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REGIONAL HUB FOR CAR TRADE
Georgia's Auto Business Sector

GEORGIA | AUTO BUSINESS

Industry Overview | July 10, 2019

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Terms and Definitions

ACEA – European Automobile Manufacturers Association

CAGR – Compound annual growth rate

EV – Electric vehicle

Geostat – National Statistics Office of Georgia

LHD – Left-hand drive

MFO – Microfinance organization

MIA – Ministry of Internal Affairs of Georgia

MTPL – Motor third party liability insurance

NBG – National Bank of Georgia

Private passenger car – passenger car registered to an individual

RHD – Right-hand drive

SUV – Sport utility vehicle

UAE – United Arab Emirates

USA – United States of America

VAT – Value-added tax

Car exports and car re-exports are used interchangeably in the document



Executive Summary

Enhanced customs procedures and trade infrastructure have transformed Georgia into a regional hub for the car trade since 2005. Successful reforms have enabled the economy to become a car-exporting country without its own car production industry. In the beginning, car re-exports were directed to its immediate neighbors Azerbaijan and Armenia, with destination markets diversified later. After continued growth during 2005-13 (with the exception of 2009), car exports fell sharply in 2014-16 due to the introduction of Euro-4 regulations in Azerbaijan coupled with the regional economic slowdown. However, car re-exports have recovered since 2017 as regional economies stabilized. Azerbaijan and Armenia are the largest export markets, with 71% of the total car re-exports in 2018. We expect car exports to traditional and new markets to grow, taking into account their improved economic outlook and low levels of car ownership.

Auto business turnover posted impressive growth of 14.8% CAGR over 2010-18, reaching GEL 2.6bn in 2018, up 17.6% y/y. The sector's net profit margin averaged 5.1% in 2015-17 – in line with the total trade sector's average of 5.2%. Car imports generated more than GEL 123mn in excise tax revenues in 2018 while car re-exports – Georgia's second-largest export category – stood at US\$ 408.3mn.

Government policy targets environmental and safety issues, addresses auto park renewal by making car ownership costly. With environmental and safety issues in mind, the Georgian government increased excise taxes on cars and fuel in 2017 and rolled out a mandatory vehicle inspection program in 2018. The government has also introduced a property tax on cars, pilot paid zonal parking, and car-sharing schemes, among other initiatives. Tax measures have incentivized hybrid car ownership, which has risen to over 48,600 cars in 2018 from 1,198 cars in 2015. This is only expected to continue. Despite growth in recent years, fully electric car ownership overall is low, with only 1,231 cars registered as of 2018. The development of charging infrastructure, the launch of an electric vehicle production plant, free parking facilities for electric vehicles and other government initiatives are set to support greater electric car presence in Georgia in the coming years.

Changes in excise tax structure expected to renew country's outdated auto park. Georgia has one of the oldest passenger car stocks in the region at an average age of 20.3 in 2017 – higher than Poland (17.3), Romania (16.2), Lithuania (15.5), Russia (13.1) and Ukraine (19.6). Importantly, higher excise taxes on old cars and fuel from 2017 already yielded positive results in auto park renewal. Over 2017-18, 36.2% of the cars that received state registration were under seven years old, up from 9.4% of total clearance over 2012-16.

Georgia lags behind developed countries by number of private passenger cars per capita, showing room for further growth. On a per 1,000 capita basis, private passenger car penetration in Georgia is only 256 – far below the ratios found in Latvia (322), Estonia (419) and Russia (307) but still above Azerbaijan (112) and Turkey (147). We believe that actual car penetration number in Georgia is lower as official statistics incorporates idle vehicles and ongoing vehicle inspection program expected to reveal real numbers by the end of 2019.

The main catalysts shaping the future demand on cars will be the growing number of women drivers, the gradual renewal of auto park and rising household incomes. Despite the rising number of Georgian female drivers, out of the 1.23mn people in the country who hold a valid driver's license, only 23% are women, showing room for further expansion. On top of this, mandatory technical inspection is expected to force drivers to move to relatively newer cars as 81.4% of vehicles registered in Georgia are already 12+ years old. Mandatory inspection also raises demand for auto parts and repair services. All of these, together with strong demand for car re-exports, are expected to drive auto sector revenue in the coming years.



1. General overview

1.1 Sector overview

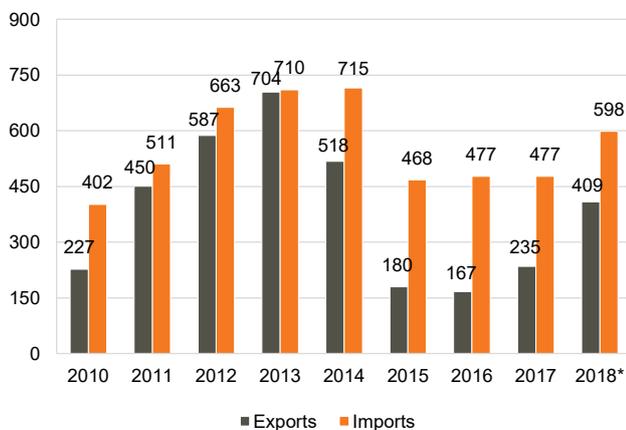
Successful reforms have enabled Georgia to become car exporting country without its own car production. Over the last decade, Georgia has simplified customs procedures, reduced cost of trade, made export and import documentary compliance faster and improved trade infrastructure. According to the 2019 World Bank Doing Business report, Georgia ranks 43rd out of 190 countries on the ease of trading across borders. Only 6 hours are needed to export goods from Georgia, far below 12.5 hours needed in OECD high income countries. Additionally, the costs associated to exports stand at US\$ 112 in Georgia, compared to US\$ 139.1 in OECD high income countries.

The auto business is an important component of Georgia's economy. Georgia imports cars from various countries and re-exports them to neighboring markets. This in turn led to the development of a strong domestic auto parts and auto servicing sector as the vehicles that are imported are mostly used, then repaired and sold on in the domestic and external markets. Car imports generated more than GEL 123mn in excise tax revenues in 2018 while car re-exports – Georgia's second-largest export category – stood at US\$ 408.3mn.

Auto business turnover posted impressive growth of 14.8% CAGR over 2010-18, reaching GEL 2.6bn in 2018. The three major sub-sectors that comprise the auto industry are: (i) sale of automobiles; (ii) automobile parts; and (iii) automobile servicing and repair. Sale of automobiles is the largest sub-sector by turnover accounting for 64.7% of the total in 2018, followed by auto parts (31.9%) and auto servicing (3.4%). Taking into account the large proportion of informal activity in the auto business (e.g. auto sale and auto parts bazaars, etc.), the full size of the sector is not fully captured by official business sector statistics, in our view.

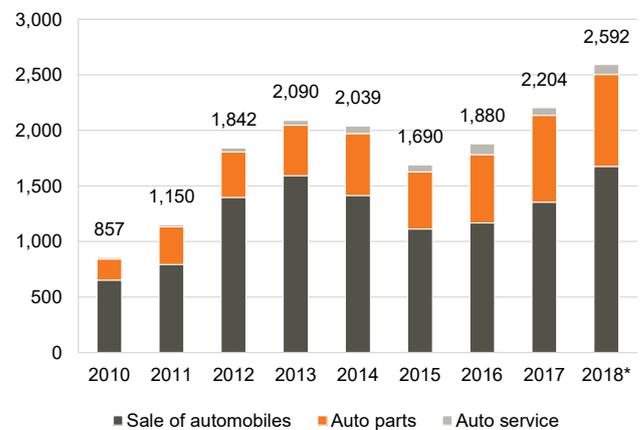
Cars are the second-largest export and import product in Georgia. Car exports accounted for 12.2% of the total country's exports and 6.6% of total imports in 2018. Car re-exports stood at US\$ 408.9mn and car imports reached US\$ 598.2mn, up 74.1% y/y and 25.4% y/y, respectively in 2018.

Figure 1: Car trade, US\$ mn



Source: Geostat
*Preliminary data

Figure 2: Auto business turnover, GEL mn



Source: Geostat
*Preliminary data



1.2 Car trade

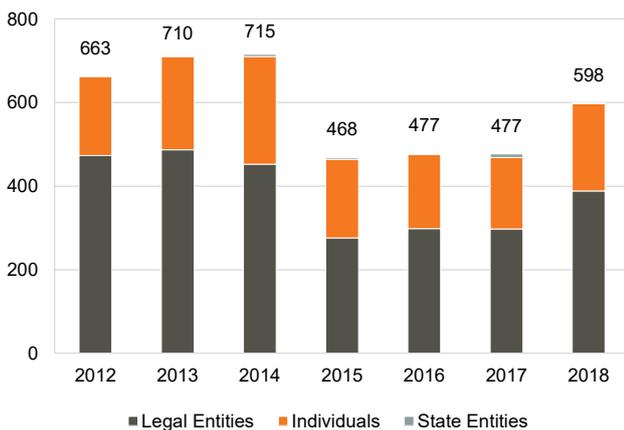
Car imports

The US became the largest car shopping market for Georgians since 2017 replacing Japan, affected by tax policy. Japan was Georgia's largest source of car imports, accounting for nearly half of the car import value over 2012-2016. This market lost popularity since 2017 as excise taxes on RHD cars imported from Japan were tripled. Meantime, 60% lower excise taxes on hybrids and increased excise taxes on fuel from 2017 spurred hybrid car imports from the US. As a result, imports from the US skyrocketed (rising 54.3% y/y to US\$ 198.1mn in 2017), surpassing Japan in 2017-18. Increased demand for Toyota hybrid cars boosted imports from Belgium (US\$ 125.4mn) also where Toyota's European Head Office is located. Most of the cars imported from Belgium were new 2017-18 models. Japan still held third position in 2018 with US\$ 49.5mn of import value (-58.5% y/y). The RHD cars imported from Japan were mainly hybrid and electric vehicles due to the 60% lower excise tax on hybrids and 0% excise tax on electric cars.

Government measures shifted demand to more expensive cars. The average price of imported cars almost doubled in 2018 to US\$ 9.5k from US\$ 5.4k in 2016. This was a result of changes in excise taxes, which stimulated the import of younger, eco-friendly cars, along with growing re-exports.

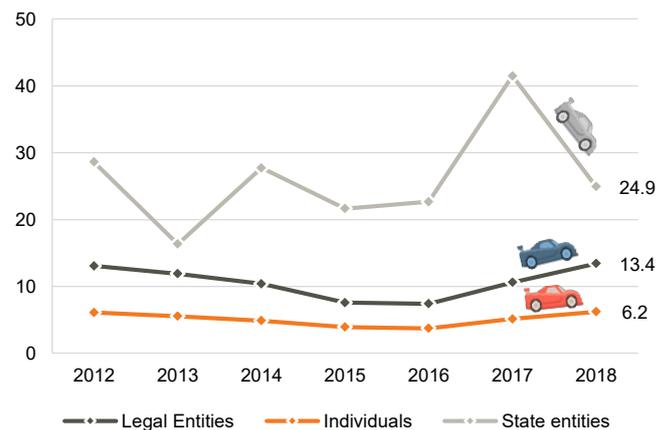
Car importers are companies as well as individuals. By quantity, most cars (53.9% or 33.7k cars in 2018) are imported by individuals for personal use or resale. By value, legal entities are larger (64.9% in 2018) as they traditionally import more expensive automobiles.

Figure 3: Imports by type of importer, US\$ mn



Source: Geostat

Figure 4: Average price of imported cars, '000 US\$



Source: Geostat, G&T Research

Car re-exports

Car exports from Georgia rebounded in 2017 after three consecutive years of contraction. The recovery in exports was supported by the improved economic environment in the region (particularly in Azerbaijan and Armenia) as well as a gradual improvement in import car standards to meet Azerbaijan's minimum requirements. Car re-exports totaled US\$ 234.9mn (+41% y/y) and US\$ 408.9mn (up 1.7x y/y) in 2017 and 2018, respectively.

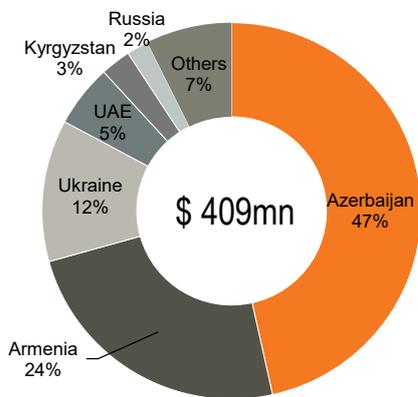


New standards introduced in Azerbaijan – Georgia’s largest export market (57.0% of total) in 2013 – hit car exports in 2014-16. In April 2014, Azerbaijan introduced Euro-4 regulations, allowing imports of only cars manufactured after 2005. Regional economic slowdown of 2015-16 further weighed on Georgia’s car re-exports. As a result, exports to Azerbaijan fell considerably in 2014-16, before recovering since 2017.

Azerbaijan is top car export destination by value and Armenia by quantity. Azerbaijan used to be Georgia’s top car re-export market by both value and quantity before 2014. This changed since 2014 - while Azerbaijan is still top re-export destination by value (46.5% of total in 2018), Armenia is top car export market by quantity. Average price of car exports in Armenia stood at US\$ 3.5k in 2018 – 4.2x lower than Azerbaijan and 1.8x lower than Ukraine. The UAE is one of the richest markets for Georgia at an average price of US\$ 56.3k per exported car in 2018, with nearly 450 cars exported annually in 2010-18.

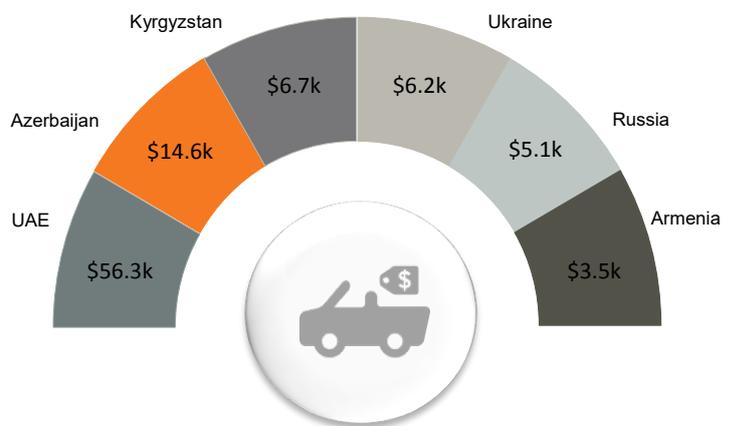
Ukraine emerged as third-largest re-export destination from 2017. This was supported by the significant reduction in Ukraine’s excise tax rates from August 2016 on used vehicles manufactured after January 2010. As a result, the export value to Ukraine reached US\$ 49.9mn, grabbing 12% market share in Georgia’s total car exports in 2018. With good trade infrastructure and knowledge of car trade, we do not exclude Georgian car dealers to grab new export markets if possibilities arise¹.

Figure 5: Exports of cars by destination, 2018



Source: Geostat

Figure 6: Average price of exported cars, 2018



Source: Geostat, G&T Research

Car exports continue upward trajectory in 1Q19, amounting to US\$ 99.1mn, up 52.8% y/y. Growth was largely supported by increased demand from Azerbaijan, Armenia and Ukraine, up 32.9% y/y, 20.4% y/y and 39.6% y/y in 1Q19, respectively. Notably, car re-exports to the UAE tripled to US\$ 10.9mn in 1Q19.

1.3 Auto business sector performance

Auto business turnover has been recovering since 2016 following the contraction in 2014-15. The sector posted a 17.4% CAGR over 2016-18. Automobile sales have largely supported this growth, posting a 19.9% CAGR over the same period. Automobile

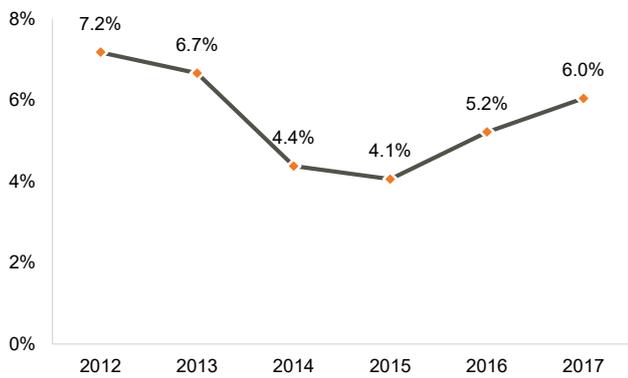
¹ Kazakhstan case is a good illustration of this reasoning. Kazakhstan became largest car export market for Georgia in 2011, accounting for 25.7% of total car exports. However, Georgia’s exports to this market sharply reduced after the significant increase of import tariffs on cars in Kazakhstan from 2012.



sales totaled GEL 1.7bn in 2018 thanks to increased re-exports and a shift to more expensive car sales on the domestic market.

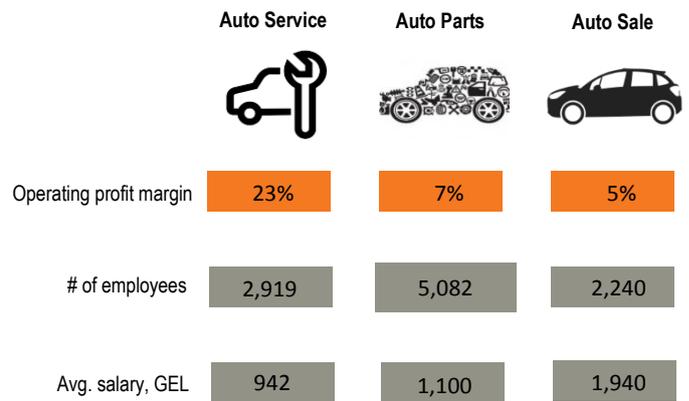
Auto business net profit margin averaged 5.1% in 2015-17 – in line with the total trade sector’s average of 5.2%. Despite large turnover, the auto business is characterized by low profitability. Some 97% of the sector’s revenue comes from sales of automobiles and parts; both of these have high cost of goods sold, which puts pressure on their margins. Therefore, among the sub-sectors in the auto sector, auto servicing is the most profitable with an average operating profit margin of 23.1% in 2018 followed by auto parts at 7% and auto sales at 4.5%.

Figure 7: Net profit margin of auto business sector



Source: Geostat, G&T Research

Figure 8: Profitability and employment by sub-sector, 2018



Source: Geostat, G&T Research

Note: Data calculated by Galt & Taggart based on Geostat quarterly data, which is subject to modifications

The auto business offers highly competitive salaries. According to Geostat’s preliminary data, over 10,000 people were employed in the auto business sector in 2018. The average monthly salary in the automobile sales sector was GEL 1,940 in 2018 – almost twice the average remuneration in the business sector overall (GEL 1,191) – while the average monthly salary in the auto parts and auto service segments was GEL 1,100 and GEL 942, respectively.



2. Regulatory changes

Government policy targets environmental and safety issues. With environmental and safety issues in mind, the Georgian government increased excise taxes on cars and fuel in 2017 and rolled out a mandatory vehicle inspection program in 2018. The government has also introduced a property tax on cars, pilot paid zonal parking, and car-sharing schemes, among other initiatives. Below provided list of implemented measures as well as upcoming regulatory changes which are expected to shape sector performance.



Changes addressing auto park renewal and environmental issues²

- Increased excise tax on cars from 2017
- 60% lower excise taxes on RHD and LHD hybrid cars from 2017 (0-6 years old only), no excise tax exemption for RHD hybrid cars from June 2019
- Increased excise tax on fuels from 2017
- Mandatory vehicle inspections from 2018
- 0% excise taxes and import duties on electric cars from 2011; development of charging infrastructure, free parking, car-sharing schemes and other promotional activities
- Euro 5 requirements for petroleum imports from 2017
- Euro 4 requirements for diesel imports/production from 2019
- State quality-control program of imported, domestically produced and traded fuel



Changes related to road safety

- Three times higher excise tax on RHD cars than LHD cars from 2017
- Increase in excise taxes on RHD electric cars from June 2019
- Compulsory motor third-party liability (MTPL) insurance for foreign-registered vehicles from 2018
- 100-point system for driving licenses from July 2017, with points cuts for accumulated fines
- Remote patrolling program from July 2017
- Smart cameras monitoring road traffic from November 2017
- Periodic renewal of driving licenses from April 2018



Upcoming regulatory changes

- Extended producer responsibility from December 2019, obliging producers and importers to take responsibility for safe and proper disposal of end-of-life tires and vehicles
- Compulsory MTPL insurance for all vehicles registered in Georgia – draft law submitted to parliament
- Ban on three-door and RHD cars operating as taxis from October 2019
- Enhancing diesel quality requirements to Euro 5 from January 2020

² More detailed information on regulatory changes is available in Annex 4



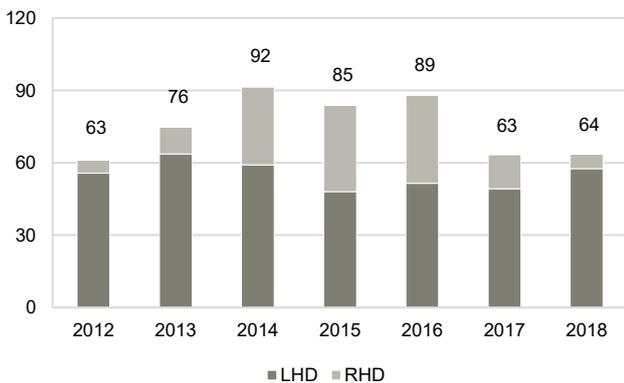
3.Regulatory impact – shift to younger, environmentally friendly, left-hand drive cars

Changes in excise tax structure from 2017 aimed at improving car fleet in Georgia.

Georgia’s current auto park is very old with 64.8% or 0.9mn cars over 16 years old and seriously polluting the environment. The government updated its excise taxes to stimulate auto park renewal with young and environmentally friendly alternatives. Namely, the government imposed almost 2x and 3x higher taxes on 6+ year-old cars and a 60% lower excise tax on hybrids (0-6 years old). Additionally, the government increased excise taxes on fuel and introduced several incentives to grow the presence of hybrid and electric cars in Georgia (20% lower vehicle inspection fees for electric cars, free parking for electric cars, car-sharing program, etc).

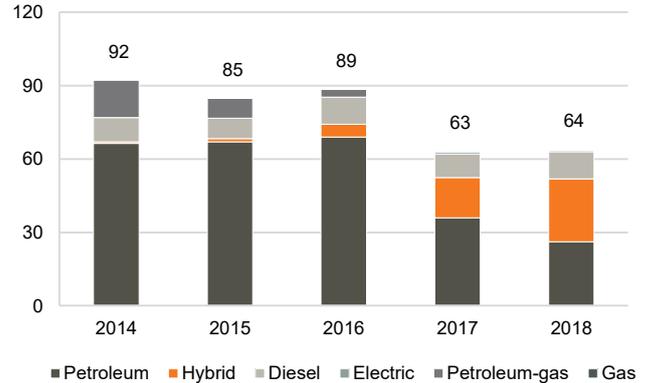
Government policies already yielded positive results. Over 2017-18, 36.2% of the cars that received state registration were under seven years old, up from 9.4% of total clearance over 2012-16. Moreover, clearance of RHD cars dropped to 6.0k in 2018 from 36.6k in 2016. With excise taxes on RHD hybrid and RHD electric cars raised from June 2019, the clearance of RHD vehicles is expected to fall to a minimum going forward.

Figure 9: Clearance of cars by steering wheel side, '000 units



Source: MIA
Note: Clearance may include cars deregistered later for re-exporting purposes.

Figure 10: Clearance by engine type, '000 units



Source: MIA
Note 1: Clearance may include cars deregistered later for re-exporting purposes.
Note 2 : No detailed data available before 2014

Demand for hybrid cars has surged since 2017, boosted by the 60% lower excise taxes on hybrids and increased excise taxes on fuel. Hybrid car clearance rose to 40.2% (25.6k cars) of the total in 2018 from 6.0% (5.3k cars) in 2016. Notably, the average age of registered hybrids was 7.7 years in 2017 and 7.2 years in 2018.

Demand for electric cars growing. Some 1.4k electric cars were registered in 2017-18 compared to an average of 80 per year over 2012-16. Notably, electric passenger cars have been exempt from import duties and excise taxes since 2011. Further growth of electric car imports will depend on their affordability as well as the development of car-charging infrastructure in Georgia.

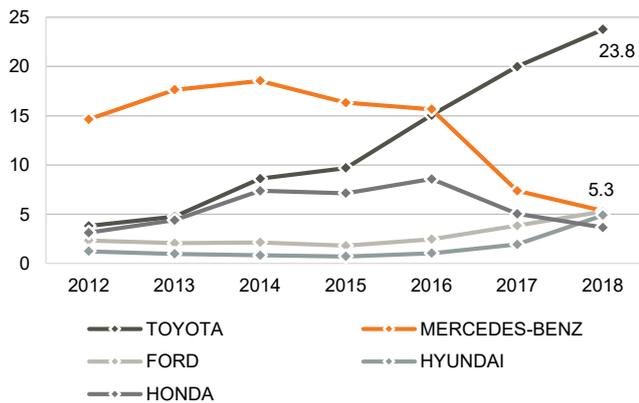
Increased popularity of hybrids has shifted demand from Mercedes-Benz to Toyota. Mercedes-Benz was the top brand of choice for Georgian drivers and dominated the market for years while Toyota was never even in the top five imported car brands. However, Toyota imports started to boom from 2015 and peaked in 2018, increasing its share from 11.4% (9.7k cars) of total clearance in 2015 to 37.2% (23.8k cars) in 2018.



Toyota Prius – most popular Toyota model in Georgia, frequently used as a taxi. In 2018, 13.2k out of the 23.8k Toyota cars registered in Georgia were Priuses. Notably, as of March 2019, 28.4k taxis are registered in Tbilisi, 6.6k of which are Prius models.

Toyota hybrids are facing increased competition from other brands in Georgia like Hyundai, Ford, Lexus, Kia and other hybrid alternatives. As an illustration, Toyota's share of total hybrid car registrations fell from 89.3% in 2016 to 73.4% in 2018.

Figure 11: Top five brands passenger car clearance, '000 units



Source: MIA
Note: Clearance may include cars deregistered later for re-exporting purposes.



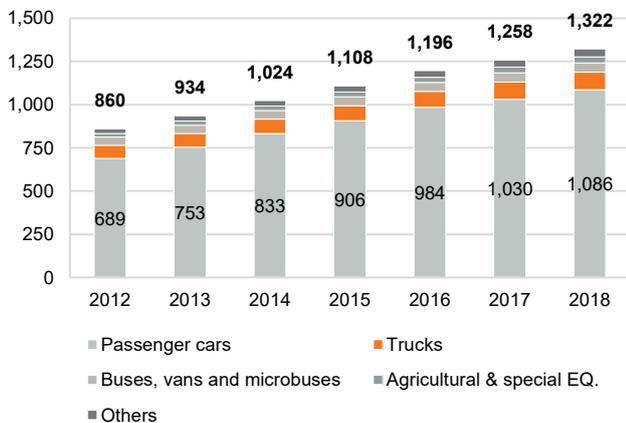
4. Auto park overview

Georgia's auto park continues to grow steadily, reaching 1.32mn vehicles in 2018, up 5.1% y/y on the back of increased passenger cars. Passenger cars (including SUVs) account for 82.1% of the total auto park, followed by trucks (7.7%), buses, vans and minibuses (4.1%), agricultural transport & special equipment (2.7%) and others. Notably, we believe that Georgia's auto park data is misleading as unused, outdated cars are incorporated into the total figure due to non-existing technical inspection before 2018. We think this could be revealed under mandatory vehicle inspection and in the beginning of 2020 the real number of vehicles currently in use will be available.

Penetration of young, environmentally friendly cars increasing but still very low. The share of 0-6 year-old cars in Georgia's auto park increased from 3.4% (40.3k cars) in 2016 to 5.8% (76.7k cars) in 2018. Meanwhile, the combined share of hybrid and electric cars increased from 0.7% (7.9k cars) in 2016 to 3.8% (50.0k cars) in 2018.

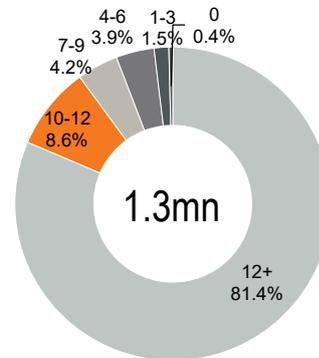
Toyota will likely outperform Mercedes-Benz and become the leading brand in Georgia's auto park. In 2018, Mercedes-Benz, Vaz, Opel, Ford and Toyota were the top five brands in Georgia, accounting for 50.1% of the local auto park. The Mercedes-Benz C and E classes are Georgian consumers' favorite models, but majority is 14+ years old. As demand shifts to relatively younger and hybrid cars, Toyota is expected to outperform Mercedes-Benz in the medium term. The trend is already evidenced by the share of Toyota models in the auto park increasing from 4.1% in 2015 to 7.7% in 2018 while the share of Mercedes-Benz remained stable at 13.2% in both 2015 and 2018.

Figure 12: Auto park dynamics, '000 units



Source: MIA
Note: Passenger cars include SUVs

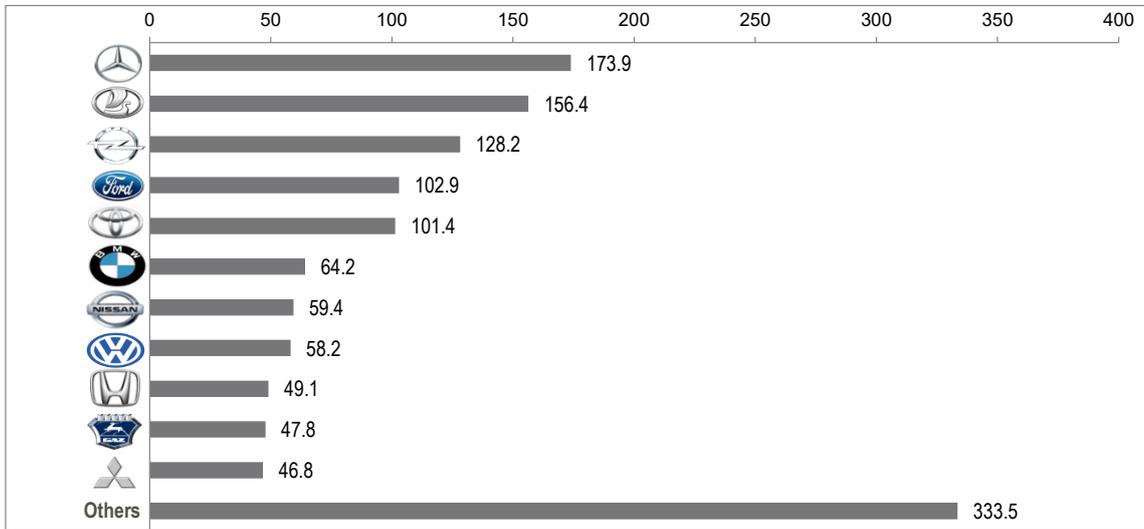
Figure 13: Auto park by age in years, 2018



Source: MIA



Figure 14: Auto park by brand in 2018, '000 units



Source: MIA



5. Forces shaping future car demand

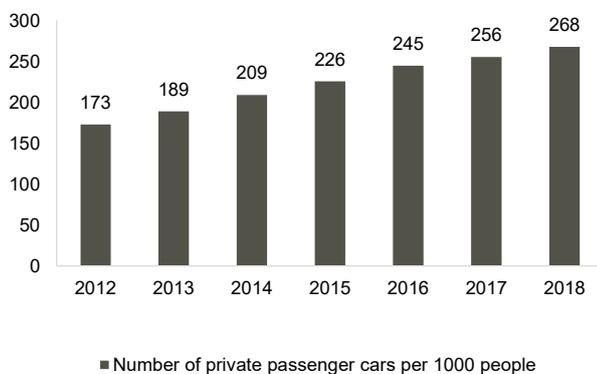
Car exports are expected to strengthen further in 2019 and outer years as the economic outlook for Georgia's target export markets is positive. This trend is evidenced by the 27.3% y/y increase in demand from Azerbaijan and Armenia in 1Q19. Furthermore, Georgia is starting to produce electric vehicles (EVs) with a production plant slated for launch in 2020. As EV imports are being encouraged in the region – with VAT and excise tax exemptions, free parking, exemption from environmental taxes and EV charging infrastructure being developed, etc. – car exports from Georgia are expected to continue to rise in the medium term.

Old-aged auto park – a tailwind to new car sales? Georgia has one of the oldest passenger car stocks in the region at an average age of 20.3 in 2017 – higher than Poland (17.3), Romania (16.2), Lithuania (15.5), Russia (13.1) and Ukraine (19.6). This creates the need for renewal in the medium term. Additionally, the government is investing heavily in renewing the existing bus fleet (23.2k busses) as 45.2% of current busses are more than 20 years old.

Mandatory vehicle inspection supporting the removal of old, malfunctioning and environmentally unfriendly cars from the auto park. In January 2018, vehicle inspection became mandatory for all kinds of vehicles registered in Georgia. Currently, inspection covers the basic technical control of vehicles. The government plans to tighten procedures from January 2020 and also test vehicle catalytic converters to try and reduce the level of harmful emissions. Out of the 338.3k vehicles inspected during 2018-1Q19 (including 233.0k passenger cars), 4.6k have already been restricted from driving on the road (including 2.1k passenger cars).

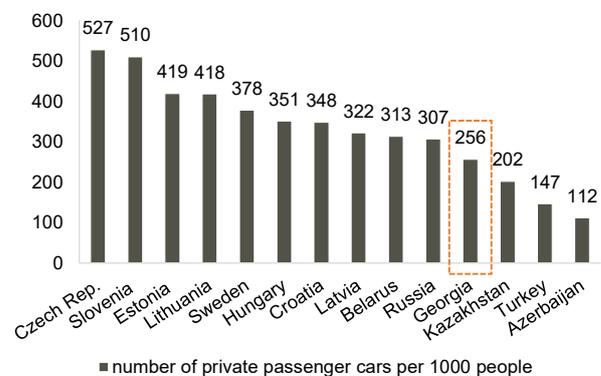
Georgia lags behind developed countries by number of private passenger cars per capita, showing room for further growth. The high concentration of cars in the capital of Georgia gives the impression that Georgia has high passenger car density. In reality, on a per 1,000 capita basis, private passenger car penetration in Georgia is only 256 – far below the ratios found in Latvia (322), Estonia (419) and Russia (307) but still above Azerbaijan (112) and Turkey (147). Low levels of car ownership in Azerbaijan and Turkey, richer countries than Georgia, is likely another indication that Georgian statistics is misleading and ongoing vehicle inspection program will reveal real numbers.

Figure 15: Number of private passenger cars growing...



Source: Geostat, MIA, G&T Research

... but still one of the lowest compared to other countries



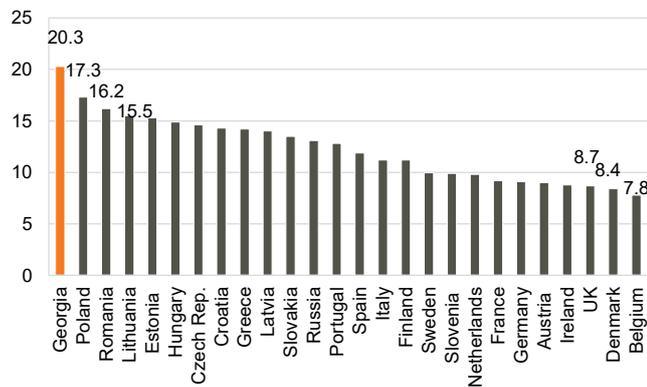
Source: G&T Research



As of January 2019, 1.23mn people held a valid driver's license in Georgia, while the number of registered private passenger cars was 998.8k. This means that at least 234.6k people are potential car buyers. However, improvements in public transportation and car-sharing schemes may contain this growth.

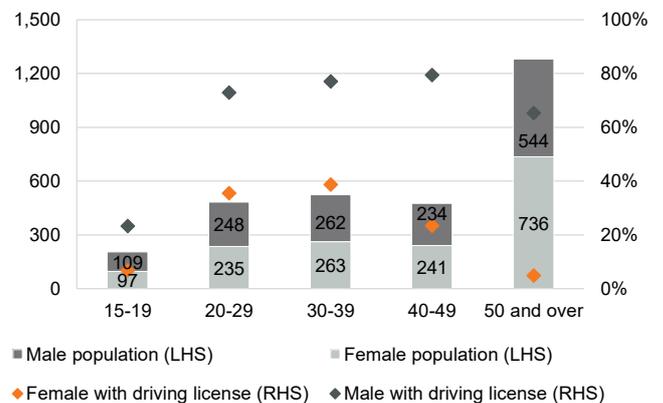
Women are another demand driver. The number of female drivers in Georgia has increased substantially in recent years but remains low, showing potential for improvement. As of December 2018, 17.9% of passenger cars were registered to women vs. 82.1% registered to men. Notably, in 2017 and 2018, out of the 58.5k and 48.6k driving licenses issued in each year, 45.1% and 43.5%, respectively were issued to women. Despite this growth, only 29.7% of females aged 15-49 hold a driving license as of January 2019 compared to 69.6% of men in the same age group. The gap between male and female license holders is substantial in every age group. Along with rising economic and social independence among Georgian females, more women are expected to take to the driving seat.

Figure 16: Average age of passenger cars, 2016-2017



Source: G&T Research, ACEA
Note: Data for Czech Republic, Georgia, Russia and Sweden are as of 2017, others are as of 2016.

Figure 17: Population distribution by gender and driving license ownership, '000, Jan-2019



Source: MIA, Geostat, G&T Research

New regulations and taxes make car ownership costly. Increased excise taxes on cars and fuel from 2017, the obligation to pay property tax on cars (for families with annual income over GEL 40k) from 2018, periodic mandatory vehicle inspections from 2018, upcoming mandatory motor third-party liability insurance, zonal and hourly parking schemes along with other initiatives are making car ownership in Georgia costly. The mentioned measures along with improved transport infrastructure will likely contain demand for cars in Tbilisi.

Tighter regulations on lending from traditional sources shifting consumer demand to alternative sources of finance. The four major sources of financing car purchases are: banks, microfinance organizations (MFOs), leasing companies and dealerships. Georgia's banking sector car loan portfolio grew at a 12.2% CAGR over 2015-18, making up only 0.7% of the total retail bank portfolio in 2018. It is notable that many Georgians frequently take consumer loans to finance car purchases (which are not reflected in the statistics). The NBS's stricter retail lending regulations from January 2019 reduced car loan portfolio by 1.3% y/y as of March 2019. As the number of younger and more expensive cars in the Georgian market is growing, we expect the use of leverage to finance car purchases to increase. Tighter lending terms expected to slow financing from traditional sources (banks and MFOs), shifting consumer demand towards auto leasing. This trend is evidenced by the car leasing portfolio of two major leasing companies in Georgia having doubled: TBC Leasing and Georgian Leasing Company (combined estimated book of GEL 64.8mn as of March 2019 versus GEL 31.0mn as of March 2018).



6. New car market and official dealership

Up to 40 world-famous brands have representatives in Georgia. Seven players in the Georgia auto business market own official dealership licenses for most international brands: Iberia Business Group, GT Group, Omega Motors, Sena Motors, Tegeta Motors Holding, Strada Motors and Global Motors Georgia. These companies not only buy and sell cars but also offer auto servicing as well as parts and accessories.

Government and companies are main clients for official dealers in Georgia. Of the 3.4k (6.2% of total) brand new cars that were added to the Georgian auto park in 2018, 64.0% were bought by legal entities, including the government. The latter two groups are usually the main buyers of new, unexploited cars, holding 59.2% of the total new cars sold domestically (8.1k cars) in 2015-17.

Re-exports of new cars are also small as most of the brands that are present in Georgia have showrooms in Azerbaijan and Armenia as well. On average, 2,690 brand new cars were re-exported over 2015-18. Azerbaijan is Georgia's major re-export market for new cars at 71.0% of the total (3.9k cars) in 2018, followed by Armenia (14.9% of total), the UAE (6.4% of total) and others.

New Toyota models most demanded in both domestic and external markets. In 2018, 41.8% (1.4k cars) and 73.1% (2.9k cars) of brand new cars sold in Georgia and re-exported were Toyotas.

Table 1: Re-exports by brand, 0 years old cars, units

	2015	2016	2017	2018
Toyota	982	1,102	1,914	2,878
Lexus	119	552	590	677
Audi	295	414	12	130
Land Rover	44	69	65	65
Nissan	8	8	13	63
Others	388	156	91	126
Total	1,836	2,301	2,685	3,939

Source: Revenue Service

Table 2: Domestic sales by brand, 0 years old cars, units

	2015	2016	2017	2018
Toyota	508	886	1,031	1,436
Skoda	30	35	266	328
Hyundai	115	190	179	270
KIA	156	194	59	187
Mercedes	131	186	185	171
Others	1,150	1,802	1,011	1,040
Total	2,090	3,293	2,731	3,432

Source: MIA



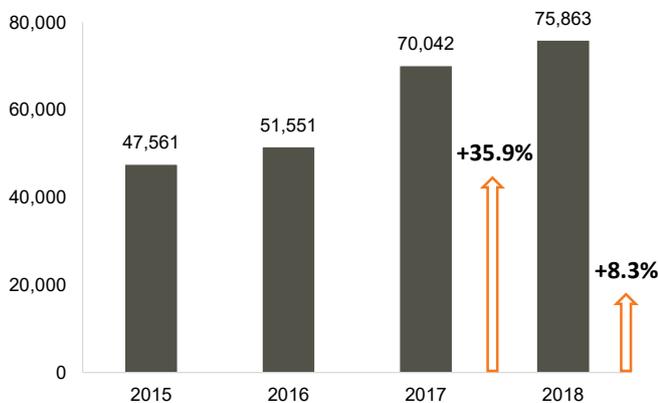
7. Car insurance

Only 5.7% of the registered vehicles in Georgia are insured as of 2018. Outdated auto park hinders car insurance development, as both car owners and insurance companies do not have incentive to insure old automobiles. As demand shifted to younger cars, the number of insured vehicles increased by 47.2% over 2016-18, reaching 75.9k cars in 2018.

Insurance companies are expected to benefit from the renewal of auto park in medium-term. Insurance companies generated GEL 85.8mn from road vehicle insurance (+15.2% y/y), 15.8% of the total premiums collected in 2018. TBC Insurance was the leading choice for vehicle insurance in 2018, holding 26.1% share, followed by Aldagi Insurance (24.6%) and GPI (15.7%). Along with rising younger car ownership among Georgians, we expect growth in car insurance in medium term.

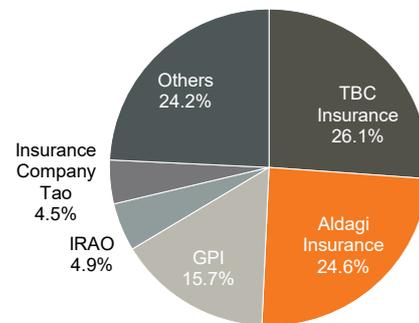
Compulsory motor third party liability (MTPL) insurance and rising household incomes are set to support greater demand on car insurance. Apart from the outdated auto park, lack of awareness of auto insurance benefits and low household incomes deter many Georgians from insuring their cars. Georgia introduced compulsory MTPL insurance on foreign registered vehicles from Mar-18 and plans to make it compulsory for all the vehicles registered in Georgia. The draft law was initiated in Dec-18 and is subject to parliament approval.

Figure 18: Insured road vehicles by year, units



Source: Insurance State Supervision Service

Figure 19: Road vehicle insurance premium collected by companies, 2018



Source: Insurance State Supervision Service



Annex 1 – Major brands presence by country

	Georgia	Azerbaijan	Armenia	Georgian Dealer
Alfa Romeo	✓	✓	✓	Strada Motors
Aston Martin		✓		
Audi	✓	✓	✓	IBG
Bentley	✓	✓	✓	Omega Group
BMW	✓	✓	✓	Omega Motors
Changan	✓	✓		Global Motors Georgia
Chrysler		✓	✓	
Ferrari		✓		
Fiat	✓	✓	✓	Strada Motors
Ford	✓	✓	✓	GT Motors
Foton	✓		✓	ASP Group
Honda	✓	✓	✓	Sena Motors
Hyundai	✓	✓	✓	Hyundai Auto Georgia
Infiniti		✓		
Jac	✓		✓	Sena Motors
Jaguar	✓	✓	✓	GT Motors
Jeep	✓	✓	✓	Strada Motors
Kia	✓	✓	✓	IBG
Lada	✓	✓	✓	Global Motors Georgia
Lamborghini		✓		
Land Rover	✓	✓	✓	GT Motors
Lexus	✓	✓	✓	Toyota Caucasus LT LLC
Lifan	✓	✓		OTO Motors
Maserati	✓			Omega Group
Mazda	✓	✓	✓	Tegeta Premium Vehicles
Mercedes-Benz	✓	✓	✓	AKA
MINI	✓	✓	✓	Omega Motors
Mitsubishi	✓	✓		IBG
Nissan	✓	✓	✓	Geo Auto
Peugeot	✓	✓		Lion Auto
Porsche	✓	✓	✓	Tegeta Premium Vehicles
Renault	✓	✓	✓	IBG
Rolls-Royce		✓		Global Motors Georgia
Seat	✓	✓		IBG
Shacman	✓	✓		Global Motors Georgia
Skoda	✓	✓	✓	IBG
Suzuki	✓	✓	✓	GT Motors
Toyota	✓	✓	✓	Toyota Center Tegeta Toyota Center Tbilisi
Volkswagen	✓	✓	✓	IBG
Volvo	✓	✓	✓	Tegeta Motors

Source: G&T Research



Annex 2 – Car imports and exports by country

Car imports to Georgia, US\$ mn

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total	402	511	663	710	715	468	477	477	598
of which:									
USA	84	130	125	156	176	125	128	198	278
Belgium	11	6	8	7	5	3	3	1	125
Japan	156	153	294	303	351	194	170	119	50
Turkey	4	3	3	6	6	6	11	32	44
Germany	73	107	120	121	94	82	85	48	43
Other	73	112	113	118	83	59	80	78	58

Source: Geostat

Car imports to Georgia, Units, '000

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total	48	57	67	81	97	85	88	62	63
of which:									
USA	10	13	14	18	22	18	21	33	42
Japan	12	10	14	21	44	44	43	17	7
Belgium	3	1	2	1	1	1	1	0	4
Germany	14	20	23	25	19	15	14	5	3
Turkey	0	0	0	0	0	0	1	1	2
Other	9	13	15	15	11	7	8	5	5

Source: Geostat

Note: Imports not fully contain re-exports data:

1. Cars imported for the purpose of re-exporting not included in imports but included in re-exports.
2. Cars imported and registered in Georgia and then deregistered and re-exported are included in imports and re-exports.

Car exports from Georgia, US\$ mn

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total	227	450	587	704	518	180	167	235	409
of which:									
Azerbaijan	104	178	346	401	268	64	49	88	190
Armenia	54	98	101	121	129	42	32	49	99
Ukraine	1	5	5	3	1	2	8	32	50
UAE	3	11	21	59	22	20	21	20	22
Kyrgyzstan	0	1	2	2	3	0	0	0	11
Other	65	159	112	118	94	52	57	45	38

Source: Geostat

Car exports from Georgia, Units, '000

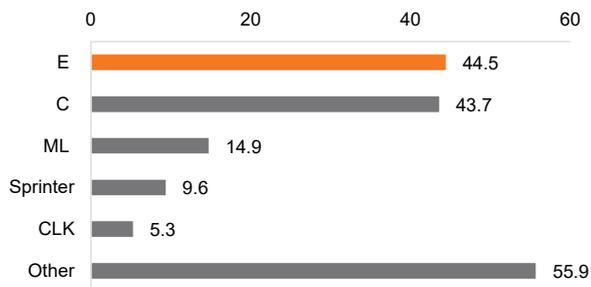
	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total	23	46	58	73	46	18	16	29	55
of which:									
Armenia	8	15	18	22	24	12	9	14	29
Azerbaijan	13	21	37	45	18	4	1	5	13
Ukraine	0	0	0	0	0	0	2	6	8
Kyrgyzstan	0	0	0	0	0	0	0	0	2
Russia	0	0	1	3	2	1	2	3	2
Other	3	10	3	4	2	2	2	2	2

Source: Geostat



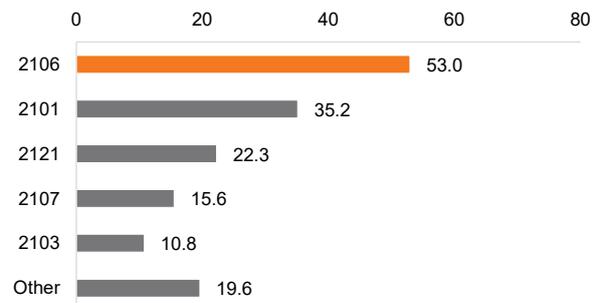
Annex 3 – Top five brands registered in Georgia

Mercedes – Benz by model, '000 units, 2018



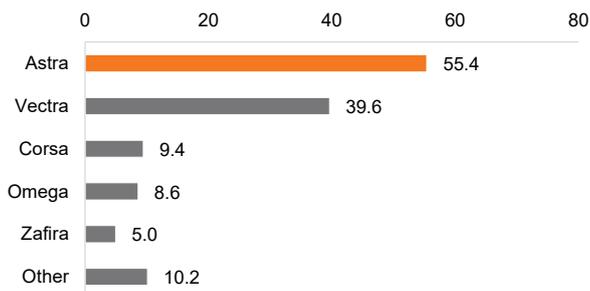
Source: MIA

Lada (Vaz) by model, '000 units, 2018



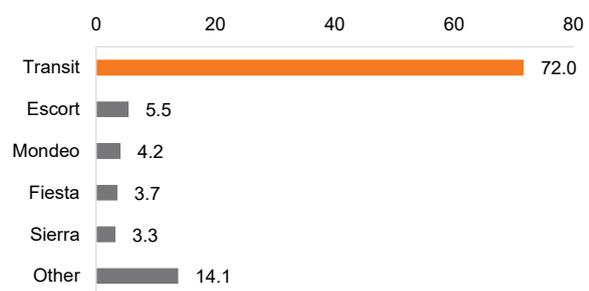
Source: MIA

Opel by model, '000 units, 2018



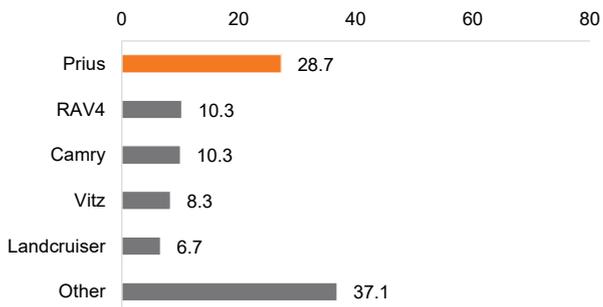
Source: MIA

Ford by model, '000 units, 2018



Source: MIA

Toyota by model, '000 units, 2018



Source: MIA



Annex 4 – Regulatory changes

Excise taxes for passenger cars, GEL per cubic centimeter

Age	2007-16	LHD now	RHD now	LHD hybrid now	RHD electric now
0	1.5	1.5	4.5	0.6	3,000
1	1.5	1.5	4.5	0.6	3,000
2	1.4	1.5	4.5	0.6	3,000
3	1.3	1.4	4.2	0.56	2,800
4	1.2	1.2	3.6	0.48	2,400
5	1.0	1.0	3.0	0.4	2,000
6	0.7	0.8	2.4	0.32	1,600
7	0.5	0.8	2.4	0.8	1,600
8	0.5	0.8	2.4	0.8	1,600
9	0.5	0.9	2.7	0.9	1,800
10	0.5	1.1	3.3	1.1	2,200
11	0.5	1.3	3.9	1.3	2,600
12	0.5	1.5	4.5	1.5	3,000
13	0.6	1.8	5.4	1.8	3,600
14	0.7	2.1	6.3	2.1	4,200
14+	0.8	2.4	7.2	2.4	4,800

Source: Legislative Herald of Georgia, G&T Research

Note: Left hand drive electric cars are exempt from excise tax and import duties

Excise tax on fuel, GEL per ton

Year	Petroleum	Diesel	Compressed natural gas
2007-2016	250	150	80
2017 and after	500	400	200

Source: Revenue Service of Georgia

Petrol and diesel quality specifications in Georgia

Petrol	Lead g/litre	Benzene % (volumetric)	Sulphur mg/kg	Aromatic Hydrocarbons % (volumetric)
Euro 5	≤ 0.005	≤ 1	≤ 10	≤ 35

Diesel	Cetane number	Density at 15°C, kg/m ³	Sulphur mg/kg	Poly-Aromatic Hydrocarbons % (volumetric)
Euro 4	≥ 48	≤ 845	≤ 50	≤ 11
Euro 5	≥ 51	≤ 845	≤ 10	≤ 11

Source: Legislative Herald of Georgia

Georgia started the state control program to ensure that the quality of imported, domestically produced and supplied fuel meets all the above-mentioned specifications. Importers, producers and suppliers of petrol and diesel that do not meet the quality requirements are fined with GEL 10k, 9k and 8k, respectively.

From January, 2018 Georgia started mandatory vehicle inspection to test the roadworthiness of the vehicles. Inspection basically checks the condition of the brakes, steering system, headlights, interior lighting, electrical equipment, axles, wheels, tires, suspension, chassis and vehicle emission as well as noise output levels. Technical inspection of electric cars cost GEL 48 and all other types of passenger cars cost GEL 60. Vehicles that fail the technical inspection are given 1 month to comply with requirements. Individuals and legal entities are fined with GEL 50 and GEL 200, respectively for not having the certificate of vehicle roadworthiness.

Compulsory motor third-party liability (MTPL) insurance for foreign-registered vehicles is effective from Mar-18, obliging every driver of the foreign registered motor vehicle to insure his civil liability for the full period of his stay in Georgia.



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