Research Update:

Georgia Capital JSC 'BB-' Rating Affirmed; Outlook Stable

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Rating Action Overview

- Investment holding company Georgia Capital JSC, based in the country of Georgia, demonstrated a relatively stable portfolio evolution in 2024, with an increase in the total portfolio value of 2.4% (versus 2023) to Georgian lari (GEL) 3.76 billion (around $1.34 billion). This was mainly driven by an 18.5% increase in the share price of Lion Finance Group.
- The company remains focused on keeping a relatively prudent leverage, while at the same time, allocating its capital toward incremental investments in its growth assets and share buybacks to its shareholders.
- As a result, we anticipate that the company will be able to withstand relatively turbulent market dynamics in the next 12 months while keeping its S&P Global Ratings-adjusted loan-to-value (LTV) ratio well below 25%, thanks to the ample leeway it retains on its adjusted leverage, expressed in terms of LTV ratio. At the end of 2024 its LTV ratio reached about 7% (when excluding future share buybacks and new investments) from 8.3% at the end of 2023.
- We therefore affirmed our 'BB- 'long-term issuer credit rating on Georgia Capital and the 'BB-' rating on its $150 million senior unsecured notes.
- The stable outlook reflects the view that Georgia Capital's LTV ratio, over time, will remain materially below 25%, and that its cash adequacy ratio will remain above 3.0x.

Rating Action Rationale

In 2024 the company enjoyed relatively stable domestic conditions, though recent volatility in the stock markets due to the uncertainty on tariffs represents a risk to the asset valuations for 2025. In 2024, Georgia's economy demonstrated exceptional performance, recording a robust real GDP growth rate of 9.4% year on year. This strong growth was primarily driven by domestic consumption, supported by rising wages and a buoyant tourism sector, positioning Georgia among the fastest-growing economies globally. However, we project growth will moderate to 5.7% in 2025 and 5.0% in 2026, reflecting a slowdown in consumption and a decline in investment. The latter is largely attributed to diminished investor confidence due to political volatility tied to the recent electoral cycle and the EU authorities' decision to put Georgia's EU integration efforts on hold. These factors resulted in a 55.2% year-on-year decline in foreign direct investment during the third quarter of 2024. They have also led some depreciation of the lari (refer to "Georgia 'BB/B' Ratings Affirmed; Outlook Stable," published Feb. 7, 2025, on RatingsDirect for further information). More recently, after U.S. President Trump's declaration of "Liberation Day"' on April 2, 2025, the holding's only listed asset, Lion Finance Group, decreased in capital market value by about 15% over the course of a few days, before recovering fully in the following days. In addition, we see the uncertainty around tariffs and geopolitics in general as being a challenge for deal-making for private assets, especially in emerging markets. Any material decrease in the portfolio’s asset prices could challenge Georgia Capital's deleveraging prospects.

In 2024, Georgia Capital's portfolio value increased by 2.4% compared with 2023, to GEL3.76 billion ($1.34 billion). The growth in value was mainly supported by Georgia Capital's largest holding, Lion Finance Group (previously Bank of Georgia, representing 37.8% of the holding's portfolio value), which benefitted from an 18.5% increase in its share price in 2024, supported by a 3.3% appreciation of pound sterling against the lari in 2024. There was also solid value creation of GEL29 million in the water utility business, particularly due to a strong fourth quarter, supported by increased tariffs for corporates. In the private portfolio, there was a decrease in portfolio value of GEL134.6 million in 2024, mainly because Georgia Capital divested 80% of its holding in the beer and distribution business, collecting proceeds of $63 million (around GEL170 million). Overall, the private asset portfolio recorded a relatively stable operating performance, particularly in the insurance business (property/casual and medical), with continued growth from the retail (pharmacy), renewable energy, and education businesses. We positively note that the company's reported net asset value (NAV) grew by 6.8% in 2024. Over the past three years, we have seen an increase in Georgia Capital's NAV from GEL2.9 billion in 2021 to GEL3.6 billion in 2024 (up by about 24%).

Georgia Capital's business risk remains constrained by its concentration in Georgia and relatively low share of listed assets. All of Georgia Capital's private assets are based in Georgia, with Lion Finance Group, which makes up about 38% of the total portfolio and of which Georgia Capital holds a 19.2% stake, the only listed asset. Georgia Capital's target holding in the asset is 19.5%. The bank was valued at GEL1.4 billion on Dec. 31, 2024. Georgia Capital has 20% in its water utility business, whose stake is subject to a put option with a pre-agreed enterprise value-to-EBITDA multiple, which can be exercised in 2025-2026. The value of the stake on Dec. 31, 2024, stood at GEL188 million (about 5% of the total portfolio). The remaining 57% of the portfolio's assets are unlisted and are in Georgia. This, in our view, could limit its ability to quickly monetize its investments to repay debt, which could be important if liquidity unexpectedly becomes constrained. Additionally, we estimate that Georgia Capital's weighted average creditworthiness of investee companies is in the high 'b' rating category. Georgia Capital's three largest assets are Lion Finance Group, retail pharmacy (19% of the total portfolio value), and insurance (11.4%). However, the company is well diversified by industry, in our view, with investments in banking, pharmaceuticals and health care, insurance, utilities, real estate and hospitality, private education, and renewable energy generation.

We expect Georgia Capital to maintain relatively low leverage supported by its debt management discipline. The holding has a financial target based on a net capital commitment (NCC) ratio. The NCC ratio stood at 12.8% at the end of 2024, reduced from 15.6% at the end of 2023 and well below the 28% reached at the end of 2022. In its capital markets day, the company communicated that it aims to reach an NCC ratio below 15% by the end of 2025 and remain below this threshold. In addition, the NCC ratio guides the approach toward the holding company's capital allocation, which notably includes share buybacks and new investments. An

NCC ratio of 15%-30% will result in tactical share buybacks or investments, an NCC ratio below 15% could generate more substantial share buybacks or investments, while an NCC ratio above 40% would lead the company to switch to a cash preservation strategy. The company's NCC ratio includes planned investments, announced buybacks and a contingency/liquidity buffer. As a result, our S&P Global Ratings' LTV ratio at the end of 2024 stood at about 7% (excluding future share buybacks or potential equity investments which are uncommitted). At the same time, we anticipate that the company will be able to 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%, a level we see as commensurate for maintaining the 'BB-' rating.

At the same time, the NAV discount remains elevated, at about 47% at the end of 2024, and so we anticipate share buybacks to continue in 2025, which could affect the LTV ratio. We note that share repurchases have occurred since the refinancing which took place in August 2023. The company has a GEL300 million share buyback program ongoing, with GEL199 million already completed as of April 2025. Under our base case we anticipate that the company will likely fully utilize its program in 2025. Despite this, we expect Georgia Capital will continue to balance its repurchases and investments in the future. In addition, Georgia Capital being a domestic holding company, the holding remains exposed to U.S. dollar exchange rate fluctuations because its outstanding debt is a $150 million bond due in August 2028. It is denominated in hard currency while the company's cash dividends are predominantly received in lari. However, Lion Finance Group pays its dividends in GBP, which makes up about 35% of total dividends received in 2024, and 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 dividends 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 completion of an 80% sale in the beer and distribution business for $63 million cash proceeds supports Georgia Capital's liquidity, and we expect dividends will continue to grow in 2025 and 2026. We anticipate that cash interest and dividends in 2025 will be about GEL180 million–200 million, after GEL209 million in 2024. The retail pharmacy dividends have reduced significantly since 2023, though we note there may be higher dividends from Lion Finance Group, following its acquisition of Ameriabank, with a target payout ratio within 30%-50% of annual profits. Cash interest expense is expected to be around GEL35 million per year. As a result, Georgia Capital's cash adequacy ratio should be above 3.0x in 2025 and 2026, compared with 3.0x in 2024. Refinancing risk, for the moment is well under control, because the company's only liability is due in August 2028.

Georgia Capital's put options could bolster its liquidity profile and cash management in a market that is typically illiquid. Currently Georgia Capital holds two put options. The first one is related to the water utility business, which can be exercised in 2025 or 2026, and the second it on the remaining 20% holding in the beer and distribution business. It remains subject to a put/call structure, and the put option can be exercised as a pre-agreed enterprise value/EBITDA multiple in 2029-2031. We note that in the near term, a monetization of the Georgia Global Utilities put option, whose value stands at GEL188 million, could support the holding's ambition to deleverage if proceeds are dedicated toward debt reduction.

Outlook

The stable outlook reflects our view that Georgia Capital's S&P Global Ratings-adjusted LTV ratio will remain below 25%. We also expect solid dividends from its assets, which should translate into a cash flow adequacy ratio of around 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% under any market circumstances. 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 foreign currency management. We would also expect to see increased diversification and material portfolio rotation in the business, with increasing ownership of minority listed and highly liquid stakes in the business such that the share of listed assets in the portfolio increases structurally and materially above 40% in highly liquid stocks.

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. At the end of 2024, Georgia Capital's portfolio had a value of GEL3.76 billion ($1.36 billion).

The private companies in Georgia Capital's portfolio are all based in Georgia with Lion Finance Group being its only listed asset. The 19.2% stake in the bank was valued at GEL1.4 billion ($501 million) on Dec. 31, 2024, representing 37.8% 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 GEL188 million ($68 million) on Dec. 31, 2024, and represented about 5% 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 97.8% stake in retail pharmacy (19% of the adjusted portfolio value);
- Full ownership in health care services (7.7% of the adjusted portfolio value);
- Full ownership in Aldagi P&C, a property/casualty insurance company (8.3% of the adjusted portfolio value);

- Full ownership in medical insurance business (3.1% of the adjusted portfolio value);
- Full ownership in Georgian Renewable Power Co. (6.7% of the adjusted portfolio value);
- Stake in education business (4.8% of portfolio value);
- Stake in clinics and diagnostics business (3.3% of portfolio value); and
- Other businesses include beverages, auto services, digital services, commercial real estate, and housing development (4.3% of the adjusted portfolio value).

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 is set to moderate to 5.7% in 2025 from 9.4% in 2024, with consumption and investments reduction the drivers of the tempered growth.
- Cash dividend income and cash interest income of about GEL225 million-GEL245 million in 2025, increasing versus 2024 as the level of dividends from Lion Finance Group is expected to rise.
- Cash operating costs, including management fees and taxes, of about GEL30 million-GEL40 million per year. This compares with GEL35.3 million in 2024.
- Cash interest expense of about GEL35 million per year over 2025-2026, in line with 2024.
- No dividend distributions to shareholders, in line with previous years.
- Share buybacks of around GEL101 million are remaining under the current program (GEL141 million for 2025).

Key metrics

Georgia Capital JSC—Key metrics

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	3.0-4.0	3.0-4.0

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate.

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 Jan. 1, 2025, 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. That said the absence of committed long-term lines, the relatively small Georgian market and the company's need to seek for financing in a material market downturn leads us to cap the liquidity as adequate.

We estimate principal liquidity sources over the 12 months started Jan. 1, 2025, will include:

Principal liquidity sources

- Cash and cash equivalents of GEL178 million, netted for the portion we view as immediately accessible.
- Unstressed dividends from portfolio companies and interest income of about GEL180 million-GEL200 million over the next 12 months.

Principal liquidity uses

- No upcoming debt maturities.
- Operating costs of about GEL30 million-GEL40 million.
- Interest expense of about GEL35 million annually.
- Discretionary share repurchases of up to GEL141 million for the full year.

Covenants

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 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 on the company's risk management especially toward debt and liquidity matters, notwithstanding the structural weaknesses of the Georgian capital market, if compared with bigger and more institutional capital markets in the developed economies. The company's capital allocation strategies and liquidity preservation measures as disclosed by the company are now perceived structurally stronger if compared with the past when the company managed the refinancing of its $300 million bond, with standards at that time perceived comparatively more aggressive to the industry norms, threatening the company's liquidity. In addition, the holding now identifies key risks and puts in place mitigants to reduce the potential negative impacts, it has non-executive directors on its board (four out of the five members of the board of directors), and there are no instances of regulatory infractions to highlight. Environmental and social factors are overall neutral considerations in our analysis. The group's major sector exposure is represented by banking (37.8% of the adjusted portfolio value), retail pharmacy (19% of the adjusted portfolio value), and insurance (11.4%), 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-/Stable/--
Local currency issuer credit rating	BB-/Stable/--
Business risk	Vulnerable
Country risk	Moderately High
Industry risk	Intermediate
Competitive position	Vulnerable
Financial risk	Intermediate
Cash flow/leverage	Intermediate
Anchor	bb-
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
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. 11, 2023
- Georgia Capital On CreditWatch Positive On Debt Refinancing; Preliminary 'BB-' Rating Assigned To Proposed Notes, July 12, 2023
- Georgia-Based Investment Holding Company Georgia Capital 'B+' Rating Affirmed On Low Leverage; Outlook Remains Negative, April 5, 2023

Ratings List

Ratings list	
Ratings Affirmed	
Georgia Capital JSC	
Issuer Credit Rating	BB-/Stable/--
Senior Unsecured	BB-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria for further information. A description of each of S&P Global Ratings'rating categories is contained in"S&P Global Ratings Definitions"at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings'public website at www.spglobal.com/ratings.