

## ISSUER COMMENT

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## JSC Georgia Capital

Georgia Capital's exchange offer to GHG shareholders is credit positive

Last Monday, Georgia Capital Plc, the UK listed subsidiary of JSC Georgia Capital (B2 stable) has offered shareholders of Georgia Healthcare Group Plc (GHG) to exchange their shares in GHG into shares of Georgia Capital Plc for an exchange ratio of 0.192 (1 share of Georgia Capital for every 5.22 shares in GHG). The exchange offer will be limited to 4.5 million shares in Georgia Capital. If exercised in full, Georgia Capital's shareholding in GHG would increase from 57% to almost 75%. The exchange, if accepted by GHG shareholders would be credit positive for Georgia Capital as it would increase its stake in what we consider as one of the strongest assets in Georgia Capital's portfolio of investment without any cash out and would also increase the liquidity of the portfolio as GHG is one of the two listed asset in Georgia Capital's portfolio. Georgia Capital is also proposing the exchange offer at a time when GHG's share price is depressed and when they believe that it is trading at a significant discount to intrinsic fair value.

GHG is Georgia's largest operator of hospitals and polyclinics with 3320 beds as per 30th September 2019. GHG also operates 285 pharmacies as per the end of September 2019. YTD September 2019, GHG generated revenues of around GEL700 million (+13% y-o-y) and an EBITDA of around GEL111 million (+17% y-o-y). The return on invested capital YTD September 2019 was 12.1% (versus 10.5% over the same period in 2018). We view GHG as one of the more defensive assets in Georgia Capital's investment portfolio supported by stable and recurring earnings, a relatively good profitability level and a moderate leverage. Whilst GHG has historically not paid material dividends to Georgia Capital (first modest dividend of GEL4 million was paid in July 2019) as most of the group's operating cash flows were reinvested in the business to capitalise on strong demand for healthcare services in Georgia, the increased maturity of the business and its relatively good profitability could mean that GHG might start paying more meaningful dividends in the near future. We also note that GHG will increase the share of the value stemming from listed assets in Georgia Capital's portfolio of investments notwithstanding that the free float of GHG will reduce materially if the exchange is largely accepted.

On a more negative note, GHG's share price has declined materially since reaching a peak of close to GBP400 pence per share in June 2017. GHG traded at around GBP177 pence per share on 19th November 2019. The potential increase of Georgia Capital's stake in GHG would increase the issuer's exposure to further weakness in GHG's share price. At the same time we believe that the exchange offer comes at the time when the management team of Georgia Capital believes that the intrinsic fair value of GHG significantly exceed its market valuation.

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