S&P Global Ratings

RatingsDirect®

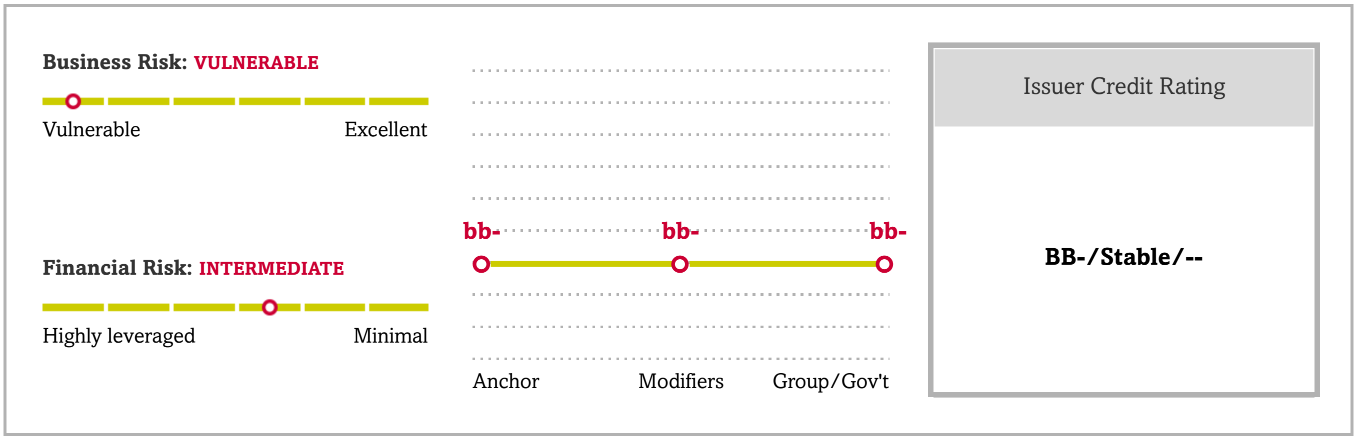
Georgia Capital JSC

Primary Credit Analyst:
Mikaela Hillman, Stockholm + 46 84 40 5917; mikaela.hillman@spglobal.com

Secondary Contacts:
Benedetta Sorge, Milan +39 272111244; benedetta.sorge@spglobal.com
Marta Bevilacqua, Milan + (39)0272111298; marta.bevilacqua@spglobal.com

Table Of Contents

Georgia Capital JSC



Credit Highlights

Overview

Key strengths	Key risks
Investments in a range of industries, including banking, pharmaceuticals and health care, insurance, utilities, real estate and hospitality, private education, and renewable energy.	Mainly exposed to the Georgian economy where the investment holding company's assets operate and derive most of its cash flows.
Publicly stated target to deleverage to a net capital commitment (NCC) ratio below 15%, while the financial policy allows for a range of 15%-40%. On Dec. 31, 2023, the NCC ratio stood at 15.6%, which translates into an adjusted loan-to-value (LTV) ratio of about 8.3%.	Limited portfolio diversity with its largest asset, Bank of Georgia PLC, representing more than 30% of the portfolio, and the three largest assets constitute more than 60% of its portfolio value.
Comfortable liquidity and debt maturity profile following the refinancing in 2023.	Relatively high share of unlisted holdings representing 62% of total portfolio value, which stood at about $1.3 billion as of Dec. 31, 2023.
	Exposure to foreign exchange (FX) risk with U.S. dollar denominated debt of $150 million, while divided income is mainly in British pound sterling (GBP) and in Georgian lari (GEL).

Supported by the expanding Georgian economy, we continue to expect resilient asset valuations and operating performances of Georgia Capital's assets over 2024-2025. Georgia's economy continued to perform strongly over 2023, with real GDP growth reaching an estimated 7%, mainly thanks to continued financial and migration inflows, particularly from Russia, alongside strong growth in the tourism sector. For 2024, we anticipate that real GDP growth will slow to a still-strong 5%, mainly supported through rising consumer spending and investments in the economy (refer to "Georgia," published Feb. 12, 2024 for further information).

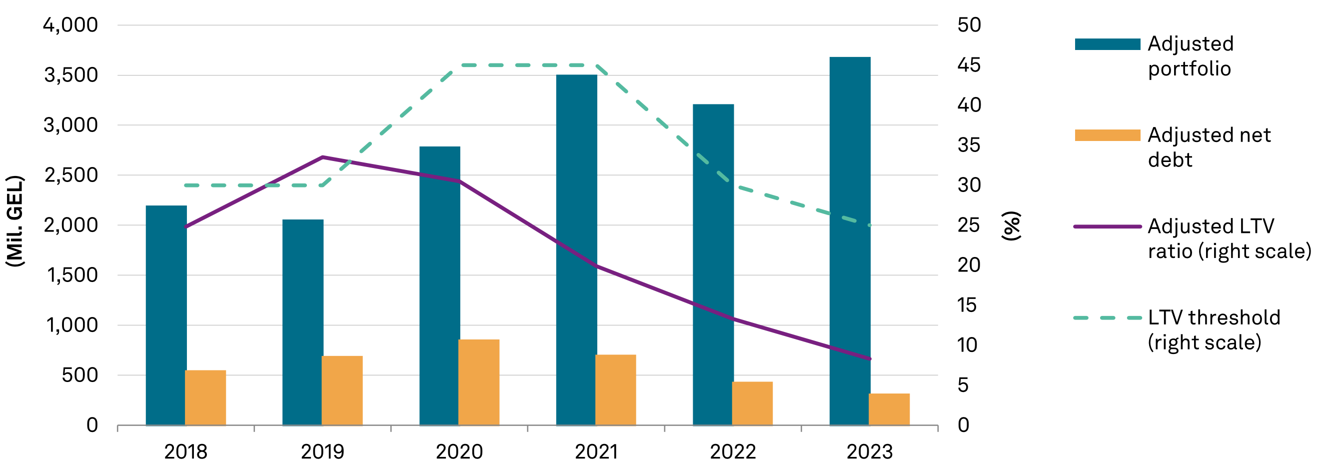
For the full-year 2023, the portfolio value of Georgia Capital, which relies on all assets operating in Georgia, increased by about 14.8% totaling GEL3.7 billion at year-end 2023, up from GEL3.2 billion at year-end 2022. Growth in portfolio valuation was mainly supported by the 52.6% share price appreciation of Bank of Georgia (BoG) over the year. The bank is 19.7% owned by Georgia Capital, and is its only listed asset. The stake was valued at GEL1.2 billion as of Dec. 31, 2023, representing about 33% of total portfolio value. Further on, growth was also supported by a 3.3% increase in the private portfolio's value (representing about 67% of total portfolio value). Performance across retail (pharmacy), insurance, renewable energy, and education was solid in 2023, however partially offset by the subdued performance of the hospitals business, which was weakened by recently introduced government regulations.

For 2024, we anticipate that Georgia Capital's assets will continue to benefit from still supportive demand and resilience in the Georgian economy over the near term.

We view BoG's acquisition of Ameriabank as moderately supportive for Georgia Capital's asset base development. During the first quarter of 2024, BoG announced the acquisition of Ameriabank (BB-/Stable), an Armenian bank, for about $300 million. Ameriabank will represent about 20% of BOG's profit and the bank will become one of the more diverse regional banking groups, with leading market positions in two, albeit relatively small, economies (see "Armenia-Based Ameriabank Affirmed At 'BB-' On Proposed Acquisition By The Stronger Bank of Georgia Group; Outlook Stable," published March 7, 2024). We expect this will benefit Georgia Capital both in terms of BOG valuation and future dividend inflow. The transaction closed at the end of March 2023, and year to date, the BOG share price was up by about 25%, implying about GEL306 million value appreciation of Georgia Capital's stake in the bank, and all else equal, increases the portfolio share of listed assts to about 38.5%. We understand that BOG intends to keep its dividend and capital distribution policy unchanged, targeting a payout ratio within 30%-50% of annual profits. We therefore assume that Georgia Capital's dividend inflow from BoG will increase by about 20% in 2025 as a result of the bank's acquisition.

Chart 1

Georgia Capital--Portfolio and LTV evolution



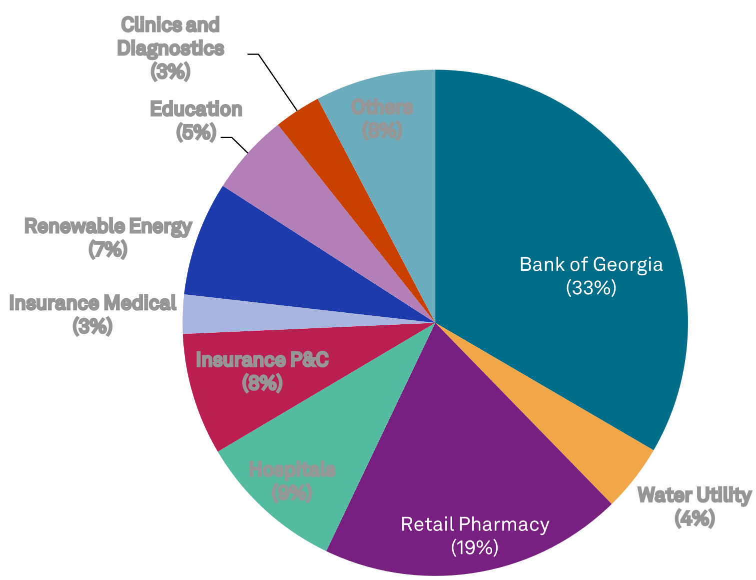
GEL--Georgian Lari. LTV--Loan to value. Source: S&P Global Ratings.

Georgia Capital enjoys a long-dated debt maturity profile following its successful refinancing and it has continued to improve its financial flexibility under the LTV threshold for the rating. On Aug. 3, 2023, Georgia Capital issued $150 million sustainability-linked local bonds in Georgia, with an 8.5% coupon rate, payable in August 2028. The proceeds from the transaction, together with Georgia Capital's existing liquid funds were fully used to redeem its $300 million

Eurobonds. Following these transactions, Georgia Capital's gross debt balance decreased to $150 million from $300 million. The company has had an outspoken deleverage target over the last couple of years, and the holding has continued to deleverage since its refinancing. The S&P Global Ratings-adjusted loan-to-value ratio improved to 8.3% at the end of 2023, down from 8.7% at the end of Q3 2023 and 13.3% at the end of 2022, indicating good rating headroom under the 25% LTV threshold we currently have for the 'BB-' rating.

Chart 2

Portfolio breakdown as of Dec. 31, 2023



Source: S&P Global Ratings.

Georgia Capital's business risk remains constrained by its concentration in Georgia and relatively low share of listed assets. The companies in Georgia Capital's portfolio are all based in Georgia. BoG, where the group holds a 19.7% stake, is the most prominent and only listed asset in the portfolio after the health care business was taken private in 2020. The stake in the bank was valued at GEL1.2 billion at the end of Dec. 31, 2023, representing about 33% of Georgia Capital's total portfolio by value. The company also retained a 20% stake in Georgian Global Utilities JSC, on which it has a put option with a pre-agreed enterprise value to EBITDA multiple, which can be exercised within 2025-2026. The value of this stake stood at GEL159 million ($59 million) on Dec. 31, 2023 and is about 4% of total portfolio value. Consequently, the listed and observable portfolio made up about 38% of portfolio value while the remaining 62% of the company's portfolio was represented by unlisted assets. This, in our view, could limit its ability to quickly monetize its investments to repay the debt, which could be important if liquidity becomes constrained unexpectedly.

Outlook: Stable

The stable outlook reflects our view that Georgia Capital's S&P Global Ratings-adjusted LTV ratio will remain below 25% in the next 12 months. We also expect solid dividends from its assets, which should translate into a cash flow adequacy ratio of about 3x.

Downside scenario

We could lower the rating if Georgia Capital's LTV ratio approaches 25%. LTV ratio deterioration would most likely be the result of a material weakening in equity values, large negative currency fluctuations, or material share buybacks signaling a more aggressive stance toward leverage.

Ratings pressure could also result from a material deterioration of the credit quality of any of Georgia Capital's core investments, which would erode valuations and increase the likelihood of it having to inject fresh capital for support or shareholder loans.

Upside scenario

We view upside as relatively remote at this stage given the holding's concentration and exposure to the Georgian economy. We could however consider upgrading Georgia Capital if the holding establishes a positive track record of deleveraging, such that its LTV ratio remains materially below 10% even at the bottom of the cycle. In addition, an upgrade will hinge on the company establishing a track record of conservative financial policies aimed at strengthening its capital structure over time. These include, but are not limited to, keeping a long-dated debt maturity profile, and establishing a track record of active FX management.

Our Base-Case Scenario

Assumptions

- Real GDP growth in Georgia is set to moderate to 5% in 2024 from an estimated 7% in 2023, with consumption and investments remaining key growth factors.
- Dividend income and interest income of about GEL180 million-GEL 190 million in 2024, which is in line with the recurring dividend streams in 2023, although moderating in comparison to the total inflow of GEL253 million in 2023, which included one-off dividends received from the retail (pharmacy) business and buybacks dividend attributable to BoG's 2022 share buybacks.
- Operating costs, including management fees and taxes, of about GEL30 million–GEL40 million per year. This compares with GEL37 million in 2023.
- Cash interest expense of about GEL30 million-GEL35 million per year over 2024-2025 and slightly lower than 2023 at GEL48 million. This is mainly on the account of lower outstanding debt post the refinancing.
- No dividend distributions to shareholders, in line with previous years.
- We do not exclude material share buybacks of up to GEL100 million a year but expect the investment holding company will maintain a minimum cash balance of GEL30 million and its NCC ratio around 15%.

Key metrics

JSC Georgia Capital--Key metrics*

	--Fiscal year ended December 31--			
	2022a	**2023a**	**2024e**	**2025e**
Loan to value (%)	13.3	8.3	Less than 25	Less than 25
Cash flow adequacy (x)	1.2	3.0	2.5-3.5	2.5-3.5

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate.

Company Description

Georgia Capital JSC is an investment holding company based in the Republic of Georgia. Its parent company, Georgia Capital PLC, is listed on the London Stock Exchange. At the end of 2023, Georgia Capital's portfolio had a value of GEL3.6 billion ($1.3 billion).

The companies in Georgia Capital's portfolio are all based in Georgia with the BoG being its only listed asset. The 19.7% stake in the bank was valued at GEL1.2 billion ($468 million) on Dec. 31, 2023, representing 33% of Georgia Capital's total portfolio by value. The company has also retained a 20% stake in Georgian Global Utilities JSC, on which it has a put option. The value of this stake stood at GEL159 million ($59 million) on Dec. 31, 2023 and represented about 4% of total portfolio value. The company is well-diversified by industry, and has investments in banking, pharmaceuticals and health care, insurance, utilities, real estate and hospitality, private education, and renewable energy generation. The private portfolio includes:

- A 97.6% stake in retail pharmacy (19.4% of the adjusted portfolio value);

- Full ownership in health care services (9.4% of the adjusted portfolio value);
- 100% ownership in Aldagi P&C, a property/casualty insurance company (7.8% of the adjusted portfolio value);
- Full ownership in medical insurance business (2.5% of the adjusted portfolio value);
- 100% ownership in Georgian Renewable Power Company (7.3% of the adjusted portfolio value);
- Stake in education business (5.2% of portfolio value);
- Stake in clinics and diagnostics business (3.0% of portfolio value); and
- Other businesses include beverages, auto services, digital services, commercial real estate, and housing development (7.7% of the adjusted portfolio value).

Peer Comparison

Georgia Capital is one of the smallest investment holding companies that we rate in EMEA, with a portfolio size of $1.3 billion. Its total portfolio compares negatively with that of Koc Holding A.S. (BB-/Positive) or Wendel (BBB/Stable/A-2). Koc Holding's superior business risk is underpinned by a larger portfolio of $20.5 billion and high share of listed assets. Both Koc and Georgia Capital show some concentration in terms of their three largest assets and asset credit quality, however Koc's financial risk profile score of modest reflects its net cash position. Similar to Georgia Capital, Wendel is relatively concentrated on one single asset, Bureau Veritas, which represents about 45% of the adjusted portfolio value, excluding cash. We view Wendel's ability to recursively unlock returns through its unlisted assets' selected disposals as a differentiating factor.

Table 1

JSC Georgia Capital--Peer comparison

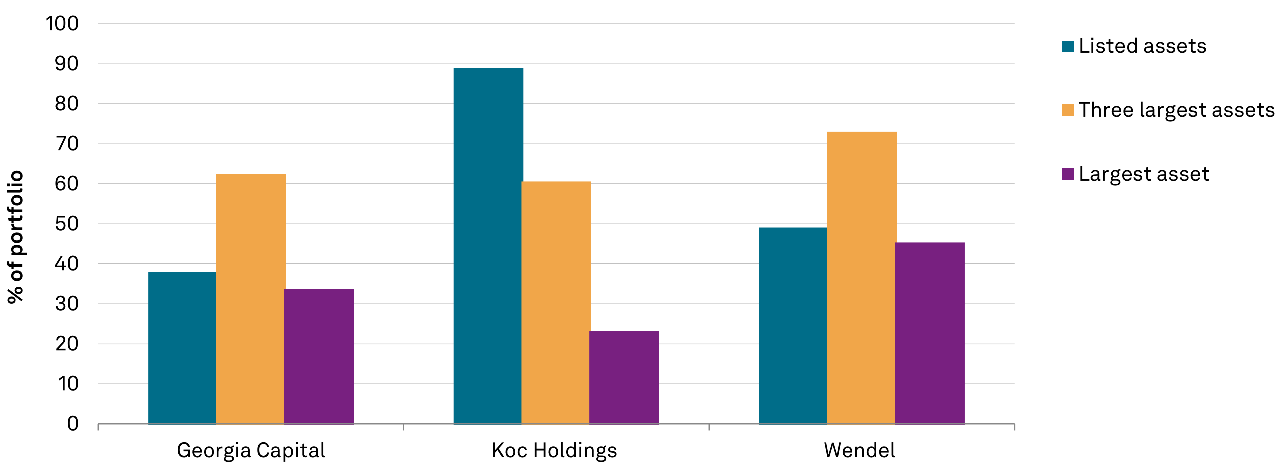
	Georgia Capital	**Koc Holding A.S.**	**Wendel SE**
Rating as of June 28, 2021	BB-/Stable/--	BB-/Positive/--	BBB/Stable/A-2
Business Risk Profile	Vulnerable	Weak	Fair
Portfolio data as of	31-Dec-23	31-Dec-23	31-Dec-23
Portfolio size (US$m)	1,359	17,376	8,746
Weight of listed assets (%)	37.7	88.7	48.8
Largest asset (% portfolio)	33.4	22.9	45.1
Three largest assets (% portfolio)	62.2	60.3	72.8
Three largest assets	BOG, Retail pharmacy and Hospitals	Tupras, Ford Otosan and Yapi Kredi	Bureau Veritas, Stahl and Crisis Prevention Insititute and IK Partners
Cash flow leverage	Intermediate	Modest	Modest
Loan-to-value threshold (%)	25	20	20
Loan-to-value (%)	8.3	-3.3	10.7

Business Risk: Vulnerable

Georgia Capital's sector diversity supports its investment position, however, it has some elements of asset concentration. The holding company's investment portfolio comprises nine core holdings, spread over sectors such as banking, pharmaceuticals and health care, insurance, utilities, real estate and hospitality, private education, and renewable energy generation. Nevertheless, it exhibits only modest asset diversification because the three largest assets constitute about 62.2% of the portfolio, namely BoG (33.4%), retail pharmacy (19.4%), and hospitals (9.4%). Given the strategy of investing in companies that are solely exposed to economic and business conditions in Georgia, we do not foresee diversification materially improving over the near term.

Chart 3

Concentrated portfolio with lower share of listed assets



Source: S&P Global Ratings.

Georgia Capital's investment portfolio is primarily exposed less credit worthy unlisted assets, making up about 62% of its portfolio value. Georgia Capital's key investee companies enjoy good competitive positions in their respective narrow market. At the same time, they are domestic Georgian companies with no or very limited international revenue, therefore limiting the portfolio creditworthiness of Georgia Capital's investee companies in the 'B' rating category. Overall, about 62% of Georgia Capital's assets are unlisted, with an average asset credit quality of 'b'. We note that over the past few years, the weight of listed assets has been slightly improving, however this is mainly driven by the share price performance of its only listed asset, BoG. In our view, having only one major listed asset could create additional risk when compared to a more diversified portfolio, as this could limit its ability to quickly monetize its investments to repay debt when required.

The share price discount against net asset value (NAV) continues to remain high Despite the share price of Georgia Capital continuing to improve, the growth in NAV has meant that the discount has also continued to remain elevated. As of March 8, 2024, the share price of £12.6/GEL42.6 per share represented a 53.3% discount to NAV of £27.01/GEL91.3 per share. Given that the NCC ratio has now declined to 15%, we do not exclude the possibility of material share repurchases going into 2024, however, keeping a balance between buyback opportunities and investment opportunities.

Financial Risk: Intermediate

We expect Georgia Capital to maintain relatively low leverage, supported by its financial policy. In May 2022, Georgia Capital updated its capital management framework to prioritize deleveraging and reduce its debt and risk exposure. The holding also implemented this deleveraging strategy across its private portfolio companies, with individual leverage targets established. The holding has a financial policy based on a net capital commitment (NCC) ratio. The NCC ratio stood at 15.6% as of Dec. 31, 2023, and should approach the group's target ratio of below 15% by the end of 2025. The NCC ratio guides the group's share buybacks and investment policy, and we understand that an NCC ratio ranging between 15%-40% will result in tactical share buybacks or investments, while we expect an NCC ratio below 15% to generate more substantial share buybacks or investments. Given the holding's near-term deleveraging target, we expect the NCC ratio, as calculated by the company, will remain at roughly 15% and its minimum liquidity balance above $30 million.

Georgia capital is exposed to currency fluctuations. After the refinancing, Georgia Capital will continue to be exposed to currency fluctuations. We believe that Georgia Capital's exposure to exchange-rate fluctuations between the GEL and the U.S. dollar continue to be a risk. This is because its debt is in U.S. dollars and all its dividend income is GEL-denominated--if we exclude the renewable energy business that has cash flow in U.S. dollars and consequently pays dividends in hard currency. These currency mismatches between the cost of debt and dividend streams play a pivotal role, as adverse foreign exchange swings could weaken the cash flow adequacy ratio.

We expect a cash flow adequacy ratio of 2.5x-3.5x over 2024 and 2025. Cash interest and dividends for the full-year 2023 totaled about GEL253 million, increasing from GEL127 million at year-end-2022. Growth in dividends was mainly driven by improving operating performances of Georgia Capital's assets with buyback dividends from BoG and one-off dividends from the retail (pharmacy) business. In 2024, we expect cash flow from interest income and dividends to normalize at GEL180 million-GEL 190 million, which is in line with the recurring dividend inflow in 2023. This also includes the buyback dividends from BoG expected in 2024. For 2025, we expect inflows will improve slightly to GEL200 million-GEL210 million, supported by the enlarged BOG group following its acquisition of Ameriabank in the first quarter of 2024. In addition, the new capital structure reduced gross debt by about GEL390 million ($150 million), implying interest payments of GEL30 million-GEL 35 million per year going forward, further reducing from 2023 levels at GEL48 million. As a result, we project Georgia Capital's cash adequacy ratio to be 2.5x-3.5x over 2024-2025, broadly in line with the 3.0x recorded in 2023.

Table 2

Georgia Capital JSC.--Financial summary

(Mil. GEL)	2018	2019	2020	2021	2022	2023
Portfolio as adjusted	2,188	2,049	2,886	3,496	3,199	3,672
Net debt as adjusted	542	685	1,012	696	426	306
Loan to value (%)	24.8	33.5	35.1	19.9	13.3	8.3
Dividend and fees income	112.0	102.5	50.8	97.5	126.8	252.6
Operating charges and tax expenses	19.0	19.0	32.1	36.5	40.0	36.8

Table 2

Georgia Capital JSC.--Financial summary (cont.)

(Mil. GEL)	2018	2019	2020	2021	2022	2023
Interest expenses	44.7	44.7	62.5	77.4	69.6	47.8
Cash flow cover (x)	1.8	1.6	0.5	0.9	1.2	3.0

GEL--Georgian lari.

Liquidity: Adequate

We assess Georgia Capital's liquidity as adequate. We estimate its sources of liquidity will cover uses by about 1.7x in the 12 months starting Jan. 1, 2024, even if including substantial share repurchases. We believe Georgia Capital has sound relationships with local banks, given its position as a key investor in the country.

We estimate principal liquidity sources over the 12 months starting from Jan. 1, 2024, will include:

Principal Liquidity Sources	Principal Liquidity Uses
• Cash and cash equivalents of GEL108 million as of Dec. 31, 2023. • Unstressed dividends from portfolio companies and interest income of about GEL180 million-GEL 190 million over the next 12 months	• No upcoming debt maturities. • Operating costs of about GEL30 million-GEL 40 million. • Interest expense of about GEL30 million-GEL35 million annually. • Discretionary share repurchases of up to GEL100 million.

Covenant Analysis

The bond documentation contains an incurrence ratio of net debt to adjusted equity valued below 45%. There are also restricted payments, including dividend distribution and capital stock redemption exceeding 50% of retained earnings as of Dec. 31, 2022, and 50% of consolidated net profit thereafter. The issuer shall also, at all times, maintain in cash and liquid investments an amount equaling at least 100% of the interest to be paid on the next interest date. We believe the company has adequate headroom within these thresholds.

Environmental, Social, And Governance

Governance factors are a moderately negative consideration in our credit rating analysis of Georgia Capital because we believe the investment holding company's risk tolerances and liquidity management are more relaxed compared to the industry norms. For example, in the past, the company was not able to protect its LTV ratio because of asset value deterioration, notwithstanding a financial policy in place, and we observed more aggressive liquidity management for the refinancing of its $300 million notes. Environmental and social factors are overall neutral considerations in our analysis. The group's major sector exposure is represented by retail pharmacy (22% of the adjusted portfolio value) and hospitals (13%), which we assess as having low environmental and social risks.

Issue Ratings - Subordination Risk Analysis

Capital structure

Georgia Capital's capital structure includes the $150 million sustainability-linked senior unsecured bond due in August 2028.

Analytical conclusions

We rate the notes in line with our 'BB-' long-term issuer credit rating on the group, because no elements of subordination risk are present in the capital structure.

Ratings Score Snapshot

Issuer Credit Rating

BB-/Stable/--

Business risk: Vulnerable

- **Country risk:** Intermediate
- **Industry risk:** Intermediate
- **Competitive position:** Vulnerable

Financial risk: Intermediate

- **Cash flow/leverage:** Intermediate

Anchor: bb-

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)

- **Liquidity:** Adequate (no impact)
- **Management and governance:** Moderately negative (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Related Criteria

- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | Industrials: Methodology: Investment Holding Companies, Dec. 1, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	**bb-/b+**	b+	b	b-

Ratings Detail (As Of April 26, 2024)*	
Georgia Capital JSC	
Issuer Credit Rating	BB-/Stable/--
Senior Unsecured	BB-
Issuer Credit Ratings History	
26-Oct-2023	BB-/Stable/--
12-Jul-2023	B+/Watch Pos/--

Ratings Detail (As Of April 26, 2024)*(cont.)	
03-Jun-2022	B+/Negative/--
11-Feb-2022	B+/Stable/--
03-Apr-2020	B/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.