GALT & TAGGART RESEARCH

Georgian Railway
9M15 update

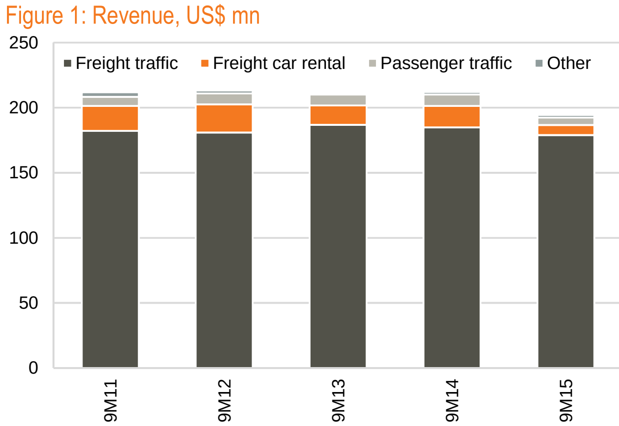
Georgia | Transportation
Georgian Railway
November 20, 2015

S&P BB- / Fitch BB-

GR released 9M15 unaudited results. Revenue decreased 8.3% y/y due to weak performance in freight traffic and freight car rental in 3Q15. Operating expenses, which are mostly GEL-denominated, shrank 18.8% y/y and resulted in a 4.4% y/y increase in adjusted EBITDA to US$ 111.7mn. Substantial weakening of GEL against US$ in 9M15 led to a significant, albeit non-cash, FX loss and pushed the bottom line into negative territory. We expect end-FY15 net debt-to-adjusted EBITDA at 2.5x, leaving comfortable headroom up to the Eurobond covenant of 3.5x.

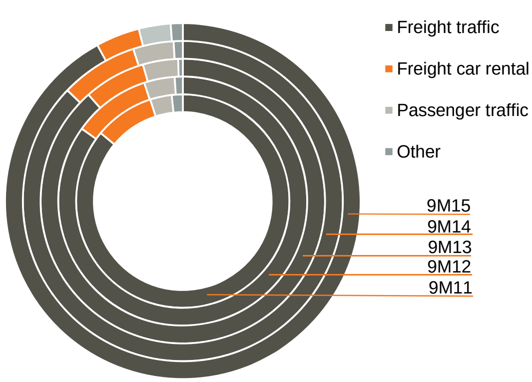
9M15 revenue decreased 8.3% y/y to US$ 194.5mn, mainly due to a 3.2% y/y decrease in freight traffic revenue to US$ 178.9mn and a 53.2% y/y drop in freight car rental revenue to US$ 7.8mn. 9M15 cargo breakdown will be provided in the Management Discussion & Analysis due in December, at which time we will provide a detailed analysis. 9M15 passenger traffic revenue dropped 35.0% y/y to US$ 5.7mn, but its share in total revenue is immaterial.

Figure 1: Revenue, US$ mn



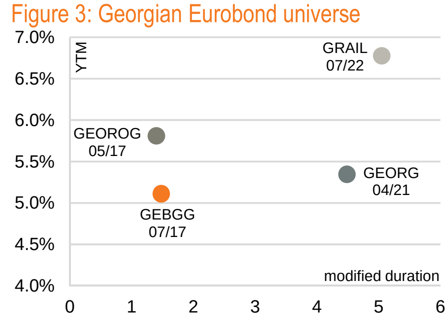
Source: Company data, Galt & Taggart Research

Figure 2: Revenue composition



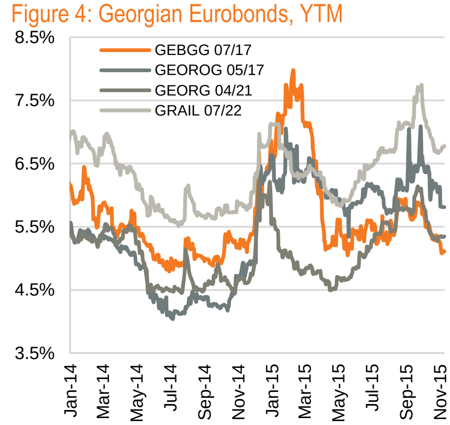
Source: Company data, Galt & Taggart Research

Figure 3: Georgian Eurobond universe



Source: Bloomberg

Figure 4: Georgian Eurobonds, YTM



Source: Bloomberg

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

	9M14	9M15	Change, y/y
Revenue	212,077.5	194,467.3	*-8.3%*
EBITDA	107,908.0	111,666.2	*3.5%*
EBITDA margin	*50.9%*	*57.4%*	*654 bps*
Adjusted EBITDA	106,924.7	111,674.3	*4.4%*
Adjusted EBITDA margin	*50.4%*	*57.4%*	*701 bps*
EBIT	63,588.2	75,588.7	*18.9%*
EBIT margin	*30.0%*	*38.9%*	*889 bps*
Net income	44,226.8	(40,933.6)	*n/m*
Net profit margin	*20.9%*	*n/m*	*n/m*
Assets	1,680,577.5	1,275,218.8	*-24.1%*
Equity	930,836.6	607,419.0	*-34.7%*
Liabilities	749,740.9	667,799.8	*-10.9%*

Source: Company data, Galt & Taggart Research

US$-GEL	9M11	9M12	9M13	9M14	9M15
Period-end	1.66	1.66	1.66	1.75	2.38
Average	1.69	1.65	1.66	1.75	2.23

Source: NBG

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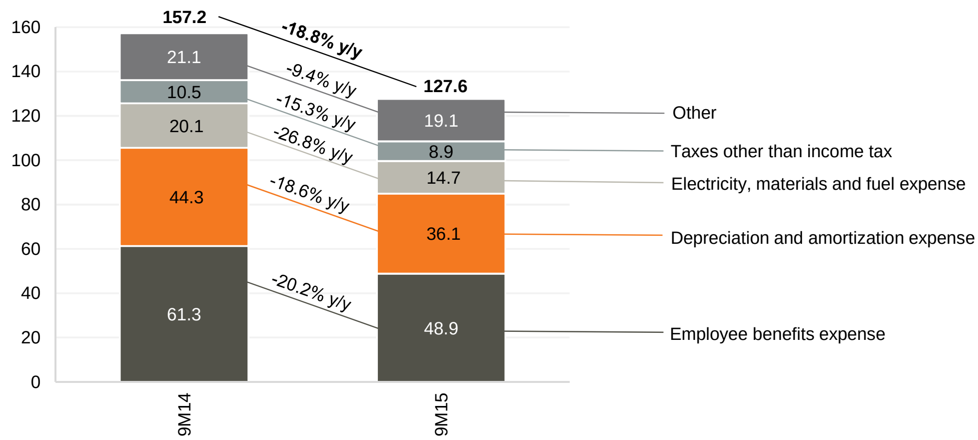
9M15 operating expenses, mostly GEL-denominated, decreased 18.8% y/y to US$ 127.6mn (US$ 157.2mn in 9M14). Electricity and materials expense posted the largest drop (26.8% y/y), thanks to operational improvements and a lower utilization rate of rail fleet.

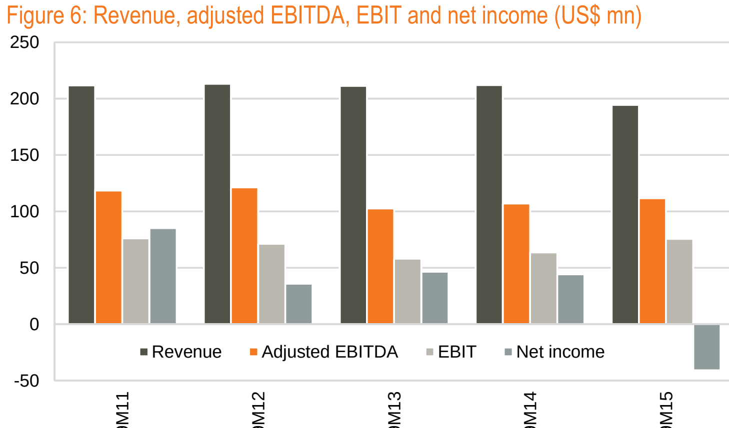
Figure 5: y/y % change in operating expenses, US$ mn



Source: Company data, Galt & Taggart Research

9M15 adjusted EBITDA increased 4.4% y/y and accounted for US$ 111.7mn (US$ 106.9mn in 9M14). EBIT grew 18.9% y/y to US$ 75.6mn (US$ 63.6mn in 9M14). Significant GEL depreciation in 9M15 led to a considerable FX loss (due to the revaluation of the Eurobond). The FX loss (accounted for as a finance cost) pushed net income into negative territory. However, the FX loss is an unrealized non-cash charge and not a cause for concern.

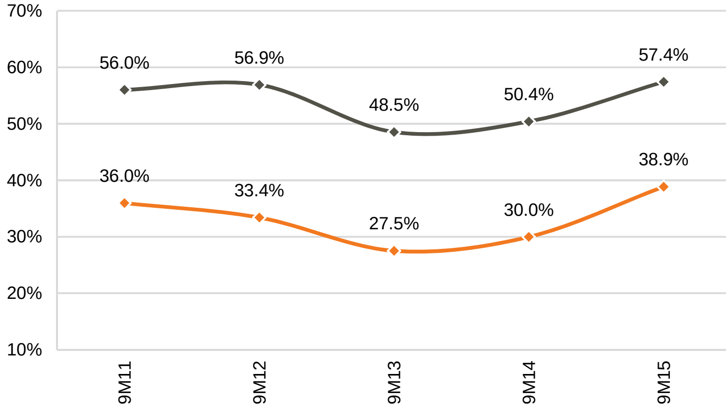
Figure 6: Revenue, adjusted EBITDA, EBIT and net income (US$ mn)



Source: Company data, Galt & Taggart Research

Adjusted EBITDA and EBIT margins widened to 57.4% and 38.9% in 9M15 from 50.4% and 30.0% in 9M14, respectively.

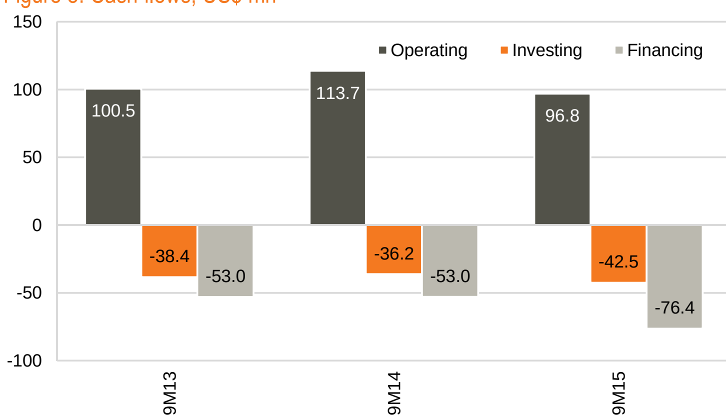
Figure 7: Adjusted EBITDA and EBIT margins



Source: Company data, Galt & Taggart Research

9M15 operating cash was down 14.8% y/y to US$ 96.8mn (US$ 113.7mn in 9M14), mainly due to an increase in tax outflows. Investing spending in 9M15 accelerated 19.6% y/y and reached US$ 48.6mn, largely due to modernization project expenditures. On the financing side, GR paid a dividend of US$ 9.8mn (US$ 11.4mn in 9M14) and redeemed the outstanding portion (US$ 27.5mn) of the Eurobond maturing in 2015.

Figure 8: Cash flows, US$ mn



Source: Company data, Galt & Taggart Research

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