GALT & TAGGART RESEARCH

Georgian Oil and Gas Corporation
1H18 update

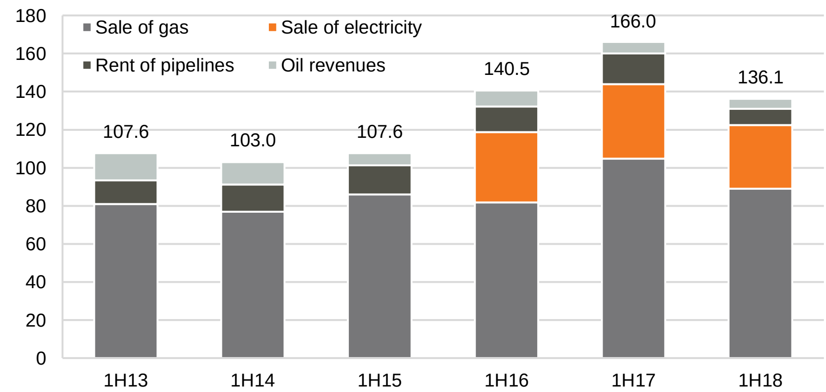
Georgia | Energy
Georgian Oil and Gas Corporation
September 26, 2018

S&P / B+ / Outlook Stable
Fitch / BB- / Outlook Stable

GOGC released 1H18 unaudited results. Revenue was down 18.0% y/y to US$ 136.1mn in 1H18, mostly due to a 15.0% y/y decrease in sale of gas to US$ 89.1mn. Revenue from electricity generation, second largest revenue category, was also down 14.7% y/y to US$ 33.4mn. Rent from gas pipelines almost halved in the reporting period, falling 47.2% y/y to US$ 8.5mn due to the new tariff methodology introduced in Sep-17. Operating expenses shrank 8.3% y/y to US$ 113.9mn in 1H18. Considerably decreased revenues caused a 39.8% y/y drop in adjusted EBITDA in 1H18 to US$ 30.0mn. The Gardabani II CCPP construction is on track with c.30% of the total project cost already invested as of 1H18.

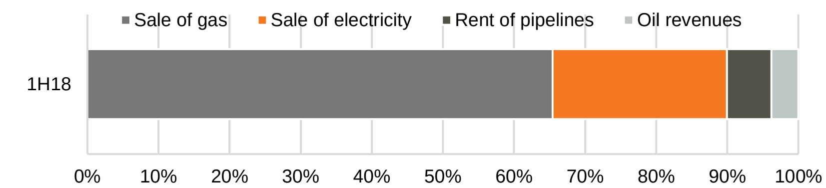
GOGC reported US$ 136.1mn revenue in 1H18, down 18.0% y/y. Drop in gas sales (-12.9% y/y to 766 mmcm), mostly driven by reduced gas demand for power generation, was the major reason behind the 15.0% y/y decrease of gas sales revenue to US$ 89.1mn. Electricity sales, which made up 24.5% of total revenue in 1H18, shrank 14.7% y/y to US$ 33.4mn due to electricity balance specifics. The pipeline rental revenue sharply declined to US$ 8.8mn (-47.2% y/y). This was caused by replacing the volume-based pricing with a fixed monthly fee of GEL 3.5mn according to the modification of the pipeline rental agreement between GOGC and the state-owned operator of the gas pipeline system (Georgian Gas Transportation Company) in Sep-2017. Revenue from the sale of crude oil dropped 52.3% y/y to US$ 0.9mn in the reporting period. Oil transportation revenue was the only revenue category in the green, up 7.2% to US$ 4.2mn.

Figure 1: Revenue, US$



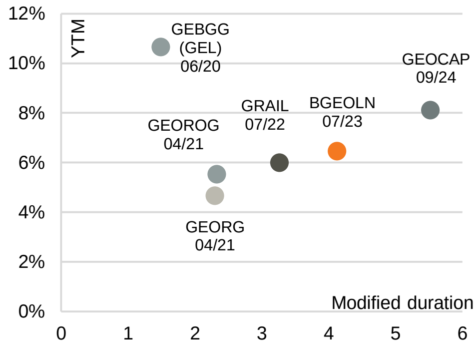
Note: oil revenues include the following revenue lines: oil transportation, sale of crude oil, and oil trading.
Source: Company data

Figure 2: 1H18 revenue composition



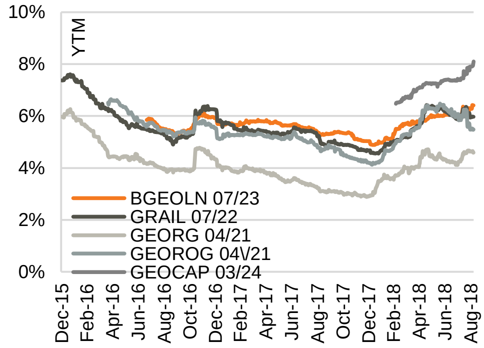
Source: Company data

Figure 3: Georgian Eurobond universe



Source: Bloomberg

Figure 4: Georgian Eurobonds



Source: Bloomberg

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

	1H17	1H18	Change, y/y
Revenue	166,025.7	136,142.5	-18.0%
Gross profit	56,822.1	40,379.9	-28.9%
Gross profit margin	*34.2%*	*29.7%*	*-4.56pps*
EBITDA	51,054.2	30,696.2	-39.9%
EBITDA margin	*30.8%*	*22.5%*	*-8.20pps*
Adjusted EBITDA*	49,938.0	30,060.6	-39.8%
Adjusted EBITDA margin	*30.1%*	*22.1%*	*-8.00pps*
EBIT	42,818.9	22,792.2	-46.8%
EBIT margin	*25.8%*	*16.7%*	*-9.05pps*
Net income	64,188.5	37,812.5	-41.1%
Net profit margin	*38.7%*	*27.8%*	*-10.88pps*
Assets	643,260.2	703,545.4	9.4%
Liabilities	262,882.2	293,092.3	11.5%
Equity	380,378.0	410,451.9	7.9%
Net Debt	83,210.8	63,050.3	-24.2%

Source: Company data
** EBITDA is adjusted to exclude other income*

US$-GEL	1H14	1H15	1H16	1H17	1H18
Period-end	1.77	2.25	2.37	2.41	2.45
Average	1.76	2.18	2.32	2.51	2.47

Source: NBG

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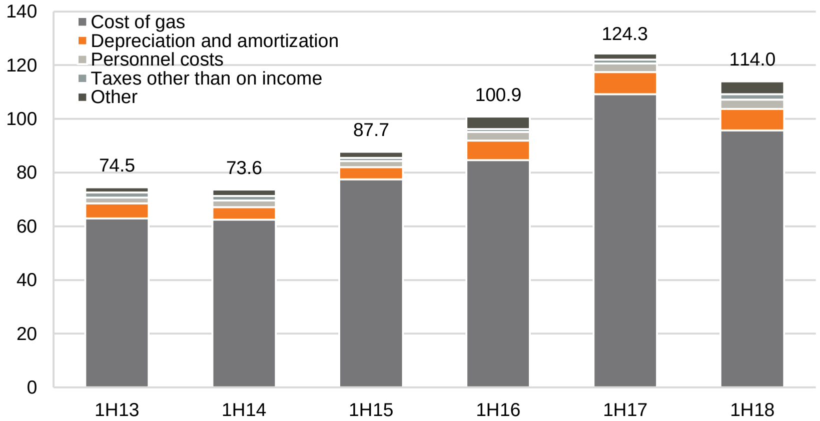
1H18 operating expenses were down 8.3% y/y to US$ 113.9mn as cost of gas dropped 12.3% y/y. Due to lower gas consumption, gas volumes purchased by GOGC's decreased 13.7% y/y in 1H and this combined with a 6.5% y/y increase in average gas purchase price caused cost of gas sold to drop by 10.3% y/y to US$ 83.8mn (87.6% of the total gas costs). The cost of gas used in electricity generation also dropped 24.0% y/y to US$ 11.9mn due to the reduced demand on gas from Gardabani I. Other expenses, accounting for 4.2% of the total, almost doubled reaching US$ 4.8mn, driven by the increased costs for banking, consulting and other professional services.

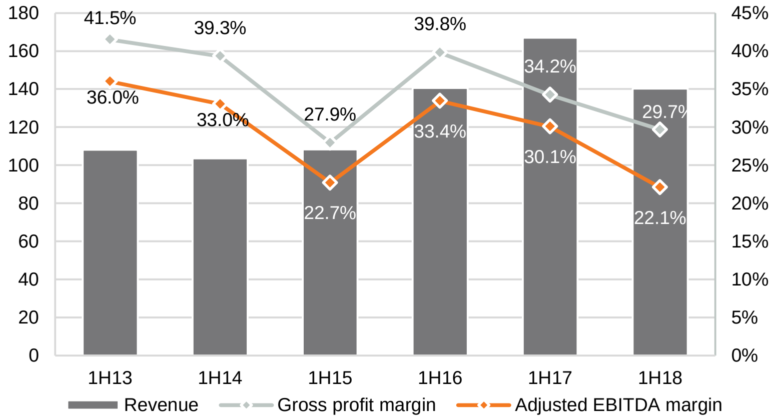
Figure 5: Operating expenses, US$



Source: Company data

On the back of the decreased revenue, 1H18 adjusted EBITDA dropped 39.8% y/y to US$ 30.0m. As a result, the adjusted EBITDA margin contracted from 30.1% in 1H17 to 22.1% in 1H18. The FX gain was down 40.0% y/y to US$ 11.2mn as GEL's appreciation against USD was 5.4% in 1H18 vs. 9.1% in 1H17. A US$ 0.9m income was received from GOGC's 49.9% shares in Kartli Wind Power Station in 1H18. All of the above contributed to the 41.1% y/y decrease in net income to US$ 37.8mn.

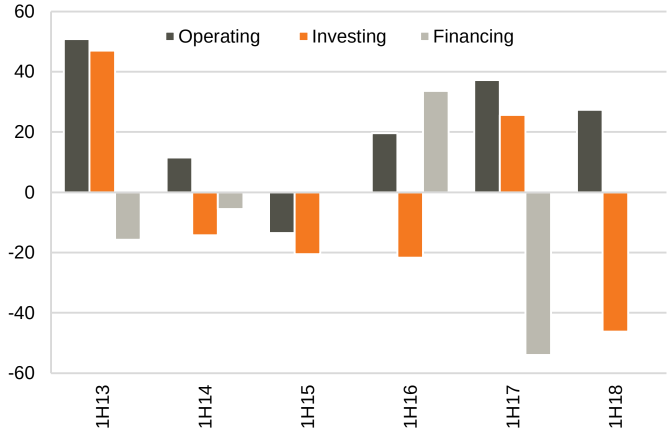
Figure 6: Revenue and profitability



Source: Company data

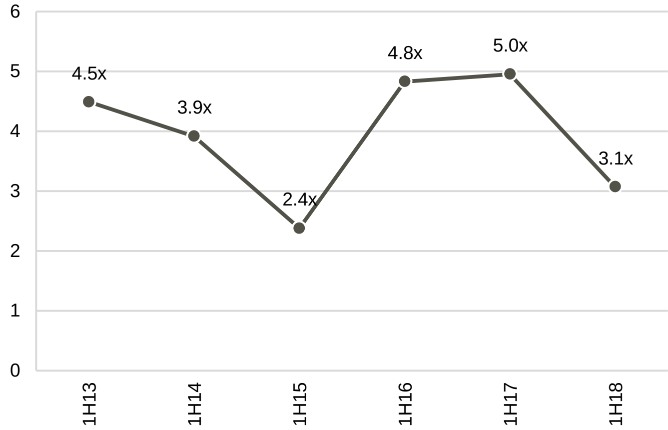
Operating cash flow was at US$ 27.4mn in 1H18, compared to US$ 37.3mn in 1H17. In 1H18 GOGC's operating cash flow was reduced by US$ 2.6mn due to interest payment on a US$ 26.0mn 2-year loan facility, borrowed in 2017. Construction of Gardabani II CCPP is on track, with US$ 46.2mn or c.30% of total already invested in 1H18. GOGC plans to invest additional US$ 74.0mn in 2H18, while the remaining portion (US$ 50mn) will be spent in 2019.

Figure 7: Cash flows, US$



Source: Company data

Figure 8: Adjusted EBITDA coverage ratio



Source: Company data

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