

Weekly Market Watch

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August 8, 2016

Economy

International arrivals up 10.6% y/y in 7M16

Total international arrivals to Georgia increased 3.5% y/y to 0.76mn persons in July 2016, while tourist arrivals (visitors staying more than 24 hours) were up 15.8% y/y to 0.4mn persons (51% of total), according to the Ministry of Internal Affairs. Slower growth in total visitor number in July was driven by decline of transit visitors (-17.6% y/y, 19.7% of total) due to weather conditions related interruptions on border checkpoint with Russia. In July 2016, top 6 countries by arrivals were Azerbaijan (+4.4%, 21.9% of total), Armenia (-7.4%, 21.8% of total), Turkey (-7.9%, 18.4% of total), Russia (-2.7%, 17.9% of total), Iran (+575.3%, 3.2% of total) and Ukraine (+18.4%, 2.9% of total) and accounted for 86.1% of total arrivals (-2.8ppts y/y); Visitors from EU were up 4.0% y/y and number of arrivals from other countries increased 48.9% y/y in July. In 7M16, total international visitors to Georgia increased 10.6% y/y to 3.4mn persons, out of which tourist arrivals were up 17.5% y/y to 1.4mn persons.

Inflation rate at 1.5% y/y and 0.2% m/m in July 2016

Annual CPI inflation rate increased slightly to 1.5% in July 2016 from 1.1% in previous month, according to GeoStat. Core inflation was also up to 3.1% in July 2016 from 2.9% in June. Overall price changes were driven by price increases in alcoholic beverages and tobacco (+13.1% y/y, +0.80ppts), housing, water, electricity and gas (+6.1% y/y, +0.51ppts), and health (+4.1% y/y, +0.40ppts) categories. Meanwhile, prices in transport category decreased (-8.6% y/y, -1.04ppts), as prices were down for purchase of vehicles. On a monthly basis, prices were up 0.2% in July 2016 following 4 consecutive monthly deflations. Price decreases in food and non-alcoholic beverages (-0.4% m/m, -0.11ppts) and price increase in transport (+1.3% m/m, +0.16ppts) categories were the major drivers of the monthly inflation dynamics.

Tax revenues up 8.4% y/y in 7M16

Consolidated budget tax revenues were up 5.5% y/y to GEL 803mn in July 2016. In 7M16, consolidated budget tax revenues stood at GEL 4.96bn, up 8.4% y/y and accounted for 57.1% of annual 2016 plan, which compares well with the actual 2015 data.

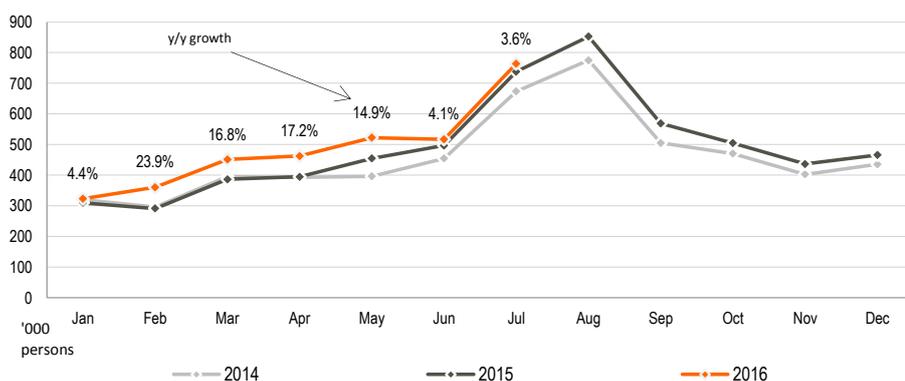
International reserves up 16.7% y/y in July 2016

Gross international reserves increased 16.7% y/y (+US\$ 409mn) to US\$ 2.86bn as of end-July 2016, according to NBG. Reserves were flat m/m. Increase in reserves was attributed to operations with commercial banks.

Bank of Georgia signs GEL 60mn 5-year loan agreement with BSTDB

The Bank of Georgia and Black Sea Trade and Development Bank (BSTDB) have signed a GEL 60mn loan agreement, with a 5-year maturity. This long-term local currency loan facility will be used to finance investments and the working capital needs of local businesses in rural and urban areas of Georgia. BSTDB obtained the local currency funds through a private placement of GEL-denominated bonds arranged by Galt & Taggart.

Total international arrivals to Georgia



Source: Ministry of Internal Affairs of Georgia

Key macro indicators

	7M16	2015	2014
GDP (% change)	2.9% ⁽²⁾	2.8%	4.6%
GDP per capita (ppp)	...	9,566	9,209
GDP per capita (US\$)	...	3,743	3,676
Population (mn)	3.7 ⁽¹⁾	3.7 ⁽¹⁾	4.5
Inflation (eop)	1.5%	4.9%	2.0%
Gross reserves (US\$ bn)	2.9	2.5	2.7
CAD (% of GDP)	13.1% ⁽³⁾	11.8%	10.6%
Fiscal deficit (% of GDP)	...	3.8%	3.0%
Total public debt (% of GDP)	...	41.5%	35.5%

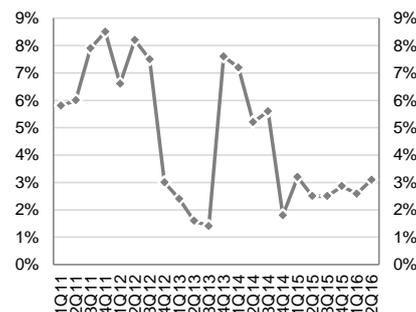
Source: Official data, IMF, G&T

(1) Preliminary results of census, previous data is subject to recalculation

(2) As of 1H16

(3) As of 1Q16

Real GDP growth, %



Source: GeoStat

Note: 2Q16 figure based on rapid estimates

International ranking of Georgia, 2016

Ease of Doing Business # 24 (regional leader)
Economic Freedom Index # 23 (mostly free)
Global Competitiveness Index # 66 (improving trend)

Source: World Bank, Heritage Foundation and World Economic Forum

Georgia sovereign credit ratings

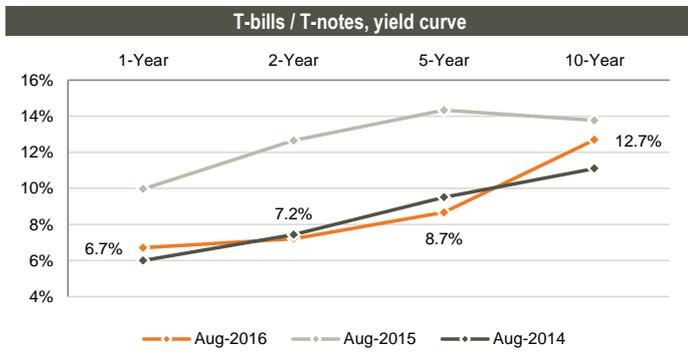


Source: Rating agencies

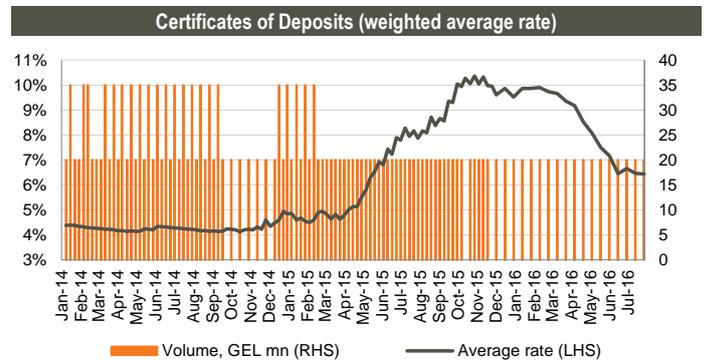
Money Market

Refinancing loans: National Bank of Georgia (NBG) issued 7-day refinancing loans of GEL 600mn (US\$ 255.6mn).

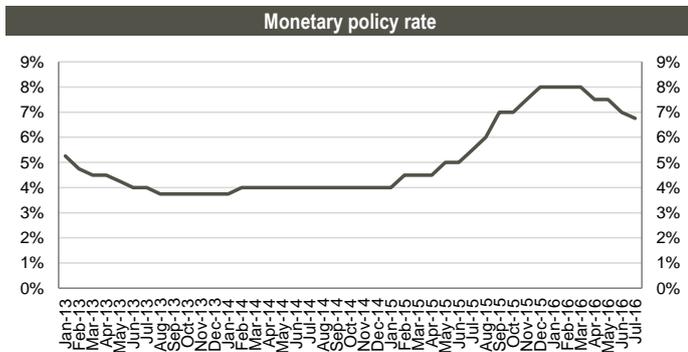
Ministry of Finance Treasury Notes: 2-year GEL 30.0mn (US\$ 12.8mn) T-Notes of Ministry of Finance were sold at the auction held at NBG on August 3, 2016. The weighted average yield was fixed at 7.208%. The nearest treasury securities auction is scheduled for August 10, 2016, where GEL 45mn nominal value 1-year T-Notes will be sold.



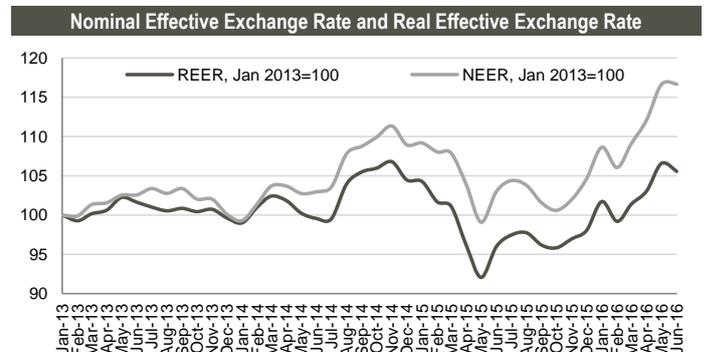
Source: NBG



Source: NBG



Source: NBG
Note: Next revision of a monetary policy rate is scheduled for 7 September 2016

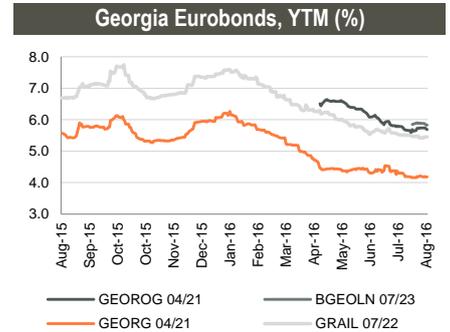


Source: NBG
Note: Index growth means appreciation of exchange rate, decline means depreciation of exchange rate

Fixed income

Corporate Eurobonds: BGEO Group Eurobonds (BGEOLN) closed at 5.8% yield, trading at 100.9 (+0.3% w/w). GOGC Eurobonds (GEOROG) were trading at 104.3 (+0.18% w/w), yielding 5.7%. Georgian Railway Eurobonds (GRAIL) traded at a premium at 111.5 (-0.2% w/w), yielding 5.5%.

Georgian Sovereign Eurobonds (GEORG) closed at 111.3 (+0.1% w/w) at 4.2% yield to maturity.



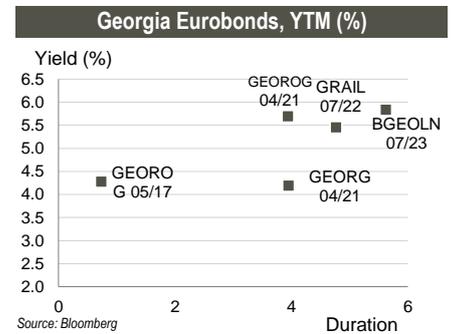
Source: Bloomberg

	Local bonds					Eurobonds				
	Nikora 03/18	GWP 11/17	M2RE 03/17	EVEK 05/17	GLC 09/17	GEOROG 04/21	GEOROG 05/17	BGEOLN 07/23	GEORG 04/21	GRAIL 07/22
Amount, US\$ mn	5	6*	20	15	10	250	53	350	500	500
Issue date	Mar-16	Dec-15	Mar-15	May-15	Sep-14	Apr-16	May-12	Jul-16	Apr-11	Jul-12
Maturity date	Mar-18	Dec-17	Mar-17	May-17	Sep-17	Apr-21	May-17	Jul-23	Apr-21	Jul-22
Coupon, %	11.000	15.000**	9.500	9.500	8.750	6.750	6.875	6.000	6.875	7.750
Fitch/S&P/Moody's	-/-	BB-/-	-/-	-/-	-/-	BB-/B+/-	BB-/B+/-	BB-/-/B1	BB-/BB-/Ba3	BB-/BB-/-
Mid price, US\$	100.0	100.0*	101.6	101.9	100.7	104.3	101.9	100.9	111.3	111.5
Mid yield, %	11.0	15.0	7.8	7.8	8.3	5.7	4.3	5.8	4.2	5.5
Z-spread, bps	n/a	n/a	n/a	n/a	n/a	456.0	338.5	456.9	305.7	425.0

Source: Bloomberg

*GWP 11/17 bonds are in Georgian lari

**Floating rate with 7.5% over the NBG's refinancing rate



Source: Bloomberg

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	4/12/2021	BB-/BB-/Ba3	111.3	4.2	305.7
Azerbaijan	1,250	4.750	3/18/2024	BB+/-/Ba1	102.6	4.3	303.8
Bulgaria	323	5.000	7/19/2021	BBB-/-	120.3	0.8	-201.7
Croatia	1,250	3.875	5/30/2022	BB/BB/Ba2	105.5	2.8	291.6
Hungary	3,000	6.375	3/29/2021	BBB-/BB+/Ba1	114.7	3.0	182.9
Romania	2,250	6.750	2/7/2022	BBB-/BBB-/Baa3	119.9	2.8	163.4
Russia	3,500	5.000	4/29/2020	BBB-/BB+/Ba1	107.5	2.9	178.0
Turkey	2,000	5.625	3/30/2021	BBB-/NR/Baa3 /-	106.7	4.0	288.8

Source: Bloomberg

Equities

BGEO Group (BGEO LN) shares closed at GBP 29.15/share (+6.74% w/w and +20.16% m/m). More than 213k shares traded in the range of GBP 26.06 – 29.15/share. Average daily traded volume was 51k in the last 4 weeks, less than in the previous month. FTSE 250 Index, of which BGEO is a constituent, gained 1.06% w/w and gained 8.37% m/m, respectively. The volume of BGEO shares traded was at 0.54% of its capitalization.

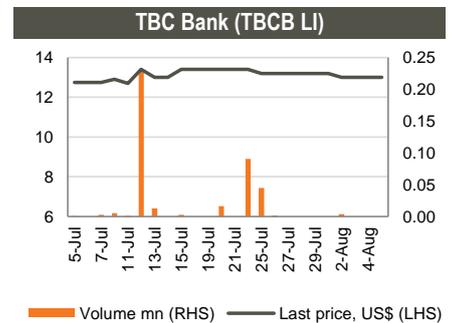
TBC Bank (TBCB LI) closed the week at US\$ 13.00 (-1.52% w/w and +1.96% m/m). More than 3k GDRs changed hands in the range of US\$ 13.00 – 13.20/GDR. Average daily traded volume was 20k in the last 4 weeks, less than in the previous month.

Georgia Healthcare Group (GHG LN) shares closed at GBP 3.00/share (-1.96% w/w and unchanged m/m). More than 71k shares were traded in the range of GBP 2.95 – 3.10/share. Average daily traded volume was 24k in the last 4 weeks. The volume of GHG shares traded was at 0.05% of its capitalization.

On the Georgian stock exchange: No shares were traded on the Georgian Stock Exchange. As a result, the G&T Index remained at 842.35 (unchanged w/w).



Source: Bloomberg



Source: Bloomberg



Source: Bloomberg

Eastern European banks

	Ticker	Share price, US\$	MCap, US\$ mn	1M, chg	3M, chg	6M, chg	YTD, chg	1Y, chg	
	BGEO*	38.09	1,504	20.2%	27.8%	66.8%	53.1%	50.3%	
	TBC	13.00	651	2.0%	23.8%	41.2%	28.7%	30.7%	
	Halyk Bank	HSBK	4.80	1,319	2.0%	36.9%	18.5%	-3.0%	-38.6%
	KKB	KKB	1.59	634	0.0%	-20.5%	76.7%	29.8%	-47.0%
	VTB Bank	VTBR	2.01	13,019	-1.5%	-2.1%	11.3%	-4.7%	-9.3%
	Vozrozhdenie	VZRZ	9.84	234	-0.6%	25.1%	23.9%	6.4%	20.2%
	Sberbank	SBER	2.12	45,715	5.2%	14.7%	42.7%	37.0%	88.7%

Source: Bloomberg

Note: * BGEO is traded in GBP and is shown in US\$ equivalent

Healthcare sector peers

	Ticker	Share price, US\$	MCap, US\$ mn	1M, chg	3M, chg	6M, chg	YTD, chg	1Y, chg	
	GHG*	GHG	3.92	516	0.0%	54.3%	66.7%	93.5%	N/A
	Mouwasat	MOUWASAT	37.57	1,878	9.4%	13.1%	19.4%	15.7%	0.8%
	Fortis	FORH	2.83	1,310	18.5%	11.1%	12.4%	5.0%	-1.7%
	Raffles	RFMD	1.14	1,997	-0.6%	0.4%	10.8%	11.1%	-1.7%
	IHH	IHH	1.62	13,306	-1.1%	0.3%	-1.1%	-0.8%	6.9%
	Bangkok Chain	BCH	0.37	918	7.5%	27.7%	47.4%	42.5%	84.3%
	Netcare	NTC	2.31	3,373	2.8%	-7.7%	-6.3%	-6.0%	-22.0%

Source: Bloomberg

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

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