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Georgian Railway - 1H23 update

Fixed Income Research | Georgia
Georgian Railway
September 15, 2023

Georgian Railway continued to deliver positive results in 1H23, albeit at a slower pace. The company's revenue grew 15.6% y/y to US$ 117.7mn, primarily fueled by revenues generated from freight traffic, logistic services and passenger traffic. Despite this, the EBITDA witnessed a 19.3% y/y decline to US$ 34.9mn in 1H23, driven by a surge in operating expenses, particularly influenced by rising employee benefits, and GEL appreciation. Consequently, the EBITDA margin for the period marked a notable decrease to 29.7%, from 42.5% in 1H22.

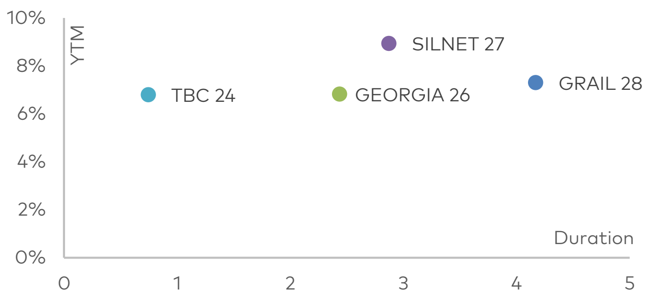
Cargo volumes remained at elevated levels in 1H23 reducing by just 2.4% y/y to 6.7mn tons. This reduction was primarily attributed to a 5.9% y/y decrease in transit volumes, mostly stemming from the reduced transportation from Kazakhstan and Turkmenistan. Notably, liquid cargo played a vital role in maintaining steady volumes of total cargo transported in 1H23, registering an 8.9% y/y growth to 2.4mn tons, while dry cargo exhibited 7.9% y/y decline to 4.2mn tons. For the full 2023 year, we expect revenue growth to moderate and increase by 4.7% y/y to US$ 242.3mn, considering last year's high base (see more here).

Financial highlights, US$ mn

Category	1H22	1H23	% change y/y
Revenue	101.8	117.7	15.6%
of which:			
Freight traffic	75.7	81.2	7.2%
Logistic service	20.0	26.2	30.5%
Passenger traffic	3.2	6.9	114.0%
Freight car rental	2.1	2.3	7.3%
Other	0.7	1.1	63.0%
EBITDA	43.3	34.9	-19.3%
EBITDA margin	*42.5%*	*29.7%*	*-12.8ppts*
Adjusted EBITDA	40.7	34.5	-15.3%
Adjusted EBITDA margin	*40.0%*	*29.3%*	*-10.7ppts*
Net income	52.8	33.3	-36.9%
Net profit margin	*51.8%*	*28.3%*	*-23.6ppts*
Assets	803.9	929.9	15.7%
Liabilities	607.7	598.4	-1.5%
Equity	196.2	331.5	69.0%
Net Debt	419.9	409.8	-2.7%
Net Debt to EBITDA	5.4x	4.4x	

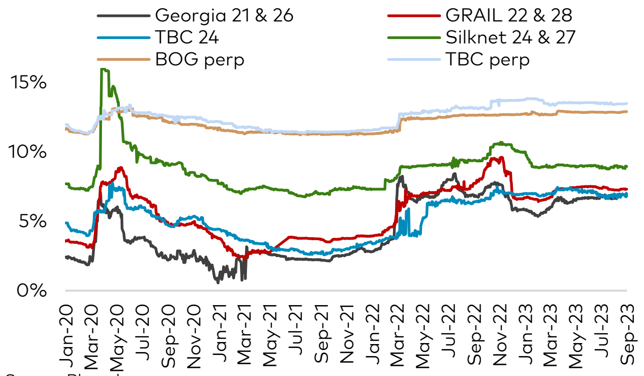
Source: Georgian Railway
Note: Net debt to EBITDA ratio calculated based on figures in GEL

Figure 1: Georgian Eurobond universe



Source: Bloomberg

Figure 2: Georgian Eurobond universe



Source: Bloomberg

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Georgian Railway credit ratings

S&P Global Ratings	Fitch Ratings
BB-	**BB-**
Stable	Positive
Affirmed Dec-2022	Affirmed Feb-2023

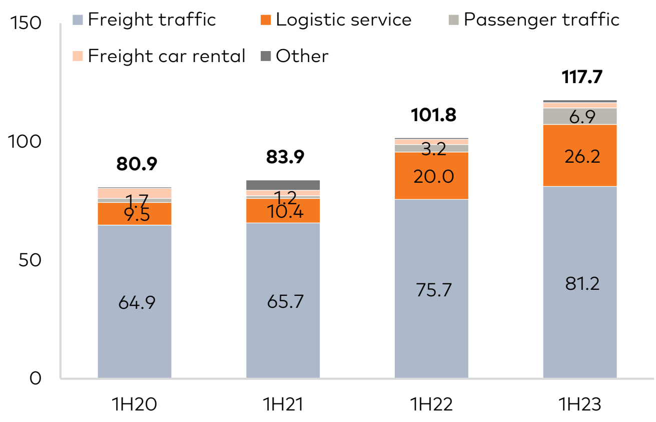
Source: Georgian Railway

How Georgian Railway performed in 1H23

Georgian Railway maintained its positive performance in 1H23, albeit at a slower pace. The company's revenue grew 15.6% y/y to US$ 117.7mn in 1H23, primarily driven by higher revenues from freight traffic, logistic services and passenger traffic:

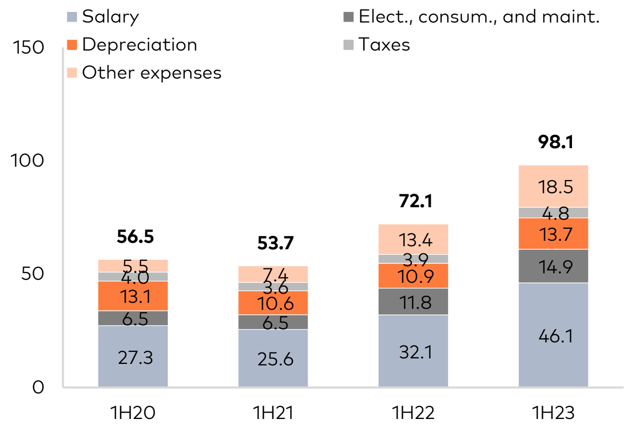
- Comprising 69.0% of total, the revenue from **freight traffic** increased 7.2% y/y, reaching US$ 81.2mn in 1H23. The decline in transported volumes for certain dry cargo categories, such as chemicals & fertilizers and ferrous metals & scrap, was offset by the transportation of goods to nearby destinations with higher tariffs, resulting in an overall revenue rise.
- **Logistic services** revenue, which constituted 22.2% of the total revenue in 1H23, surged by 30.5% y/y, reaching US$ 26.2mn. This growth was propelled by an increase in container transportation facilitated by GR's subsidiaries.
- **Passenger traffic** revenue, the 3rd-largest contributor with a 5.9% share in total, doubled to US$ 6.9mn. This surge was influenced by a rise in passenger traffic (+66.0% y/y to 1mn passengers) and a price increase on the Tbilisi-Batumi ticket by GEL 10 from Jul-22.
- Generating a minor portion of the revenue, **freight car rental** saw a modest uptick of 7.3% y/y, reaching US$ 2.3mn in 1H23.

Figure 3: Georgian Railway's revenue, US$ mn



Source: Georgian Railway

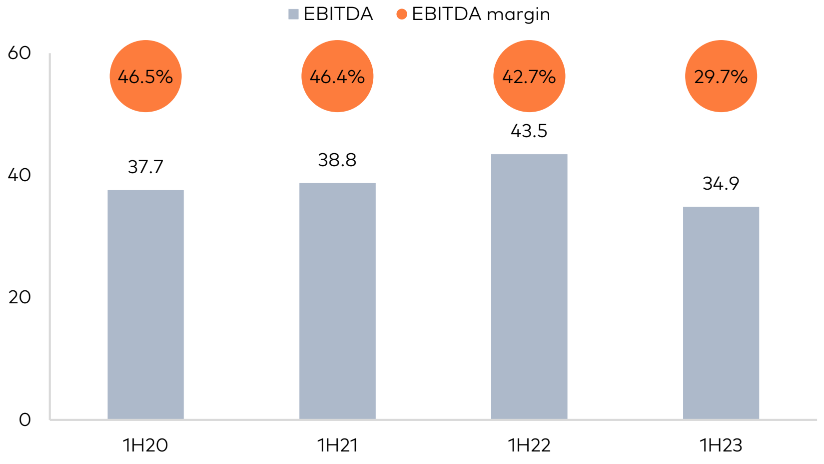
Figure 4: Operating expenses, US$ mn



Source: Georgian Railway

Georgian Railway's operating expenses surged by 36.0% y/y to US$ 98.1mn, mostly influenced by elevated employee benefits and GEL appreciation in 1H23, as company's operational expenses are mostly GEL- denominated. Salary expenses made up almost half of total expenses, followed by depreciation (14.0% of total), logistic service charges (11.3% of total) and electricity costs (7.3% of total) in 1H23.

Figure 5: Georgian Railway's EBITDA and EBITDA margin, US$ mn



Source: Georgian Railway

The surge in operating expenses led to a 19.3% y/y decline in EBITDA, totaling US$ 34.9mn in 1H23. Consequently, the EBITDA margin for the period settled at 29.7%, marking a significant decrease compared to the 42.5% margin achieved in 1H22.

Despite a 36.9% y/y decline, the net profit remained substantial at US$ 33.3mn in 1H23. Net profit performance was predominantly influenced by higher operating expenses and decline in net finance income attributed to GEL appreciation, which reduced revenues from company's FX exposure.

Cargo transportation slightly down, yet remaining at high levels in 1H23

The volume of transported cargo was down 2.4% y/y to 6.7mn tons in 1H23, reflecting last year's high base. Notably, transportation volumes in 1H23 were 10.6% higher compared to volumes in 1H21.

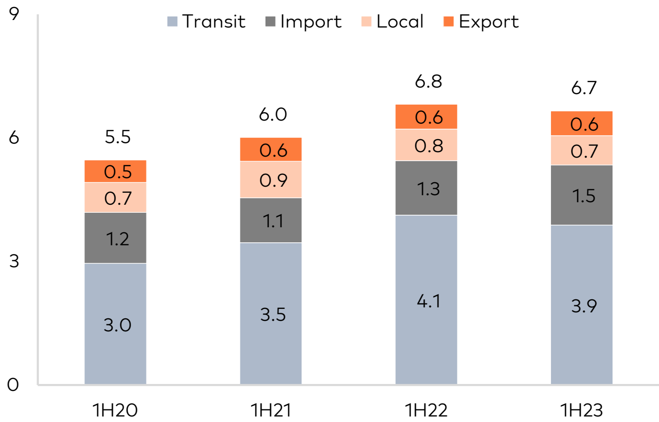
Transit, which represented 58.4% of total volume, was down 5.9% y/y to 3.9mn tons in 1H23. This decline can be attributed to reduced transport volumes from Kazakhstan (down 5.9%y/y to 0.9mn tons) and Turkmenistan (down 34.8% y/y to 0.7mn tons). These two countries jointly accounted for 41% of the total transit volumes in 1H23, compared to 49% in 1H22. Meanwhile, this decline was partially offset by increased transit from Azerbaijan, with total transit volumes surging 49.5% y/y to 1.05mn tons, primarily driven by the transport of oil products in 1H23.

Imports, constituting 21.9% of total cargo transportation, recorded a 10.4% y/y growth to 1.5mn tons in 1H23. Growth was propelled by increased imports of oil products and coal from Russia, along with cement clinkers from Azerbaijan.

Exports, which account for 9.0% of total cargo transportation, exhibited a slight 1.1% y/y decline to 0.6mn tons in 1H23. The exports of chemicals & fertilizers and silicon manganese, two of the largest export categories in 1H22, declined by 12.8% y/y and 51.4% y/y, respectively in 1H23. However, an increase in exports of mineral waters to Russia (+15.2% y/y) and wheat to Armenia (+25% y/y) almost fully compensated the abovementioned decline, resulting into a slight overall decrease of 1.1% y/y in 1H23.

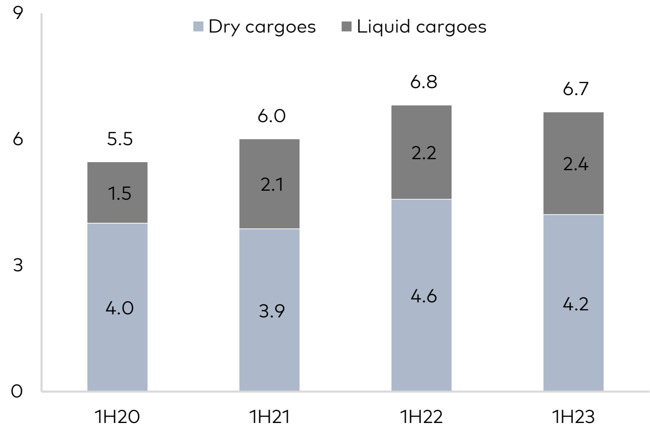
Local transportation, which made up 10.7% of total, was down 6.7% y/y to 0.7mn tons in 1H23. Downturn was influenced by a decrease in domestic transportation of manganese ores and concentrates (-64.0% y/y).

Figure 6: Cargo breakdown by destination, mn tons



Source: Georgian Railway, Geostat

Figure 7: Cargo breakdown by category, mn tons



Source: Georgian Railway

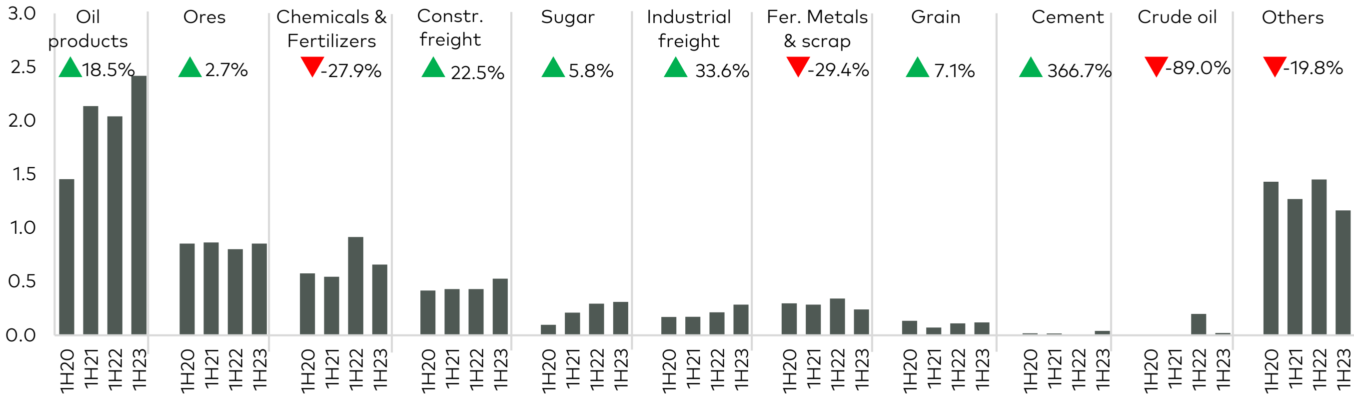
Dry cargo transportation, the largest category with 63.3% share in total, decreased 7.9% y/y to 4.2mn tons in 1H23. The decline was predominantly attributed to a reduction in demand on chemicals & fertilizers from western Europe, while other categories of dry cargo exhibited growth.

- Ores have surpassed chemicals & fertilizers to become the leading product in dry cargo transportation, with 6.6% y/y growth to 0.9mn tons in 1H23.
- The transportation of chemicals & fertilizers, which was the primary catalyst for dry cargo growth in 2022, declined by 27.9% y/y to 0.7mn tons in1H23.

The 8.9% y/y growth in liquid cargo transportation played a vital role in maintaining steady volumes of total cargo in 1H23. GR transported 2.4mn tons of liquid cargo in 1H23, resulting in its share growing to 36.7% of total in 1H23 from 32.9% in 1H22.

- Liquid cargo is almost entirely composed of oil products, which continued a remarkable growth of 18.5% y/y to 2.4mn tons in 1H23. The growth was propelled by restored transit from Azerbaijan and increased imports from Russia, facilitated by more affordable prices on Russian oil products.

Figure 8: Cargo transportation by volume, mn tons and % y/y change in 1H23

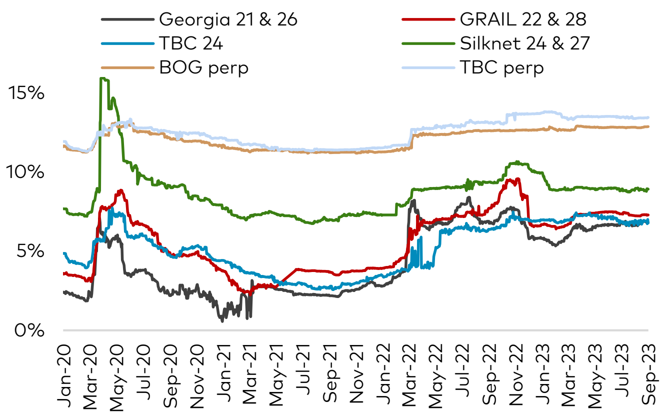


Source: Georgian Railway

Eurobond performance

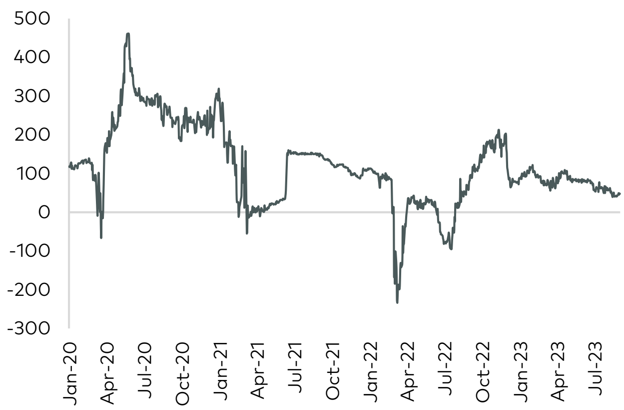
The yield trends of Georgian Railway's Eurobond have been in line with Georgia's sovereign Eurobonds, with yield on GRAIL 28 standing at 7.3% as of Sep-23. Notably, the spread has narrowed between GRAIL 28 and GEORGIA 26 bonds, decreasing to 48.5 bps by the end of August 2023, from the 212.6 bps seen on Nov-11, 2022.

Figure 9: YTM on selected Georgian Eurobonds



Source: Bloomberg

Figure 10: GRAIL 22 & 28 spread over GEORGIA 21 & 26, bps



Source: Bloomberg

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