Research Update:

Georgia Capital On CreditWatch Positive On Debt Refinancing; Preliminary 'BB-' Rating Assigned To Proposed Notes

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Rating Action Overview

- We anticipate that investment holding company Georgia Capital JSC's planned refinancing will meaningfully extend its debt maturity profile. Given the relatively supportive economy in the Republic of Georgia, where all the company's assets are located, we also expect asset valuations to be stable and that dividends will grow in 2023-2024.
- The company disposed of 80% of its water utility business for $180 million in 2022 and has employed most of its excess cash to pay down debt, reducing its S&P Global Ratings-adjusted leverage to 13% by March 31, 2023.
- We assigned our preliminary 'BB-' issue rating to Georgia Capital's proposed $150 million sustainability-linked senior unsecured notes, due 2028. The company intends to use the proceeds to help it pay down the $217 million outstanding from the $300 million note issuance due in March 2024.
- We placed our 'B+' issuer credit rating on Georgia Capital on CreditWatch with positive implications to indicate that we are likely to raise our rating on Georgia Capital by one notch, to 'BB-', if it completes the proposed refinancing and fully redeems the notes due in 2024.

Rating Action Rationale

S&P Global Ratings expects that even after Georgia Capital has issued its proposed $150 million sustainability-linked senior unsecured local U.S. dollar-denominated bond, its leverage will remain low. The issuance is part of a refinancing that should extend the company's debt maturity profile by repaying the rest of the $300 million bond due in March 2024. Georgia Capital has already repurchased $83 million of this bond, an amount it holds as liquid funds. Our adjusted leverage metric was 13% on March 31, 2023. We calculate that it could have been as low as 9.4% on that date, assuming gross debt of $150 million and full repayment of the outstanding shareholder loans. This calculation incorporates the proposed issuance and the updated portfolio valuation, adjusted to account for forecast dividend inflows of about $48 million and inflows of about $24 million from participation in Bank of Georgia share buyback programs. We assume that Georgia Capital will receive these inflows prior to the refinancing, which is to be completed by mid-September.

Most of the forecast improvement comes from cash inflows from dividends; the company intends to combine these with the new bond issuance to redeem the outstanding bonds and lower its net debt. The proposed transaction will also resolve the company's upcoming maturities, thus reducing the pressure on liquidity. The holding company should end up with no maturities until 2028, when the proposed notes are due. We also expect Georgia Capital to maintain relatively low leverage for the rating, which we see as supportive for its credit profile.

Georgia Capital's intention is to redeem in full its $300 million senior unsecured bond due in March 2024. It will achieve this by raising new debt and generating cash from continued participation in the Bank of Georgia share buybacks. The cash balance, as of March 31, 2023, excluding bonds reported as liquid funds, was $63.4 million. Georgia Capital intends to combine the proceeds of both transactions with its cash at hand and dividend inflows to repay the outstanding $217 million of the 2024 bond. Our preliminary 'BB-' rating on the notes reflects Georgia Capital's new capital structure. We anticipate that all the transactions will be closed or settled by mid-September.

Since early in 2022, Georgia Capital's strategic priorities have been to reduce debt at the holding company level and proactively manage its upcoming debt maturity. It disposed of 80% of Georgian Global Utilities JSC (GGU) at the beginning of 2022, for which it received $180 million. In October 2022, the group tendered and cancelled $65 million of its bonds. To date, it has also repurchased $83 million of the bond outside the tender offer, at 93%-98% of face value. We did not consider the repurchases to be distressed, given the high interest rate environment.

The Bank of Georgia is Georgia Capital's only listed asset. Although the holding company intends to hold its 19.9% stake in Bank of Georgia Group, it may from time to time temporarily reduce its stake in the bank or exceed its target stake, depending on whether it decides to participate in the bank's share buyback programs. In 2022, Georgia Capital's holding in the bank was 20.6%, but eventually the size of its stake reverted back to 19.9%.

Georgia Capital has already received most of the estimated $74 million in dividends which are due to be paid prior to the refinancing. It will use these dividend inflows, which include the share buybacks from Bank of Georgia, to cover part of the funding gap. Other cash inflows include the repayment of a total of $11.4 million in shareholder loans, granted to its investee auto service business and housing development business. The group has also announced that it would reduce its minimum liquidity buffer to $30 million from $50 million because of the lower debt level. We forecast that its cash balance, after completing the refinancing, will be about $40 million.

The transaction is not immune to execution risks. Georgia Capital will need to quickly monetize assets, and receive some cash from its investee assets before closing out the refinancing. We expect to resolve the CreditWatch placement once the company has successfully issued its $150 million bond and concluded the tender offer with a full redemption of its $300 million bond due in 2024.

The preliminary ratings should not be construed as evidence of final ratings. If S&P Global Ratings does not receive final documentation within a reasonable time frame, or if final documentation departs from materials reviewed, we reserve the right to withdraw or revise our ratings. Potential changes include successful repayment of Georgia Capital's $300 million notes due in March 2024; the use of loan proceeds; the maturity and size of the loan; and the conditions that apply, including financial and other covenants, security, and ranking.

After the refinancing, we expect Georgia Capital to maintain low leverage and that its liquidity will improve to adequate. The group has announced a public target for reducing leverage and we forecast that its loan-to-value ratio will drop below 10% after the refinancing. However, the discount on the net asset value per share remains relatively high at above 60%; we do not exclude the possibility of material share repurchases following completion of the refinancing. Nevertheless, we anticipate that the holding will balance its repurchases and investments. We also expect its net capital commitment, as calculated by the holding company ratio, to remain below 15%, while its minimum liquidity balance remains above $30 million.

Cash interest and dividends for the full year, including share buybacks from Bank of Georgia, are forecast at about Georgian lari (GEL) 200 million ($72 million) in 2023. Given that the pharmacy business paid an extraordinary dividend of about GEL27 million in 2023, we expect cash interest and dividends to moderate to about GEL180 million ($69 million) in 2024. We do expect cash sources to cover cash uses by at least 1.2x for the first 12 months after the refinancing is completed; this implies that liquidity is adequate, in our view.

Georgia's economy surged in 2022, which proved extraordinarily positive, with real GDP growing by about 10.1%. Since the start of the Russia-Ukraine conflict, the republic has benefited from a marked uptick in tourism, as well as an influx of migrants and capital from Russia. The positive momentum in the economy and business environment is expected to support Georgia Capital's asset valuations; dividend payments; and, ultimately, its leverage over 2023-2024. For 2023, we expect economic growth to weaken to 3.2% as the external environment becomes less favorable amid tightening financial conditions (see "Georgia," published Feb. 13, 2023, on RatingsDirect).

Georgia Capital's portfolio value grew by a further 2.2% to GEL3.3 billion in the first quarter of 2023. Adjusting for the net effect of the disposal of 80% of GGU at the beginning of 2022, the portfolio has increased in value by 4% in 2022. This is a turnaround from the drop in value seen when the Russia-Ukraine war began. The strong recovery has, to a large extent, been driven by strong share price appreciation at the Bank of Georgia. Shares rose 56.2% over 2022, and a further 5.6% in the first quarter of 2023. That said, Georgia Capital participated in the bank's first-quarter share buybacks, resulting in a cash inflow of GEL21.1 million. As a result, its stake in the bank had little effect on portfolio value. Georgia Capital's private portfolio rose 3.1% in value during the first quarter and we expect the resilient Georgian economy to support private asset values in the near term.

CreditWatch

We expect to resolve the CreditWatch placement when the refinancing closes, after we have reviewed the final terms of the new debt. The refinancing includes full redemption of Georgia Capital's bond due 2024 at a make-whole premium.

Should the various transactions involved in the refinancing plan be successfully closed and settled, we would likely raise our issuer credit rating on Georgia Capital by one notch, to 'BB-', because the company will have low leverage, an adequate liquidity position, and a long-dated maturity profile.

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 the first quarter of 2023, Georgia Capital's portfolio had a value of GEL830 million ($319 million).

The companies in Georgia Capital's portfolio are all based in Georgia and Bank of Georgia is its only listed asset. The bank represents 25% 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 GEL155 million ($60 million) on March 31, 2023. 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.

ESG credit indicators: E-2, S-2, G-3

Related Criteria

- 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
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Georgia, Feb. 13, 2023

Ratings List

CreditWatch Action

	To	From
Georgia Capital JSC		
Issuer Credit Rating	B+/Watch Pos/--	B+/Negative/--
New Rating		
Georgia Capital JSC		
Senior Unsecured	BB-(prelim)	
Rating Affirmed		
Georgia Capital JSC		
Senior Unsecured	B+	