Georgian Oil and Gas Corporation
Terminating coverage

Fixed Income Research | Georgia
Georgian Oil and Gas Corporation
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We are terminating coverage of Georgian Oil and Gas Corporation, as the company intends to repay its outstanding Eurobond without tapping international markets. GOGC signed an agreement with EBRD on a EUR 217mn loan facility on 17 September to refinance US$ 250mn Eurobond, maturing in April 2021. The loan has up to 10-year tenure and bears 3.3% interest rate. Notably, according to the company information, GOGC will not be tapping international capital markets for couple of years, until the market sentiments become more favorable and the company will be able to secure financing at better conditions compared to the EBRD's loan facility. This is our final report on the company.

Revenue remained flat at US$ 160.5mn in 1H20. Sale of gas, which makes up two-thirds of total revenue for the company, was down 1.0% y/y to US$ 105.7mn. Notably, higher sales volume (+7.6% y/y to 921mmcm) was not enough to outweigh the negative effects from lower gas sales price, which was down 8.0% y/y. The pressure on the gas sales price stemmed from the most significant customer of the company. Electricity sales were up 13.7% y/y in GEL terms as Gardabani 2 has successfully launched operations (notably, in US terms revenue category was up only by 1.4% y/y to US$ 41.2mn due to GEL's significant depreciation). Other revenue streams have remained mostly stable in 1H20.

Gas segment profitability margins squeezed in 1H20. As GOGC was forced to significantly lower gas sales price, while gas purchase price reduced at a lower pace, gas segment's profitability margins declined in 1H20. Gas segment gross profit margin declined from 8.3% in 1H19 to 6.6% in 1H20.

Strong profitability of the electricity segment helped GOGC's consolidated margins in 1H20. GOGC's 1H20 EBITDA stood at US$ 41.3mn, which is 11.5% higher compared to the same period last year, translating into an EBITDA margin of 25.7% (vs. 23.1% in 1H19). Notably, c. 60% of the group's EBITDA comes from electricity segment. **Company's Net-debt-to-EBITDA ratio stood at 2.95x as of 1H20.**

GOGC signed an agreement with EBRD on EUR 217mn loan facility in September, 2020. The loan has up to 10-year tenure and bears 3.3% interest rate. The facility will be used to refinance the company's existing US$ 250mn Eurobond, maturing in April 2021, as COVID 19 related disruptions in international capital markets prevents the company to refinance its Eurobond at favorable terms. The decision to provide the financing from EBRD was made due to 'vital' importance of GOGC as utility provider in Georgia. The project involves a comprehensive Technical Cooperation package, aiming major reform of the sector (development of gas exchange in the country) in addition to improvement of company's corporate governance and gender equality (support the role of women in technical positions in the energy sector).

Since the COVID-19 outbreak, GOGC 21 turned out to be the worst performer among the selected Georgian Eurobonds, with the yield hiking by 818bps to 10.8% by end March-20. However, since June yields on Georgian and regional Eurobonds started to decline. **As of Sep 24, GOGC 21 was trading at 101.3% of par, with 4.4% YTM,** while yield on GRAIL, another quasi-government entity, stood at 4.7%.

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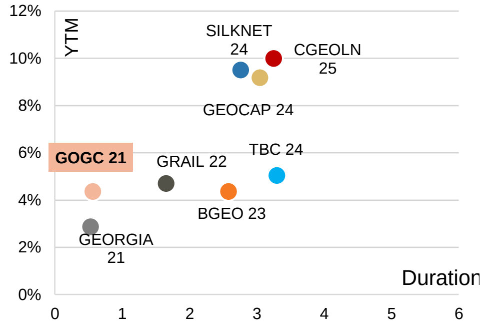
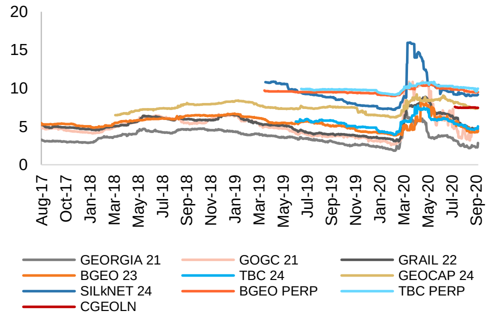
Figure 1: Georgian Eurobond universe



Source: Bloomberg, data as of September 24

Figure 2: Georgian Eurobonds



Source: Bloomberg, data as of September 24

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

	1H19	1H20	Change, y/y
Revenue	160,439	160,478	+0.0%
Gross profit	45,890	44,676	-2.6%
Gross profit margin	*28.6%*	*27.8%*	*-0.7ppts*
EBITDA	37,034	41,304	+11.5%
EBITDA margin	*23.1%*	*25.7%*	*+2.6ppts*
EBIT	29,914	32,984	+10.3%
EBIT margin	*18.6%*	*20.6%*	*+1.9ppts*
Net income	11,926	14,901	+24.9%
Net profit margin	*7.4%*	*9.3%*	*+1.85ppts*
Assets	623,656	617,757	-2.6%
Liabilities	266,072	261,238	-1.8%
Equity	357,584	346,066	-3.2%
Net-Debt-to-EBITDA	**2.15x**	**2.95x**	

Source: Company data

US$-GEL	1H16	1H17	1H18	1H19	1H20
Average	2.32	2.51	2.47	2.70	3.03
Period-end	2.34	2.41	2.45	2.87	3.06

Source: NBG

GOGC credit ratings

S&P Global Ratings	Fitch Ratings
BB-	**BB**
Negative	**Negative**
Affirmed Mar-2020	Affirmed Apr-2020

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