



Georgian Oil and Gas Corporation FY16 update

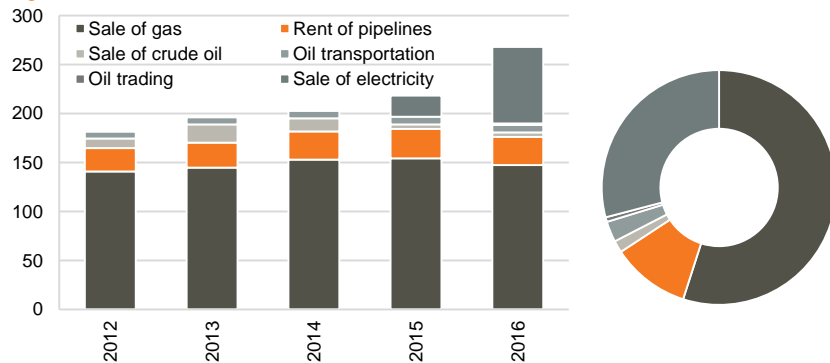
Georgia | Energy
Georgian Oil and Gas Corporation
July 14, 2017

S&P / B+ / Outlook Stable
Fitch / BB- / Outlook Stable

GOGC released FY16 audited results. Revenue increased 22.7% y/y to US\$ 267.7mn, driven by electricity sales of US\$ 77.9mn. Electricity sales, now with a sizable, 29.1% share in revenue, has helped GOGC diversify its business. Revenues from traditional sources posted low single-digit decreases, while operating expenses were up 14.2% y/y to US\$ 205.0 mn. As a result, adjusted EBITDA increased 57.3% y/y to US\$ 79.6mn. Higher profitability led to a significant improvement in the net debt-to-adjusted EBITDA ratio to 2.0x, well below the Eurobond covenant of 3.5x.

Sale of gas and pipeline rental revenues declined 4.5% y/y to US\$ 147.1mn and 4.5% y/y to US\$ 28.9mn, respectively. Due to lower oil prices, crude oil sales and transportation categories posted marginal declines as well, with revenues down 2.6% y/y to US\$ 4.4mn and 3.7% y/y to US\$ 7.6mn, respectively. Oil trading, a new business line for GOGC, brought in US\$ 1.7mn in revenue, generated by providing logistical services for the transportation of Turkmen crude oil from Baku to Batumi. The slight underperformance in traditional business lines was compensated by a 262.9% y/y increase in electricity sales to US\$ 77.9mn, as FY16 was the first fully operational year for the Gardabani combined-cycle power plant.

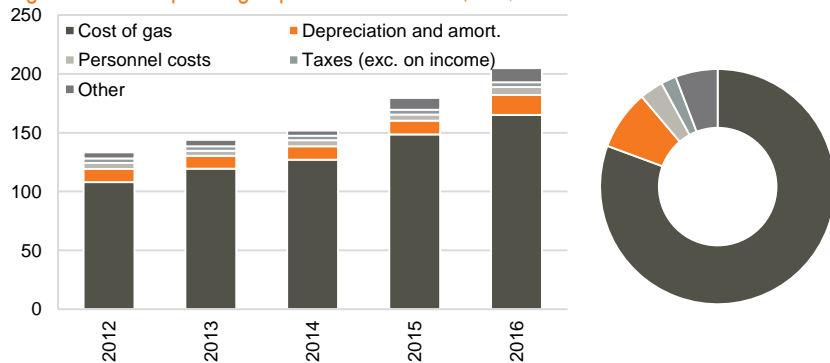
Figure 1: FY16 revenue breakdown, US\$ mn



Source: Company data

FY16 operating expenses increased 14.2% y/y to US\$ 205.0mn. Cost of gas sold decreased 5.1% y/y to US\$ 130.5mn, while cost of gas used in electricity generation grew 215.7% y/y to US\$ 34.8mn, as FY16 was the first full year of electricity generation.

Figure 2: FY16 operating expenses breakdown, US\$ mn



Source: Company data

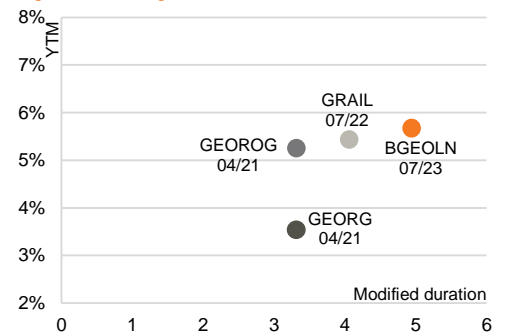
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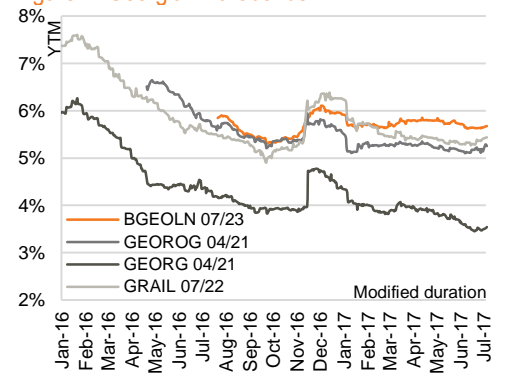
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Figure 3: Georgian Eurobond universe



Source: Bloomberg

Figure 4: Georgian Eurobonds



Source: Bloomberg

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

	FY15	FY16	Change, y/y
Revenue	218,234.3	267,728.8	22.7%
Gross profit	69,720.1	102,461.4	47.0%
Gross profit margin	31.9%	38.3%	640 bps
EBITDA	51,640.0	80,051.0	55.0%
EBITDA margin	23.7%	29.9%	620 bps
Adjusted EBITDA	50,591.2	79,599.7	57.3%
Adjusted EBITDA margin	23.2%	29.7%	650 bps
EBIT	39,805.7	63,207.4	58.8%
EBIT margin	18.2%	23.6%	540 bps
Net income	13,634.6	32,972.7	141.8%
Net profit margin	6.2%	12.3%	610 bps
Assets	586,264.1	597,427.1	1.9%
Equity	298,492.2	268,850.7	-9.9%
Liabilities	287,771.9	328,576.4	14.2%

Source: Company data

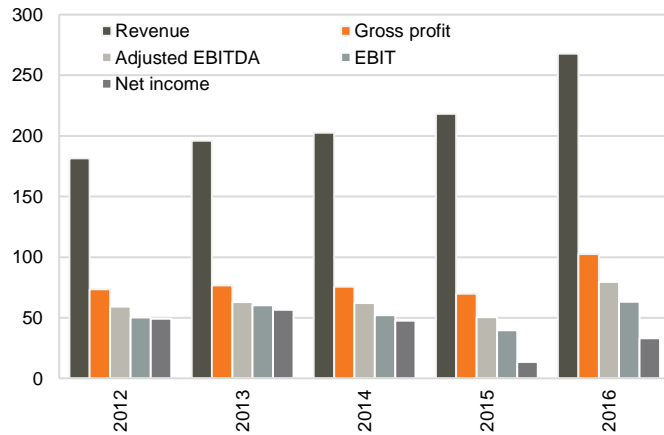
US\$-GEL	FY12	FY13	FY14	FY15	FY16
Period-end	1.657	1.736	1.864	2.395	2.647
Average	1.651	1.663	1.766	2.270	2.367

Source: NBG



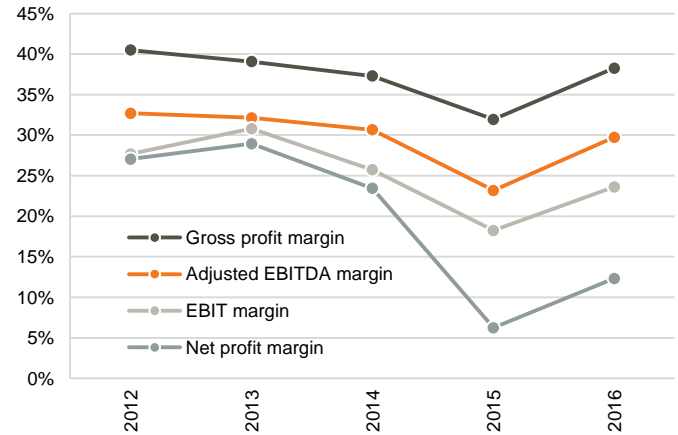
FY16 adjusted EBITDA increased 57.3% y/y to US\$ 79.6mn, leading to a considerable improvement in the adjusted EBITDA margin to 29.7% (23.2% in FY15). EBIT grew 58.8% y/y to US\$ 63.2mn. The weakening of GEL against US\$ in FY16 triggered a non-cash FX loss of US\$ 21.3mn, accounted for as a finance cost and dampening the bottom line performance, which was still up 141.8% y/y to US\$ 33.0mn.

Figure 5: Income statement highlights, US\$ mn



Source: Company data

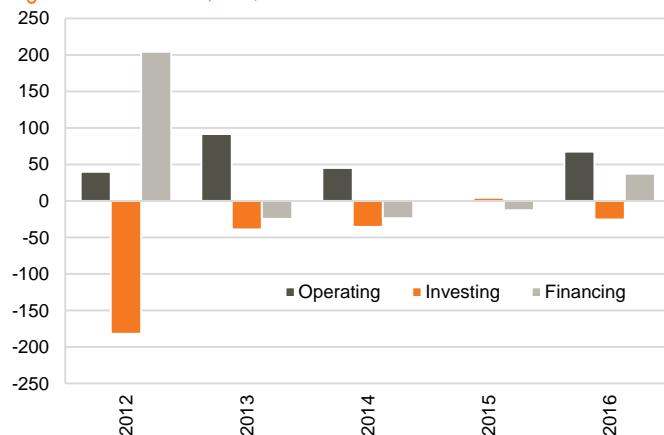
Figure 6: Profitability margins



Source: Company data

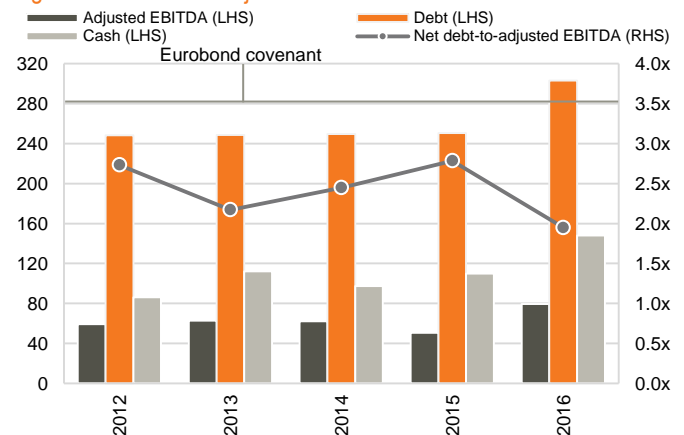
Operating cash flow was at a three-year high of US\$ 67.2mn. A 50.0% y/y decrease in capital spending to US\$ 22.4mn helped GOGC close FY16 with US\$ 148.0mn in cash, which, coupled with higher adjusted EBITDA, drove a significant improvement in the net debt-to-adjusted EBITDA ratio to 2.0x, comfortably below the Eurobond covenant of 3.5x. Despite the additional interest expense on the outstanding portion of the GEOROG 05/17 Eurobond in FY16, the adjusted EBITDA coverage ratio improved from 2.7x in FY15 to 3.9x.

Figure 7: Cash flows, US\$



Source: Company data

Figure 8: Net debt-to-adjusted EBITDA breakdown



Source: Company data

In Apr-16, GOGC refinanced its outstanding GEOROG 05/17 US\$ 250.0mn Eurobond with a new US\$ 250.0mn Eurobond maturing in five years. Approximately 78% of the outstanding bonds were purchased by GOGC, while the rest was redeemed in May-17. Construction of Gardabani CCPP II is expected to commence in 2H17, while the gas storage reservoir project is in the planning phase, as GOGC evaluates various financing options. A full report with our detailed projections will follow shortly.



Financial statements

Income statement

	US\$, '000	2012	2013	2014	2015	2016
Revenue		181,407.3	195,838.3	202,628.5	218,234.3	267,728.8
Sales of gas		140,742.1	144,653.4	152,781.9	153,991.4	147,134.7
Rent of gas pipelines		23,976.8	25,649.6	28,759.4	30,313.9	28,937.6
Income from crude oil		9,686.5	18,350.2	13,355.6	4,545.0	4,427.2
Oil transportation fee		7,001.9	7,185.2	7,731.7	7,918.8	7,625.3
Agency fees from oil trading		-	-	-	-	1,699.8
Sale of electricity		-	-	-	21,465.3	77,904.1
Operating expenses		(137,925.4)	(143,865.2)	(151,872.4)	(179,477.5)	(204,972.6)
Cost of gas and oil		(107,935.6)	(119,322.4)	(127,046.5)	(148,514.3)	(165,267.4)
Personnel costs		(5,152.4)	(4,390.4)	(5,219.0)	(5,154.7)	(6,643.0)
Taxes, other than on income		(3,729.3)	(3,664.7)	(3,771.0)	(3,950.3)	(4,307.7)
Reversal of impairment loss of property, plant and equipment		-	-	-	-	-
Impairment of assets related to Namakhvani project		(4,533.5)	-	-	-	-
Other		(5,272.9)	(5,521.8)	(4,478.3)	(10,023.9)	(11,911.0)
Other income		6,745.1	8,359.9	1,363.6	1,048.8	451.3
Operating expenses excluding depreciation and amortization		(126,623.8)	(132,899.2)	(140,514.8)	(167,643.2)	(188,129.0)
EBITDA		61,528.7	71,299.0	63,477.4	51,640.0	80,051.0
Adjusted EBITDA		59,317.1	62,939.1	62,113.8	50,591.2	79,599.7
Depreciation and amortization		(11,301.7)	(10,966.0)	(11,357.7)	(11,834.3)	(16,843.6)
Results from operating activities		50,227.0	60,333.0	52,119.7	39,805.7	63,207.4
Finance income		17,560.5	24,483.9	6,778.0	13,633.7	25,903.0
Finance costs		(11,706.8)	(17,724.3)	(5,968.8)	(38,301.4)	(47,118.9)
Net finance income		5,853.7	6,759.6	809.2	(24,667.7)	(21,215.9)
Share of loss of equity accounted investees		-	-	-	-	(829.8)
Profit before income tax		56,080.8	67,092.6	52,929.0	15,138.0	41,161.7
Income tax expense		(7,011.6)	(10,406.3)	(5,422.9)	(1,503.4)	(8,189.0)
Profit from continuing operations		49,069.1	56,686.3	47,506.1	13,634.6	32,972.7
Profit and total comprehensive income for the year		49,069.1	56,686.3	47,506.1	13,634.6	32,972.7
Profit and total comprehensive income attributable to:						
Owners of the Company		49,069.1	57,007.9	48,506.2	31,167.6	34,378.4
Non-controlling interests		-	(321.6)	(1,000.1)	(17,533.0)	(1,405.7)



Statement of changes in equity

	US\$, '000	2012	2013	2014	2015	2016
Share capital, 1 January		286,638.3	307,417.2	293,468.9	307,303.6	255,084.1
Increase in share capital		18,672.4	151.5	35,756.6	16,831.3	2,616.3
Decrease in share capital		(185.9)	-	-	-	-
FX rate translation adjustment		2,292.4	(14,099.8)	(21,921.8)	(69,050.7)	(24,553.6)
Share capital, 31 December		307,417.2	293,468.9	307,303.6	255,084.1	233,146.8
Fair value adjustment reserve for non-cash owner contributions, 1 January		(168,940.3)	(170,327.2)	(162,518.6)	(151,417.1)	(117,825.8)
FX rate translation adjustment		(1,386.8)	7,808.6	11,101.4	33,591.4	11,213.7
Fair value adjustment reserve for non-cash owner contributions, 31 December		(170,327.2)	(162,518.6)	(151,417.1)	(117,825.8)	(106,612.1)
Additional paid-in-capital, 1 January		42,937.2	43,289.7	41,305.1	38,483.6	29,946.1
FX rate translation adjustment		352.5	(1,984.6)	(2,821.5)	(8,537.4)	(2,850.0)
Additional paid-in-capital, 31 December		43,289.7	41,305.1	38,483.6	29,946.1	27,096.1
Retained earnings, 1 January		53,978.3	60,315.1	107,350.7	123,642.4	113,118.7
Profit and total comprehensive income for the year		49,069.1	57,007.9	48,506.2	31,167.6	34,378.4
Contributions by and distributions to owners		(43,156.1)	(5,025.2)	(23,573.8)	(13,332.9)	(36,968.5)
Dividends to equity holders		(24,223.9)	(5,025.2)	(18,687.8)	(12,933.3)	(5,355.9)
Other cash distributions		-	-	-	-	-
Distributions of non-cash assets net of tax		(18,932.2)	-	(549.3)	(399.5)	(31,612.6)
Transfer of subsidiary retained earnings		-	-	(4,336.7)	-	-
FX rate translation adjustment		423.7	(4,947.1)	(8,640.6)	(28,358.4)	(10,491.6)
Retained earnings, 31 December		60,315.1	107,350.7	123,642.4	113,118.7	100,037.0
Total contributions by and distributions to owners		24,399.5	52,134.2	60,688.9	34,666.0	26.2
Equity attributable to owners of the Company		240,694.8	279,606.1	318,012.4	280,323.2	253,667.8
Non-controlling interests, 1 January		-	-	48,057.9	44,707.0	18,169.0
Profit and total comprehensive income for the year		-	(321.6)	(1,000.1)	(17,533.0)	(1,405.7)
Foundation of subsidiary with non-controlling interests		-	50,485.2	-	-	-
Other contributions		-	-	928.2	-	-
FX rate translation adjustment		-	(2,105.6)	(3,279.0)	(9,005.0)	(1,580.4)
Non-controlling interests, 31 December		-	48,057.9	44,707.0	18,169.0	15,182.9
Total equity		240,694.8	327,664.0	362,719.5	298,492.2	268,850.7



Statement of financial position

	US\$, '000	2012	2013	2014	2015	2016
Assets						
Property, plant and equipment		170,610.2	155,258.9	316,909.2	316,616.1	292,999.5
Prepayments for non-current assets		-	115,090.7	51,852.3	861.8	-
Intangible assets		99.6	65.7	54.2	35.9	426.6
Finance lease receivable		27,694.8	28,142.6	27,925.0	23,142.5	22,305.0
Loans given		51,501.2	51,336.8	74,460.7	25,613.2	-
Trade and other receivables non-current		-	-	-	-	7,828.7
Other non-current assets		64.6	-	-	-	-
Equity accounted investees		-	-	-	2,364.6	4,775.6
Deferred tax assets		-	-	1,107.0	6,004.8	-
Term deposits		63,636.1	23,085.3	23,809.8	25,501.7	-
Non-current assets		313,606.6	372,979.9	496,118.3	400,140.7	328,335.3
Loans given		29,404.2	27,100.7	8,844.2	2,406.4	1,001.6
Non-current assets held for distribution		-	657.1	-	734.1	-
Inventories		322.9	378.4	106.2	3,684.9	4,128.8
Current tax assets		3,996.5	622.6	-	1,529.9	-
Taxes other than on income		597.6	421.6	7,819.8	2,095.7	1,382.4
VAT recoverable		-	-	-	-	-
Prepayments for current assets and expenses		12,055.3	11,552.2	12,528.4	20,104.0	18,331.9
Trade and other receivables		52,151.9	36,589.3	37,530.6	75,778.9	67,906.5
Term deposits current		31,903.2	45,207.0	-	-	28,384.8
Cash and cash equivalents		86,118.2	112,043.4	97,552.6	79,789.6	147,955.6
Current assets		216,549.8	234,572.4	164,381.8	186,123.4	269,091.7
Total assets		530,156.3	607,552.3	660,500.1	586,264.1	597,427.1
Equity and liabilities						
Share capital		307,417.2	293,468.9	307,303.6	255,084.1	233,146.8
Fair value adjustment reserve for non-cash owner contributions		(170,327.2)	(162,518.6)	(151,417.1)	(117,825.8)	(106,612.1)
Additional paid-in-capital		43,289.7	41,305.1	38,483.6	29,946.1	27,096.1
Retained earnings		60,315.1	107,350.7	123,642.4	113,118.7	100,037.0
Equity attributable to owners of the Company		240,694.8	279,606.1	318,012.4	280,323.2	253,667.8
Non-controlling interests		-	48,057.9	44,707.0	18,169.0	15,182.9
Total equity		240,694.8	327,664.0	362,719.5	298,492.2	268,850.7
Loans and borrowings		245,176.0	245,175.9	245,176.0	245,176.0	245,884.1
Deferred tax liabilities		5,774.1	9,494.9	7,621.3	5,870.8	-
Non-current liabilities		250,950.1	254,670.9	252,797.3	251,046.8	245,884.1
Loans and borrowings current		3,072.4	3,528.2	4,453.2	5,445.7	57,274.1
Trade and other payables		14,982.8	17,655.9	36,008.8	28,313.1	24,335.0
Dividend payable		19,315.5	-	-	-	-
Current tax liabilities		-	-	836.6	-	303.0
VAT payable		1,140.8	3,062.3	2,780.1	2,104.1	-
Provisions		-	971.0	904.7	862.2	780.2
Current liabilities		38,511.5	25,217.4	44,983.4	36,725.1	82,692.3
Total liabilities		289,461.6	279,888.3	297,780.6	287,771.9	328,576.4
Total equity and liabilities		530,156.3	607,552.3	660,500.1	586,264.1	597,427.1



Statement of cash flows

	US\$, '000	2012	2013	2014	2015	2016
Cash flows from operating activities						
Cash receipts from customers		159,790.5	224,320.0	209,561.1	187,498.9	286,532.9
Cash paid to suppliers and employees		(108,031.9)	(133,556.9)	(161,864.8)	(181,985.2)	(207,101.3)
VAT refund from the State		-	-	8,494.5	5,197.8	1,478.8
Cash from operations before income taxes and interest		51,758.6	90,763.1	56,190.8	10,711.5	80,910.4
Income tax paid		(7,870.3)	(2,681.2)	(4,399.6)	(7,534.6)	(5,214.4)
Interest paid		(8,674.0)	(17,140.6)	(17,218.8)	(18,024.1)	(18,131.9)
Interest received		4,490.5	20,485.5	10,654.9	16,490.3	9,653.9
Net cash from (used in) operating activities		39,704.8	91,426.8	45,227.3	1,643.0	67,218.0
Cash flows from investing activities						
Acquisition of property, plant and equipment and intangible assets		(13,996.0)	(70,652.7)	(77,744.1)	(44,901.3)	(22,442.5)
Decrease/(Increase) in term deposits		(85,238.5)	29,506.1	42,021.5	-	-
Repayment of loans given		-	2,228.5	-	52,865.9	17,329.9
Loans given		(78,745.2)	-	-	(1,058.1)	(16,841.1)
Acquisition of non-current assets held for distribution		(4,023.0)	-	-	-	-
Investing in other companies		(64.8)	-	-	-	-
Acquisition of equity accounted investee		-	-	-	(2,494.5)	(3,778.2)
Net cash from (used in) investing activities		(182,067.4)	(38,918.1)	(35,722.6)	4,412.0	(25,731.9)
Cash flows from financing activities						
Dividends paid		(28,765.9)	(24,262.7)	(18,687.8)	(12,933.3)	(5,355.9)
Proceeds from borrowings		240,684.4	-	16,918.1	-	232,571.6
Repayment of borrowings		(6,383.6)	(377.5)	(16,855.8)	-	(190,201.9)
Other cash distributions to owners		(1,332.3)	-	-	-	-
Cash distributed on the transfer of subsidiaries		-	-	(5,320.4)	-	-
Cash distributed on the transfer of discontinued operation		-	-	-	-	-
Net cash from (used in) financing activities		204,202.6	(24,640.2)	(23,945.9)	(12,933.3)	37,013.7
Net increase in cash and cash equivalents		61,637.0	26,698.7	(13,683.7)	(6,520.1)	70,193.1
Cash and cash equivalents, 1 January		21,001.6	86,118.2	112,043.4	97,552.6	79,789.6
Effect of FX rate fluctuations on cash and cash equivalents		3,307.2	3,174.6	6,846.4	10,398.8	5,566.7
FX rate translation adjustment		172.4	(3,948.1)	(7,653.5)	(21,641.7)	(7,593.7)
Cash and cash equivalents, 31 December		86,118.2	112,043.4	97,552.6	79,789.6	147,955.6



Financial ratios

	2012	2013	2014	2015	2016
Profitability					
Return on Revenue					
Gross profit margin	40.5%	39.1%	37.3%	31.9%	38.3%
EBITDA margin	33.9%	36.4%	31.3%	23.7%	29.9%
Adjusted EBITDA margin	32.7%	32.1%	30.7%	23.2%	29.7%
EBIT margin	27.7%	30.8%	25.7%	18.2%	23.6%
EBT margin	30.9%	34.3%	26.1%	6.9%	15.4%
Net profit margin	27.0%	28.9%	23.4%	6.2%	12.3%
Return on Investment					
Operating ROA / Basic earning power	9.5%	9.9%	7.9%	6.8%	10.6%
Return on assets (ROA)	9.3%	9.3%	7.2%	2.3%	5.5%
Operating ROE	20.9%	18.4%	14.4%	13.3%	23.5%
Return on equity (ROE)	20.4%	17.3%	13.1%	4.6%	12.3%
Return on common equity	16.0%	19.3%	15.5%	5.3%	14.1%
Return on capital employed (ROCE)	10.2%	10.4%	8.5%	7.2%	12.3%
Return on invested capital (ROIC)	5.1%	9.0%	4.7%	0.1%	4.8%
Solvency					
Component percentage / debt ratios					
Liabilities to assets	54.6%	46.1%	45.1%	49.1%	55.0%
Liabilities to invested capital	59.2%	48.6%	48.6%	52.4%	57.4%
Liabilities to equity	120.3%	85.4%	82.1%	96.4%	122.2%
Liabilities to EBITDA	4.70x	3.93x	4.69x	5.57x	4.10x
Debt-to-assets	46.8%	40.9%	37.8%	42.7%	50.7%
Debt-to-invested capital	50.8%	43.2%	40.8%	45.6%	53.0%
Debt-to-equity	103.1%	75.9%	68.8%	84.0%	112.8%
Debt-to-EBITDA	4.03x	3.49x	3.93x	4.85x	3.79x
Net debt-to-assets	30.6%	22.5%	23.0%	24.0%	26.0%
Net debt-to-invested capital	33.2%	23.7%	24.8%	25.6%	27.1%
Net debt-to-equity	67.4%	41.7%	41.9%	47.2%	57.7%
Net debt-to-EBITDA	2.64x	1.92x	2.40x	2.73x	1.94x
Net debt-to-adjusted EBITDA	2.73x	2.17x	2.45x	2.78x	1.95x
Long-term debt-to-assets	46.2%	40.4%	37.1%	41.8%	41.0%
Long-term debt-to-invested capital	50.1%	42.5%	40.0%	44.6%	42.9%
Long-term debt-to-equity	101.9%	74.8%	67.6%	82.1%	91.2%
Long-term debt-to-EBITDA	3.98x	3.44x	3.86x	4.75x	3.06x
Financial leverage (equity multiplier)	2.20x	1.85x	1.82x	1.96x	2.22x
Coverage					
EBITDA coverage	5.38x	4.09x	3.47x	2.75x	3.94x
Adjusted EBITDA coverage	5.19x	3.61x	3.40x	2.69x	3.92x
EBIT coverage	4.39x	3.46x	2.85x	2.12x	3.11x
Adjusted EBIT coverage	4.39x	3.46x	2.85x	2.12x	3.11x
FFO to debt	0.24x	0.27x	0.24x	0.10x	0.16x
FFO to finance costs	5.28x	3.88x	3.22x	1.36x	2.45x
Liquidity					
Current ratio	5.62x	9.30x	3.65x	5.07x	3.25x
Quick ratio (acid test)	5.61x	9.29x	3.65x	4.97x	3.20x
Cash ratio	2.24x	4.44x	2.17x	2.99x	1.79x



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