



Weekly Market Watch

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October 10, 2016

Economy

Tourist arrivals up 34.2% y/y in September 2016

Tourist arrivals to Georgia posted spectacular growth at 34.2% y/y to 0.30mn persons in September 2016 after growing 17.3% y/y in previous month. Tourist arrivals accounted for 48.3% of total international arrivals, which increased 11.0% y/y to 0.63mn persons in September 2016, according to the Ministry of Internal Affairs. Out of top countries by arrivals, visitors continued to increase from Russia (+31.3% y/y), Azerbaijan (+7.6% y/y), Armenia (+4.2% y/y), and Ukraine (+28.1% y/y), while arrivals were down from Turkey (-21.4% y/y, 17.2% of total). In 9M16, the number of total arrivals was up 8.6% y/y to 4.9mn persons, while the number of tourists increased 19.8% y/y to 2.2mn persons.

Inflation rate at 0.1% y/y and 0.3% m/m in September 2016

The annual CPI inflation rate retreated to 0.1% y/y in September 2016 from 0.9% in the previous month, while core inflation was at 1.5% y/y, according to GeoStat. Overall price changes were driven by price increases in alcoholic beverages and tobacco (+11.2% y/y, +0.69ppts), and restaurants and hotels (+4.8% y/y, +0.20ppts) categories. Meanwhile, prices in the transport category decreased (-7.8% y/y, -0.92ppts), as prices were down for purchase of vehicles and for operation of personal transport equipment.

On a monthly basis, inflation rate was 0.3% in September 2016. Price increases in food and non-alcoholic beverages (+0.9% m/m, +0.30ppts) and housing, water, electricity and other fuels (+0.8% m/m, +0.07ppts) categories and a price decrease in the transport category (-1.0% m/m, -0.12ppts) were the major drivers of monthly inflation dynamics.

NBG sold US\$ 60mn

Last week, NBG intervened on the FX market twice and sold US\$ 60mn, aimed at curbing fluctuation of the national currency. Overall, NBG bought total of US\$ 278mn and sold US\$ 200mn at 22 interventions YTD. GEL weakened 0.7% w/w and strengthened 2.9% YTD against the US\$.

International reserves down 1.0% m/m in September 2016

Gross international reserves decreased 1.0% m/m (-US\$ 30.2mn) and increased 16.0% y/y (+US\$ 393.9mn) to US\$ 2.86bn as of end-September 2016, according to NBG. The decrease in reserves on a monthly basis was attributed to NBG's FX interventions.

Property registration up 39.8% y/y in August 2016

Property registration (commercial and residential real estate) increased 39.8% y/y (+10.1% m/m), reaching 56,496 units in August 2016, according to the National Agency of Public Registry. Registration increased for primary (+109.6% y/y, 27.7% of total), as well as secondary (+24.0% y/y, 72.3% of total) properties.

IMF revises up Georgia's growth forecast

According to IMF's latest world economic outlook (released 4 October 2016), forecast of global growth was revised down by 0.1ppts to 3.1% in 2016. Meanwhile, Georgia's growth forecast for 2016 was revised up to 3.4% from 2.5% projected in April 2016 and IMF expects 5.2% growth in Georgia in 2017 vs. 4.5% projected in April.

M2 bond issuance

Real Estate Development company, M2 completed its fourth successful issuance of US\$ 25mn bonds on October 7, 2016. See details on fixed income page.

Key macro indicators

	9M16	2015	2014
GDP (% change)	2.7% ⁽³⁾	2.8%	4.6%
GDP per capita (ppp)	...	9,630	9,209
GDP per capita (US\$)	...	3,759	3,676
Population (mn)	3.7 ⁽¹⁾	3.7 ⁽¹⁾	4.5
Inflation (eop)	0.1%	4.9%	2.0%
Gross reserves (US\$ bn)	2.9	2.5	2.7
CAD (% of GDP)	13.4% ⁽²⁾	11.8%	10.6%
Fiscal deficit (% of GDP)	3.8%	3.0%
Total public debt (% of GDP)	...	41.5%	35.5%

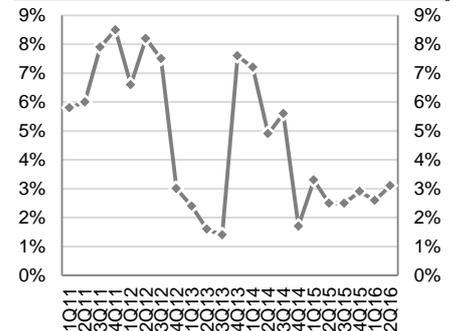
Source: Official data, IMF

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

(2) As of 2Q16

(3) As of 8M16

Real GDP growth, %



Source: GeoStat

International ranking of Georgia, 2016

- Ease of Doing Business # 24 (regional leader)
- Economic Freedom Index # 23 (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-2015	 Ba3 Stable Affirmed Mar-2016	 BB- Stable Affirmed Apr-2016
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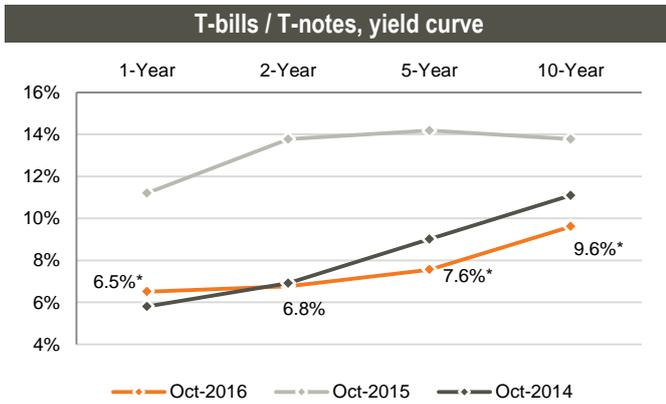
Source: Rating agencies

Money market

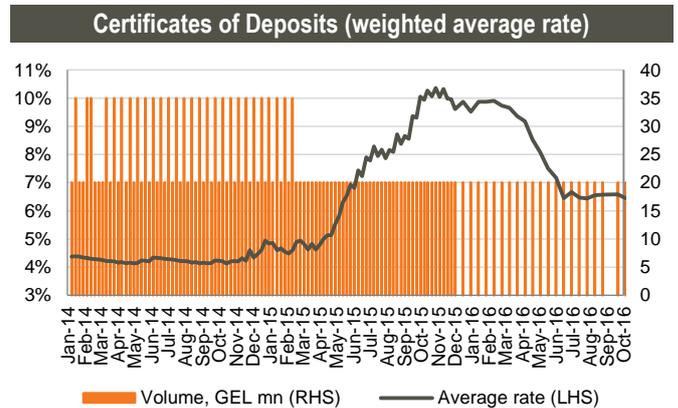
Refinancing loans: National Bank of Georgia (NBG) issued 7-day refinancing loans of GEL 1,150mn (US\$ 492.7mn).

Certificates of deposit: NBG sold 91-day, GEL 20mn (US\$ 8.6mn) certificates of deposit, with an average yield of 6.45% (unchanged from previous issue).

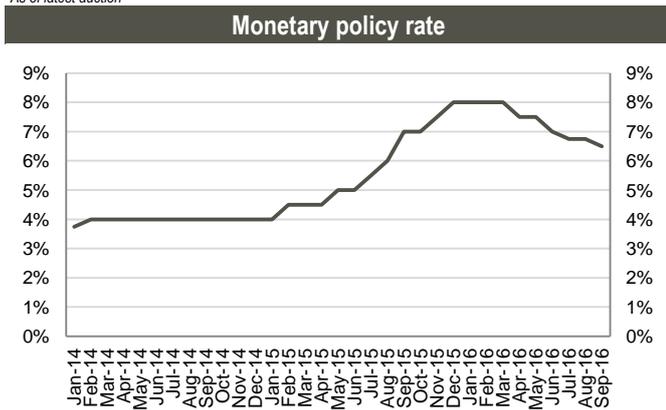
Ministry of Finance Treasury Notes: 2-year GEL 33mn (US\$ 14.1mn) T-Notes of Ministry of Finance were sold at the auction held at NBG on October 5, 2016. The weighted average yield was fixed at 6.765%. The nearest treasury securities auction is scheduled for October 12, 2016, where GEL 10mn nominal value 1-year T-Bills will be sold.



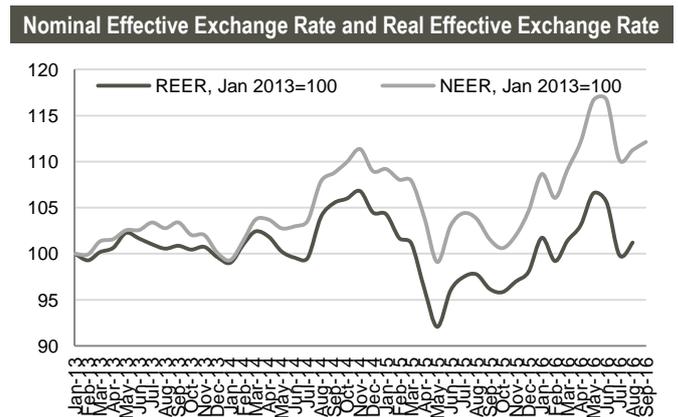
Source: NBG
*As of latest auction



Source: NBG



Source: NBG
Note: Next revision of a monetary policy rate is scheduled for 26 October 2016



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



Fixed income

Corporate Eurobonds: Bank of Georgia Eurobonds (BGEOLN) closed at 5.4% yield, trading at 103.6 (-0.2% w/w). GOGC's Eurobonds (GEOROG 05/17) were trading at 101.7 (-0.2% w/w), yielding 4.0% and (GEOROG 04/21) were trading at 105.4 (-0.1% w/w), yielding 5.4%. Georgian Railway Eurobonds (GRAIL) traded at a premium at 112.6 (-0.3% w/w), yielding 5.2%.

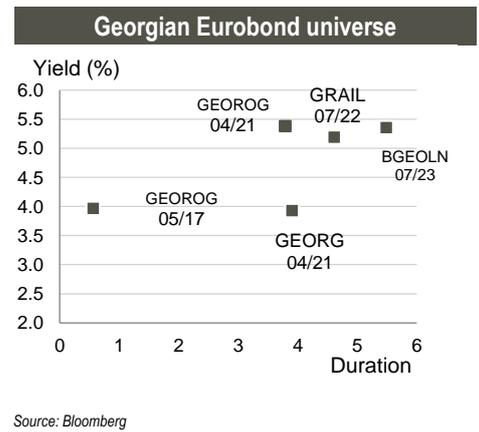
Georgian Sovereign Eurobonds (GEORG) closed at 112.1 (unchanged w/w) at 3.9% yield to maturity.

Real Estate Development company, M2 completed its fourth successful issuance of US\$ 25mn bonds on October 7, 2016. The bonds offer 7.5% coupon p.a. payable semi-annually with the maturity of three years. This is the largest, US\$-denominated, local bonds issuance among the Georgian companies. Galt & Taggart served as the sole lead manager.



	Local bonds					Eurobonds				
	M2RE 10/19	Nikora 03/18	GWP 11/17	EVEX 05/17	GLC 09/17	GEOROG 04/21	GEOROG 05/17	BGEOLN 07/23	GEORG 04/21	GRAIL 07/22
Amount, US\$ mn	25	5	6*	15	10	250	250	350	500	500
Issue date	10/16	03/16	12/15	05/15	09/14	Apr-2016	May-2012	Jul-2016	Apr-2011	Jul-2012
Maturity date	10/19	03/18	12/17	05/17	09/17	Apr-2021	May-2017	Jul-2023	Apr-2021	Jul-2022
Coupon, %	7.50	11.00	14.00**	9.50	8.75	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\$	100.66	103.04	100.0*	101.78	101.56	105.4	101.7	103.6	112.1	112.6
Mid yield, %	7.25	8.750	15.0	6.50	7.125	5.4	4.0	5.4	3.9	5.2
Z-spread, bps	n/a	n/a	n/a	n/a	n/a	397.9	270.2	388.9	256.2	384.0

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%	12/04/2021	BB-/BB-/Ba3	112.1	3.9	256.2
Azerbaijan	1,250	4.750%	18/03/2024	BB+/-/Ba1 /-	104.3	4.1	258.8
Bulgaria	323	5.000%	19/07/2021	BBB-/-	121.1	0.5	-234.2
Croatia	1,250	3.875%	30/05/2022	BB/BB/Ba2	107.3	2.5	245.8
Hungary	3,000	6.375%	29/03/2021	BB+/BB+/Ba1	115.0	2.8	148.6
Romania	2,250	6.750%	07/02/2022	BBB-/BBB-/Baa3	119.5	2.8	145.9
Russia	3,500	5.000%	29/04/2020	BBB-/BB+/Ba1	107.8	2.7	141.6
Turkey	2,000	5.625%	30/03/2021	BBB-/NR/Baa3	107.1	3.9	255.6

Source: Bloomberg

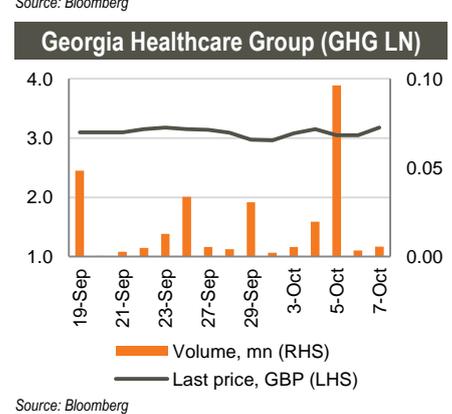
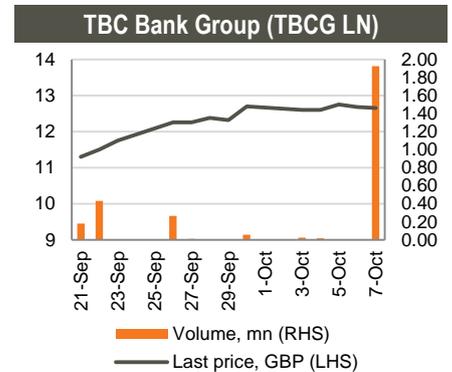
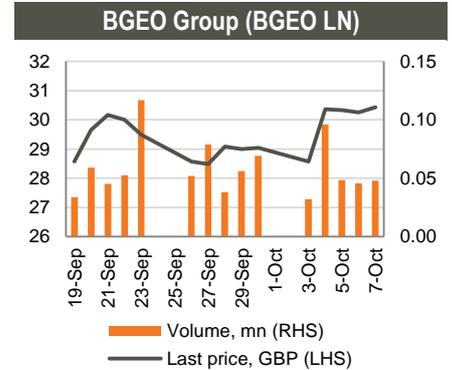
Equities

BGEO Group (BGEO LN) shares closed at GBP 30.43/share (+4.79% w/w and +1.30% m/m). More than 270k shares traded in the range of GBP 29.27 – 31.91/share. Average daily traded volume was 55k in the last 4 weeks, less than in the previous month. FTSE 250 Index, of which BGEO is a constituent, gained 0.67% w/w and lost 0.38% m/m. The volume of BGEO shares traded was at 0.68% of its capitalization.

TBC Bank Group (TBCG LN) closed the week at GBP 12.65 (-0.39% w/w and +17.40% m/m). More than 1,965k shares changed hands in the range of GBP 12.30 – 12.85/share.

Georgia Healthcare Group (GHG LN) shares closed at GBP 3.18/share (+7.35% w/w and +6.09% m/m). More than 130k shares were traded in the range of GBP 3.00 – 3.18/share. Average daily traded volume was 21k in the last 4 weeks. The volume of GHG shares traded was at 0.10% of its capitalization.

On the Georgian stock exchange, Liberty Bank shares were traded at GEL 0.016 (unchanged w/w). As a result, the G&T Index remained at 908.54 (unchanged w/w).



Eastern European banks								
Ticker	Share price, US\$	MCap, US\$ mn	1M, chg	3M, chg	6M, chg	YTD, chg	1Y, chg	
BGEO*	BGEO	37.75	1,491	-5.6%	16.6%	35.9%	16.7%	33.6%
TBC	TBC	12.65	622	17.4%	N/A	N/A	N/A	N/A
Halyk Bank	HSBK	6.45	1,773	3.4%	37.1%	53.9%	-24.1%	6.1%
KKB	KKB	1.33	530	-16.4%	-16.4%	44.6%	-65.0%	-54.0%
VTB Bank	VTBR	2.21	14,341	-2.6%	5.0%	4.5%	-3.8%	0.9%
Vozrozhdenie Bank	VZRZ	11.50	273	7.0%	15.1%	62.5%	56.0%	21.1%
Sberbank	SBER	9.85	53,136	-0.9%	12.2%	47.8%	143.1%	85.1%

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	3.94	519	-1.2%	-1.1%	65.8%	N/A	N/A
Mouwasat	MOUWASAT	31.14	1,557	-7.1%	-9.3%	1.3%	-5.3%	-4.8%
Fortis	FORH	2.59	1,201	-2.5%	9.7%	-1.6%	47.6%	-2.0%
Raffles	RFMD	1.11	1,931	-3.6%	-3.5%	0.1%	12.9%	2.5%
IHH	IHH	1.57	12,930	-4.3%	-4.0%	-7.3%	14.1%	6.8%
Bangkok Chain	BCH	0.36	893	8.8%	3.3%	17.7%	48.9%	85.9%
Netcare	NTC	2.56	3,747	5.6%	21.9%	8.6%	-22.0%	-7.4%

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

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