



# Georgian Railway – 1H21 update

## Liquid cargo back on track

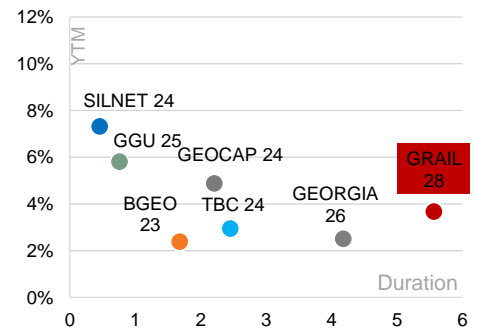
Fixed Income Research | Georgia  
Georgian Railway  
October 8, 2021

Georgian Railway released audited 1H21 results. The company generated US\$ 83.6mn (+3.4% y/y) in revenue and US\$ 38.2mn (+3.3% y/y) adjusted EBITDA in 1H21. The growth was mostly driven by increased revenue from sale of scrap (+US\$ 3.3mn) as well as higher freight transportation revenue (+US\$ 1.6mn). In 1H21 GR managed to bring back liquid cargo transportation volumes, hitting highest level in 6 years. Namely, GR transported 2.1mn tons of oil products in 1H21, up 46.7% y/y, boosted by transportation volumes from Turkmenistan and Azerbaijan. On a negative note, GR's dry cargo transportation, which makes up 65% of total transportation volumes, declined by 3.2% y/y in 1H21. Passenger transportation, which was the hardest hit revenue category for GR during the pandemic, remained under restrictions for some part of 1Q21, however positive trends are observed from 2Q21. Furthermore, freight handling and freight car rental, which together accounted for 20% of 2020 revenue, continued declining in 1H21, down 15.8% y/y to US\$ 13.0mn. GR maintained strong profitability margins, with adjusted EBITDA margin standing at 45.7% in 1H21. Yield on GR's new green Eurobond has been declining since issuance, standing at 3.7% by 7 October 2021. Notably, spread vs sovereign GEORGIA 26 has declined from c. 150bps in summer months to c. 120bps by end-Sep 2021.

**Transportation volumes going through Georgia continued growth in 1H21.** A total of 23.1mn tons of cargo was transported through Georgia in 7M21, up 4.1% y/y. Growth in rail transportation accounted for the lion's share in overall growth in 1H21, contrary to 1H20 when the growth was entirely driven by road transportation. Namely, rail transportation volumes were up 9.4% y/y to 7.0mn tons in 7M21, while road transportation volumes posted a 1.3% growth in the same period. Despite positive trends in transportation volumes, cargo handled at Georgian sea ports declined by 4.0% y/y in 7M21 (mostly due to lower cargo handled at Poti port, largest port in Georgia), the decline was more severe in number of containers handled at sea ports, dropping by 21% y/y to 237,300 TEUs in 7M21, likely related to supply chain disruptions.

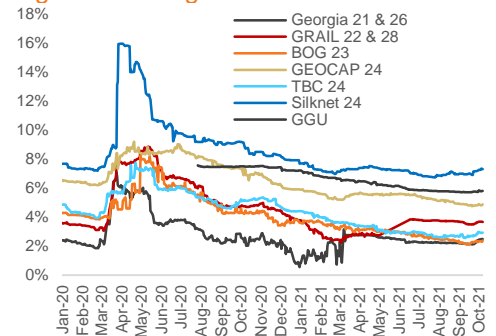
**Georgian Railway generated US\$ 83.6mn in revenue in 1H21, up 3.3% y/y.** Decline in 1Q21 revenue (-7.5% y/y to US\$ 38.6mn partially due to the high base of 1Q20) was fully offset by the strong growth in GR's 2Q21 revenue, up 14.5% y/y to US\$ 45.0mn. The growth was mostly driven by increased revenue from sale of scrap as well as higher revenues from freight transportation.

Figure 1: Georgian Eurobond universe



Source: Bloomberg

Figure 2: Georgian Eurobond universe



Source: Bloomberg, data as of October 7

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

	1H20	1H21
Revenue	80,907	83,605
EBITDA	37,652	38,757
EBITDA margin	46.54%	46.36%
Adjusted EBITDA	36,926	38,179
Adjusted EBITDA margin	45.6%	45.7%
Net income	-21,712	-9,647
Net profit margin	-26.8%	-11.5%
Assets	763,295	692,130
Liabilities	613,540	588,579
Equity	149,755	103,551
<b>Net debt to EBITDA</b>	<b>5.92x</b>	<b>6.01x</b>

Note: Debt to EBITDA is calculated on last 12 months basis

### Georgian Railway credit ratings



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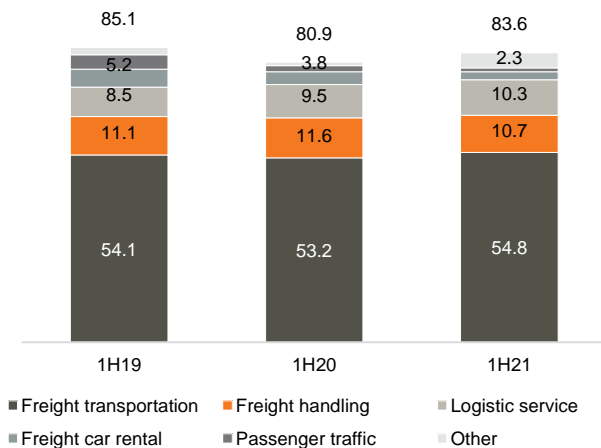
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Other revenue categories showed the following trends:

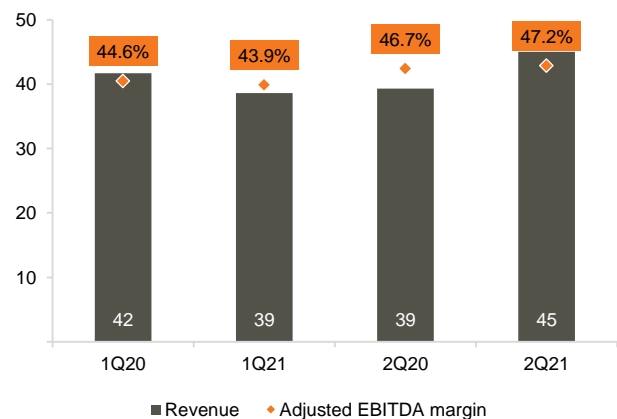
- Logistics service revenue, the 3rd largest revenue category, was up 8.2% y/y to US\$ 10.3mn in 1H21 on the back of strong 1Q21 performance (notably, logistical service related expenses hiked in 1H21 up 88.3% y/y mostly related to liquid cargo).
- In contrast, freight car rental revenue category experienced sharp decline in 1H21, down 39.6% y/y to US\$ 2.3mn, due to a decrease in the usage of GR's wagons on foreign railway networks as well as expiration of certain contracts.
- Freight handling, which made up 12.8% of total revenue, was down 8.2% y/y to US\$ 10.7mn in 1H21.
- Passenger traffic revenue continued declining in 1H21, down 31.2% y/y to \$US 1.17mn due to COVID-19 related regulations. Namely, passenger transportation was stopped from Mar-20 through Jun-20 and again from end Nov-20 through Feb-21. Notably, positive trends are observed from 2Q21, with revenue up from GEL 0.5mn in 2Q20 to GEL 3.1mn in 2Q21 (47% of the 2Q19 level), as restrictions were lifted.

Figure 3: Revenue, US\$ mn



Source: Georgian Railway, Galt & Taggart Research

Figure 4: Quarterly revenue and adjusted EBITDA margin



Source: Georgian Railway, Galt & Taggart Research

**Freight transportation, which made up c. 65.6% of 1H21 revenue increased 3.0% y/y to US\$ 54.8mn in 1H21, which is also 1.4% higher vs. 1H19 level.** The growth was entirely driven by increased liquid cargo transportation, with revenue up 27.6% y/y to US\$ 24.9mn in 1H21. Meantime dry cargo revenue was down, 11.2% y/y to US\$ 29.9mn.

**GR transported 6.0 tons of cargo in 1H21, up 10.1% y/y.** Rebound in liquid cargo transportation contributed the most to the overall growth in 1H21. Positive trends were also observed in manganese ore, sugar, construction and industrial freight transportation volumes, while transportation of grain and fertilizers decreased.

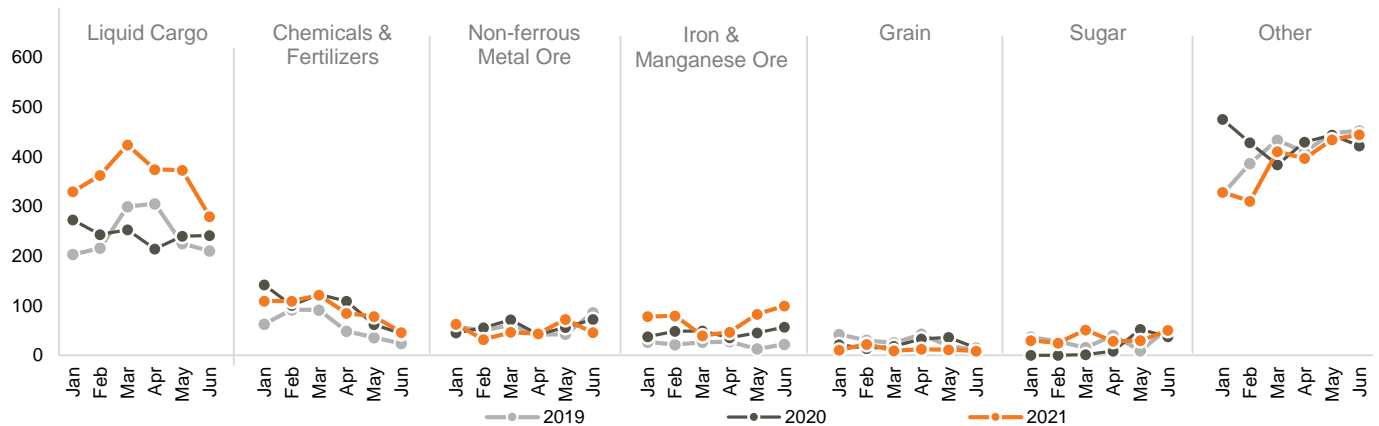
- **Oil products** – GR managed to increase oil products transportation (100% of liquid cargo) volume significantly in 1H21, up 46.7% y/y to 2.1mn tons. Notably, this is the highest level since 1H15. Increased transportation volumes from Turkmenistan (+0.4mn tons y/y) and Azerbaijan (+0.3mn tons



y/y) was the main reason behind the growth. GR's product direction mix for oil products changed significantly in 1H21, with the share of Russia (more profitable direction) reduced from 26% to 13% over 1H20-1H21, while share of Azerbaijan and Turkmenistan increased from 30% to 35% and from 21% to 37%, respectively. Rebound in oil prices globally and gradual increase in oil output among OPEC+ countries are the likely reasons behind the growth in transportation volumes in the region.

- **Manganese Ores** – GR transported 0.4mn tons of manganese ores in 1H21, up 56.5% y/y. Manganese ore is relatively more profitable product category for GR.
- **Sugar** – Sugar transportation volumes picked up in 1H21, with 0.2mn tons of cargo transported, up 115.8% y/y. Notably, the company started transportation of Sugar from Mexico (30,000 tons), while transportation from Brazil (main import country) increased by 93,000 tons y/y in 1H21.
- **Grain** – Grain transportation volume dropped by 46.8% y/y in 1H21 to 72,000 tons, mostly due to decreased volumes from Russia.
- **Fertilizers** – GR transported 0.55mn tons of chemicals and fertilizers in 1H21, down 5.6% y/y. The decrease was mostly due to lower transportation volumes from Turkmenistan and Russia. Notably, Georgia and Turkmenistan are the two major countries of origin for fertilizers transported by GR.

Figure 5: Freight transportation in Georgia by rail and product mix, '000 tons



Source: Georgian Railway

**GR maintained strong profitability margins in 1H21 helped by weak GEL.** GR generated US\$ 38.2mn in adjusted EBITDA in 1H21, up 3.4% y/y. As the company generates most of its revenue in USD, while most of the operating expenses are GEL denominated (GR's operating expenses were down 3.4% y/y in 1H20 in USD terms and up 5.8% y/y in GEL terms) the company's profitability margins remained strong in 1H21, with adjusted EBITDA margin flat at 45.7% in 1H21.

**GR incurred US\$ 37.6mn net finance costs during 1H21, down 17.4% y/y.** Higher interest expenses during 1H21 up from US\$ 20.5mn in 1H20 to US\$ 55.3mn was mainly due to Eurobond refinance process that took place in 2Q21 (paid US\$ 18mn accrued interest in addition to buyback-related costs c. US\$ 36mn). Namely, GR refinanced its US\$ 500mn Eurobond, by [issuing](#) new US\$ 500mn, 7-year green bonds, with coupon



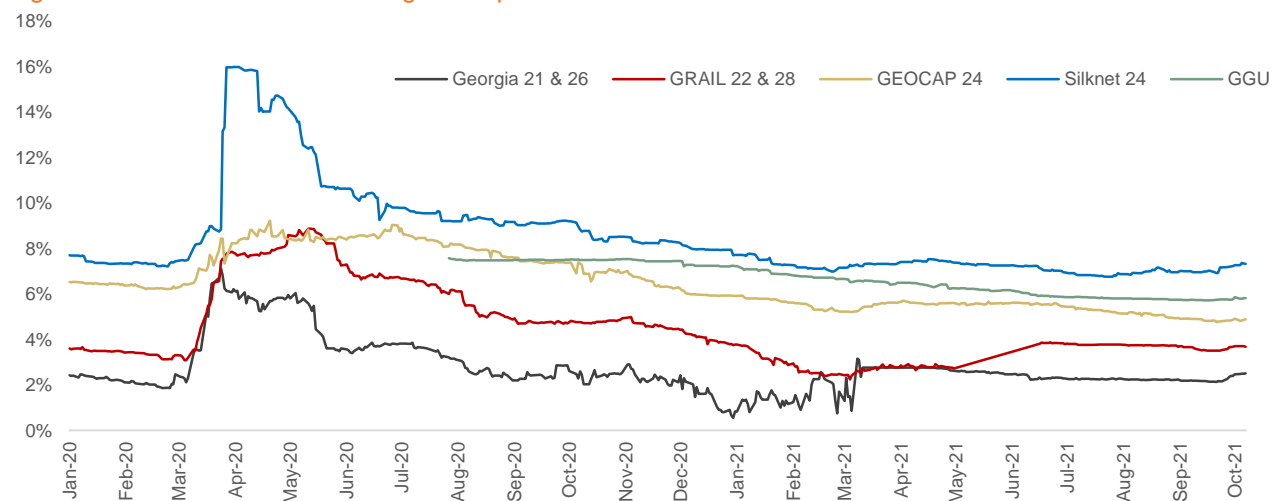
rate at 4.0%. This has put pressure on the company's liquidity position, with cash balance decreasing by 41.8% y/y to US\$ 58.3mn by end Jun-21. Increase in interest expenses were partially compensated by the US\$ 14.4mn FX gain recognized by the company during 1H21, due to GEL's appreciation between 31 December 2020 and 30 June 2020 (+3.5%) vs. US\$ 28.1mn FX loss recognized in 1H20.

Due to COVID-19 related disruptions, GR's Modernization project development slowed significantly in 1Q21. GR spent US\$ 6.4mn in Capex in 1H21, down 38.5% y/y. Works on the project resumed from 2Q21.

During the preparation of 1H21 consolidated interim financial statements, Management identified errors in 1H20 financials. The effect of corrections to the total equity amounted to GEL 34.5mn, mostly related to suspension of capitalized borrowing costs on the Modernization project, which were previously capitalized to property, plant and equipment.

Since the issuance of the new US\$ 500mn green Eurobond in Jun-21, yields on the GRAIL 28 has been declining and by 7 October 2021, yield on GRAIL 28 stood at 3.7%, or 101.0% of par. Notably, GRAIL 28 spread vs the sovereign GEORGIA 26 has been declining and stood at 120bps by end-Sep, compared to c. 150bps spread in summer months.

Figure 6: YTM on selected Georgian corporate Eurobonds



Source: Bloomberg, as of 7 October 2021



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