

Weekly Market Watch

Weekly Market Watch | Georgia
February 27, 2017

Economy

Exports up 44.7% y/y in January 2017

In January 2017, exports increased 44.7% y/y to US\$ 176.8mn, imports were up 15.4% y/y to US\$ 473.9mn, and the trade deficit widened 2.9% y/y to US\$ 297.1mn according to GeoStat. Increased exports of ferro-alloys (+611.0% y/y), copper (+34.0% y/y), wine (+98.1% y/y), pharmaceuticals (+97.1% y/y), and spirituous beverages (+125.8% y/y) were the major commodities positively affecting exports growth in January 2017, while hazelnuts (-49.2% y/y), and cars (-10.4% y/y) exports decreased.

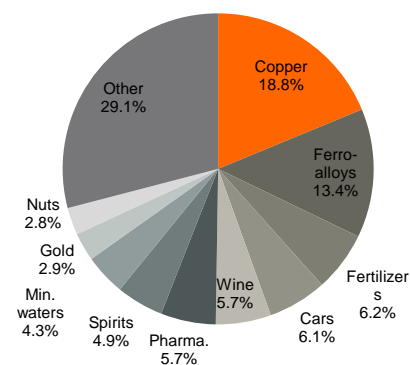
Gases (+0.6% y/y), cars (-15.6% y/y), petroleum (-27.7% y/y), copper (-11.2% y/y), and pharmaceuticals (+69.5% y/y) represented the top 5 imported commodities in January 2017.

Producer price index up 2.3% m/m and up 9.8% y/y in January 2017

PPI for industrial goods increased 2.3% m/m in January 2017 following a 4.8% m/m growth in previous month, according to GeoStat. A 1.1% price increase for manufacturing contributed the most to the overall index change. In this section prices were up for manufacture of basic and fabricated metals (+2.9% m/m vs +22.8% m/m in Dec-16) and up for manufacture of food products, beverages and tobacco (+0.5% m/m).

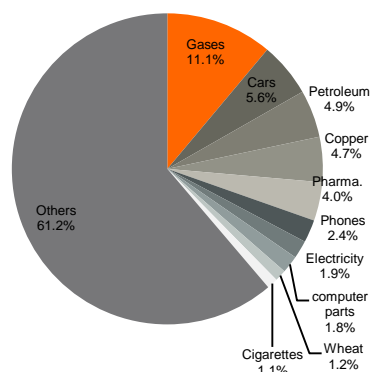
Annual PPI was up 9.8% in January 2017 after a 7.5% growth in previous month. Rising prices in manufacturing (+8.8% y/y) contributed the most to the overall index change, as prices were up for manufacture of basic and fabricated metals (+48.3% y/y vs. +35.5% y/y in Dec-16). Upward pressure on prices also came from supply of electricity, gas and water (+10.9% y/y), and mining and quarrying (+25.7% y/y vs. +16.3% y/y in Dec-16) sections.

Exports by commodities, Jan-2017



Source: GeoStat

Imports by commodities, Jan-2017



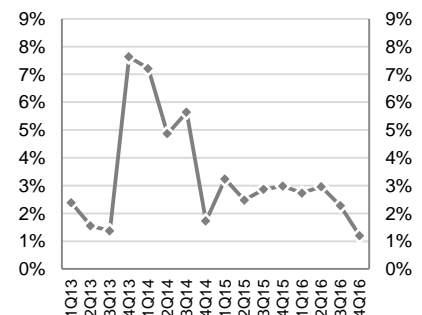
Key macro indicators

	1M17	2016	2015
GDP (% change)	...	2.2%	2.9%
GDP per capita (ppp)	9,630
GDP per capita (US\$)	3,767
Population (mn)	3.7	3.7	3.7
Inflation (eop)	3.9%	1.8%	4.9%
Gross reserves (US\$ bn)	2.8	2.8	2.5
CAD (% of GDP)	...	8.4%(1)	11.9%
Fiscal deficit (% of GDP)	...	4.1%	3.7%
Total public debt (% of GDP)	41.4%

Source: Official data, IMF, G&T

(1) As of 3Q16

Real GDP growth, %



Source: GeoStat

Note: rapid estimate for 4Q16

International ranking, 2016-17

Ease of Doing Business # 16 (Top 20)

Economic Freedom Index # 13 (mostly free)

Global Competitiveness Index # 59 (improving trend)

Source: World Bank, Heritage Foundation and World Economic Forum

Georgia sovereign credit ratings

 BB- Stable Affirmed Nov-2016	 Ba3 Stable Affirmed Mar-2016	 BB- Stable Affirmed Sep-2016
---	---	---

Source: Rating agencies

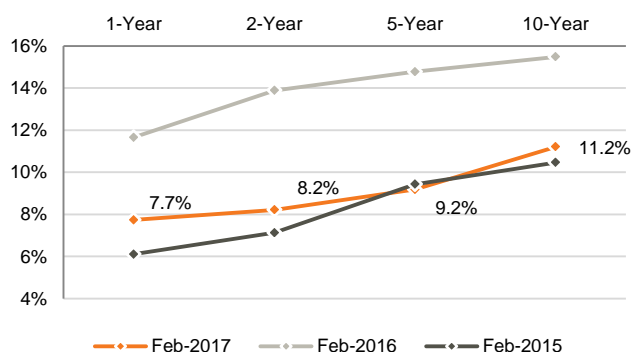
Money market

Refinancing loans: National Bank of Georgia (NBG) issued 7-day refinancing loans of GEL 1,150mn (US\$ 441.8mn).

Certificates of deposit: NBG sold 91-day, GEL 20mn (US\$ 7.9mn) certificates of deposit, with an average yield of 6.83% (up by 11bps from previous issue).

Ministry of Finance Treasury Notes: 5-year GEL 20.0mn (US\$ 7.6mn) T-Notes of Ministry of Finance were sold at the auction held at NBG on February 22, 2017. The weighted average yield was fixed at 9.181%. The nearest treasury security auction is scheduled for March 1, 2017, where GEL 50.0mn nominal value 1-year T-Bills will be sold.

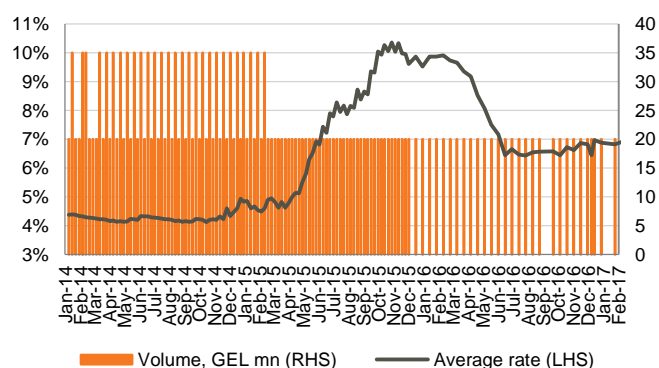
T-bills / T-notes, yield curve



Source: NBG

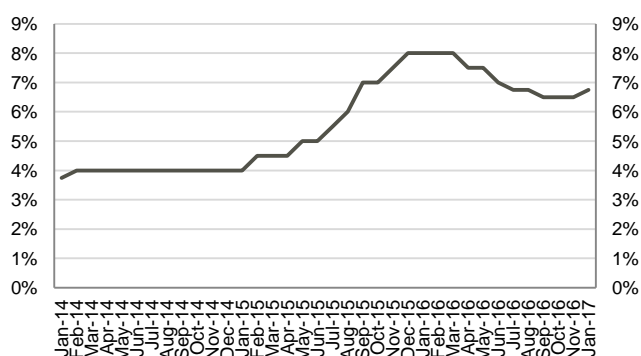
*Note: As of latest auction.

Certificates of Deposits (weighted average rate)



Source: NBG

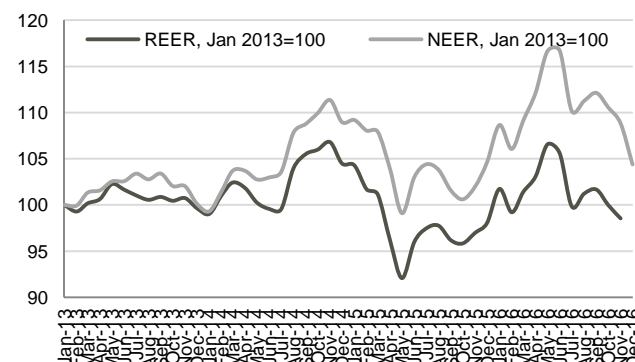
Monetary policy rate



Source: NBG

Note: Next revision of a monetary policy rate is scheduled for 7 March 2017

Nominal Effective Exchange Rate and Real Effective Exchange Rate



Source: NBG

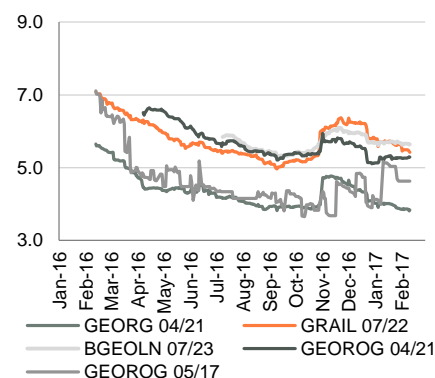
Note: Index growth means appreciation of exchange rate, decline means depreciation of exchange rate

Fixed income

Corporate Eurobonds: Bank of Georgia Eurobond (BGEOLN) closed at 5.6% yield, trading at 101.9 (+0.1% w/w). GOGC Eurobonds - GEOROG 05/17 traded at 100.6 (unchanged w/w), yielding 3.9% and GEOROG 04/21 traded at 105.4 (-0.1% w/w), yielding 5.3%. Georgian Railway Eurobond (GRAIL) traded at a premium at 110.5 (+0.1% w/w), yielding 5.5%.

Georgian Sovereign Eurobond (GEORG) closed at 111.4 (-0.1% w/w) at 3.8% yield to maturity.

Georgia Eurobonds, YTM (%)



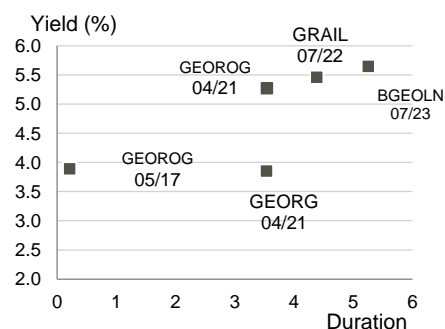
	Local bonds					Eurobonds				
	GWP 12/21	M2RE 10/19	Nikora 03/18	EVEX 05/17	GLC 09/17	GEOROG 04/21	GEOROG 05/17	BGEOLN 07/23	GEORG 04/21	GRAIL 07/22
Amount, US\$ mn	30*	15.0	5.0	15.0	10.0	250	53.5	350	500	500
Issue date	12/16	05/15	03/16	05/15	09/14	04/16	05/12	07/16	04/11	07/12
Maturity date	12/21	05/17	03/18	05/17	09/17	04/21	05/17	07/23	04/21	07/22
Coupon, %	3.50**	9.5	11.0	9.5	8.8	6.750	6.875	6.000	6.875	7.750
Fitch/S&P/Moody's	BB-/I-/	-/-	-/-	-/-	-/-	BB-/B+/-	BB-/B+/-	BB-/B1	BB-/BB-/Ba3	B+/B+/-
Mid price, US\$	n/a	101.2	102.0	101.2	100.7	105.4	100.6	101.9	111.4	110.5
Mid yield, %	n/a	4.00%	9.00%	4.00%	7.50%	5.3	3.9	5.6	3.9	5.5
Z-spread, bps	n/a	n/a	n/a	n/a	n/a	328.5	81.1	350.3	192.2	339.5

Source: Bloomberg

*GWP 12/21 bonds are in Georgian lari

**Coupon rate 3.5% over the NBG's refinancing rate

Georgian Eurobond universe



Eastern European sovereign 10-year bond performance

Issuer	Amount, US\$ mn	Coupon, %	Maturity date	Ratings (Fitch/S&P/Moody)	Mid price, US\$	Mid yield, %	Z-spread, bps
Georgia	500	6.875%	12/04/2021	BB-/BB-/Ba3	111.4	3.9	192.2
Azerbaijan	1,250	4.750%	18/03/2024	BB+/BB+/Ba1	101.8	4.4	228.6
Bulgaria	323	5.000%	19/07/2021	BBB-/BB+/Baa2	120.3	0.3	-246.1
Croatia	1,250	3.875%	30/05/2022	BB/BB/Baa2	108.7	2.1	194.4
Hungary	3,000	6.375%	29/03/2021	BBB-/BBB-/Baa3	112.3	3.1	120.9
Romania	2,250	6.750%	07/02/2022	BBB-/BBB-/Baa3	115.6	3.3	123.4
Russia	3,500	5.000%	29/04/2020	BBB-/BB+/Ba1	107.7	2.4	65.5
Turkey	2,000	5.625%	30/03/2021	BB+/BB/Ba1	104.3	4.5	255.9

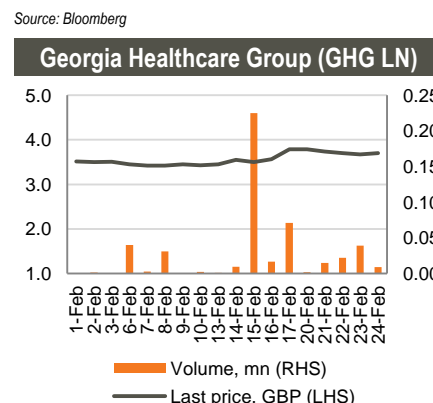
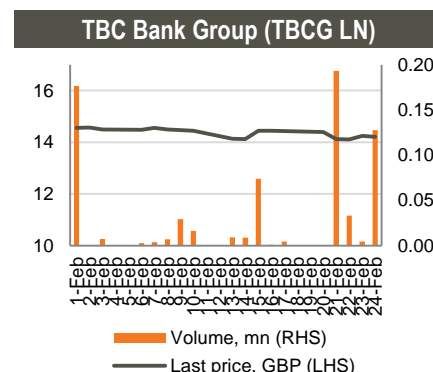
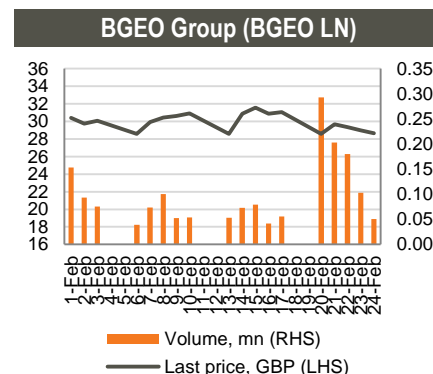
Source: Bloomberg

Equities

BGEO Group (BGEO LN) shares closed at GBP 28.64/share (-7.79% w/w and +2.32% m/m). More than 828k shares traded in the range of GBP 28.02 – 31.11/share. Average daily traded volume was 102k in the last 4 weeks. FTSE 250 Index, of which BGEO is a constituent, lost 0.63% w/w and gained 2.70% m/m. The volume of BGEO shares traded was at 2.10% of its capitalization.

TBC Bank Group (TBCG LN) closed the week at GBP 14.21 (-0.52% w/w and -5.27% m/m). More than 359k shares changed hands in the range of GBP 14.05 – 14.45/share. Averaged daily traded volume was 37k in the last 4 weeks.

Georgia Healthcare Group (GHG LN) shares closed at GBP 3.70/share (-2.37% w/w and +7.28% m/m). More than 87k shares were traded in the range of GBP 3.65 – 3.80/share. Average daily traded volume was 28k in the last 4 weeks. The volume of GHG shares traded was at 0.07% of its capitalization.



Eastern European Banks

	Ticker	Share price, US\$	MCap, US\$ mn	1M, chg	3M, chg	6M, chg	YTD, chg	1Y, chg
BGEO*	BGEO	35.79	1,414	2.1%	-6.3%	-3.0%	27.6%	33.8%
TBC*	TBC	17.76	926	-5.5%	55.1%	48.0%	75.8%	88.9%
Halyk Bank	HSBK	6.45	1,773	10.4%	9.0%	9.3%	30.3%	79.2%
KKB	KKB	1.46	582	4.3%	6.6%	-8.2%	19.2%	73.8%
VTB Bank	VTBR	2.25	14,607	-1.1%	8.9%	12.5%	6.9%	25.9%
Vozrozhdenie Bank	VZRZ	13.01	309	2.3%	18.9%	23.1%	57.6%	90.4%
Sberbank	SBER	11.54	62,278	-0.5%	12.0%	30.2%	96.3%	104.6%

Source: Bloomberg

*BGEO and TBC are traded in GBP and are shown in US\$ equivalent

Note: 6M, YTD, and 1Y changes in TBC share prices calculated using GDR prices on those dates.

Healthcare Sector Peers

	Ticker	Share price, US\$	MCap, US\$ mn	1M, chg	3M, chg	6M, chg	YTD, chg	1Y, chg
GHG*	GHG	4.62	609	7.8%	1.6%	30.6%	102.4%	129.0%
Mouwasat	MOUWASAT	36.34	1,817	-4.4%	2.5%	8.2%	12.0%	19.5%
Fortis	FORH	2.94	1,520	5.9%	18.6%	8.7%	8.1%	21.7%
Raffles	RFMD	1.01	1,775	-0.4%	1.6%	-9.0%	3.7%	-1.2%
IHH	IHH	1.33	10,950	-8.1%	-7.1%	-18.8%	-13.0%	-13.9%
Bangkok Chain	BCH	0.39	973	-10.7%	0.8%	15.5%	55.5%	36.5%
Netcare	NTC	2.48	3,623	1.2%	7.4%	8.2%	13.2%	17.3%

Source: Bloomberg

*GHG is traded in GBP and is shown in US\$ equivalent

Disclaimer

This document is strictly confidential and has been prepared by JSC Galt & Taggart ("Galt & Taggart"), a member of JSC Bank of Georgia group ("Group") solely for informational purposes and independently of the respective companies mentioned herein. This document does not constitute or form part of, and should not be construed as, an offer or solicitation or invitation of an offer to buy, sell or subscribe for any securities or assets and nothing contained herein shall form the basis of any contract or commitment whatsoever or shall be considered as a recommendation to take any such actions.

Galt & Taggart is authorized to perform professional activities on the Georgian market. The distribution of this document in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by Galt & Taggart to inform themselves about and to observe any and all restrictions applicable to them. This document is not directed to, or intended for distribution, directly or indirectly, to, or use by, any person or entity that is a citizen or resident located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would require any registration or licensing within such jurisdiction.

Investments (or any short-term transactions) in emerging markets involve significant risk and volatility and may not be suitable for everyone. The recipients of this document must make their own investment decisions as they believe appropriate based on their specific objectives and financial situation. When doing so, such recipients should be sure to make their own assessment of the risks inherent in emerging market investments, including potential political and economic instability, other political risks including without limitation changes to laws and tariffs, and nationalization of assets, and currency exchange risk.

No representation, warranty or undertaking, express or implied, is or will be made by Galt & Taggart or any other member of the Group or their respective directors, employees, affiliates, advisers or agents or any other person as to, and no reliance should be placed on, the fairness, accuracy, completeness or correctness of this document and the information contained herein (and whether any information has been omitted from this document) and no reliance should be placed on it. This document should not be considered as a complete description of the markets, industries and/or companies referred to herein. Nothing contained in this document is, is to be construed as, or shall be relied on as legal, investment, business or tax advice, whether relating to the past or the future, by Galt & Taggart any other member of the Group or any of their respective directors, employees, affiliates, advisers or agents in any respect. Recipients are required to make their own independent investigation and appraisal of the matters discussed herein. Any investment decision should be made at the investor's sole discretion. To the extent permitted by law, Galt & Taggart, any other member of the Group and their respective directors, employees, affiliates, advisers and agents disclaim all liability whatsoever (in negligence or otherwise) for any loss or damages however arising, directly or indirectly, from any use of this document or its contents or otherwise arising in connection with this document, or for any act, or failure to act, by any party, on the basis of this document.

The information in this document is subject to verification, completion and change without notice and Galt & Taggart is not under any obligation to update or keep current the information contained herein. The delivery of this document shall not, under any circumstances, create any implication that there has been no change in the information since the date hereof or the date upon which this document has been most recently updated, or that the information contained in this document is correct as at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. No representation or warranty, expressed or implied, is made by Galt & Taggart or any other member of the Group, or any of their respective directors, employees, affiliates, advisers or agents with respect to the accuracy or completeness of such information.

The information provided and opinions expressed in this document are based on the information available as of the issue date and are solely those of Galt & Taggart as part of its internal research coverage. Opinions, forecasts and estimates contained herein are based on information obtained from third party sources believed to be reliable and in good faith, and may change without notice. Third party publications, studies and surveys generally state that the data contained therein have been obtained from sources believed to be reliable, but that there is no guarantee of the accuracy or completeness of such data. Accordingly, undue reliance should not be placed on any such data contained in this document. Neither Galt & Taggart, any other member of the Group, nor their respective directors, employees, affiliates, advisers or agents make any representation or warranty, express or implied, of this document's usefulness in predicting the future performance, or in estimating the current or future value, of any security or asset.

Galt & Taggart does, and seeks to do, and any other member of the Group may or seek to do business with companies covered in its research. As a result, investors should be aware of a potential conflict of interest that may affect the objectivity of the information contained in this document.

This document is confidential to clients of Galt & Taggart. Unauthorized copying, distribution, publication or retransmission of all or any part of this document by any medium or in any form for any purpose is strictly prohibited.

The recipients of this document are responsible for protecting against viruses and other destructive items. Receipt of the electronic transmission is at risk of the recipient and it is his/her responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

Galt & Taggart

Address: 79 D. Agmashenebeli Avenue, Tbilisi 0102, Georgia

Tel: + (995) 32 2401 111

Email: gt@gt.ge