Research Update:

Georgia Capital Outlook Revised To Positive On Continued Deleveraging And Solid Asset Performance; Affirmed At 'BB-'

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Rating Action Overview

- Georgia-based investment holding company Georgia Capital JSC continues to perform well, with its portfolio value up 20.8% as of June 30, 2025, to Georgian lari (GEL) 4.54 billion (about $1.69 billion) compared to year-end 2024, thanks to considerable appreciation of Lion Finance Group's share price, which rose by 56% during this period.
- Given the company's focus on relatively prudent leverage, we believe it can maintain a S&P Global Ratings-adjusted loan-to-value (LTV) ratio well below 10%, after about 7% at year-end 2024 (excluding future share buybacks and investments), strong value creation, and a reducing net capital commitment ratio, targeted at 10% over the cycle (reduced from 15%).
- We therefore revised our outlook on Georgia Capital to positive from stable and affirmed our 'BB- ' ratings on the company and its $150 million senior unsecured bond.
- The positive outlook indicates that we could raise the rating over the next 12 months, if Georgia Capital establishes a track record of deleveraging, such that its LTV ratio remains materially below 10% under any market circumstances, while demonstrating conservative financial policies that strengthen its capital structure over time, alongside continuing robust asset performance.

Rating Action Rationale

In the first half of 2025, Georgia Capital's portfolio value increased by 20.8% compared to the end of 2024, to GEL4.53 billion (about $1.69 billion). The growth was driven predominantly by Georgia Capital's largest and only listed shareholding, Lion Finance Group, offset by the exercise of a put option on the water utility business (Georgia Global Utilities JSC). The share price of Lion Finance Group has risen by about 75% over the past 12 months, supported more recently by strong operating performance of Bank of Georgia in Georgia and Ameriabank in Armenia and the continued appreciation of the pound sterling against the lari (up 4.4% in the second quarter of

2025). Lion Finance Group also benefits from sound liquidity of its shares given its inclusion in the Stoxx 600 Index. Lion Finance Group's strong underlying operating performance is likely to continue in the medium term, with solid macroeconomic fundamentals in Georgia and Armenia, though we believe potential impacts from political uncertainty may affect valuations. The portfolio's value was affected by Georgia Capital's sale of a 20% stake in Georgia Global Utilities, which reflected GEL188 million in value for listed and observable assets. The private portfolio increased by GEL65.8 million, largely supported by value creation of GEL80.4 million and offset by GEL16.8 million of dividend payments. Overall, the private asset portfolio recorded a relatively stable operating performance, with value creation in the retail (pharmacy), health care, and insurance businesses of 4.2%-5.1%, with some offset in the emerging and other companies' portfolio, which comprises mainly the education and renewable energy businesses, as well as some other smaller businesses. We view as positive that the company's reported net asset value (NAV) grew by 23.7% in the first half of 2025. In previous years, we have seen an increase in Georgia Capital's NAV from GEL2.9 billion in 2021 to GEL4.5 billion as of June 30, 2025 (up by about 55%).

We believe that, overall, Georgia Capital's portfolio will continue to experience robust value growth in the medium term, though political instability could be a key drag on the valuations. We expect strong real annual GDP growth in Georgia of 7.1% in 2025 after 9.4% in 2024, with 8.3% posted for the first six months of 2025, year on year. This will remain driven primarily by private, domestic consumption, with particularly resilient services demand. We project the growth will moderate to 5.2% in 2026, reflecting a slowdown in consumption and a decline in investment, largely attributed to diminished investor confidence due to political volatility and the EU's decision to suspend Georgia's accession process. Net foreign direct investment inflows falling to 4.1% of GDP in 2024, the lowest level recorded since 2001 (excluding the pandemic years), is a sign of this trend. This also led to some depreciation of the lari (see "Georgia 'BB/B' Ratings Affirmed; Outlook Stable," published Aug. 8, 2025, on RatingsDirect).

We expect Georgia Capital to maintain relatively low leverage supported by disciplined debt management. Following the exercise of its put option on the water utility business, Georgia Capital has stated that it intends to redeem at least $50 million of its $150 million local bonds in September 2025. We see this as a continuation of the company's commitment to deleveraging, and we expect to see further partial redemptions to gradually reduce the outstanding debt. Georgia Capital has also reduced its target net capital commitment (NCC) ratio over the cycle to 10%, from 15%. The NCC ratio stood at 7% at the end of the first half of 2025, down from 12.8% at the end of 2024 and 15.6% at the end of 2023. The NCC ratio will guide the company's approach to capital allocation, which includes share buybacks and new investments An NCC ratio of 10%-40% will result in tactical share buybacks or investments, an NCC ratio below 10% could generate more substantial share buybacks or investments, and an NCC ratio above 40% would lead the company to switch to a cash preservation strategy. Given its currently low NCC ratio, Georgia Capital announced a new share buyback program of $50 million program in 2025 to be completed over the next nine months. The company's NCC ratio includes planned investments, announced share buybacks, and a contingency/liquidity buffer. As a result, our adjusted LTV ratio for Georgia Capital at the end of 2024 stood at about 7% (excluding future share buybacks or potential equity investments that are uncommitted). At the same time, we anticipate that the company can navigate through relatively volatile market conditions that could affect the valuation of its assets while keeping its S&P Global Ratings-adjusted LTV ratio well below 25%.

We see an improvement in Georgia Capital's business risk, since the share of listed assets has risen, but still view the concentration in Georgia and only one listed asset comprising about 47.5% of the portfolio value as key constraints. All of Georgia Capital's private assets are based in Georgia, with Lion Finance Group, which makes up about 47.5% of the total portfolio and of which Georgia Capital holds close to an 18% stake, the only listed asset. Georgia Capital is likely to gradually reduce its holding in Lion Finance Group to prevent it from becoming a passive foreign investment company, which could have tax implications for U.S. shareholders. Nevertheless, we would expect to see the share of listed assets remain structurally above 40% for upside to the rating. The holding in Lion Finance Group was valued at GEL2.2 billion on June 30, 2025. Following the exercise of the put option on the water utility and the share price performance of Lion Finance Group, the weight of listed assets has increased significantly, though we note that Lion Finance Group is the only listed asset. Therefore, any impacts from weakening operating performance that translates into share price volatility could materially affect the portfolio's value. The remaining portfolio assets are unlisted and in Georgia. This, in our view, could limit Georgia Capital's ability to quickly monetize its investments to repay debt, which could be important if liquidity unexpectedly becomes constrained. We estimate that the weighted average creditworthiness of investee companies is 'B+'. Georgia Capital's largest assets are Lion Finance Group, retail (pharmacy; 18% of the total portfolio), health care services (10.6%), and insurance (property and casualty and medical; 10.2%). However, the company is well diversified by industry, in our view, with investments in banking, pharmaceuticals, health care, insurance, utilities, real estate, hospitality, private education, and renewable energy generation, and we expect the company to focus on these sectors in future investments.

The NAV per share discount has reduced to its lowest level since the pandemic, which supports the share buyback program, but does not materially weaken the LTV ratio. The NAV per share discount currently stands at about 34%, down from 47% at the end of 2024, which has supported the recent announcement of the GEL700 million capital return program. Despite this, we expect Georgia Capital will continue to balance its repurchases and investments in the future. In addition, Georgia Capital being based in Georgia, remains exposed to fluctuations in the U.S. dollar exchange rate because its outstanding debt is a $150 million bond due in August 2028. However, the bond's outstanding balance is expected to gradually reduce, and the company's cash dividends are predominantly received in lari. However, Lion Finance Group pays its dividends in pounds sterling, which made up about 35% of total dividend and interest income in 2024, and there remains some foreign exchange risk with the operating assets generating revenue largely in Georgian lari and Armenian dram). Buyback dividends from Lion Finance Group made up a further 35%. Also, the renewable energy business has cash flows in U.S. dollars and consequently pays dividends in hard currency, which represents about 5% of the total cash dividend and interest income Georgia Capital received in 2024. There is also a forward currency hedge for the coupon payment, which mitigates a portion of the risk.

The recent exercise of the put option on the water utility business supports Georgia Capital's liquidity, and we expect dividend income will continue to increase in 2025 and 2026. Georgia Capital received cash proceeds of $70.4 million from the sale of its minority stake, supporting its liquidity profile. We anticipate that cash interest and dividends in 2025 will total about GEL180 million–GEL200 million, after GEL209 million in 2024. Dividends from the retail pharmacy business have reduced significantly since 2023, though there may be higher dividends from Lion Finance Group, following its acquisition of Ameriabank, with a target payout ratio of 30%-50% of annual profits. Cash interest expense is expected to be about GEL35 million per year. As a result, Georgia Capital's cash adequacy ratio should be close to 3.0x in 2025 and exceed 3.5x in 2026. Refinancing risk, for the moment, is well under control because the company's only liability is due in August 2028, and the amount outstanding is expected to reduce over time. Georgia Capital’s 20% holding in the beer and distribution business remain subject to a put/call structure, and the put option can be exercised as a pre-agreed enterprise value to EBITDA multiple in 2029-2031.

Outlook

The positive outlook reflects the view that we expect Georgia Capital's LTV ratio, over time, to remain materially below 10%, its cash adequacy ratio to remain above 3.0x, and the value of its portfolio's underlying assets will continue to rise.

Downside scenario

We could revise the outlook to stable if Georgia Capital does not demonstrate a commitment to maintaining a conservative capital structure, with an LTV below 10%. This would most likely result from a material weakening of equity values, large negative currency fluctuations, or material share buybacks, signaling a more aggressive stance toward leverage.

Rating pressure could also result from a material deterioration of the credit quality of any of Georgia Capital's core investments, or increased volatility in the value of its listed asset, which could erode the portfolio's value and increase the likelihood of needing financial support, for example, through fresh capital or shareholder loans.

Upside scenario

We could raise the ratings if Georgia Capital establishes a track record of deleveraging, such that its LTV ratio remains materially below 10% under any market circumstances. An upgrade will hinge on the company demonstrating a commitment to 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 active foreign currency management. We would also expect to see greater diversification and material portfolio rotation in the business, with increasing ownership of minority listed and highly liquid stakes, such that listed assets in the portfolio contain materially more than 40% of highly liquid stocks on a structural basis.

Company Description

Georgia Capital is an investment holding company based in the country of Georgia. Its parent company, Georgia Capital PLC, is listed on the London Stock Exchange. As of June 30, 2025, Georgia Capital's portfolio was valued at GEL4.54 billion ($1.69 billion).

The private companies in Georgia Capital's portfolio are all based in Georgia with Lion Finance Group being its only listed asset. The 19.1% stake in Lion Finance Group was valued at GEL2.2 billion ($826 million) on June 30, 2025, representing 47.5% of Georgia Capital's total portfolio by value. The company is well diversified by industry, and has investments in banking, pharmaceuticals, health care, insurance, utilities, real estate, hospitality, private education, and renewable energy generation. The private portfolio includes:

- A 98% stake in a retail pharmacy (18.5% of the adjusted portfolio value);
- Full ownership of health care services (11% of the adjusted portfolio value);
- Full ownership of A-Group, a property/casualty insurance company (10.5% of the adjusted portfolio value); and
- Varying stakes in other businesses in the renewable energy, education, medical insurance, clinics and diagnostics, beverages, auto services, digital services, commercial real estate, and housing development (12.6% of the adjusted portfolio value) sectors.

Our Base-Case Scenario

Assumptions

- Proactive LTV management to keep the S&P Global Ratings-adjusted LTV ratio materially below 25%.
- Real GDP growth in Georgia of about 7.1% in 2025, before moderating in to 5.2% in 2026, owing to a reduction of consumption and investments.
- Cash dividend income and cash interest income of about GEL180 million-GEL200 million in 2025, slightly below that in 2024 as cash interest income reduces.
- Cash operating costs, including management fees and taxes, of about GEL30 million-GEL40 million per year, compared with GEL35.3 million in 2024.
- Cash interest expense of about GEL33 million in 2025 and reducing to GEL 21 million-GEL 24 million in 2026 after partial debt redemptions.
- No dividend distributions to shareholders, in line with previous years.
- Share buybacks of about $50 million over the next nine months, with further share buybacks under the new GEL700 million capital return program through the end of 2027.
- Partial debt redemption of at least $50 million in September 2025.

Key metrics

Georgia Capital JSC--Forecast summary

Period ending	2022a	2023a	2024a	2025e	2026e
Loan to value (%)	13.3	8.3	6.8	Less than 25	Less than 25
Cash flow adequacy (x)	1.2	3.0	3.0	c. 3.0	>3.5

Liquidity

We assess Georgia Capital's liquidity as adequate. We estimate its sources of liquidity will cover uses by about 1.8x in the 12 months started June 30, 2025, despite substantial share repurchases. We believe Georgia Capital has sound relationships with local banks, given its position as a key investor in the country. That said, the absence of committed long-term lines, the relatively small Georgian market, and the company's need to seek financing in a material market downturn leads us to cap our liquidity assessment at adequate.

Principal liquidity sources

- For the 12 months started June 30, 2025, cash and cash equivalents of GEL150 million.
- Proceeds of around GEL 189 million from the exercise of the put option on the water utility.
- Undrawn committed facilities of around GEL 27 million.

Principal liquidity uses

- Over the same period, partial redemption of at least GEL134 million of the outstanding bond.
- Operating costs of about GEL30 million-GEL40 million.
- Interest expense of about GEL33 million.
- Discretionary share repurchases of at least GEL134 million.

- Unstressed dividends from portfolio companies and interest income of about GEL170 million-GEL180 million over the next 12 months.

Covenants

The bond documentation contains a covenant stipulating an incurrence ratio of net debt to adjusted equity lower than 45%. There are also restricted payments, including dividend distribution and capital stock redemption exceeding the sum of 50% of the retained earnings balance as of Dec. 31. 2022, and 50% of the consolidated net profit of the issuer for the semi-annual periods recorded after Dec. 31, 2022, determined by reference to the most recent group financial information (either semi-annual or annual). 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 neutral consideration in our credit rating analysis of Georgia Capital, reassessed from moderately negative. This is because we have observed a tangible positive evolution of the company's risk management, especially toward debt and liquidity matters. This is notwithstanding the structural weaknesses of the Georgian capital market compared with bigger, more institutional capital markets in developed economies. Capital allocation strategies and liquidity preservation measures the company has disclosed are, in our view, now structurally stronger than in the past, when the refinancing of its $300 million bond threatened the company's liquidity. In addition, Georgia Capital now identifies key risks and puts in place mitigants to reduce the potential negative impacts. It has four non-executive directors on its five-member board, and we are not aware of instances of regulatory infractions.

Environmental and social factors are overall neutral considerations in our analysis. The group's major sector exposure is represented by banking (47.5% of the adjusted portfolio value), retail pharmacy (18.5% of the adjusted portfolio value), and health care services (11%), 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.

Rating Component Scores

Rating Component Scores

Component	
Foreign currency issuer credit rating	BB-/Positive/--
Local currency issuer credit rating	BB-/Positive/--
Business risk	Weak
Country risk	Moderately high
Industry risk	Intermediate
Competitive position	Weak
Financial risk	Intermediate
Cash flow/leverage	Intermediate
Anchor	bb
Modifiers	
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Negative (-1 notch)
Stand-alone credit profile	bb-

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

Related Research

- Georgia 'BB/B' Ratings Affirmed; Outlook Stable, Aug. 8, 2025

- Georgia Capita JSC 'BB-' Rating Affirmed; Outlook Stable, April 28, 2025

Ratings List

Ratings list		
Outlook Action; Ratings Affirmed		
	To	**From**
Georgia Capital JSC		
Issuer Credit Rating	BB-/Positive/--	BB-/Stable/--
Ratings Affirmed		
Georgia Capital JSC		
Senior Unsecured	BB-	