixed line voice to mobile substitution will continue to put pressure on traditional fixed line voice revenues.

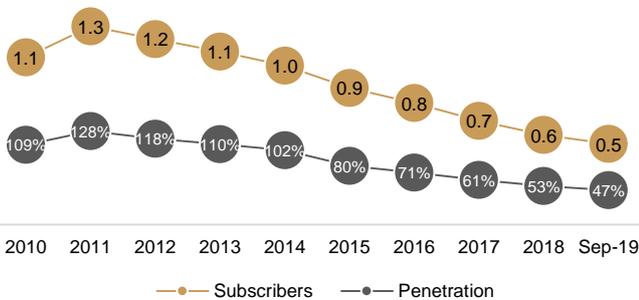
Fixed voice segment is facing increasing competition from the mobile segment.

There were 523,642 fixed voice subscribers in Georgia as of Sep-19, implying a household penetration rate of 47.2%. On the back of mobile migration observed in recent years, the fixed line segment has been shrinking.

Number of fixed voice subscribers has been declining since 2012, at an accelerating rate. Following an average 6.4% decline over 2012-14, the number of subscribers fell at an average 13.4% rate over 2015-18, down from 1.3mn fixed voice subscribers in 2011 to 0.5mn in Sep-19. The trend is supported by fixed-to-mobile substitution, as more and more people, especially young Georgians, do not have a fixed phone line at home.

Figure 60: Number of fixed voice subscribers more than halved over 2011-18

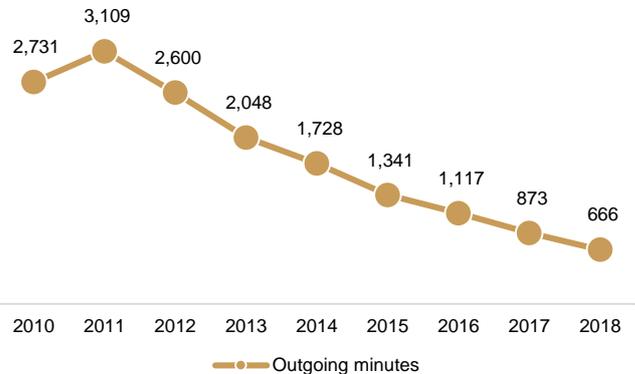
Number of fixed voice subscribers (mn) and household penetration



Source: GNCC

Figure 61: Outgoing traffic reduced even more...

Outgoing minutes, mn



Source: GNCC

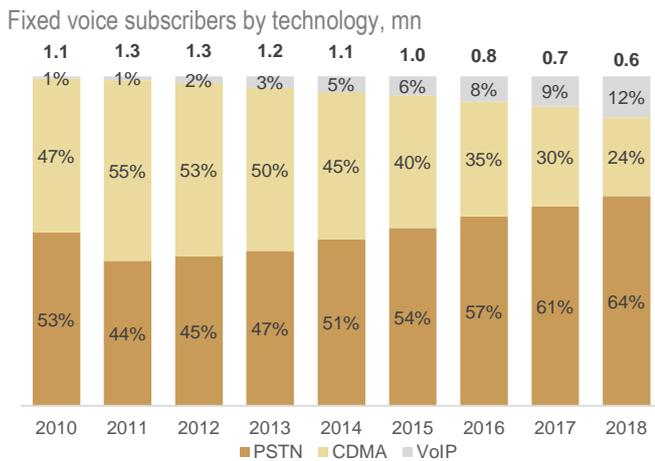
VoIP has been the only technology growing in the last five years, as some customers have been switching from other technologies.

Three types of fixed telephone technologies are offered to customers in Georgia: PSTN, CDMA and VoIP. Historically, PSTN and CDMA have been the most popular options, with 53% of subscribers using PSTN and 47% CDMA services back in 2010. Ever since, PSTN and CDMA have been losing shares to VoIP technology, due to migration of the customers. As of end-2018, 61% of customers were using PSTN, followed by 25% using CDMA and 12% - VoIP.



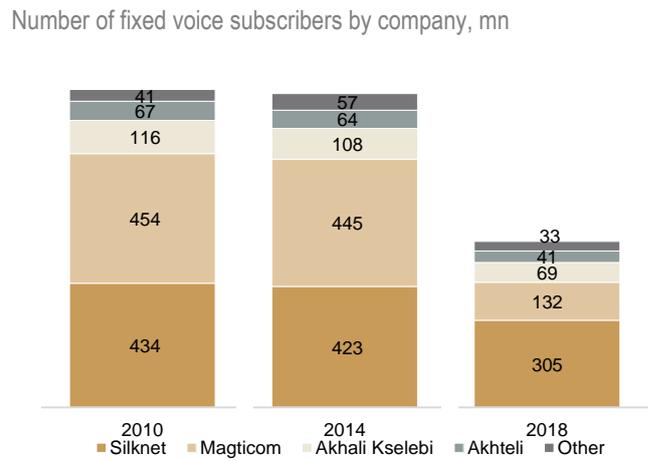
Silknet replaced Magticom as the market leader from 2015. A total of 30 companies provided fixed voice services in 2018 in Georgia. Magticom and Silknet shared 70% of total subscribers as of Sep-19. Magticom has been losing ground in the fixed voice sector, as CDMA – where Magticom is a leader (86% of total) – is becoming the less-used technology. From 2019, Silknet has abandoned CDMA business as well. At the same time, in PSTN and VoiP, Silknet is the market leader with 66% and 47% share, respectively. As a result, Silknet became the market leader in the fixed voice segment, with 51.9% market share as of Sep-2018.

Figure 62: PSTN remains the most popular technology for fixed voice



Source: GNCC

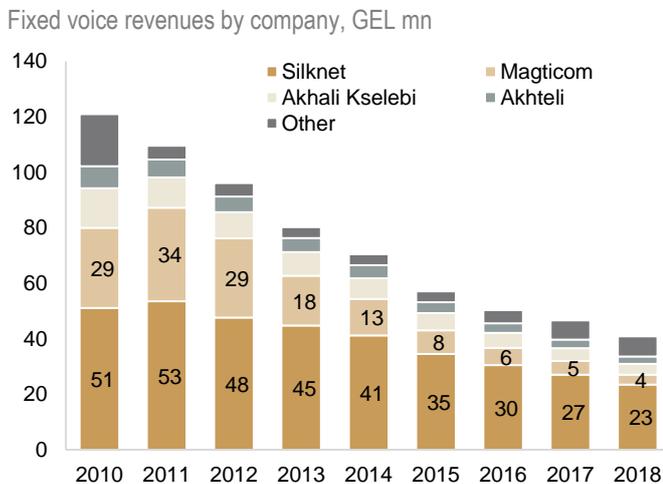
Figure 63: Silknet improved market positions over 2010-18



Source: GNCC

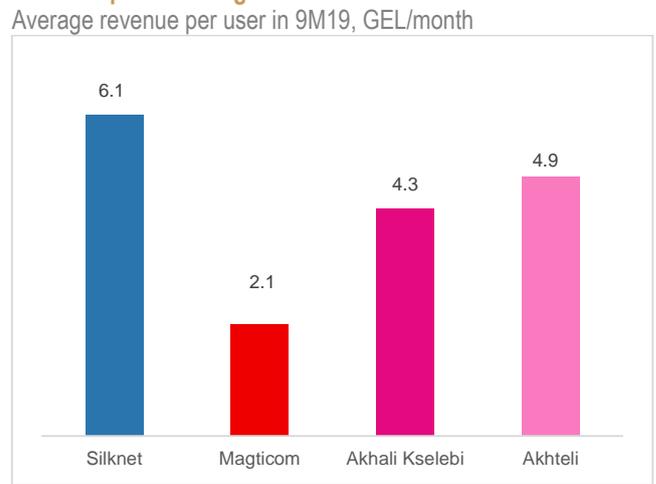
Total fixed voice revenues have also decreased, driven by both a decline in the number of subscribers as well as fall in ARPUs. Total fixed voice revenues decreased c. 3.0x over 2010-18 to GEL 40.8mn. The decrease was associated with the decline in number of subscribers, as well as reduced average revenues, with monthly ARPUs declining from GEL 10.5 in 2010 to GEL 5.5 in 9M19. Notably, Silknet charges the highest prices for its service, with average GEL 6.1 earned per customer by Silknet compared to only GEL 2.1 by Magticom. The difference in the technology mix (Magticom in CDMA and Silknet in PSTN and VoiP) is the likely reason for the difference.

Figure 64: Revenues from fixed voice services dropped 3.0x over 2010-18



Source: GNCC

Figure 65: Silknet earns almost three times more revenue per user compared to Magticom



Source: GNCC

Silknet





Initiating coverage of Silknet

Georgia's second largest telecom operator

Fixed Income Research | Georgia
Silknet
December 3, 2019

We initiate coverage of JSC Silknet, which placed US\$ 200mn Eurobonds on 2 April 2019, one of the largest corporate bond issuances from a Georgian company (private, non-financial). Silknet is the largest fixed voice operator and second largest fixed broadband, Pay-TV and mobile operator in Georgia. In Jan-2018, Silknet announced about the acquisition of Geocell, second largest mobile operator, in a transaction valued at US\$ 151.7mn. Notably, the acquisition of Geocell has better equipped Silknet to compete with its rival. Silknet's pro forma revenue and adjusted EBITDA came in at US\$ 157.5mn and US\$ 74.4, respectively in 2018. Fitch affirmed B+ rating with stable outlook, while Moody's assigned B1 rating with stable outlook in Mar-19.

Silknet is the largest fixed voice operator and second largest fixed broadband, pay TV and mobile operator in Georgia. Silknet recorded bargain purchase gain of US\$ 16.1mn on the acquisition of Geocell, then second largest mobile operator, in a transaction valued at US\$ 151.7mn. Post Geocell acquisition, just slightly under half (45%) of total revenues at Silknet are now coming from mobile sector, followed by fixed broadband (25%), Pay-TV (11%) and fixed voice (6%) segments.

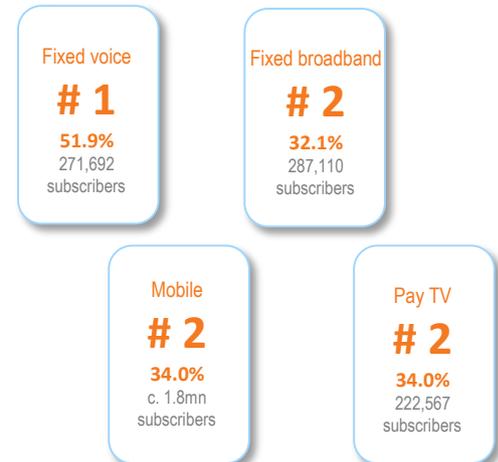
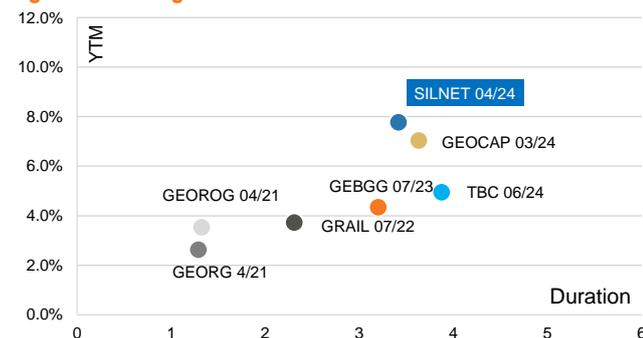
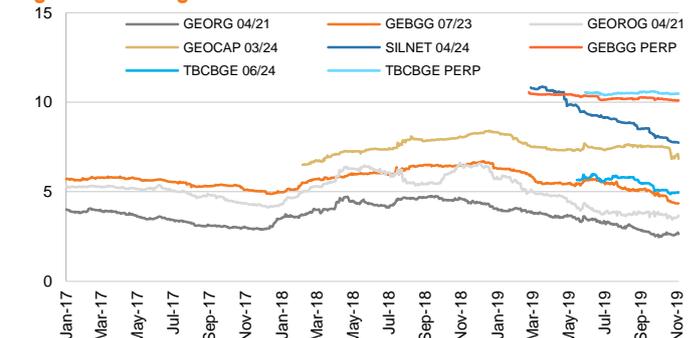


Figure 66: Georgian Eurobond universe



Source: Bloomberg

Figure 67: Georgian Eurobonds



Source: Bloomberg

In March-2019 Silknet listed inaugural US\$ 200mn worth of 5-year Eurobonds with fixed coupon set at 11%. Since the debut issuance, Silknet bond has been trading at significant premium (111.8) with current yield-to-call at 7.57%. Major portion of the US\$ 196.5mn net proceeds were used to refinance the obligations incurred for Geocell acquisition along with other borrowings. Despite the significant growth in leverage related to the acquisition, the consolidated leverage ratio of 2.7x remains comfortably below the Eurobond covenant of 3.5x.

Silknet credit ratings



Table 1: Key financials (GEL '000) and margins

	2016	2017	2018	1H18	1H19*
Revenue	372,506	399,380	399,175	197,400	184,037
of which commercial:	298,778	319,238	332,150	118,235	164,091
Adjusted EBITDA	140,776	165,214	188,472	88,000	93,878
Adjusted EBITDA margin	37.8%	41.4%	47.2%	44.6%	51.0%
Net income	-49,639	30,731	-373	37,100	-54,414
Net profit margin	-13.3%	7.7%	-0.1%	18.8%	-29.6%
Assets	n/a	687,267	697,621	676,181	804,713
Liabilities	n/a	546,873	623,117	572,324	788,757
Equity	n/a	140,394	74,504	103,857	15,956

Source: Company data
Note: Excl. IFRS 16



Company Overview

We initiate coverage of JSC Silknet, which placed US\$ 200mn Eurobonds on 2 April 2019, one of the largest corporate bond issuances from a Georgian company. Silknet was established in 2009 and was fully owned by Rhinestream Holdings during 2010-1Q19, registered in Malta. Since April 2019, the company is owned by Silknet Holding which is incorporated in Georgia, a subsidiary of the Rhinestream Holdings (no change in ultimate shareholder). The ultimate beneficial shareholders of the group are: George Ramishvili (58.8%), Alexi Topuria (27.1%), David Borger (9.0%) and David Mamulaishvili (5.0%).

Silknet has bought its way to becoming a full-service telecom operator in Georgia by carrying out a series of mergers and acquisitions in recent years, namely:

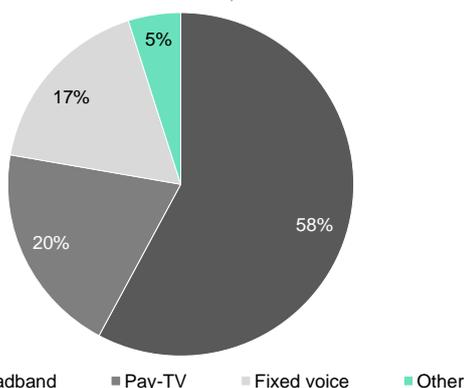
2011	<ul style="list-style-type: none"> Acquisition of Novus Ltd (TV broadcasting rights)
2014	<ul style="list-style-type: none"> Acquisition of WiMax Georgia (fixed wireless broadband) Acquisition of a 85% stake in Georgian Media Network (GMN - Pay TV)
2015	<ul style="list-style-type: none"> Merger with Vtel Georgia (fixed broadband)
2016	<ul style="list-style-type: none"> Acquisition of the remaining 15% shares of GMN (Pay TV)
2018	<ul style="list-style-type: none"> Acquisition of JSC Global TV (Pay TV segment, transaction estimated at US\$ 25mn, Jan-18) Acquisition of Geocell, the second-largest mobile services operator in Georgia (transaction value of US\$ 151.7mn, finalized in Mar-18 after the approval from the regulator)

Silknet is the largest fixed voice operator and second largest fixed broadband, Pay-TV and mobile operator in Georgia. Since its inception in 2009 and up until the acquisition of Geocell in March 2018, Silknet had provided only fixed voice, fixed broadband and pay TV services to residential and corporate customers in Georgia. The wave of mergers and acquisitions in recent years has strengthened Silknet's market position. Silknet is the market leader in fixed voice segment (51.9%) and maintaining strong, above 30% shares in fixed broadband, mobile and pay-TV services.

Up until the acquisition of Geocell, fixed broadband was the largest revenue category, accounting for more than half (58%) of Silknet's commercial revenue in 2017. Pay TV was the second largest revenue category (contributing c. 20%), followed by fixed voice service revenues (17%). Notably, the acquisition of Geocell has better equipped Silknet to compete with Magticom, which is fully four-play-enabled operator in Georgia. Furthermore, the acquisition has a strong strategic rationale, as fixed voice segment, which used to be an important source of revenue for the company, has been under significant pressure from mobile sector.

Figure 68: Fixed broadband was the largest revenue category before Geocell acquisition

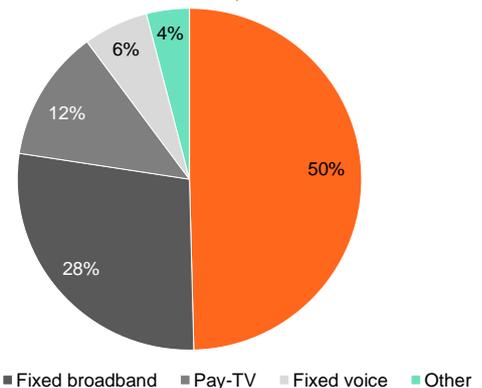
Silknet commercial revenue breakdown, 2017



Source: Company data

Figure 69: After the acquisition half of Silknet's commercial revenue is coming from mobile segment

Silknet commercial revenue breakdown, 1H19



Source: Company data



Acquisition of Geocell: 4.5x EV/EBITDA for US\$ 151.7mn

On 25 January 2018, Silknet announced about the acquisition of Geocell, second largest mobile operator, in a transaction valued at US\$ 151.7mn. As part of its global strategy to reduce its presence in Eurasian region, Teliasonera decided to divest its Georgian subsidiary – Geocell – in 2018. The acquisition valued Geocell at US\$ 151.7mn, corresponding to a 4.5x EV/EBITDA (based on 2017 numbers). Following the approval from the GNCC in March 2018, the merger was completed in November 2018.

Box 2: What you need to know about Geocell

	US\$ '000	2016	2017
Revenue		90,485	93,899
EBITDA		27,750	34,187
EBITDA margin		30.7%	36.4%
Net income		-23,918	9,508
Net profit margin		-26%	10%
Assets		257,234	167,607
Liabilities		88,701	87,684
Equity		67,019	77,633

- By the time of acquisition, Geocell was the second largest mobile operator in Georgia with **1.8mn** mobile subscribers
- Geocell generated **US\$ 93.9mn** revenue in 2017
- **72.7%** of Geocell's revenue was stemming from mobile sector, while interconnection revenue made up 24.5%
- Geocell's standalone EBITDA stood at **US\$ 34.2mn** in 2017
- Geocell's net profit stood at **US\$ 9.5mn** in 2017, while in 2016 Geocell incurred a **net loss of US\$ 23.9mn**, caused by large FX loss (US\$ 7.7mn) and sizeable deferred tax expense (US\$ 20.2mn) due to changes in the tax code
- 100% of Geocell's long-term financing came from its parent, with total equity standing at US\$ 77.6mn while outstanding amount of the parent loan stood at US\$ 67.0mn.

Source: Company data

Bargain purchase gain of US\$ 16.1mn (GEL 41.9mn) recorded on Geocell acquisition. The fair value of net assets at the time of acquisition was found to be US\$ 16.1mn more than the amount of the consideration paid, resulting in negative goodwill, immediately recognized in income statement. Recognition of negative goodwill, which is a very rare phenomenon, was explained by several reasons.

- Firstly, with intensified competition and growing requirements from customers the company was facing an inevitable need of network upgrade, particularly 4G technology rollout which was related to significant capital expenditures from the company
- Secondly, growing mobile data usage from subscribers, created the necessity for far-reaching support from fixed broadband. These developments have pressured the purchase price of Geocell.

The acquisition was financed through a combination of syndicated and subordinated loans.

- **Geocell Syndicated Credit Agreement on US\$ 110.0mn** was arranged by TBC bank in March 2018 along with other Georgian banks. The loan bears 6 Month LIBOR + 7.5% interest rate and matures in 2025.
- **Notably, soon afterwards Silknet placed US\$ 10mn private bond** on local market, refinancing portion of the Geocell Syndicated Credit loan (see Table 3 for details).
- **TBC Bank has the option to become 6.6% shareholder of Silknet anytime within five years or in case of IPO/sale of 100% shares under above mentioned credit.** This was reflected into a Warrant Agreement on c. 6.6% shareholding on a diluted basis (4,795,000 shares) or approximately GEL 25mn (US\$ 9.3mn) in June 2018. The option is callable at any time during a 5-year period or in case of IPO/sale of 100% stake. The fair value of the option

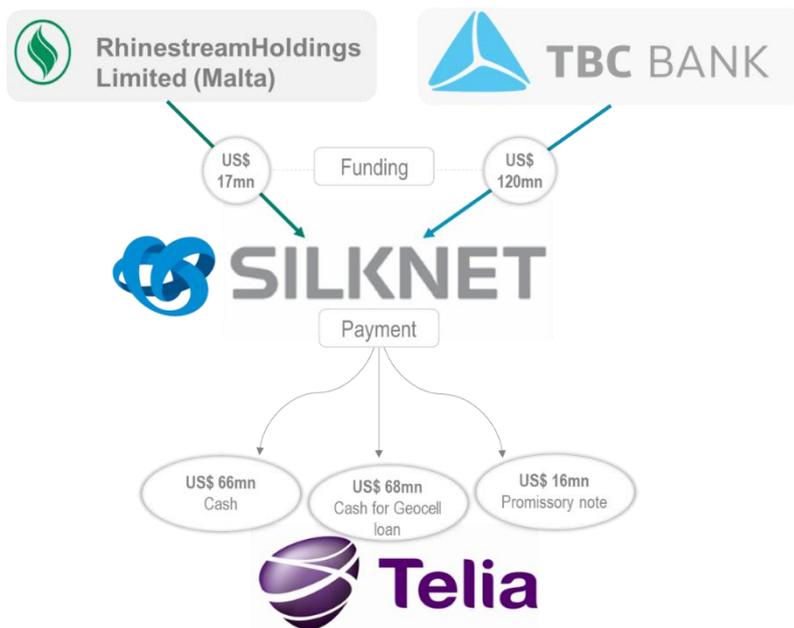


of GEL 8.0mn (US\$ 3.0mn) was recorded as additional paid-in capital in equity.

- **Geocell Subordinated Credit Agreement on US\$ 10.0mn** was signed with TBC bank with 6 Month LIBOR + 11% interest rate, maturing in 2025
- **Geocell Shareholder Subordinated Loan of US\$ 17.0mn** was mobilized by the shareholder - Rhinestream Holdings. The 9.5% interest rate applied to the loan was deemed as non-market condition, resulting in recognition of GEL 16.4mn (US\$ 6.1mn) additional paid-in capital, while the remaining portion of GEL 30.5mn (US\$ 11.4mn) was recorded as a liability. Notably, in May 2019 the shareholder decided to convert part of the liability into equity. Additional paid-in capital, created from this loan, was removed and GEL 15.8mn (US\$ 5.9mn) added to share capital. The rest of the liability was repaid.

Silknet paid US\$ 66mn in cash for the acquisition, in addition Silknet repaid Geocell's shareholder (Fintur Holdings B.V.) loan of US\$ 68.3mn. On the remaining portion, Silknet issued interest-free US\$ 16.0mn promissory notes, of which US\$ 13mn was payable on the second anniversary of the acquisition, while US\$ 3.0mn on the third year.

Diagram 1: Geocell acquisition financing and payment structure



Source: Company data
Note: The payment was made to Fintur Holdings B.V.

US\$ 200mn Eurobond placement and capital structure

In March-2019 Silknet listed inaugural US\$ 200mn worth of 5-year Eurobonds² with fixed coupon set at 11% on Global Exchange Market of Euronext Dublin. The issuance is one of the largest corporate placements from Georgia. Major portion of the US\$ 196.5mn net proceeds were used to refinance the obligations incurred for Geocell acquisition along with other borrowings. Namely, Silknet refinanced US\$ 162.2mn:

² See more details on the Eurobonds in Annex 1



- US\$ 100.5mn Geocell Syndicated Credit Agreement
- US\$ 10mn Geocell Subordinated Credit Agreement
- US\$ 13.6mn (GEL 36.4mn) Silknet Loan from TBC Bank
- US\$ 9.2mn (GEL 24.9mn) Geocell Loan from TBC Bank
- US\$ 16.0mn deferred payment on promissory notes to Fintur Holdings

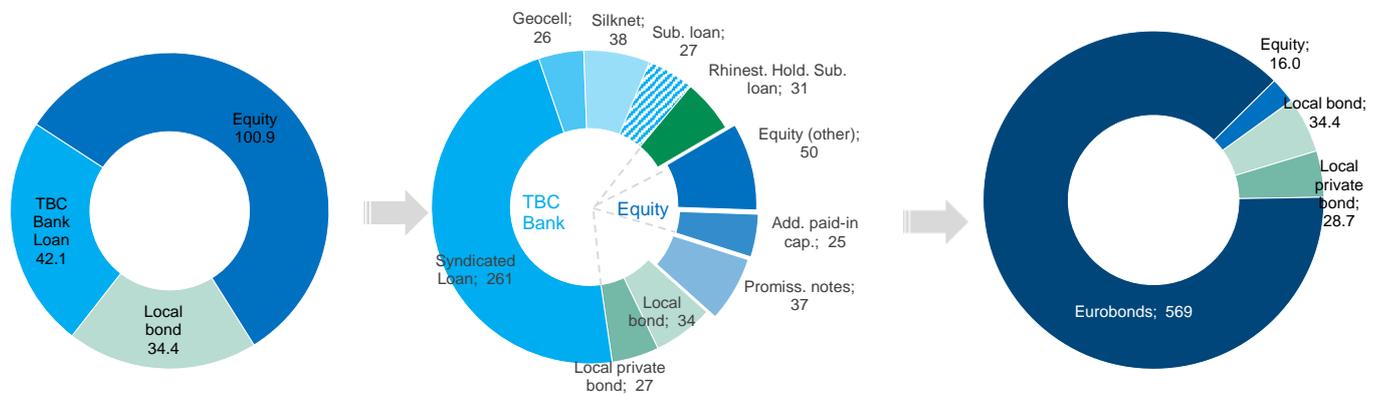
The remaining portion (US\$ 43.5mn) was used for general corporate purposes, including entering into US\$ 28.0mn swap agreement (cash cover loan from TBC Bank, intended to increase up to US\$ 35mn within the next few months). US\$ 30.0mn is kept as cash, creating a natural hedge against the FX exposure.

Figure 70: Before Geocell acquisition

Post Geocell acquisition, end-18

After Eurobond placement, 1H19

Silknet capital structure, GEL mn



Source: Company data

With the proceeds from the Eurobond, Silknet has refinanced most of its liabilities, retaining only 2 local bonds. Namely, Silknet placed 1 public and 1 private bond locally in 2017-18, raising US\$ 22.8mn in total (see table below).

Table 3: Silknet's local bond issuances

Issuer	Currency	Coupon	Issue date	Maturity	Size
Silknet	GEL	NBG ref rate + 3.50%	Aug-17	Aug-22	34
Silknet (private)	USD	8.50%	Mar-18	Aug-23	10

Source: Galt & Taggart

In order to utilize Geocell's tax asset Rhinestream Holding's loan from TBC bank was transferred to Geocell in June 2018. Before the acquisition, Rhinestream Holdings had a loan of GEL 27.2mn from TBC Bank, on which Silknet acted as a guarantor (GEL 35.0mn). In order to remove the loan from Rhinestream holding balance the following transaction took place on 26 June 2018: Rhinestream holdings netted off the dividend receivable from Geocell (through Silknet) with the TBC Bank loan. As a result, the loan was transferred to Geocell's balance (Geocell loan). Notably, Geocell's tax asset was utilized against the income tax on dividend payable. Consequently, the Silknet guarantee was cancelled.



Income statement - mobile driving the growth

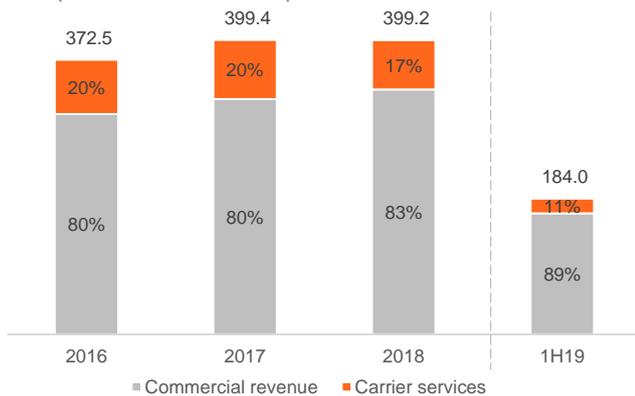
Silknet generated GEL 399.2mn or US\$ 157.5mn in 2018 taking into consideration Geocell's contribution on a pro forma basis (GEL 344.3mn/US\$ 135.9mn without).

The company separates two major sources of revenue: 1) commercial revenue combining 4 main categories: mobile, fixed voice, fixed broadband and pay-TV and 2) revenue from carrier services. The former, which makes up 83% or GEL 332.2mn (89% or GEL 164.1mn in 1H19) of 2018 revenue, was up 4.0% y/y in 2018. While the latter has been on the downward trajectory since October 2017, when GNCC adopted new, significantly lower, interconnection tariffs based on LRIC methodology. The new methodology was fully reflected from Jan-2019, with interconnect service revenue dropping c. 30% y/y in 1H19 for Silknet.

Geocell makes up more than half of total business. Geocell would contribute 57% (GEL 214.2mn) and 59% (GEL 235.6mn) of pro forma total revenue, without eliminations in 2016 and 2017 respectively. While, as the acquisition was carried out in March 2018, Silknet's 2018 financial metrics were only adjusted by 3-month (Jan-March) performance of Geocell (GEL 56.5mn).

Figure 71: Top line stood at GEL 399.2 (US\$ 157.5mn) in 2018

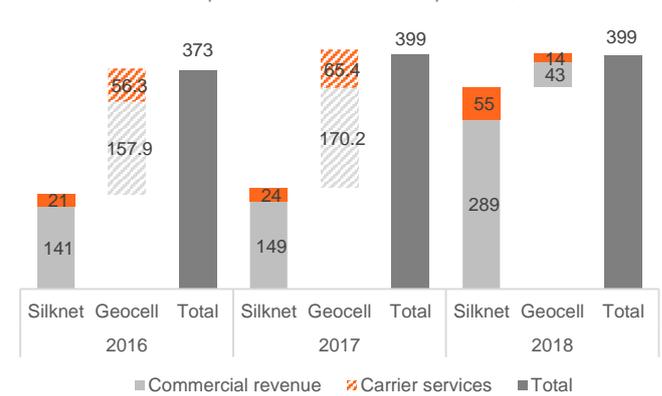
Silknet pro forma revenue composition, GEL mn



Source: Company data

Figure 72: Geocell accounts for more than half of Silknet

Silknet and Geocell pro forma revenue composition, GEL mn



Source: Company data

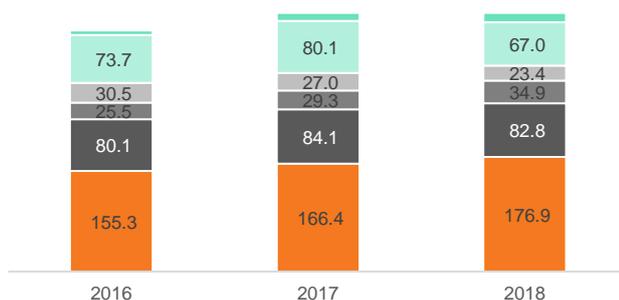
Post Geocell acquisition, just slightly under half (45%) of total revenues at Silknet are now coming from mobile sector (based on 1H19 data). Fixed broadband made up quarter of the 1H19 revenues, followed by 11% and 6% from Pay-TV and fixed voice segments, respectively.

Mobile segment now makes up 45% of revenues after Geocell acquisition

Figure 73: Fixed voice revenues more than halved over 2012-18

Silknet pro forma revenue composition, GEL mn

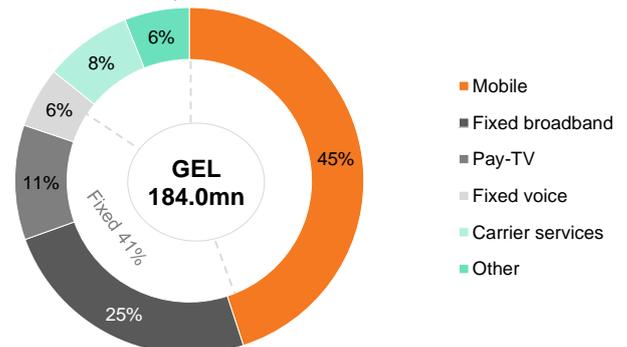
■ Mobile ■ Fixed broadband ■ Pay-TV ■ Fixed voice ■ Carrier services ■ Other



Source: Company data

Figure 74: Mobile segment accounts for 45% of 1H19 revenues

Silknet revenue composition 1H19, GEL mn



Source: Company data

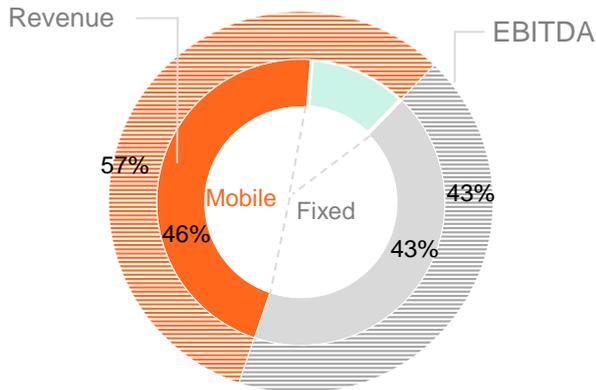


Mobile

Silknet had c.1.8mn mobile subscribers or 34.9% of total market as of Sep-19, while Magticom holds 40.5% share in the same period. The third largest mobile operator, Veon, holds the remaining 24.6% market share. Silknet has more than 1,500 physical locations throughout Georgia for 2G, 3G and 4G technologies.

Mobile segment is the largest driver of profit despite accounting for slightly less than half of total revenues in 1H19. Mobile is Silknet's largest and most profitable business, with EBITDA margin standing at 58% in 1H19, compared to 46% for fixed business (incl. IFRS 16). Not surprisingly, mobile segment accounted for 57% of Silknet's 1H19 EBITDA while generating only 46% of total revenue. On the other hand, fixed segment (fixed voice, fixed broadband & Pay-TV) generated c. 41% of 1H19 revenue and made up 43% of total EBITDA.

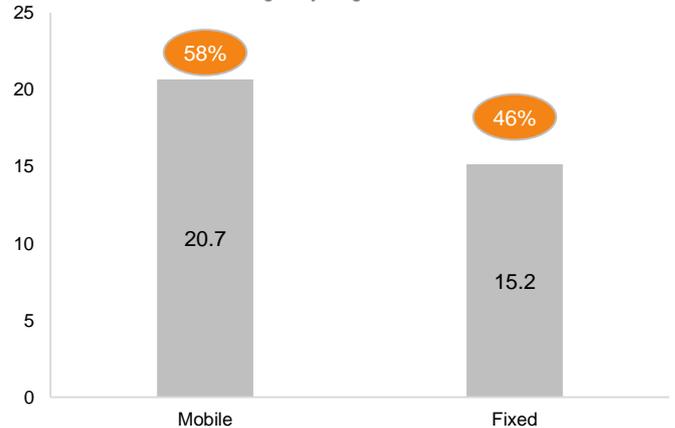
Figure 75: Mobile segment accounted for 57% of 1H19 EBITDA, albeit generating only 46% of total revenues
Revenue and EBITDA split by business, 1H19



Source: Company data

Figure 76: Mobile segment is the most profitable business for Silknet

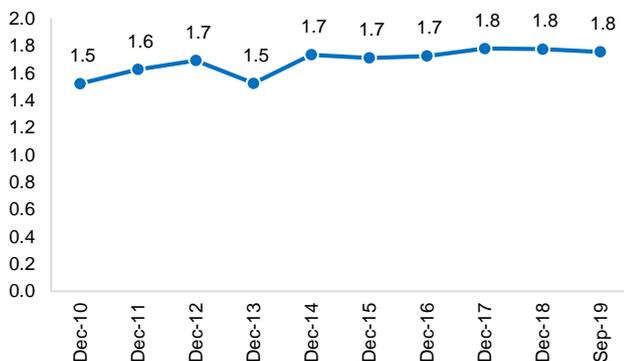
EBITDA and EBITDA margin by segment, GEL mn - 1H19



Source: Company data
Note: the data includes IFRS 16 effects

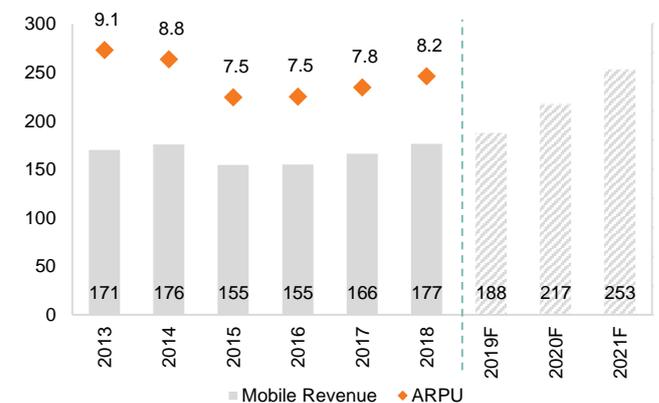
Mobile business expected to become even more significant revenue source going forward. The mobile segment is broken down into 3 sub-segments: mobile voice, mobile data and other mobile services. Growing data traffic and smartphone proliferation is expected to fuel the segment growth in the next couple of years.

Figure 77: Silknet had around 1.8mn mobile subscribers as of June 2019
Mobile subscribers, mn



Source: GNCC

Figure 78: Mobile segment revenues expected to grow at an average 11% CAGR over 2019-21
Mobile revenues, GEL mn



Source: Company data, GNCC, Galt & Taggart



Silknet’s mobile data traffic is expected to skyrocket in line with the global trend.

Increasing mobile data penetration combined with higher mobile data usage per user, expected to drive data traffic in Georgia (see more on pg 14). As discussed above, Silknet’s subscribers use relatively lower mobile data on monthly basis compared to its competitors. With the large infrastructure investments already carried out (particularly in mobile data coverage) and increased 4G coverage we expect Silknet to manage to increase per user mobile data usage (this has already been reflected in 3Q19 data). Taking these into account, we forecast Silknet’s mobile data traffic to reach 35.3PB/year in 2021, from a current 16.8PB/year in 2018 (a CAGR of 28%).

Therefore, mobile data revenues expected to be key category in the overall revenue growth for Silknet. We forecast, mobile data revenues to account c. 40% of total mobile revenues in 2021 (a CAGR of c. 35%). Other mobile revenue streams (mobile voice, etc.) are forecasted to grow moderately at a 4% CAGR over 2019-21. Overall mobile revenues are forecasted to grow at an average 11.0% over 2019-21 reaching GEL 253.1mn in 2021 or 52.5% of total (from GEL 176.9mn or 44.3% of total in 2018).

Fixed broadband

Fixed broadband is currently the second largest revenue contributor for Silknet.

The segment generated GEL 82.8mn in revenues in 2018 (25% of total). Silknet’s fixed broadband revenues have been growing steadily, at a CAGR of 7.7%, over 2014-18. The growth was accelerated by the growing broadband penetration in Georgia.

Up until 2016, Silknet maintained leadership position in fixed broadband segment.

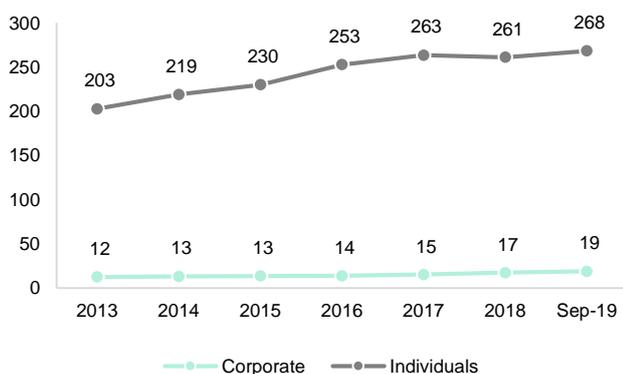
The sector has experienced a wave of consolidation, with Silknet making several acquisitions since 2014 (WiMax, Vtel for licenses), while Magticom entered the fixed broadband market in 2016, by acquiring Caucasus Online, then number 2 fixed broadband provider in Georgia. Since then, Magticom has managed to grab c.15ppt market share and consequently replaced Silknet as a market leader already from 2017.

Silknet is the leader in the most profitable, corporate broadband segment.

Silknet holds 32.1% market share by subscribers in fixed broadband segment, while Magticom held 47.3% as of Sep-19. The picture is different in corporate segment, where Silknet held 42.2% market share vs. 30.1% for Magticom in the same period. Corporate sector generated 35% of Silknet’s fixed broadband revenues in 9M19, albeit only accounting for 6.5% of subscribers. The reason behind is the significant difference in corporate broadband prices, which are almost 8.0x higher than average APRUs for retail sector.

Figure 79: Corporates accounted for only 6.5% of total fixed broadband subscribers as of Sep-19...

Corporate and individual subscribers, ‘000



Source: GNCC

Figure 80: ...while almost 35% of total 9M19 fixed broadband revenues were generated from corporates

Mobile revenues, GEL mn



Source: GNCC



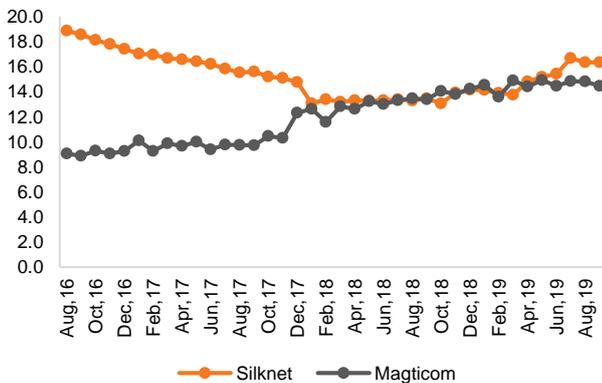
If Silknet's current market positions and tariffs are maintained, **Silknet's subscriber-base (both corporate and retail) is forecasted to reach c. 315.5k by 2021** (current 287.1k) on the back of growing fixed broadband penetration in Georgia. This would translate into a revenue of GEL 112.1mn in 2021.

Pay TV

Silknet is number two Pay-TV provider in Georgia, with 222,567 subscribers or 34.0% market share as of Sep-19. The acquisition of Global TV in 2018 is in line with the company's strategy to increase its presence in pay TV segment (net adds of c. 51k subscribers). After the acquisition of Caucasus Online, Magticom, has managed to significantly increase its subscriber base and surpass Silknet already from 2016.

Until 2018, Silknet was the largest player in the market in terms of revenue despite being in the second place by subscribers. Silknet generated average 39% of the sector revenues in 2016-17, even though holding only 29% of the subscribers over the same period. The reason behind the difference was significantly higher ARPUs earned by Silknet compared to Magticom. From 2016, Silknet has been facing intensified competition from Magticom (particularly after Caucasus Online acquisition), which has actively promoted bundled services to its customers, forcing Silknet to reduce prices. As a result, Silknet's ARPUs have dropped from GEL 18.9 in Aug-16 to GEL 13.0 in Jan-18. On the other hand, Magticom has strengthened its market position and widened product offerings, giving the company the ability to increase offerings (ARPUs grew from GEL 9.0 in Aug-16 to GEL 12.6 in Jan-18) and surpass Silknet by revenues as well.

Figure 81: ARPUs on pay-TV services of Silknet and Magticom similar from 2018
Average ARPUs, GEL



Source: GNCC

IPTV, currently the most popular technology, became available in Georgia in 2010 and swiftly gained popularity. Silknet used to be the market leader in the IPTV segment up until 2017, but Magticom's aggressive campaign and large capital expenditures gave it the leadership position. Magticom's market share in IPTV has increased from 46% in 4Q17 to 58% as of June-19, at the same time Silknet's share dropped from 49% to 37%.



Silknet is using exclusive sports content rights to improve its competitive position. Over the last couple of years, Silknet has been actively working to acquire premium content rights, particularly in sports to increase its market share, a route that many international telecom players have been using as leverage to increase market power. Silknet holds the exclusive rights to the Champions League, Spanish La Liga, Europa League, NBA basketball, various tennis tournaments along with the other sports content. In addition, the company has exclusive rights on 25 Russian-language entertainment channels from Red Media. In 2019 Silknet's subsidiary Silk Media Ltd was granted exclusive franchise from Euronews, strengthening its product offering for pay TV subscribers.

Pay-TV penetration growth will translate into double-digit revenue growth rates in 2019-20, gradually declining to mid single-digits afterwards, in our view. We forecast, Silknet's pay-TV revenues to reach GEL 51.5mn by 2021 and make up 11% of Silknet's 2021 total revenue.

Fixed Voice

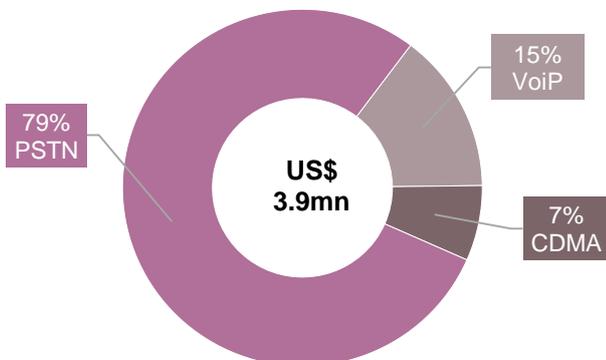
Fixed voice revenues have been on the downward trajectory since 2012 in line with the global trend of fixed-mobile substitution. Over 2012-18 Silknet's fixed voice revenues dropped almost 3.0x, down to GEL 23.4mn in 2018 from GEL 47.7mn in 2012.

Silknet maintains leadership position in fixed telephone segment, but market is shrinking every year. Silknet had 271,692 fixed telephone subscribers, yielding 51.9% market share as of Sep-19. Main competitor, Magticom which used to be the largest fixed telephone service provider before 2015, currently has 92,000 subscribers or 17.6% of total market.

Silknet uses PSTN and VoIP technologies to deliver fixed telephony services. In PSTN, which generates c. 80% of total fixed voice revenues, Silknet holds undisputed leader position, with 66% share in subscribers, followed by Akhali kselebi (18.1%). In VoIP technology (the only growing technology in the last 5 years) Silknet holds second place by revenue (31% market share) after O and M group. Notably, from 2019 Silknet has abandoned CDMA technology.

Figure 82: 80% of revenues are coming from PSTN technology

Fixed voice revenue by technology, 1H19



Source: GNCC

Silknet's fixed voice segment revenues expected to continue decline. We forecast fixed voice revenues to fall at an average 17% annually over the next few years. Consequently, fixed voice revenues are expected to drop to GEL 13.3mn by 2021 and make up only 2.8% of 2021 revenue vs. 5.6% in 1H19.



Financial performance and outlook

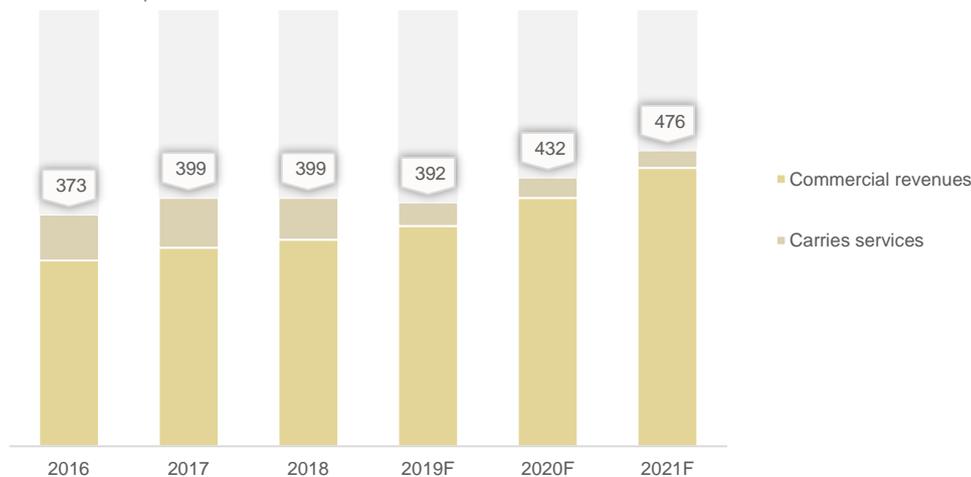
Silknet's revenue has been flat in 2017-18 at around GEL 399.0mn or US\$ 158.0mn in USD. Top line is dragged down by lower carrier service revenues, after the cut in interconnection rates from the regulator, with full effect from 2019. Carrier service revenues, which made up 20% of total revenues in 2016-17 are expected to drop to around GEL 30.5mn and make up only 10% of total in 2019-21, in our view. The drop in carrier service revenues was compensated by the higher mobile as well as Pay-TV segment revenue streams.

Total revenue growth decelerated by lower carrier service income streams, while commercial revenue will remain to be the key growth factor in the next several years. Commercial revenues, helped by the spike in mobile revenues, is expected to grow at mid-to-high double digits in 2019-21, pushing up overall revenue levels.

We forecast Silknet's revenue to slightly decline in 2019 before accelerating to high single-digit growth rates in 2020-21 (in GEL terms). 2019 revenue is expected to decline 1.8% y/y to GEL 392.0mn (dragged down by lower carrier service revenues), while the growth is expected to accelerate from 2020 helped by higher mobile revenues and average at 11% in 2020-21.

Figure 83: Commercial revenues driving the growth

Revenue composition, GEL mn



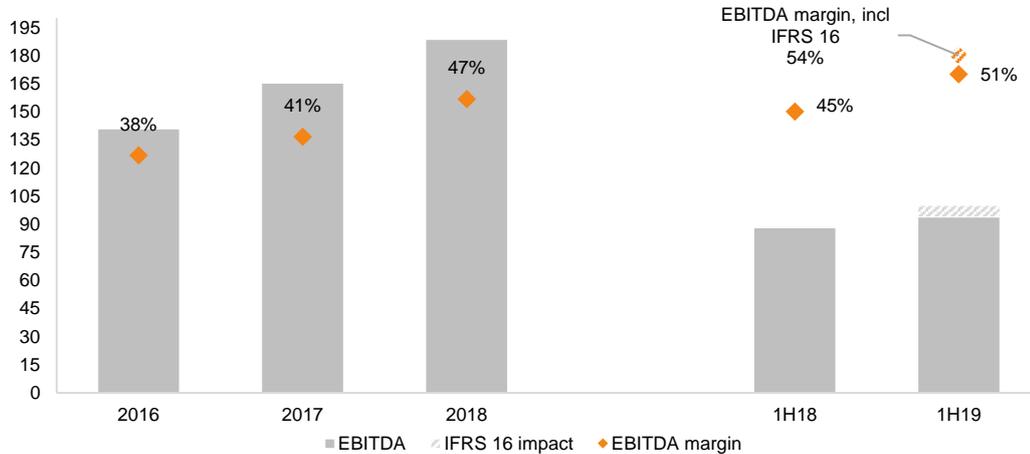
Source: Company data, Galt & Taggart
Note: Revenues are presented on a pro forma basis.

With the addition of a profitable mobile segment and operational synergies achieved with Geocell, Silknet has managed to improve its profitability margins. Namely, EBITDA margin increased from an average 40% in 2016-17 to 47% already in 2018 and further up to 51% in 1H19 (54% without IFRS 16). We forecast, EBITDA margin to hover around 54% in 2019-20, before growing to 57% in 2021 (including IFRS 16).



Figure 84: Improved profitability helped by mobile segment

Silknet pro forma EBITDA and EBITDA margin, GEL mn

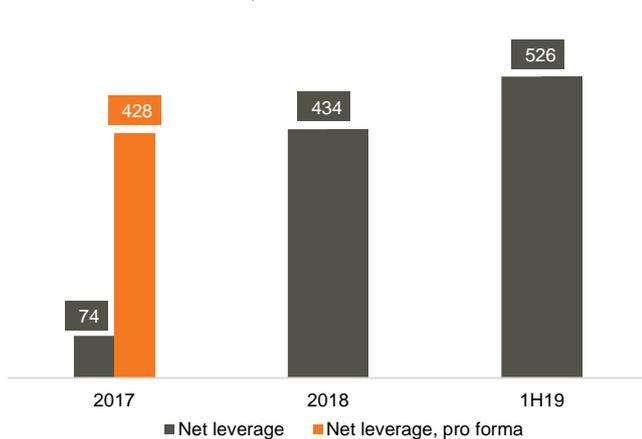


Source: Company data, Galt & Taggart
Note: 2019 revenue decline is explained by GEL's depreciation

Silknet's leverage elevated compared to pre-acquisition level. Before the Geocell acquisition, Silknet was 1.3x leveraged company. Overall net indebtedness has increased substantially, from GEL 74.0mn (US\$ 28.5mn) in 2017 to GEL 434.1mn (US\$ 162.2mn) in 2018. At the same time, adjusted EBITDA has increased from GEL 81.5mn to GEL 188.5mn over the same period. As a result, net consolidated leverage increased from 1.3x to 2.5x in 2018. Based on last 12 month data, the leverage ratio slightly increased to 2.7x, mostly related to the Eurobonds issuance. Notably, we forecast the ratio to remain comfortably below the Eurobond covenant of 3.5x in the medium term.

Figure 85: Silknet's leverage increased significantly compared to 2017 level

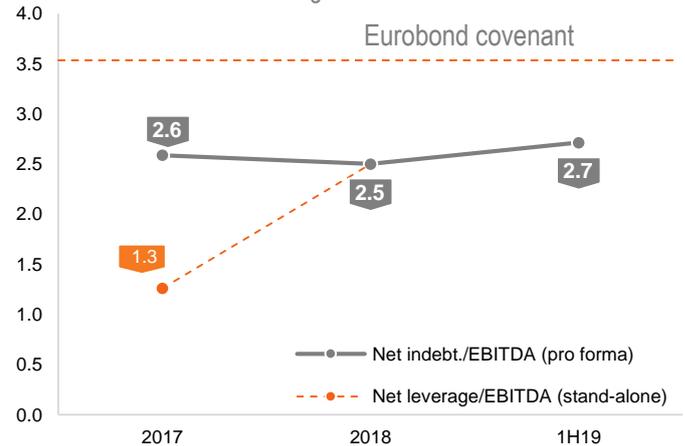
Silknet Net indebtedness, GEL mn



Source: Company data

Figure 86: Despite significant growth, the leverage ratio remains below the Eurobond covenant

Silknet net consolidated leverage ratio



Source: Company data

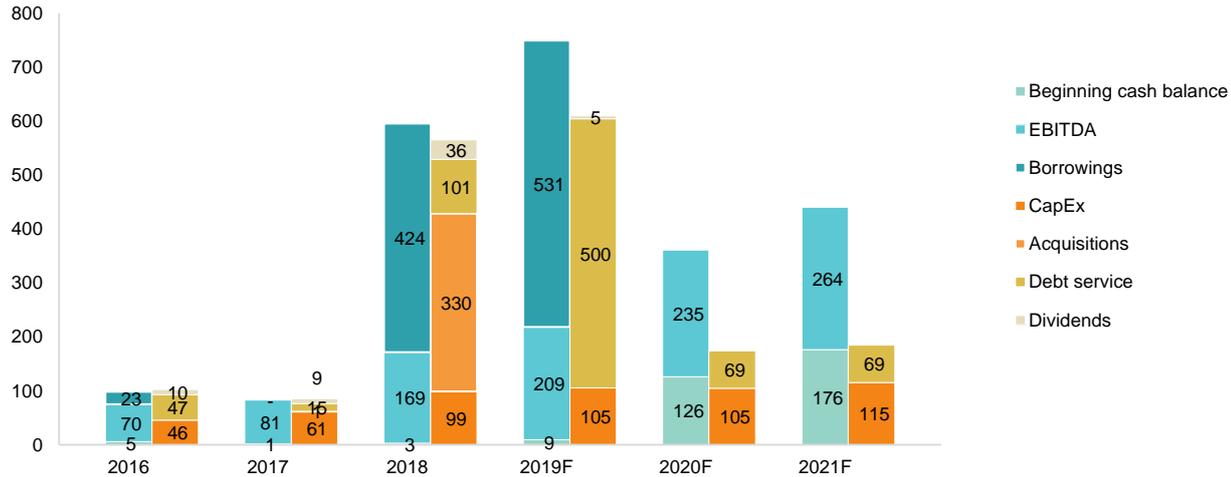
The planned 4G technology rollout is associated with large capex in 2019, however from 2020 capex is forecasted to decline to normalized levels. Considering the capital-intensive structure of the telecom industry as well as high levels of capex required for the 4G technology rollout by Silknet, we forecast Silknet's Capex to reach GEL 105.0mn in 2019 (US\$ 38.0mn). Once the most of the 4G network upgrade will be finalized in 2019, we believe the capex to gradually decline to 25% of revenues in 2021.



Silknet's liquidity remains comfortable, despite the cash burn from high capex and US\$ 15.0mn dividend payment in 2019. Silknet has distributed US\$ 15.0mn to its shareholder in 1H19 (of which US\$ 1.8mn was recognized as dividend while the remaining amount was early repayment of the shareholder loan). Despite the significant capex planned, cash balance is forecasted to hover around GEL 150.0mn in 2019-20.

Figure 87: Silknet's liquidity sufficient despite high capex

Available cash vs. cash outflows, GEL mn



Source: Company data, Galt & Taggart Research

Note: Debt service includes both coupon and principal payments

In 2019 out of GEL 500mn debt service, GEL 448mn is repayment of liabilities

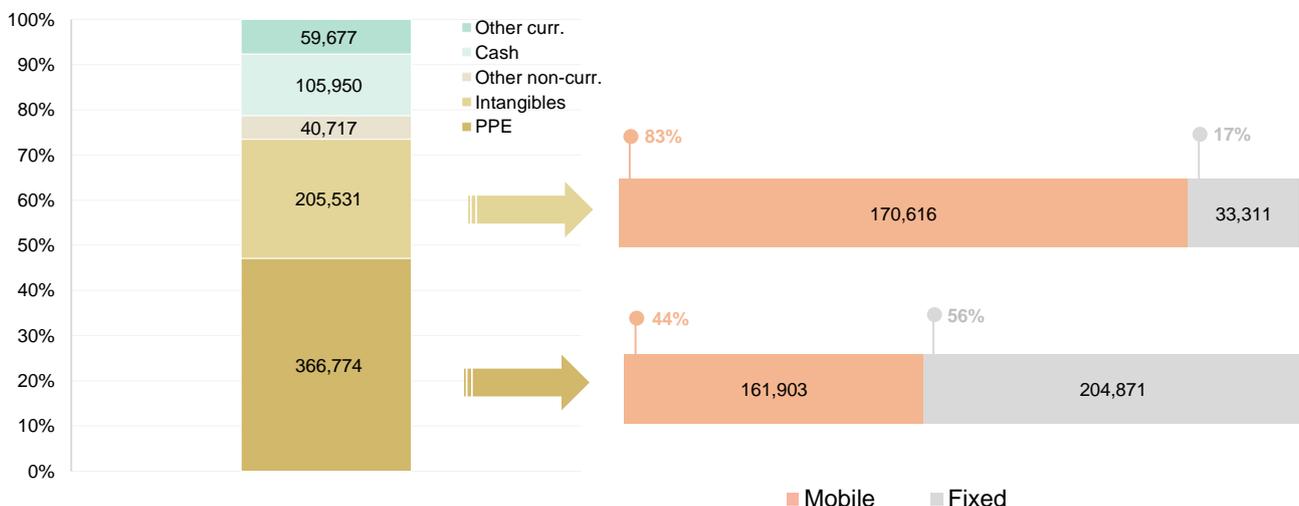
In our model we assume the rollover of the private bond in 2021

2016-17 numbers are standalone Silknet, while 2018 include Geocell 9M numbers

Silknet's asset base is mostly composed of long-term assets (79% of total assets), while after the Eurobond placement major portion of current assets are kept as cash (GEL 105.9mn). PPE and intangible assets made up 47.1% and 26.4% of total 1H19 assets, respectively. Notably, machinery & equipment and telecom operating licenses are the two largest asset categories, together accounting for 48% of total. Furthermore, PPE balance is equally attributed to mobile and fixed segments, while most of the intangible assets are arising from mobile segment operations.

Figure 88: PPE and intangible assets along with the large cash balance make up most of the Silknet's assets

Silknet's asset composition, GEL mn, 1H19



Source: Company data



Silknet successfully placed US\$ 200mn 11.0% 5-year Eurobond

Transaction Terms

Issuer:	Silknet
Issue Ratings:	B+ (Fitch) / B1 (Moody's)
Status	unsecured, unsubordinated and unguaranteed
Format	RegS
Issue Size	US\$ 200mn
Pricing Date	26 March 2019
Maturity Date	2 April 2024
Coupon	11%
Yield*	7.57%
Issue price	100%
Benchmark	UST 1.500 10/31/2024
Spread to Benchmark	601.6bps
Spread to mid-swap	157.4bps
Use of proceeds	Refinancing the indebtedness incurred for the Geocell Acquisition
Listing/Law	Euronext Dublin / English Law

Source: Bloomberg
Note: Indicative YTC as of 3 December 2019

Structure and covenants

- Notes are unsecured, unsubordinated and unguaranteed
- The bonds are callable between 2 April 2022-2023 at 105.5% of par. In the last year the bonds can be called at 102.75% of par
- Silknet, at its option, may redeem up to 35% of the bonds at 101% with the net proceeds from equity offerings
- Change of control put option at 101% of par
- Consolidated leverage ratio capped at 3.5x - Consolidated leverage is defined as consolidated net indebtedness over consolidated EBITDA of two recent semi-annual period
- If the leverage is above the covenant, Silknet is obliged to maintain a minimum US\$ 20mn credit facility (capped at US\$ 30mn) or cash and cash equivalents (Silknet has inked revolving credit facility agreement on US\$ 20mn from JSC TBC Bank).
- Indebtedness owing to the IFIs should not exceed US\$ 20mn
- Incurrence of indebtedness for capital expenditures is capped at 5% of consolidated total assets
- The permitted indebtedness shouldn't exceed 5% of consolidated total assets
- Restricted payments should be less than 50% of cumulative net income starting from 2019, however a US\$ 15mn dividend carve-out is allowed during 2019 (In 1H19 Silknet has already paid US\$ 15mn to its shareholder)
- Negative pledge



Annex 2: Financials

Income Statement, GEL mn

	2017	2018	2019E	2020F	2021F
Total revenue	399.4	399.2	392.0	432.2	475.7
Commercial revenue	319.2	332.2	354.0	399.2	447.7
Carrier services	80.1	67.0	38.0	33.0	28.0
Bargain gain from acquisition	14.0	41.8	-	-	-
EBITDA	165.2	188.5	209.2	234.8	264.0
EBITDA margin	41.4%	47.2%	53.4%	54.3%	55.5%
D&A	-92.0	-111.7	-113.3	-111.6	-122.6
EBIT	73.2	76.8	95.8	123.2	141.5
EBIT margin	18.3%	19.2%	24.4%	28.5%	29.7%
Financial costs (income), net	-43.0	-75.8	-147.8	-42.9	-62.0
PBT	31.3	0.5	-52.0	80.3	79.5
Tax expense	-0.6	-0.9	-1.1	0.0	0.0
Net income	30.7	-0.4	-53.1	80.3	79.5
Net margin	7.7%	-0.1%	-13.5%	18.6%	16.7%

Income Statement, US\$ mn

	2017	2018	2019E	2020F	2021F
Total revenue	159.2	157.5	137.6	154.3	169.9
Commercial revenue	127.3	131.0	124.2	142.6	159.9
Carrier services	31.9	26.4	13.3	11.8	10.0
Bargain gain from acquisition	5.6	16.5	-	-	-
EBITDA	65.9	74.4	73.4	83.9	94.3
EBITDA margin	41.4%	47.2%	54.2%	54.9%	56.8%
D&A	-36.7	-44.1	-39.8	-39.9	-43.8
EBIT	29.2	30.3	33.6	44.0	50.5
EBIT margin	18.3%	19.2%	24.4%	28.5%	29.7%
Financial costs (income), net	-17.2	-29.9	-51.9	-15.3	-22.1
PBT	12.5	0.2	-18.2	28.7	28.4
Tax expense	-0.2	-0.4	-0.4	0.0	0.0
Net income	12.3	-0.1	-18.6	28.7	28.4
Net margin	7.7%	-0.1%	-13.5%	18.6%	16.7%



Balance Sheet, GEL mn

	2017	2018	2019E	2020F	2021F
Non-current assets	224.6	626.0	644.9	653.9	661.8
Net PP&E	194.5	370.2	399.1	402.6	408.4
Intangible assets and contract costs	16.5	212.3	204.9	206.6	209.6
Other	13.6	43.5	40.9	44.7	43.7
Current assets	32.7	71.6	189.6	245.8	314.2
Cash & equivalents	2.5	9.3	126.1	176.1	237.7
Receivables & prepayments	20.3	37.9	38.0	41.9	46.1
Other	9.9	24.5	25.4	27.8	30.4
Total assets	257.4	697.6	834.4	899.7	976.0
Shareholders' equity	100.9	74.5	15.9	96.1	175.6
Non-current liabilities	110.3	476.3	706.0	687.8	684.9
LT interest bearing debt	71.5	406.3	676.1	657.3	656.3
Other	38.8	69.9	29.9	30.5	28.6
Current liabilities	46.2	146.8	112.5	115.8	112.5
ST loans	5.0	37.1	-	-	-
Trade payables & prepayments	31.5	87.2	76.8	78.9	76.2
Other	9.6	22.6	35.7	36.9	36.3
Total liabilities & equity	257.4	697.6	834.4	899.7	973.0

Balance Sheet, US\$ mn

	2017	2018	2019E	2020F	2021F
Non-current assets	86.7	233.9	218.6	229.4	232.2
Net PP&E	75.0	138.3	135.3	141.3	143.3
Intangible assets and contract costs	6.4	79.3	69.4	72.5	73.6
Other	5.2	16.2	13.9	15.7	15.4
Current assets	12.6	26.7	64.3	86.2	110.2
Cash & equivalents	1.0	3.5	42.8	61.8	83.4
Receivables & prepayments	7.8	14.2	12.9	14.7	16.2
Other	3.8	9.1	8.6	9.8	10.7
Total assets	99.3	260.6	282.8	315.7	342.4
Shareholders' equity	38.9	27.8	5.4	33.7	61.6
Non-current liabilities	42.5	177.9	239.3	241.3	240.3
LT interest bearing debt	27.6	151.8	229.2	230.6	230.3
Other	15.0	26.1	10.1	10.7	10.0
Current liabilities	17.8	54.9	38.1	40.6	39.5
ST loans	1.9	13.8	-	-	-
Trade payables & prepayments	12.1	32.6	26.0	27.7	26.7
Other	3.7	8.4	12.1	12.9	12.7
Total liabilities & equity	99.3	260.6	282.8	315.7	341.4



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