

Regional Fixed Income Market Watch

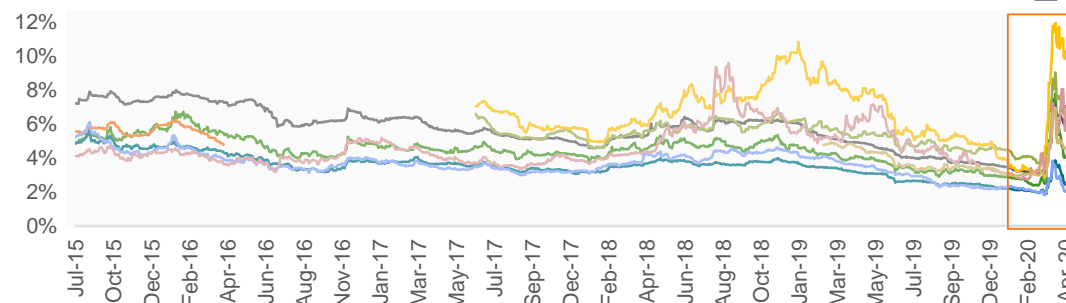
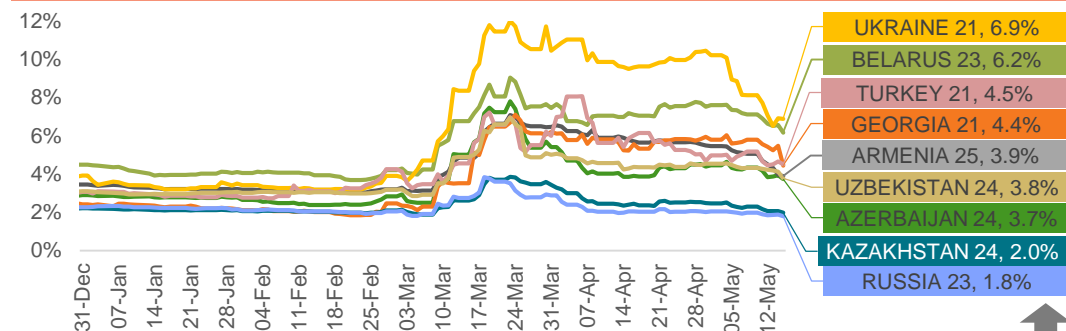
Georgia, Armenia, Azerbaijan, Belarus, Kazakhstan, Ukraine, Russia, Turkey, Uzbekistan

Regional | Fixed Income
Periodic
May 18, 2020

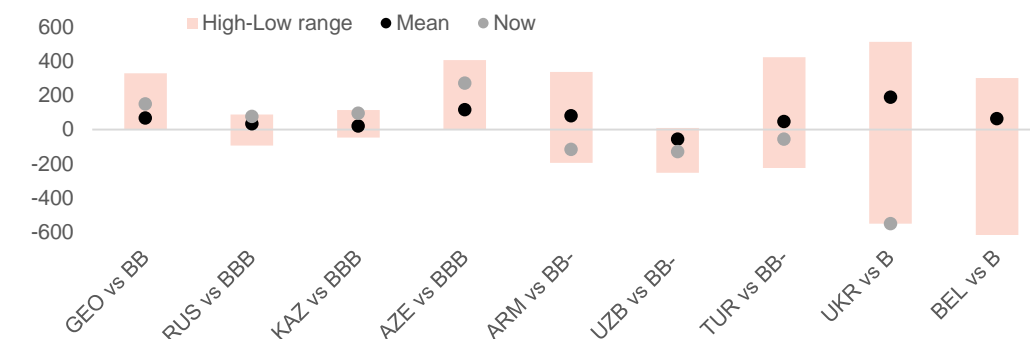
Highlights

- COVID-19 pandemic has severely affected Emerging markets (EM) as well as our region. IMF forecasts negative growth in 8 out of the 9 regional economies as pandemic and oil price drop deepened economic problems in 2020 (Georgia -4%, Armenia -1.5%, Azerbaijan -2.2%, Belarus -6%, Kazakhstan -2.5%, Ukraine -7.7%, Russia -5.5%, Turkey -5.0%, Uzbekistan +1.8%).
- In line with the global policy-makers regional economies have also started the monetary policy easing. As of May 2020, monetary policy rate is at 5.00% in Armenia (-25bps), at 5.50% in Russia (-50bps), at 7.25% in Azerbaijan (unchanged), at 8.75% in Belarus (-25bps), at 8.50% in Georgia (-50bps), at 9.5% in Kazakhstan (unchanged), at 8.75% in Turkey (-100bps) and at 8.00% in Ukraine (-200bps).
- Global investors sold more than US\$ 100bn of EM assets since the start of the virus outbreak, resulting in fall in EM asset prices. Foreign investors sold more than US\$ 72bn in EM equities and US\$ 25bn in debt according to the Institute of International Finance.
- Amid massive capital outflows EM bond yields grew as prices decreased. Since the March highs, yields on regional Eurobonds have declines slightly. UKRAINE 21 (6.9% YTM; 101.0 price) was the worst performer among the selected sovereign Eurobonds, rising 297bps in yield YTD. BELARUS 23 (6.2% YTM; 101.7 price) was up 168bps, while TURKEY 21 (4.5% YTM; 100.9 price) widened by 144bps YTD. GEORGIA 21 (4.4% YTM; 102.1 price) rose 202bps in yield. ARMENIA 25 (3.9% YTM; 114.2 price) was up 44bps, UZBEK 24 (3.8% YTM; 103.4 price) was up 67bps and AZERB 24 (3.7% YTM; 103.5 price) increased 84bps in yield. KAZAKH 24 (2.0% YTM; 107.9 price) and RUSSIA 23 (1.8% YTM; 109.9 price) performed more strongly than other regional bonds, with yields decreasing by 22bps and 46bps YTD, respectively.
- Among Georgian placements, quasi-government GOGC 21 (10.4% YTM; 96.8 price) was the worst performer, with its yield jumping by 732bps followed by GRAIL 22 (8.7% YTM; 98.1 price) which widened by 510bps YTD, SILKNET 24 (12.1% YTM; 96.6 price) was next, up by 442bps in yield. GEOCAP and Georgian banks performed relatively better, discussed below.

Selected sovereign Eurobond YTM, 2020



Regional sovereign Eurobond spreads vs peers, YTD



Source: Bloomberg
Note: Data as of 15 May 2020

Selected Georgian bonds

Eurobonds

- Georgian Banks (BOG 23 & TBC 24)** – Georgian banks' yields have been on the downward trajectory throughout 2019. BOG 23 YTM dropped to 4.3% (price 105.6) while TBC's yield decreased to 4.9% (price 103.5) by year end. The trend continued in the first two months of 2020, with yields for both Eurobonds dropping to historical minimums of average 3.9%-4.0% by end-February. With the deteriorated sentiments in the financial markets amid the COVID 19 outbreak, the yields on Georgian banks' Eurobonds hiked. YTM on TBC 24 climbed to 7.4% as of 15 May, while BOG 23 yield widened further to 7.8% in the same period. Notably, for both bonds this is the lowest levels on record, trading at c. 95% of par.
- Georgia Capital (GEOCAP 24)** - Since the issuance in Mar-18 up until 1Q19, GEOCAP's yield has been growing, reaching 8.4% in Jan-19 (90.6 price). During 2019, the yield started to decline, dropping to 6.2% by Feb-20. Along with the outbreak, YTM started to widen, reaching 8.5% (92.4 price) by 15 May 2020.
- Silknet (SILKNET 24)** - Silknet's Eurobond enjoyed strong performance throughout 2019, with the yield dropping from 10.8% at the time of issuance in Apr-19 to 7.7%, selling at a 111.8% premium to par by end-2019. The rally continued in the first two months of 2020, with the yield further decreasing to 7.2%. However, since the COVID 19 outbreak Silknet Eurobond appeared to be one of the worst performers among the Georgian corporate Eurobonds, with the yield jumping to 16% (price of 86) by end-March. Since then, yield has slightly improved (to 12.1% YTM as of May 15), partially trimming recent losses.

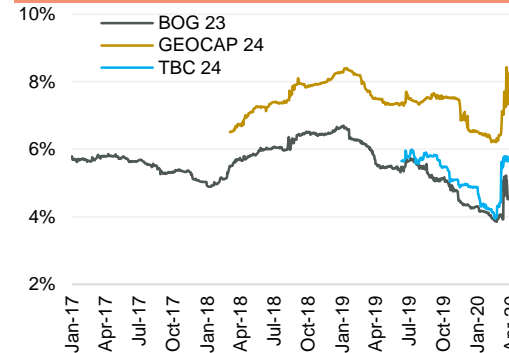
Local bonds

- Georgian Leasing Company (GLC)** – has three outstanding bonds. The 7% coupon bond (US\$ 10mn) matures in Aug 2020, while the remaining two bonds in June and Aug of 2021.
- Georgia Real Estate (former M2 Real Estate)** – issued US\$ 35mn bond, with 7.5% coupon back in 4Q19.
- Georgia Property Management Group (former M2 Commercial Assets)** – US\$ 30mn bond, bearing 7.5% coupon was issued in 4Q18.

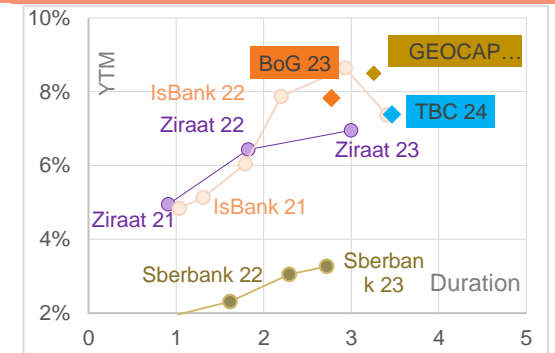
Taxation

Any income and/or capital gain received by investor from above-mentioned securities is NOT subject to any tax in Georgia.

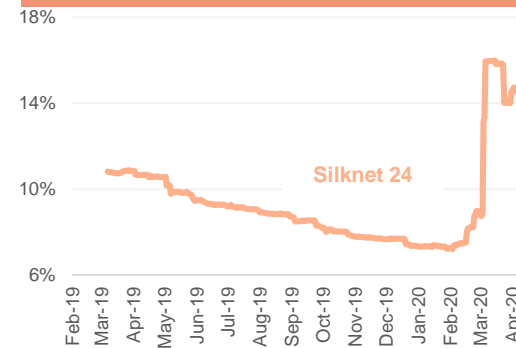
Financial sector Eurobonds, YTM



Selected financial sector Eurobonds in regional countries



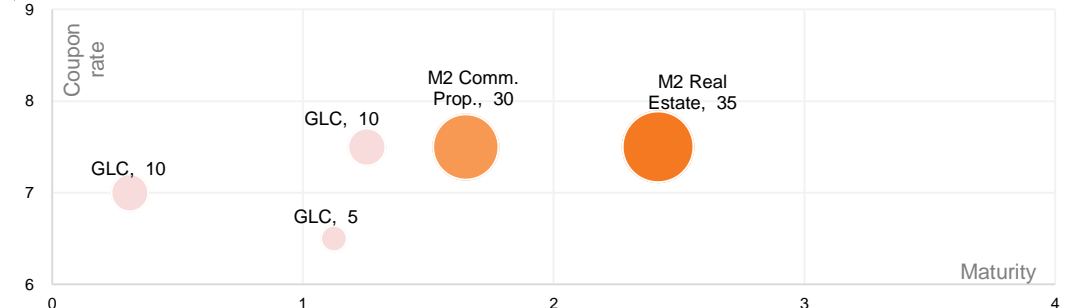
Communications sector Eurobonds, YTM



Selected communications sector Eurobonds in regional countries



Selected Georgian local corporate bonds, USD



Source: Bloomberg, NBG
Note: Note: the size of the bubble corresponds to the size of issuance, with max. at US\$ 35mn; data as of 15 May 2020
SILKNET 24 is callable

Selected Georgian bond details

Issuer	ISIN	Currency	Coupon	Sector	Maturity	Amount (US\$ mn)	YTM	Minimum Lot, US\$
Georgian local bonds								
LLC Georgian Leasing Company	GE2700603535	USD	7.0%	Financial	Aug-20	10	7.0%	1,000
LLC Georgian Leasing Company	GE2700603659	USD	6.5%	Financial	Jun-21	5	7.5%	1,000
LLC Georgian Leasing Company	GE2700603840	USD	7.5%	Financial	Aug-21	10	7.5%	1,000
JSC Georgia Real Estate (<i>former M2 Real Estate</i>)	GE2700603865	USD	7.5%	Real Estate	Oct-22	35	8.0%	1,000
Georgia Property Management Group LLC (<i>former M2 Commercial Assets LLC</i>)	GE2700603733	USD	7.5%	Real Estate	Dec-21	30	8.0%	1,000
Georgian Eurobonds								
JSC Bank of Georgia	XS1405775880	USD	6.0%	Banking	Jul-23	500	7.8%	200,000
JSC Georgia Capital	XS1778929478	USD	6.1%	Investment holding	Mar-24	300	8.5%	200,000
JSC Silknet	XS1843443430	USD	11.0%	Telecommunications	Apr-24	200	12.1%	200,000
JSC TBC Bank	XS1843434363	USD	5.8%	Banking	Jun-24	300	7.4%	200,000

Source: Bloomberg
 Note: Data as of 15 May 2020

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- We use an established global and regional network of trading partners to provide efficient execution in domestic, regional (hard-to-reach, frontier markets, such as: Georgia, Ukraine, Armenia, Azerbaijan, Turkey, Russia, Kazakhstan, etc.) and international markets.
- We provide international custody service to safeguard our clients' local and international assets with low fees and no hidden costs
- We operate a hybrid brokerage strategy, offering traditional brokerage account as well as best-in-class online trading account.
- Galt & Taggart Brokerage offers a competitive and tailored pricing for investors and traders with no hidden fees

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We are fully committed to pursuing our clients' best interests and approach every client with the aim of securing their best possible outcome. With our unique insight into the regional markets and a solid infrastructure, our brokerage house is well positioned to offer direct access to local as well as international financial markets and assist our clients in exploring outstanding investment opportunities.

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