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RESEARCH

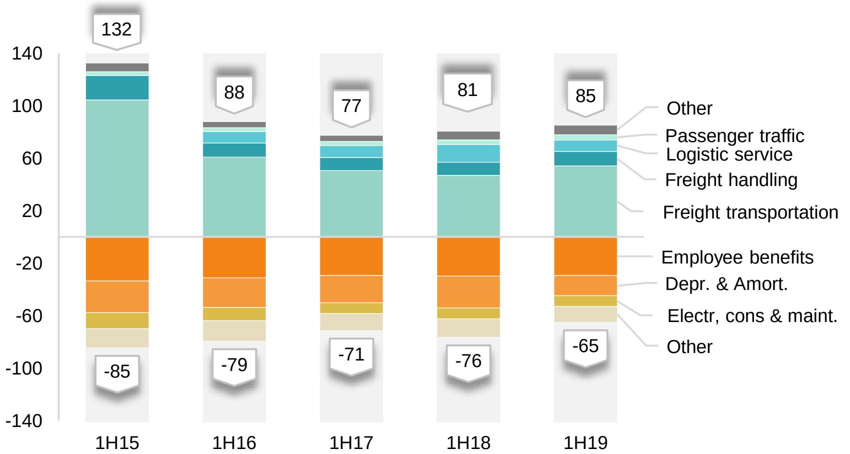
Georgian Railway
1H19 update

Georgia | Transportation
Georgian Railway
October 8, 2019

GR released 1H19 unaudited results together with Management Discussion and Analysis. Revenue was up 5.7% y/y to US$ 85.1mn supported by increased freight traffic. Operating expenses, which are mostly GEL-denominated, decreased 14.8% y/y to US$ 65.2mn (-6.6% y/y in GEL). Consequently, adjusted EBITDA improved and reached US$ 35.9mn (+25.4% y/y). Adjusted EBITDA margin also hiked to 42.2% from 35.6% a year ago. GEL's 17% depreciation against dollar in 1H19 led to a non-cash FX loss of US$ 31.7mn, which dragged down net income to a negative US$ 15.3mn.

GR's freight transportation revenue, traditionally the most important revenue category, was up for the first time in the last four years. Revenue stood at US$ 85.1mn up 5.7% y/y. Freight transportation revenue, up 15.4% y/y to US$ 54.1mn, had the largest positive impact on the overall revenue growth in 1H19. Freight handling revenue also increased 10.1% y/y to US$ 11.1mn, while logistic service revenue dropped 35.8% y/y to US$ 8.5mn. Passenger traffic revenue, mostly generated in GEL, also continued growing, up 9.2% y/y to US$ 4.2mn (+19.8% y/y in GEL). Other revenue was up 26.5% y/y to US$ 2.1mn driven by sale of scrap.

Figure 3: Revenue and expenses, US$ mn



Source: Company data

GR recognized significant impairment loss in 2018 as a result of impairment testing of its Property, Plant and Equipment (PPE). Due to 5 consecutive years of decline (cumulative drop of 56.1% in 2018 vs. in 2014) in its main revenue stream – freight transportation, GR assets' value in use was re-assessed and was found to be US$ 272.8 (GEL 691.4mn) lower than the carrying amount. This led to a recognition of the large impairment loss in 2018.

1H19 operating expenses, which are mostly GEL-denominated, declined 14.8% y/y to US$ 65.2mn. This was mostly caused by significant drop in asset-base (PPE) and related reduction in depreciation expenses (down 36.4% y/y to US$ 15.3mn). On the other hand, employee benefits and electricity and other consumables expenses increased, 8.0% y/y and 7.1% y/y, respectively in GEL terms. However, they still reduced in dollar terms as GEL depreciated.

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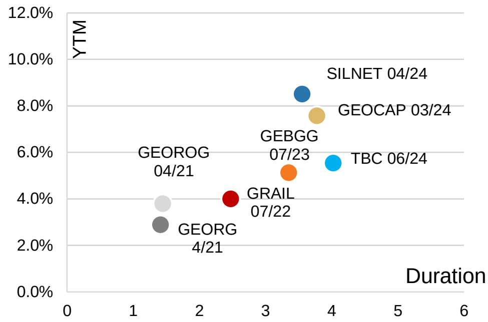
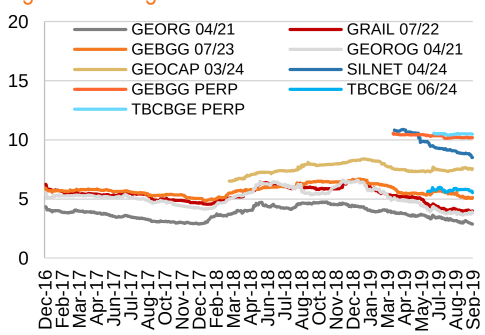
Figure 1: Georgian Eurobond universe



Source: Bloomberg

Figure 2: Georgian Eurobonds



Source: Bloomberg

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

	1H18	1H19	Change, y/y
Revenue	80,546	85,136	+5.7%
Adjusted EBITDA*	28,641	35,921	+25.4%
Adjusted EBITDA margin	*35.6%*	*42.2%*	*+6.6pps*
EBIT	12,016	22,864	+90.3%
EBIT margin	*14.9%*	*26.9%*	*-11.9pps*
Net income	30,194	-15,318	n/a
Net profit margin	*37.5%*	*-18.0%*	*-55.5pps*
Assets	1,175,185	801,640	-31.8%
Liabilities	636,232	631,704	-0.7%
Equity	538,952	169,937	-68.5%

Source: Company data
Note: Adjusted EBITDA definition provided below Figure 6 on pg. 3

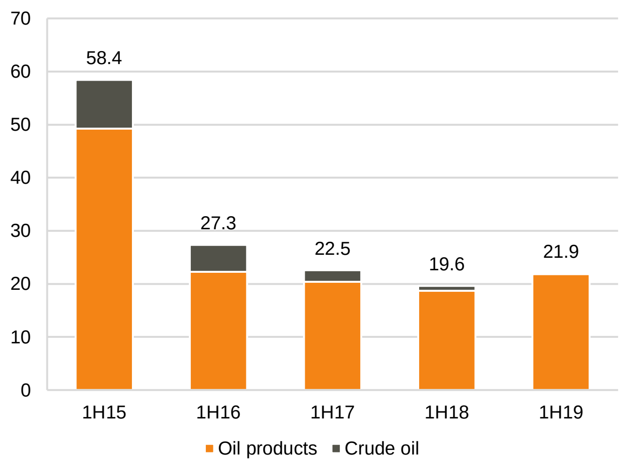
Georgian Railway credit ratings

S&P Global Ratings	Fitch Ratings
B+	BB-
Positive	Stable
Affirmed Apr-2019	Affirmed Mar-2019

Both liquid and dry cargoes lifted freight transportation revenue. Liquid cargo transportation was up 11.8% y/y to US$ 21.9mn entirely reflecting increased oil products transportation revenue (up 16.9% y/y) as crude oil transportation volumes were negligible in 1H19. Notably, growth in value terms was related to higher tariffs as oil products transportation declined in volume by 4.6% y/y in 1H19.

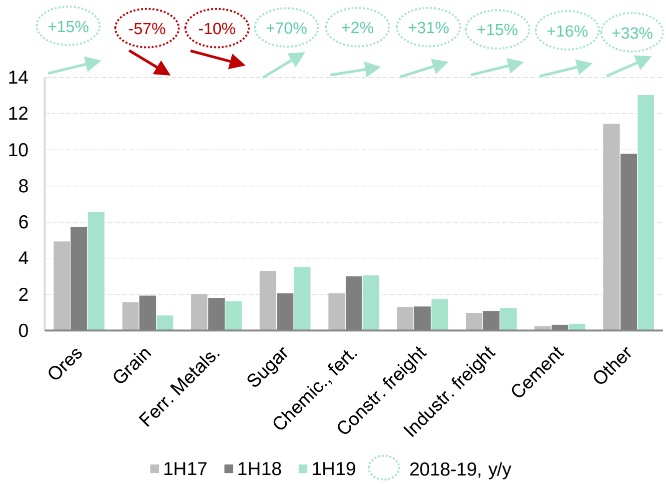
Dry cargo transportation, unlike liquid cargo, increased in both volume and value terms. Dry cargo transportation revenue increased 18.1% y/y to US$ 32.1mn, while transported volumes grew by 6.8% y/y. A 69.9% y/y growth in sugar transportation revenue contributed most to the overall growth. Ores transportation was up 14.4% y/y to US$ 6.6mn in 1H19. Construction and industrial freight transportation also posted positive growths in 1H19, up 30.5% y/y to US$ 1.7mn and 15.0% y/y to US$ 1.3mn, respectively. Cement transportation, which makes up only 1.2% of total of this category, was up 16.3% y/y to US$ 0.4mn. Grain and ferrous metals transportation were the only products declining in 1H19, down 56.5% y/y to US$ 0.9mn and 10.0% y/y to US$ 1.6mn, respectively.

Figure 4: Liquid cargo transportation, US$ mn



Source: Company data

Figure 5: Dry cargo transportation, US$ mn

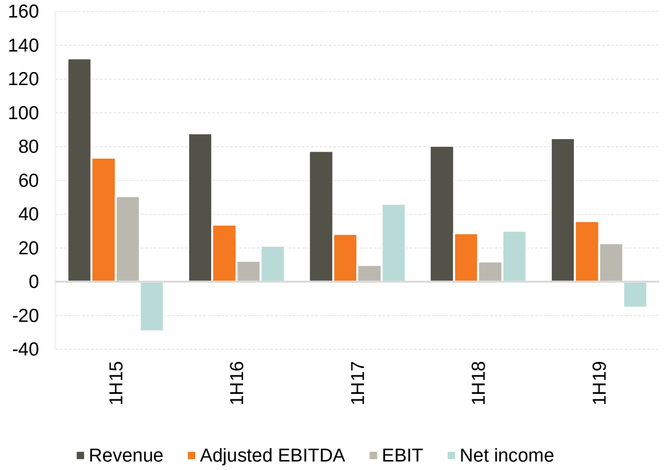


Source: Company data

Increased revenue and lower expenses contributed to the improvement of adjusted EBITDA, which came in at US$ 35.9mn (+25.4% y/y). Adjusted EBITDA margin also hiked to 42.2% from 35.6% a year ago. GEL's 17% depreciation against dollar in 1H19 led to a non-cash FX loss of US$ 31.7mn, which dragged down net income to a negative US$ 15.3mn.

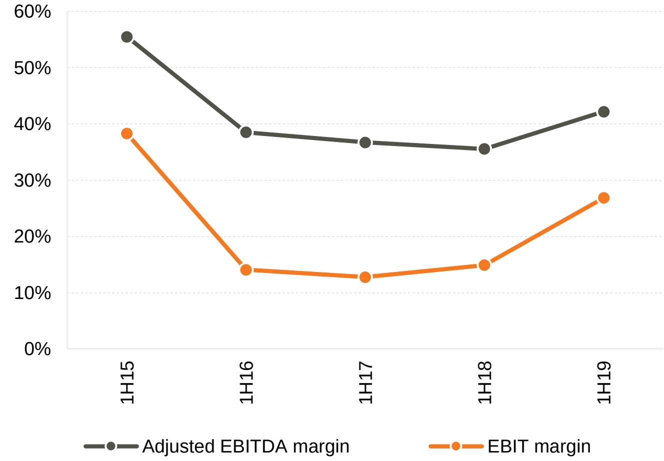
Retained earnings turned negative due to the massive impairment loss in 2018. Notably, significant impairment loss recognition in the end-2018, caused retained earnings to move to negative territory, standing at -US$ 232.2mn as of 1H19, compared to positive US$ 69.2mn in the same period last year.

Figure 6: Income statement highlights, US$ mn



Source: Company data
Note: Adjusted EBITDA adds certain non-cash items of other expenses (write-off of non-current assets, inventory write-downs due to obsolescence, guarantee provisions and other provisions) and subtracts certain non-cash items of other income (gain on sale of subsidiaries and associates, and other) from EBITDA

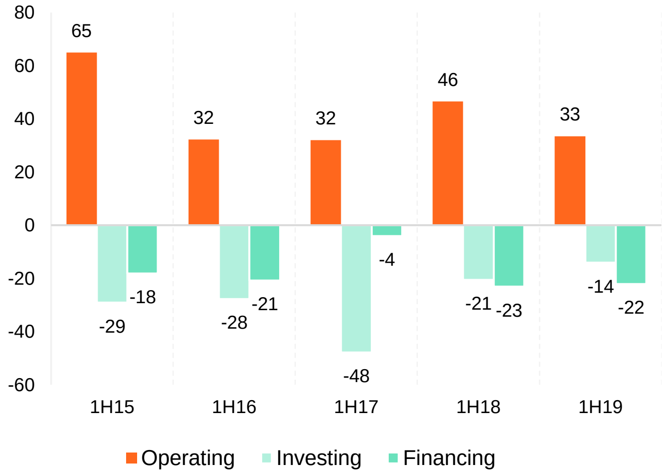
Figure 7: Profitability margins



Source: Company data

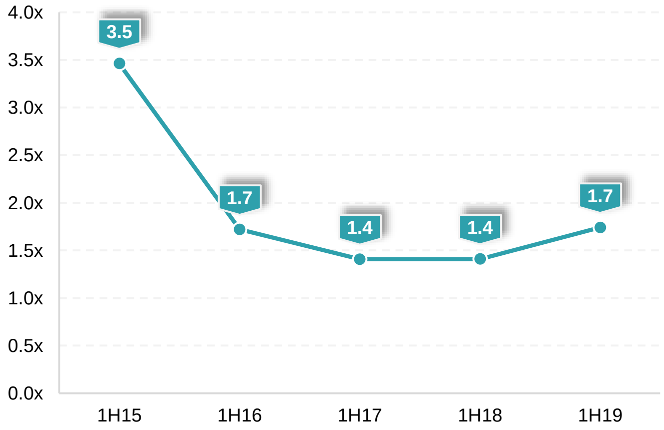
Cash balance declined in 1H19, as operating cash inflows reduced more than investing and financing cash flows. Operating cash shrank 28.0% y/y to US$ 33.5mn, as cash receipts from customers decreased in 1H19. Additional expenses related to the launch of national pension scheme along with increased bonuses also dragged down operating cash balance. Company's investments in the main line modernization project were smaller in 1H19 (-31.7% y/y), while financing costs remained mostly flat in 1H19. Changes in the above mentioned 3 categories reduced overall cash balance by 7.8% y/y to US$ 91.1mn as of June-2019.

Figure 8: Cash flows, US$ mn



Source: Company data

Figure 9: Adjusted EBITDA coverage ratio



Source: Company data
Note: Interest expense includes both, capitalized interest and expensed interest for the period

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