



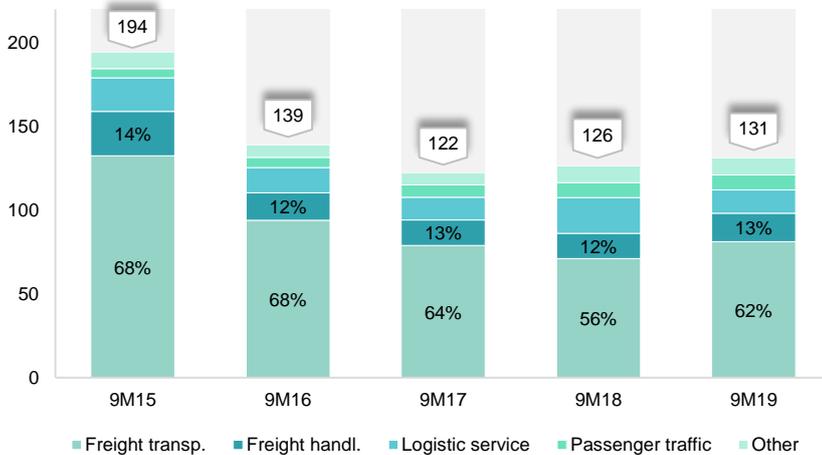
Georgian Railway 9M19 update

Georgia | Transportation
Georgian Railway
December 20, 2019

GR released 9M19 unaudited results together with Management Discussion and Analysis. Revenue was up 3.8% y/y to US\$ 131.1mn in 9M. This increase was mostly driven by higher freight transportation revenue (US\$ 81.2mn) reflecting pick up in dry cargo volumes (+17.5% y/y to US\$ 48.4mn). Operating expenses declined 16.2% y/y to US\$ 95.7mn in 9M19, mostly due to lower depreciation expenses. As a result adjusted EBITDA improved by 22.6% y/y to US\$ 60.4mn with adjusted EBITDA margin climbing 7.1ppts y/y to 46.1% in 9M. Despite better operating performance the bottom line was negative US\$ 23.0mn in 9M caused by GEL-depreciation related non-cash FX loss (US\$ 45mn) and impairment loss on trade receivable (US\$ 8.1mn).

Freight transportation, the largest revenue category for GR, continued growth in 3Q19, with revenue up 14.4% y/y to US\$ 81.2mn in 9M19. Notably, surge in dry cargo transportation (up 17.5% y/y to US\$ 48.4mn) had the largest effect on the overall cargo transportation revenues. Freight handling also increased, up 10.8% y/y to US\$ 16.8mn. On the downside, logistic service revenues dropped 34.6% y/y to US\$ 13.9mn and freight car rental revenue also declined 5.6% y/y to US\$ 7.0mn. Meanwhile passenger traffic revenue increased by a mere 1.0% y/y (though up 12.8% y/y in GEL) in 9M19. Other revenues, accounting for just 2.3% of total, were up 27.0% y/y to US\$ 3.0mn due to increased sales of materials and scrap.

Figure 3: Revenue, US\$ mn



Source: Company data

9M19 operating expenses were down 16.2% y/y to US\$ 95.7mn, as depreciation expenses reduced. End 2018 reduction in asset-base due to the significant impairment loss recognition reduced GR's depreciation expenses by 34.4% y/y to US\$ 23.4mn in 9M19. Employee benefits and electricity and other consumables, where the only categories that increased in GEL terms up 6.4% y/y to GEL 117.3mn and 2.7% y/y to GEL 33.8mn, respectively. While in USD, every cost item declined in 9M19, explained by GEL's depreciation.

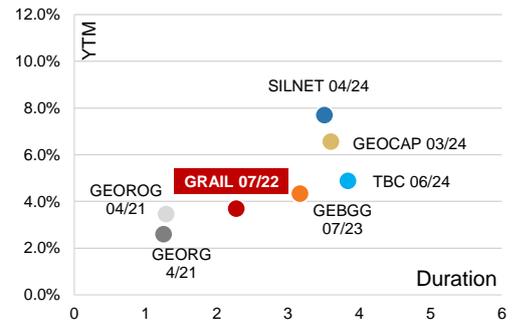
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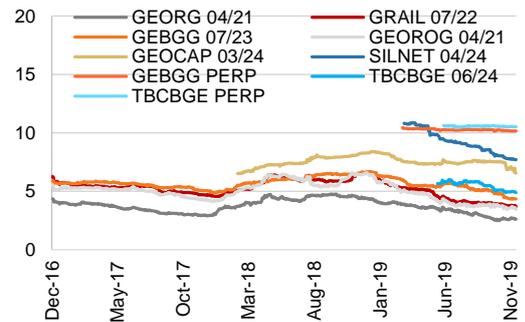
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Figure 1: Georgian Eurobond universe



Source: Bloomberg

Figure 2: Georgian Eurobonds



Source: Bloomberg

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

	9M18	9M19	Change, y/y
Revenue	126,338	131,126	+3.8%
Adjusted EBITDA	49,298	60,419	+22.6%
Adjusted EBITDA margin	39.0%	46.1%	+7.1bps
EBIT	19,149	40,192	+109.9%
EBIT margin	15.2%	30.7%	-21.4bps
Net income	4,864	-22,996	n/a
Net profit margin	3.9%	-17.5%	-21.4bps
Assets	1,103,368	768,990	-30.3%
Liabilities	619,416	612,776	-1.1%
Equity	483,952	156,215	-67.7%

Source: Company data

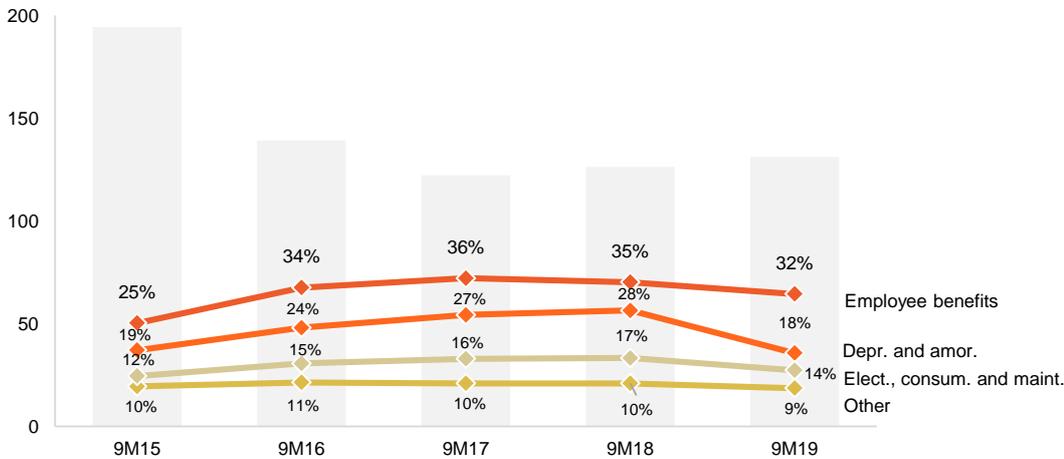
Georgian Railway credit ratings

S&P Global Ratings
B+
Developing
Affirmed
Sep-2019

Fitch Ratings
BB-
Stable
Affirmed
Nov-2019



Figure 4: Operating expenses as % of total revenue

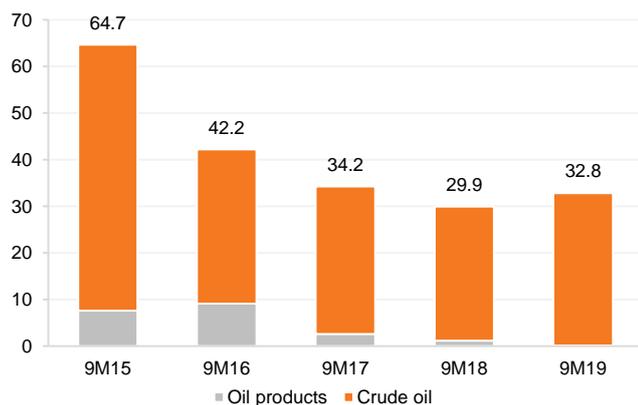


Source: Company data

Dry cargo transportation growth, both in volume and value, had the largest impact on overall freight transportation revenues. Revenue increased 17.5% y/y to US\$ 48.4mn in 9M19, with ores and sugar being the largest contributors. Construction and industrial freight transportation also improved in 9M19. Ferrous metals, grain and chemicals and fertilizers together accounting for 17.7% of dry cargo transportation revenue, were the only categories that declined in the reporting period, down 7.1% y/y to US\$ 8.5mn. Notably, dry cargo growth accelerated in 3Q.

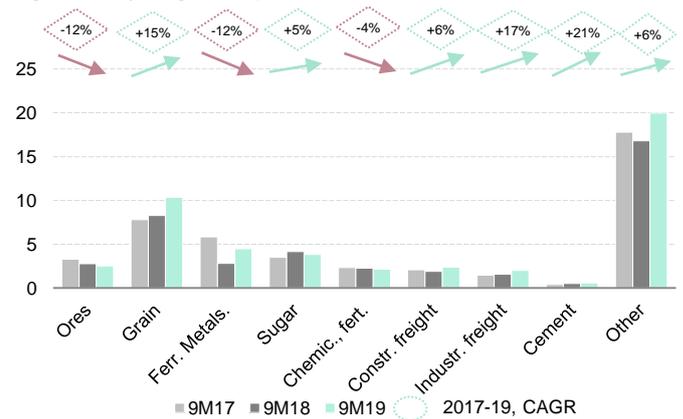
Liquid cargo revenue grew 9.7% y/y to US\$ 32.8mn solely driven by increased oil products transportation. Notably, oil products transportation revenue increased due to higher tariffs charged, as transported volumes decreased 6.9% y/y in 9M19. After the third consecutive year of decline in crude oil transportation, the value has dropped to US\$ 0.1mn in 9M19 compared to US\$ 9.1mn in 9M16.

Figure 5: Liquid cargo transportation, US\$ mn



Source: Company data

Figure 6: Dry cargo transportation, US\$ mn

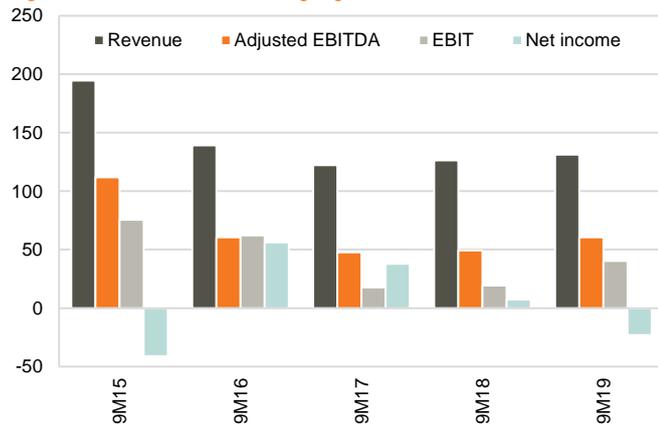


Source: Company data



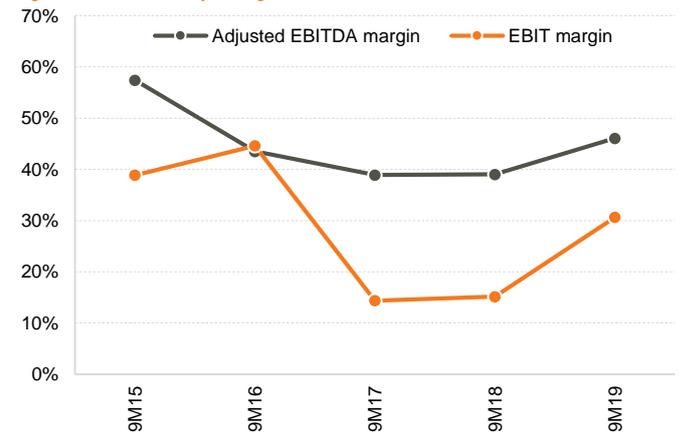
GR's 9M19 adjusted EBITDA increased 22.6% y/y to US\$ 60.4mn, helped by growing revenues on the one hand and shrinking operating expenses on the other. 9M19 adjusted EBITDA margin reached 46.1% compared to 39.0% in the same period last year. GEL's 11.2% depreciation against dollar in 9M19 led to a non-cash FX loss of US\$ 45.0mn. In addition, GR recognized US\$ 8.1mn impairment loss on trade receivable on a 2-year US\$ 22.0mn oil trade contract with a counterparty from Turkmenistan. All of the above contributed to the plummeting of the bottom line, with net loss standing at US\$ 22.8mn in 9M19.

Figure 7: Income statement highlights, US\$ mn



Source: Company data

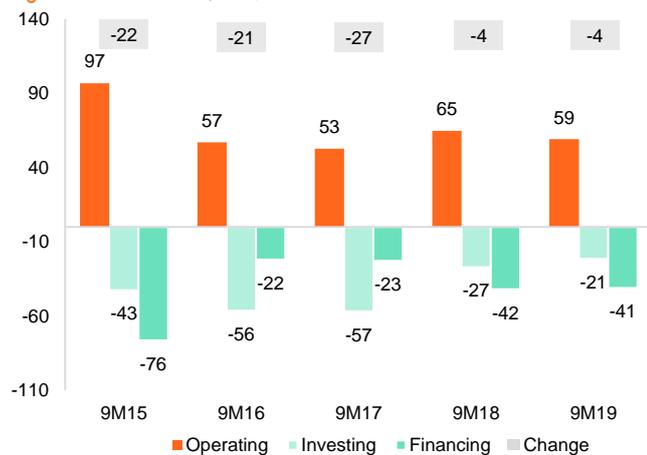
Figure 8: Profitability margins



Source: Company data

Cash flow from operating activities decreased 8.7% y/y to US\$ 59.0mn in 9M19. This decline was entirely related to the GEL's depreciation in the reporting period, as in GEL terms it increased slightly (+ 2.1% y/y). GR invested US\$ 21.5mn in the main line modernization project, while cash flows from financing activities remained stable at US\$ 41.1mn (interest on Eurobond). Overall, cash balance declined by US\$ 7.2mn and came in at US\$ 82.8mn as of Sep-2019.

Figure 9: Cash flows, US\$ mn



Source: Company data

Figure 10: Adjusted EBITDA coverage ratio



Source: Company data

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

Fitch affirmed GR's rating at BB- with stable outlook in Nov-2019, while S&P Global revised its positive outlook to developing and affirmed B+ in Sep-2019.



Financial statements

Income statement

	US\$, '000	9M15	9M16	9M17	9M18	9M19
Revenue		194,467	139,025	122,292	126,338	131,126
Freight transportation		132,480	93,893	78,817	71,014	81,223
Freight handling		26,523	16,464	15,392	15,196	16,840
Logistic service		19,941	15,008	13,388	21,303	13,929
Freight car rental		7,755	4,663	3,996	7,448	7,032
Passenger traffic		5,651	6,190	7,575	9,032	9,122
Other		2,117	2,808	3,124	2,346	2,980
Other income		8,748	39,511	5,434	7,016	4,763
Operating expenses						
Employee benefits expense		-48,874	-46,962	-44,109	-44,340	-42,240
Electricity, invent. and repair work		-14,680	-12,805	-11,916	-12,124	-10,982
Other expenses		-27,995	-23,351	-20,962	-22,108	-19,094
Operating expenses excl. depr. and amort.		-91,549	-83,118	-76,988	-78,573	-72,316
EBITDA		111,667	95,418	50,739	54,781	63,574
Adjusted EBITDA		111,675	60,513	47,598	49,298	60,419
Depreciation and amortization expense		-36,078	-33,384	-33,173	-35,632	-23,383
Results from operating activities		75,589	62,034	17,566	19,149	40,192
Finance Income		5,974	20,040	36,834	4,980	3,766
Finance Costs		-128,287	-18,659	-16,401	-18,644	-58,625
Net finance costs		-122,313	1,381	20,433	-13,664	-54,859
Profit before income tax		-46,724	63,416	37,999	7,958	-22,776
Income tax expense		-5,791	7,386	219	622	220
Profit and total comprehensive income for the year		-40,933	56,030	37,781	7,336	-22,996

Source: Company data



Statement of financial position

	US\$, '000	9M15	9M16	9M17	9M18	9M19
Assets						
Property, plant and equipment		1,031,469	1,110,039	1,109,039	933,231	620,332
Deferred tax assets		654	2,725	-	-	-
Loan receivable		-	13,586	13,293	7,506	8,158
Other non-current assets		64,591	67,664	51,732	37,901	31,728
Non-current assets		1,096,714	1,194,015	1,174,064	978,638	660,218
Inventories		13,378	12,199	12,798	12,079	11,507
Loan receivable current		-	1,046	2,366	-	-
Current tax assets		4,698	5,390	2,540	-	-
Trade and other receivables		31,997	39,924	36,274	22,350	13,742
Prepayments and other current assets		6,722	5,393	368	241	683
Term deposits		-	-	-	-	-
Cash and cash equivalents		121,712	103,543	82,093	90,060	82,840
Current assets		178,505	167,496	136,439	124,730	108,772
Total assets		1,275,219	1,361,511	1,310,504	1,103,368	768,990
Liabilities						
Loans and borrowings		498,827	520,328	531,211	528,737	521,428
Advance received from the government		93,126	60,018	29,801	17,817	15,651
Trade and other payables		22	22	-	-	-
Deferred tax liabilities		18,074	27,236	-	-	-
Non-current liabilities		610,049	607,605	561,013	546,554	537,079
Loans and borrowings current		8,301	10,393	14,039	13,241	13,074
Trade and other payables current		37,702	43,345	41,694	50,192	53,409
Liabilities to the government		3,627	3,435	3,348	2,033	1,924
Provisions		2,699	3,454	3,409	3,021	4,221
Dividend payable		1,547	-	-	-	-
Other taxes payable		-	-	-	1,288	467
Current tax liabilities		-	2,181	-	-	-
Other current liabilities		3,874	3,606	3,191	3,087	2,602
Current liabilities		57,751	66,415	65,681	72,862	75,697
Total liabilities		667,800	674,019	626,694	619,416	612,776
Equity						
Share capital		441,840	451,925	425,272	402,934	353,824
Non-cash owner contribution reserve		14,551	14,693	39,796	37,548	33,699
Retained earnings		151,029	220,874	218,743	43,469	-231,309
Total equity		607,419	687,492	683,810	483,952	156,215
Total liabilities and equity		1,275,219	1,361,511	1,310,504	1,103,368	768,990

Source: Company data



Statement of cash flows

	US\$, '000	9M15	9M16	9M17	9M18	9M19
Cash flows from operating activities						
Cash receipts from customers		187,278	141,760	132,867	146,227	132,130
Cash paid to suppliers and employees		-88,515	-82,878	-79,157	-81,580	-73,044
Cash flows from operations before income taxes		98,763	58,882	53,711	64,646	59,086
Income tax paid		-1,936	-1,883	-1,085	-	-90
Net cash from operating activities		96,827	56,999	52,626	64,646	58,996
Cash flows from investing activities						
Acquisition of property, plant and equipment		-48,554	-66,215	-61,129	-30,946	-24,637
Finance income		6,031	7,499	3,899	3,860	3,165
Issuance/repayment of the loan		-	-14,015	-	-	-
Repayment of loans given		-	16,286	418	-	-
Net cash used in investing activities		-42,523	-56,446	-56,812	-27,086	-21,473
Cash flows from financing activities						
Proceeds from borrowings		-	18,227	20,261	-	-
Repayment of borrowings		-28,069	0	-2,141	-2,146	-2,123
Interest paid		-38,494	-39,575	-40,984	-39,824	-38,934
Dividends to equity holders		-9,812	-692	-	-	-
Net cash from (used in) financing activities		-76,374	-22,040	-22,864	-41,970	-41,057
Net increase in cash and cash equivalents		-22,070	-21,487	-27,050	-4,409	-3,533
Cash and cash equivalents, 1 January		159,919	123,001	105,015	93,750	90,286
FX rate translation adjustment		21,708	-2,075	-4,306	1,976	8,590
Other adjustments		-37,844	4,105	8,435	-1,257	-12,502
Cash and cash equivalents, 31 September		121,712	103,543	82,093	90,060	82,840

Source: Company data, Galt & Taggart Research

Note: Financial statements have been prepared by translating company-reported audited GEL numbers into US\$ (using year-end and average annual FX rates, whichever more appropriate)



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