MOODY'S
INVESTORS SERVICE

CREDIT OPINION

17 March 2021

Update

Rate this Research

RATINGS

JSC Georgia Capital

Domicile	Georgia
Long Term Rating	B2
Type	LT Corporate Family Ratings
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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JSC Georgia Capital

Update following stabilization of outlook

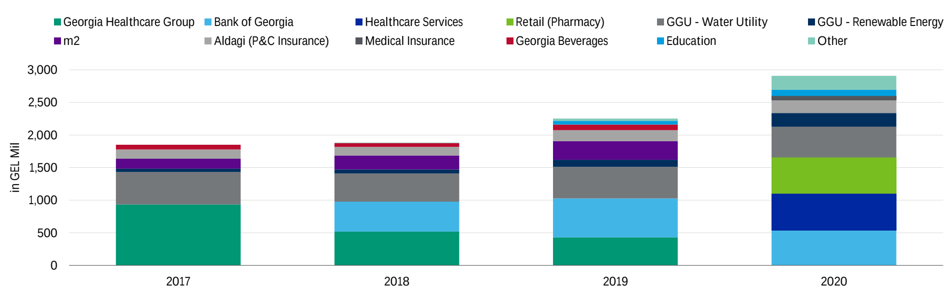
Summary

On 08 March 2021, we affirmed the corporate family rating (CFR) and the probability of default rating of JSC Georgia Capital (Georgia Capital) at B2 and B2-PD, respectively, and changed the outlook from stable to negative. The affirmation of GCAP's rating at B2 and the change in outlook to stable was prompted by (i) the material improvement in operating performance of GCAP's underlying investments during the second half of calendar year 2020, (ii) a significant reduction in market value leverage, (iii) a disciplined capital allocation during the pandemic, and a (iv) a stronger business outlook for the next 12 to 18 months than back in June 2020 when we revised our outlook to negative.

Georgia Capital's B2 CFR remains supported by the company's clearly defined investment strategy, which is focused on the Georgian economy; good track record of raising capital (both debt and equity), which gives it a competitive edge in acquiring Georgian assets with little if any bidding competition from both local or international investors; portfolio of defensive investments with a stable dividend stream in normal economic conditions; and relatively good business diversification across its investment portfolio, especially in light of the small size of its portfolio.

Georgia Capital's rating is mainly constrained by its relatively small size of the investment portfolio; the strong geographic concentration of its portfolio in the Georgian economy; its relatively high portfolio concentration, with the top two and three assets accounting for around 39% and 57%, respectively, of the overall value of the investment portfolio; a weak interest cover because of lower dividend income from investments as a result of the pandemic.

Exhibit 1
Georgia Capital's asset portfolio is relatively concentrated but fairly defensive



Sources: Company and Moody's Investors Service

Credit strengths

» Clearly defined investment strategy

» Superior knowledge of the Georgian economy and privileged access to capital

» Portfolio focused on defensive assets (utilities, healthcare and education) with a stable dividend stream in normal economic conditions

» Relatively good business diversification across its investment portfolio, especially in light of the small size of its portfolio

Credit challenges

» Small portfolio concentrated in the Georgian economy

» Relatively short history of operating as a standalone company

» High portfolio concentration, despite the recent investments in the auto service, education and digital businesses, which account for a small portion of the overall portfolio value

» Deteriorating interest cover because of lower dividend income from investments

Rating outlook

The stable outlook assigned to the rating is predicated upon our expectation that GCAP will maintain an MVL below 40% and that its interest cover will come back above 2.0x once the operating environment in Georgia starts to normalise post pandemic. In the meantime the stable outlook assumes the maintenance of a strong liquidity profile to compensate for the weak interest cover.

Factors that could lead to an upgrade

Positive pressure on the rating is not anticipated in the short-term due to the remaining uncertainties related to coronavirus pandemic. Longer term positive pressure could arise if Georgia Capital would:

» demonstrate a prolonged track record of successfully managing a portfolio of investments with a good balance between defensive / growth investments as well as between listed / private assets whilst generating value

» maintain a market value leverage of below 35% at all times during the market cycle and an interest cover sustainably well in excess of 2.0x to consider a higher rating

» maintain its strong liquidity over time

Factors that could lead to a downgrade

Negative rating pressure would arise:

» if Georgia Capital fails to maintain its MVL below 40%

» if its interest cover would remain sustainably below 2.0x leading to a deterioration of Georgia Capital's liquidity position

» in case of any cash calls or support requirements for underlying investments

Key indicators

Exhibit 2
JSC Georgia Capital

	2017	2018	2019	2020
GAV in GEL Million	1,851	1,883	2,253	2,908
Net MVL (Moody's defined)	na	28.9%	31.1%	30.0%
Net MVL (Georgia Capital defined)	na	19.9%	27.9%	28.9%
Interest cover	1.8x	2.1x	2.6x	0.5x

Net MVL includes guarantees issued and is based on management fair values; Georgia Capital-defined net MVL includes loans issued to portfolio companies.
Source: Company and Moody's Investors Service

Profile

JSC Georgia Capital (Georgia Capital), the issuer of the rated bond, is a Georgia-based intermediate holding company of a number of investments focused on the Georgian economy. Georgia Capital is ultimately owned by Georgia Capital Plc (GCAP), the parent company of the group listed on the London Stock Exchange.

Georgia Capital actively manages a portfolio of companies solely operating in Georgia. The group's current portfolio (as of 31 December 2020) includes stakes in the following companies: Georgia Healthcare Group (incl. healthcare services, pharmacy and medical insurances, 100% stake, pharmacy is owned 67%), Georgia Global Utilities (GGU), a water utility and renewable energy business (a 100% stake in both water utility and renewable energy; both owned through GGU); Aldagi, a property and casualty insurance company (a 100% stake); and investments in education (majority stakes in four private business schools). Other investments including housing development, hospitality and CRE, beverages, auto service and digital services. Georgia Capital also owns a 19.9% stake in JSC Bank of Georgia (BoG, Ba2 stable), a Georgian bank listed on the premium segment of the London Stock Exchange.

The Group's focus is typically on larger-scale investment opportunities in Georgia, which have the potential to reach at least GEL 0.5 billion equity value over 3-5 years from the initial investment and to monetise them through exits, as they mature. The Group manages its portfolio companies individually and does not focus on achieving intra-Group synergies.

Recent developments

In November 2020, Georgia Capital offered shareholders of Georgia Healthcare Group Plc (GHG) to exchange their shares in GHG into shares of Georgia Capital Plc. As a result of the exchange, Georgia Capital now owns 100% of GHG. GHG is a strong healthcare assets with strong cash flow generation and good growth prospects. All assets apart from GCAP's 20% stake in Bank of Georgia are now privately held. Exchange offer and revaluation of GHG led to GEL 759 million increase in value of the investment, comparing to GEL 2.9 billion portfolio value.

On 08 March 2021, GCAP launched the issuance of a $50 million tap under its 2018 senior unsecured bond. Due to strong market demand the issuer has increased the tap issuance to $65 million. GCAP will use $35 million for capital allocation for its education and renewable energy business whilst $30 million will be kept on balance to strengthen the group's liquidity.

Detailed credit considerations

Clearly defined investment strategy focused on the Georgian economy and supported by good access to capital

In light of its strong knowledge and experience of the Georgian economy, Georgia Capital has focused its investment strategy on building a portfolio of assets solely exposed to the Georgian economy. We do not expect this strategy to change in the future as it has been successful so far.

Georgia Capital has a competitive edge as an investor in the local Georgian economy, mainly because of its strong access to capital. Foreign capital remains scarce in the Georgian economy because of its small size. Therefore, Georgia Capital has faced very little competition, if any, when bidding for assets because there are no local investment firms with sufficient capital to compete for the same assets as the company and foreign investors might have limited interest because of the small size of the investments and the economy. BGEO Group Plc (the former parent of Georgia Capital), through its public listing on the London Stock Exchange, its access to the international public debt capital markets and its bank license, was able to raise around $5 billion in capital through different channels over the last 10 years. This has enabled the group to either make investments in relatively undervalued companies or generate incremental value, or both, by providing capital for value-accretive investment projects at its investments.

We expect Georgia Capital to continue to benefit from this competitive edge as foreign capital will remain scarce in the Georgian economy, and we do not expect significant competition for bidding assets to emerge over the foreseeable future. Georgia Capital has also started building a track record of generating value through the successful development of its assets. Its management team usually involves itself fairly actively in the management of investments during the early phase, with a strong focus on the strategic development of the assets, while its active involvement reduces over time when the investments mature.

In recent years, Georgia Capital's investment strategy has been focused on renewable energy and education. Its focus on the service industry makes sense because the Georgian economy has no strong industrial businesses as the economy lacks scale and local industrial businesses cannot compete with large industrial conglomerates. The company's strategy will remain focused, to a large extent, on the service industry in Georgia, with a focus on investing in defensive businesses. Its recent investments have been in the auto service industry (a 90% stake in Amboli LLC, a Georgian importer, distributor, wholesaler and retailer of car consumables and spare parts, such as tires, oil, batteries and lubricants for light vehicles) and in the field of digital marketing (a 60% stake in Redberry LLC). Georgia Capital has also launched the organic development of a mandatory vehicle inspection service, an immature market in Georgia. Lastly, Georgia Capital has started investing in private education. Its investment in this sector increased to GEL 93 million as of December 2020 from GEL 7 million in December 2018, through four investments in private schools. The investment strategy in recent years has been successful; however, the group's track record as an independent investment holding company still needs to be built.

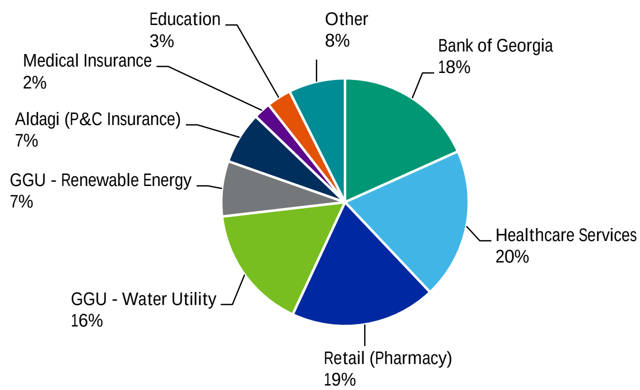
Georgia Capital will aim at divesting its investments after a five-to-ten year ownership period, with the preferred route to exit being a trade sale.

Focus on the Georgian economy and small size lead to high asset concentration and weak geographic diversification

While Georgia Capital will have a competitive edge in investing in Georgian assets, this strategy implies a high asset concentration, a lack of geographic diversification and a small overall portfolio (around $888 million as of 31 December 2020). Exhibit 3 illustrates that Georgia Capital's investment portfolio was highly concentrated, with its top two and top three largest holdings accounting for around 39% and 57%, respectively, of the overall portfolio value. This concentration is only partly mitigated by the defensiveness of some of the underlying assets, such as the group's investment in healthcare and utility.

Exhibit 3

Georgia Capital's top three investments accounted for 57% of the overall value of the investment portfolio
Georgia Capital's portfolio composition as of 31 December 2020



Other includes Housing Development, Hospitality and Commercial Real Estate, Beverages, Auto Service and Digital Services
Sources: Company and Moody's Investors Service

The focus on the Georgian economy also results in very weak geographic diversity and a strong exposure to the Georgian economy. The underlying investments are not only domiciled in Georgia but are almost solely exposed to the domestic economy.

We rate the Government of Georgia Ba2 stable. According to our latest credit opinion (published on 24 February 2021), the strength of its institutions have fostered economic resilience and underpinned the country's track record of robust economic growth. These strengths are balanced against its small, low income economy, while banking sector and external vulnerability risks continue to constrain the rating. The open nature of Georgia's economy, with tourism and financial inflows as key drivers of growth, amplifies the impact of the coronavirus pandemic on its economy and balance of payments position.

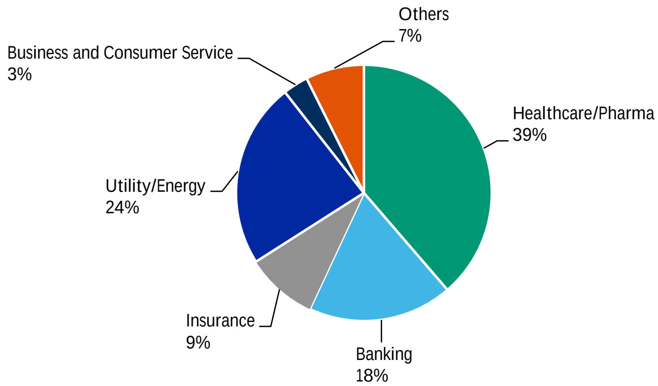
Reasonably good business diversification, but investment portfolio transparency deteriorated due to delisting of GHG

Despite an investment strategy focused on the Georgian economy and the service sector, with a bias toward defensive end-industries, the investment portfolio of the investment arm of Georgia Capital is relatively well diversified across sectors. As illustrated in Exhibit 4, as of 31 December 2020, Georgia Capital had exposure to the healthcare (39% of the portfolio value), utility (23%) and banking (18%) sectors, with insurance and education accounting for the majority of the remaining value of the portfolio. This is a reasonably good diversification level in light of the overall small size of the investment portfolio. While we consider the utility and healthcare assets as one sector, there is some diversification within the utility sector (water distribution and electricity generation) and the healthcare sector (hospitals, pharmacy and the small medical insurance business).

Exhibit 4

Reasonably well-diversified investment portfolio in light of its small size (<$1 billion)

Business sector contribution to the overall value of the investment portfolio (as of 31 December 2020)



Other includes GEL215 million investments in real estate, beverages, auto and digital services as of 31 December 2020.
Source: Company and Moody's Investors Service

Following the completion of the exchange offer, only 18% of the asset value is from listed company, this leads to less flexibility when additional liquidity is needed. However, we view GHG as solid assets with strong cash flow and growth prospects,

MVL is restored to below 40% thanks to an improvement in operating performance and valuation mulitples as well as a conservative capital allocation policy

The operating performance of all of GCAP's underlying investments apart from the water utility business recovered sharply during the second half of 2020. The improvement in operating performance was both driven by higher revenue and improved profitability. At the aggregated level, GCAP's private portfolio of investments posted revenue growth of 4.7% in Q3 2020 and 5.1% in Q4 2020 respectively. Aggregated EBITDA of private investments grew 4.5% in Q3 2020 and 1% in Q4 2020. GCAP's water utility business posted a 14.9% / 28.2% decline in revenue in Q3 / Q4 2020 respectively due to weak consumption from corporate clients and low water inflows at the Zhinvali reservoir. We positively note the new regulatory water tariff for the period 2021 to 2023 that will allow up to 38% increase in allowed revenue from water sales.

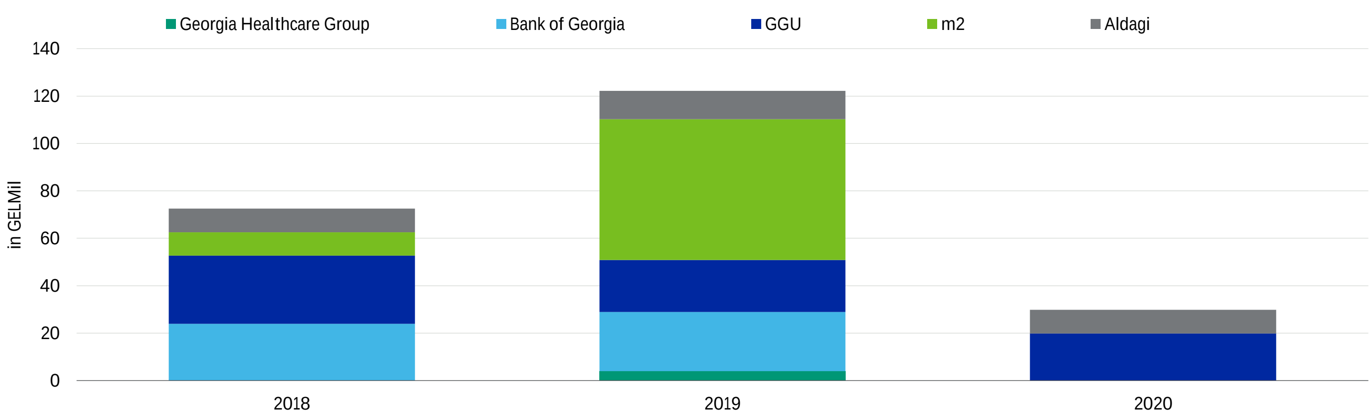
The strong improvement in profitability in H2 2020 alongside an improvement in valuation multiples in line with the broader market and the exchange offer for GHG led to a significant improvement in GCAP's gross asset values. Gross asset value increased to GEL 2.9 billion in December 2020 from GEL1.8 billion in March 2020 with the revaluation of GHG and the increase in GCAP's stake in this asset post exchange offer accounting for the largest share of improvement (GEL759 million positive impact on GAV). Market value leverage also improved markedly to around 30% in December 2020 from 47% in March 2020 (40% pro forma of the exchange offer and pre revaluation) as GCAP significantly reduced its capital allocation to protect its balance sheet since the start of the pandemic. GCAP's MVL of 30% offers sufficient headroom in comparison to our downgrade trigger of 40% and also against the risk of a deterioration in valuation multiples across the broader market over the next 12 to 18 months.

GCAP has swiftly reacted to the coronavirus pandemic by adjusting its capital allocation and by focusing on reducing its operating expenses. GCAP made investments of GEL 195 million in 2020 (including GEL138 million of non-cash capital allocation), a significant reduction in comparison to the investments of GEL 358 million made in 2019. Operating expenses were reduced to GEL32.1 million in 2020 (including share based payments) from GEL34 million in 2019. GCAP has confirmed in its Q4 earnings call that capital allocation in 2021 will remain at a low level. We expect GCAP to allocate around $35 million of the bond proceeds to investments for its education and renewable energy business. The remainder will be kept on balance sheet to strengthen the group's liquidity profile. This is important in the context of a still weak dividend cover, albeit we expect dividend distribution to improve going forward as its investments continue to benefit from improving operating conditions.

The issuer's interest cover, as measured by (FFO + interest)/interest, dropped well below 1.0x in 2020 from an average of above 2.0x over the last three years. We expect the coverage to gradually recover in 2021 and beyond. While Georgia Capital has some liquidity buffer, with GEL175 million cash on its balance sheet as of 31 December 2020 and no short-term maturities. The newly issued $65 million tap under the existing notes provides further liquidity to the balance sheet.

Exhibit 5

Georgia Capital's interest coverage is expected to recover gradually over the next 12-18 months; its cash on balance will provide some liquidity buffer



Sources: Company and Moody's Investors Service

Liquidity analysis

GCAP's liquidity is adequate. GCAP had GEL 284 million ($86 million) of liquidity (including cash, loans issued and marketable securities) on balance sheet at year-end 2020 (21% decline y-o-y) mainly as a result of a lower dividend stream (GEL30 million dividend income versus GEL122 million in 2019). The cash position compares to cash operating expenses of GEL20 million p.a. and net interest expense of around GEL40 million p.a. GCAP has no short-term maturities and expects dividend income of at least GEL60 million in 2021.

The liquidity at underlying investments increased sharply in 2020 to GEL392 million at year-end 2020 from GEL183 million at year-end 2019. This was supported by strong underlying operating cash flow generation (GEL376 million operating cash flow in FY20 versus GEL230 million in FY19) and the issuance of a green bond at the utilities business. There are no material short-term maturities at portfolio level that cannot be covered from cash on balance sheet.

Methodology and scorecard

In assessing the credit quality of Georgia Capital, we apply our Investment Holding Companies and Conglomerates rating methodology, published in July 2018. In our 12-18-month forward-looking view, the scorecard indicates a B1 rating, one notch above the actual assigned rating.

The difference between the scorecard-indicated rating outcome and the assigned rating reflects the small size of the overall investment portfolio (less than $1 billion), as well as the lack of a track record of operating as a rated investment holding company and within the financial policy target of maintaining an MVL below 30% (excluding intercompany loans from the gross asset value of the investment portfolio) at all times during the market cycle. At the same time, Georgia Capital has built a track record of managing a portfolio of investments while generating value.

Exhibit 6

Rating factors

JSC Georgia Capital

Investment Holding Companies Industry	Current FY 12/31/2020		Moody's 12-18 Month Forward View As of 2/26/2021	
Factor 1 : Investment Strategy (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Investment Strategy	Ba	Ba	Ba	Ba
Factor 2 : Asset Quality (40%)				
a) Asset Concentration	Ba	Ba	B	B
b) Geographic Diversity	Caa	Caa	Caa	Caa
c) Business Diversity	Ba	Ba	Ba	Ba
d) Investment Portfolio Transparency	B	B	B	B
Factor 3 : Financial Policy (10%)				
a) Financial Policy	Ba	Ba	Ba	Ba
Factor 4 : Estimated Market Value-based Leverage (MVL) (20%)				
a) Estimated Market Value-Based Leverage	Baa	Baa	Ba	Ba
Factor 5 : Debt Coverage and Liquidity (20%)				
a) (FFO + Interest Expense) / Interest Expense	0.5x	Caa	0.5x - 1x	Caa
b) Liquidity	Ba	Ba	Ba	Ba
Rating:				
a) Scorecard-Indicated Outcome		Ba3		B1
b) Actual Rating Assigned				B2

[1] This represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Investors Service

Appendix

Exhibit 7

Peer comparison

JSC Georgia Capital

	JSC Georgia Capital		Kuwait Projects Company (Holding) K.S.C.P.		Koc Holding A.S.		Ordu Yardimlasma Kurumu (OYAK)		Svyazinvestneftekhim JSC (SINEK)*	
Current rating	B2 Stable		Ba1 Negative		B2 Negative		B2 Negative		Ba1 Stable	
Country of Domicile	Georgia		Kuwait		Turkey		Turkey		Russia	
Long-term issuer rating of domicile government	Ba2 Stable		A1 Stable		B2 Negative		B2 Negative		Baa3 Stable	
	FY 2020	FWD	FY 2020 (E)	FWD	LTM Q2 2020	FWD	FY 2020	FWD	FY 2019	FWD
Investment Strategy (10%)										
a) Investment Strategy	Ba	Ba	Ba	Ba	Baa	Baa	Baa	Baa	B	B
Asset Quality (40%)										
a) Asset Concentration	Ba	Ba	Ba	Ba	Baa	Baa	Ba	Ba	Caa	Caa
b) Geographic Diversity	Caa	Caa	Ba	Ba	B	B	B	B	Caa	Caa
c) Business Diversity	Ba	Ba	Ba	Ba	Baa	Baa	Ba	Ba	B	B
d) Investment Portfolio Transparency	B	B	Ba	Ba	A	A	Ba	Ba	Ba	Ba
Financial Policy (10%)										
a) Financial Policy	Ba	Ba	Baa	Baa	A	A	Baa	Baa	B	B
Estimated MVL (20%)										
a) Estimated Market Value-Based Leverage	Baa	Ba	B	Ba	Aaa	Aaa	Aa	Aaa	Aaa	Aaa
Debt Coverage and Liquidity (20%)										
a) (FFO + Interest Expense) / Interest Expense	Caa	Caa	Caa	Caa	Aa	Ba	Caa	A	Aaa	Aa
b) Liquidity	Ba	Ba	Ba	Ba	Aaa	Aaa	Caa	Caa	A	A

* Government-related entity.

Source: Moody's Investors Service

Ratings

Exhibit 8

Category	Moody's Rating
JSC GEORGIA CAPITAL	
Outlook	Stable
Corporate Family Rating	B2
Senior Unsecured	B2/LGD4

Source: Moody's Investors Service

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