



Weekly Market Watch

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December 12, 2016

Economy

International reserves up 0.7% m/m in November 2016

Gross international reserves increased 0.7% m/m (+US\$ 19.0mn), while reserves were up 12.1% y/y (+US\$ 299.7mn) to US\$ 2.78bn as of end-November 2016, according to NBS. The increase in reserves on a monthly basis was attributed to government and/or banking sector FX operations.

FDI up 4.9% y/y in 9M16

FDI in Georgia stood at US\$ 463.3mn (-4.1% y/y) in 3Q16, according to GeoStat's preliminary figures. Similar to previous quarters, the transport and communications sector was the largest FDI recipient at US\$ 140.3mn (-29.7% y/y, 30.3% of total) in 3Q, followed by the construction sector at US\$ 69.3mn (+18.6% y/y, 15.0% of total), the manufacturing at US\$ 62.1mn (+265.5% y/y, 13.4% of total), and the financial sector at US\$ 51.1mn (-25.5% y/y, 11.0% of total). Azerbaijan topped the list of investors with US\$ 151.2mn, followed by Turkey at US\$ 111.1mn, Luxembourg at US\$ 52.1mn, and Czech Republic at US\$ 28.5mn. Overall, FDI in 9M16 stood at US\$ 1.3bn, up 4.9% y/y.

Job creation in business sector continued in 3Q16

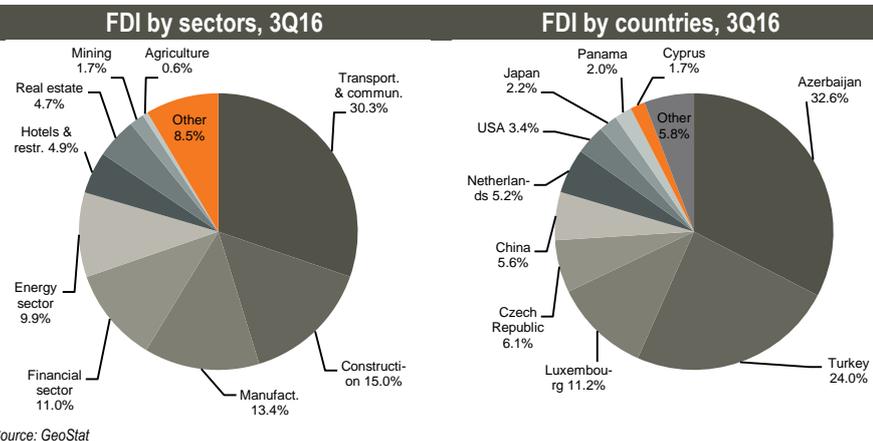
In 3Q16, production of goods and services by the business sector increased 15.8% y/y to GEL 8.2bn. Manufacturing accounted for the largest share (21.2%) in production, followed by construction (20.5%) and trade (16.9%), while production was up in all sectors except for transport and communication (down 1.6% y/y). Like in previous quarters job creation was strong - number of employed persons increased 6.6% y/y to 606 thousand persons (+37.4 thousand persons y/y and +5.0 thousand persons q/q), with particularly upward trend in trade (+10.0% y/y, 25.7% of total), real estate (+8.3% y/y, 9.8% of total), hotels and restaurants (+7.7% y/y, 5.5% of total), and healthcare (+7.4% y/y, 10.4% of total).

EIB's record lending of EUR 450mn to Georgia

On 9 December 2016, the European Investment Bank (EIB) signed three loan agreements in Georgia: EUR 250mn to finance new construction and upgrading of priority roads, EUR 100mn for the rehabilitation and upgrading of municipal infrastructure and a EUR 100mn intermediated loan to implement the projects of SMEs and midcap companies in the horticulture and wine sectors. The loans are covered by the European Union's comprehensive guarantee.

GWP bond issuance

Water utilities company - GWP, completed its third successful issuance of 5-year GEL 30.0mn bonds on December 6, 2016 (details provided on fixed income page).



Key macro indicators

| | 11M16 | 2015 | 2014 |
|------------------------------|---------------------|--------------------|-------|
| GDP (% change) | 2.5 ⁽³⁾ | 2.9% | 4.6% |
| GDP per capita (ppp) | ... | 9,630 | 9,209 |
| GDP per capita (US\$) | ... | 3,767 | 3,676 |
| Population (mn) | 3.7 ⁽¹⁾ | 3.7 ⁽¹⁾ | 4.5 |
| Inflation (eop) | 0.2% | 4.9% | 2.0% |
| Gross reserves (US\$ bn) | 2.8 | 2.5 | 2.7 |
| CAD (% of GDP) | 13.3 ⁽²⁾ | 11.9% | 10.6% |
| Fiscal deficit (% of GDP) | ... | 3.7% | 3.0% |
| Total public debt (% of GDP) | ... | 41.4% | 35.7% |

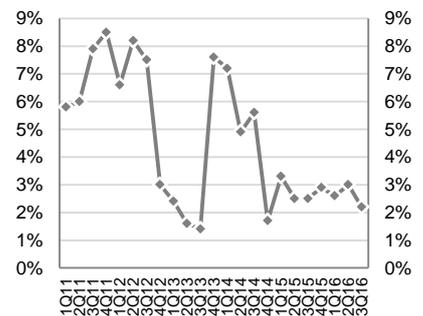
Source: Official data, IMF

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

(2) As of 2Q16

(3) As of 10M16

Real GDP growth, %



Source: GeoStat

Note: 3Q16 figure based on rapid estimates

International ranking, 2016-17

Ease of Doing Business # 16 (Top 20)

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



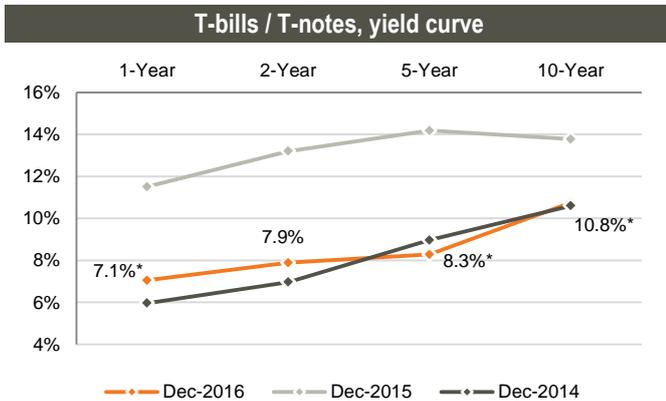
Source: Rating agencies

Money market

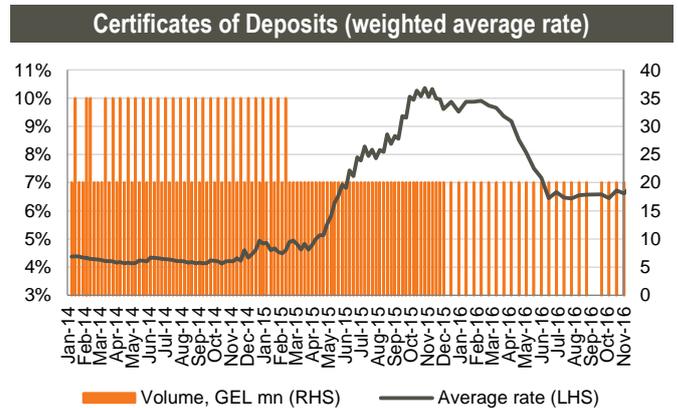
Refinancing loans: National Bank of Georgia (NBG) issued 7-day refinancing loans of GEL 1,270mn (US\$ 493.4mn).

Certificates of deposit: NBG sold 91-day, GEL 20mn (US\$ 7.9mn) certificates of deposit, with an average yield of 6.83% (up by 21bps from previous issue).

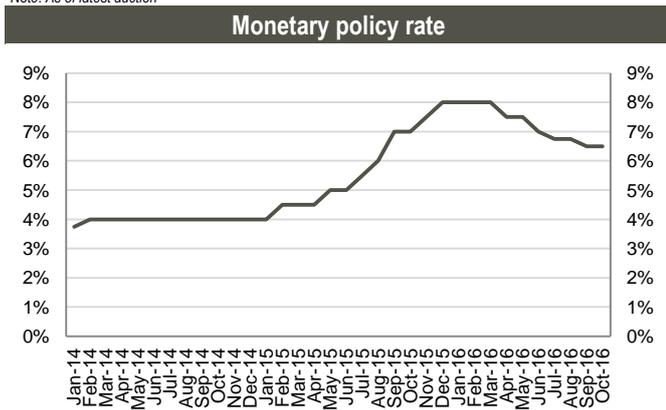
Ministry of Finance Treasury Notes: 2-year GEL 30.0mn (US\$ 11.6mn) T-Notes of Ministry of Finance were sold at the auction held at NBG on December 7, 2016. The weighted average yield was fixed at 7.884%.



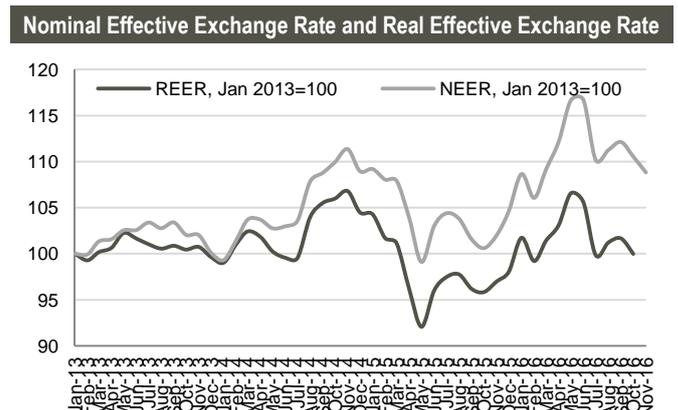
Source: NBG
*Note: As of latest auction



Source: NBG



Source: NBG
Note: Next revision of a monetary policy rate is scheduled for 14 December 2016



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 6.0% yield, trading at 99.9 (unchanged w/w). GOGC Eurobonds - GEOROG 05/17 traded at 100.9 (unchanged w/w), yielding 4.6% and GEOROG 04/21 traded at 104.1 (+0.4% w/w), yielding 5.7%. Georgian Railway Eurobond (GRAIL) traded at a premium at 106.9 (+0.3% w/w), yielding 6.3%.

Georgian Sovereign Eurobond (GEORG) closed at 108.9 (+0.4% w/w) at 4.6% yield to maturity.

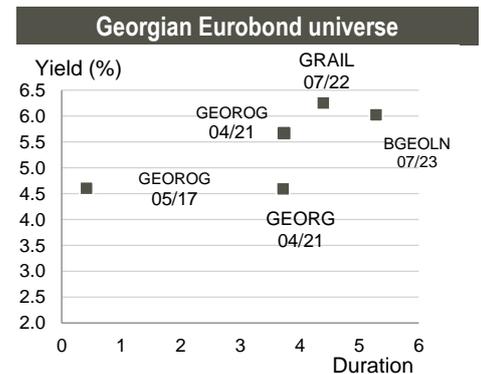
Water utilities company, "GWP" completed its third successful issuance of 5-year GEL 30.0mn bonds on December 6, 2016. The placement is the largest amount ever-issued in local currency by a non-financial institution in Georgia. The bonds were issued with an annual coupon rate of NBG's local currency refinancing rate plus 3.5%. Galt & Taggart and Pasha Bank acted as co-lead managers.

| | 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* | 25 | 5 | 15 | 10 | 250 | 53.5 | 350 | 500 | 500 |
| Issue date | 12/16 | 10/16 | 03/16 | 05/15 | 09/14 | 04/16 | 05/12 | 07/16 | 04/11 | 07/12 |
| Maturity date | 12/21 | 10/19 | 03/18 | 05/17 | 09/17 | 04/21 | 05/17 | 07/23 | 04/21 | 07/22 |
| Coupon, % | 3.50** | 7.50 | 11.00 | 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\$ | n/a | 102.61 | 102.72 | 101.46 | 101.2 | 104.1 | 100.9 | 99.9 | 108.9 | 106.9 |
| Mid yield, % | n/a | 6.5 | 8.750 | 6.25 | 7.25 | 5.7 | 4.6 | 6.0 | 4.6 | 6.3 |
| Z-spread, bps | n/a | n/a | n/a | n/a | n/a | 376.2 | 267.8 | 392.4 | 271.9 | 429.7 |

Source: Bloomberg

*GWP 12/21 bonds are in Georgian lari

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



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 | 108.9 | 4.6 | 271.9 |
| Azerbaijan | 1,250 | 4.750% | 18/03/2024 | BB+/-/Ba1 | 99.9 | 4.8 | 261.7 |
| Bulgaria | 323 | 5.000% | 19/07/2021 | BBB-/ | 119.8 | 0.6 | -245.2 |
| Croatia | 1,250 | 3.875% | 30/05/2022 | BB/BB/Ba2 | 107.0 | 2.5 | 226.3 |
| Hungary | 3,000 | 6.375% | 29/03/2021 | BBB-/BBB-/Baa3 | 113.0 | 3.1 | 138.2 |
| Romania | 2,250 | 6.750% | 07/02/2022 | BBB-/BBB-/Baa3 | 114.2 | 3.7 | 181.2 |
| Russia | 3,500 | 5.000% | 29/04/2020 | BBB-/BB+/Ba1 | 106.1 | 3.1 | 140.4 |
| Turkey | 2,000 | 5.625% | 30/03/2021 | BBB-/NR/Ba1 | 102.5 | 5.0 | 317.1 |

Source: Bloomberg

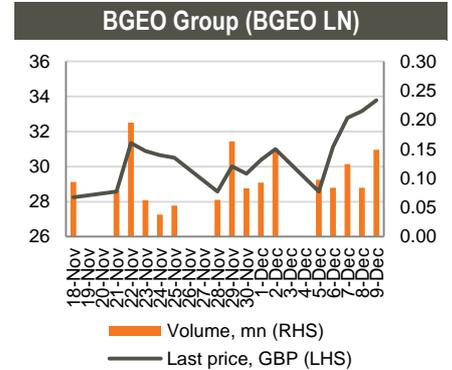
Equities

BGEO Group (BGEO LN) shares closed at GBP 33.79/share (+9.00% w/w and +16.88% m/m). More than 538k shares traded in the range of GBP 30.74 – 35.61/share. Average daily traded volume was 96k in the last 4 weeks, more than in the previous month. FTSE 250 Index, of which BGEO is a constituent, gained 1.67% w/w and gained 0.76% m/m. The volume of BGEO shares traded was at 1.36% of its capitalization.

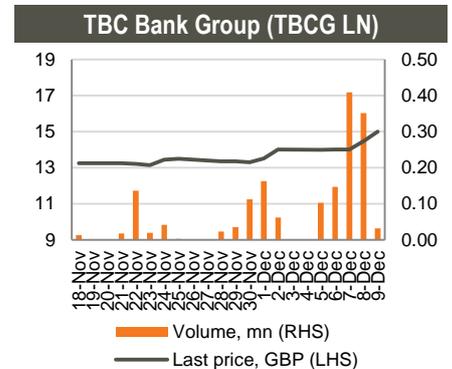
TBC Bank Group (TBCG LN) closed the week at GBP 15.00 (+7.14% w/w and +14.29% m/m). More than 1,040k shares changed hands in the range of GBP 13.93 – 15.15/share. Averaged daily traded volume was 89k in the last 4 weeks.

Georgia Healthcare Group (GHG LN) shares closed at GBP 3.75/share (+1.63% w/w and +5.63% m/m). More than 55k shares were traded in the range of GBP 3.65 – 3.80/share. Average daily traded volume was 10k in the last 4 weeks. The volume of GHG shares traded was at 0.04% of its capitalization.

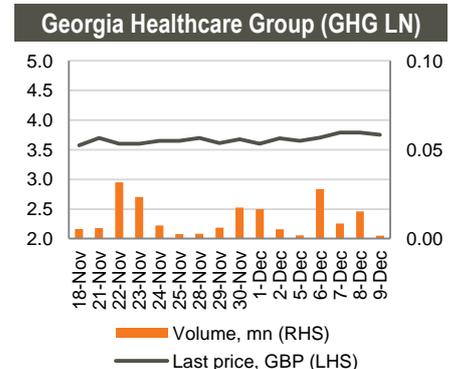
On the Georgian stock exchange, Liberty Bank was traded at GEL 0.017 (unchanged w/w). As a result, the G&T Index remained at 908.64 (unchanged w/w).



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* | BGEO | 42.52 | 1,680 | 18.5% | 5.3% | 13.6% | 51.6% | 49.1% |
| TBC* | TBC | 18.88 | 985 | 15.8% | 57.3% | 45.2% | 86.9% | 92.6% |
| Halyk Bank | HSBK | 5.94 | 1,633 | -7.9% | -6.3% | 18.8% | 20.0% | 4.4% |
| KKB | KKB | 1.37 | 546 | 5.4% | -13.8% | -13.8% | 11.8% | -8.7% |
| VTB Bank | VTBR | 2.36 | 15,261 | 12.0% | 2.2% | 6.9% | 11.7% | 9.4% |
| Vozrozhdenie Bank | VZRZ | 11.31 | 269 | 1.5% | 6.2% | 12.3% | 37.0% | 30.0% |
| Sberbank | SBER | 11.20 | 60,443 | 15.6% | 15.4% | 24.4% | 90.5% | 81.2% |

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 | 4.72 | 621 | 7.1% | 21.7% | 25.0% | 106.6% | 85.2% |
| Mouwasat | MOUWASAT | 39.52 | 1,976 | 5.9% | 17.3% | 14.7% | 21.8% | 28.5% |
| Fortis | FORH | 2.56 | 1,185 | 1.6% | -4.5% | 3.7% | -5.9% | 5.3% |
| Raffles | RFMD | 1.02 | 1,777 | -4.7% | -9.7% | -14.9% | 3.9% | 1.6% |
| IHH | IHH | 1.45 | 11,925 | -3.2% | -10.4% | -8.8% | -5.2% | -2.3% |
| Bangkok Chain | BCH | 0.41 | 1,013 | 6.1% | 27.5% | 17.1% | 61.9% | 79.2% |
| Netcare | NTC | 2.27 | 3,325 | -11.9% | -2.0% | 4.5% | 3.9% | -4.5% |

Source: Bloomberg

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



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