



საქართველოს ეროვნული ბანკი  
National Bank of Georgia

# Corporate Sector Review:

## Financial Strength

15 July, 2020

---

Salome Skhirtladze, CFA

Ana Kvaratskhelia

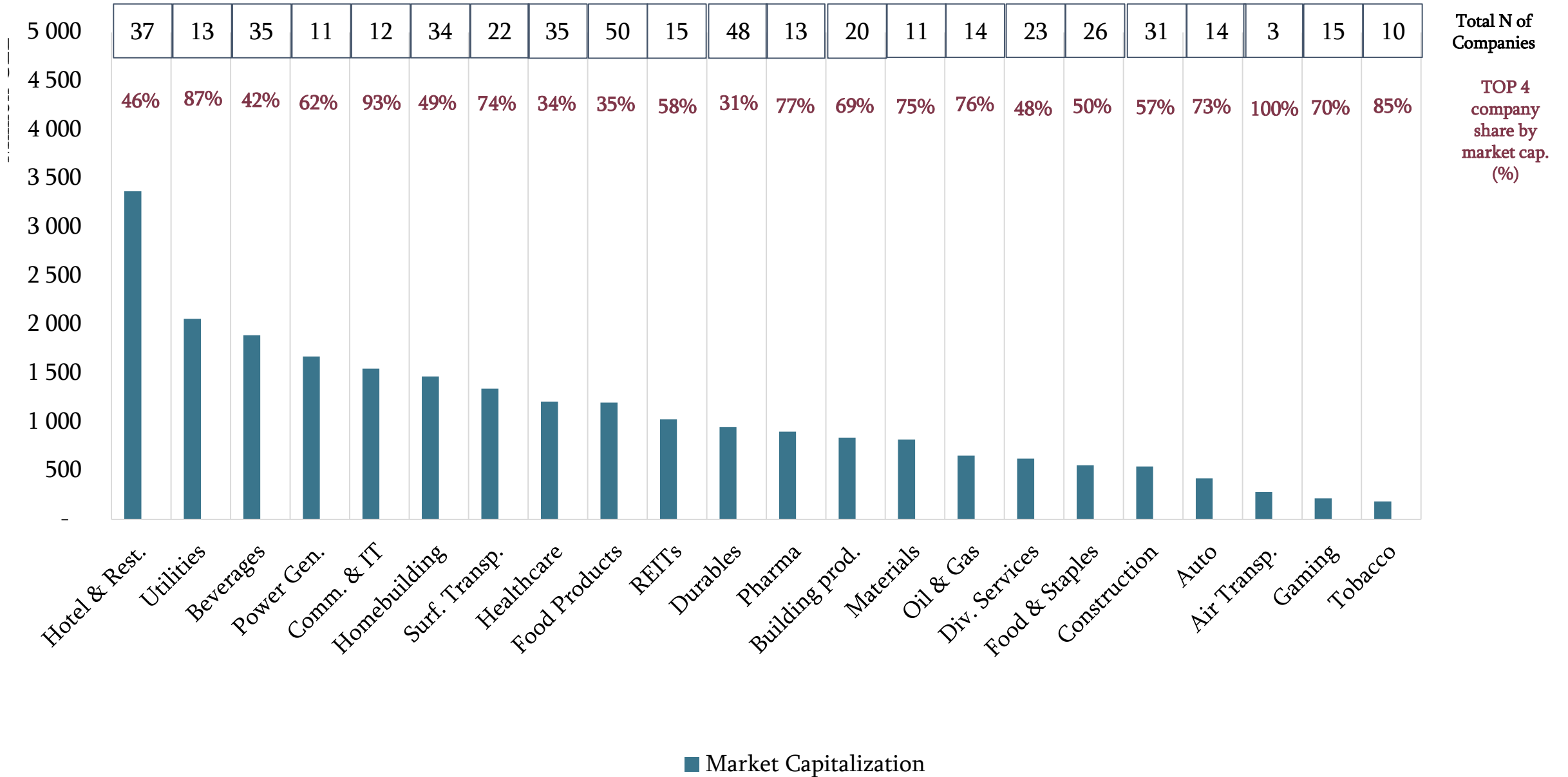
Shalva Bukia

# Disclaimer & Database size

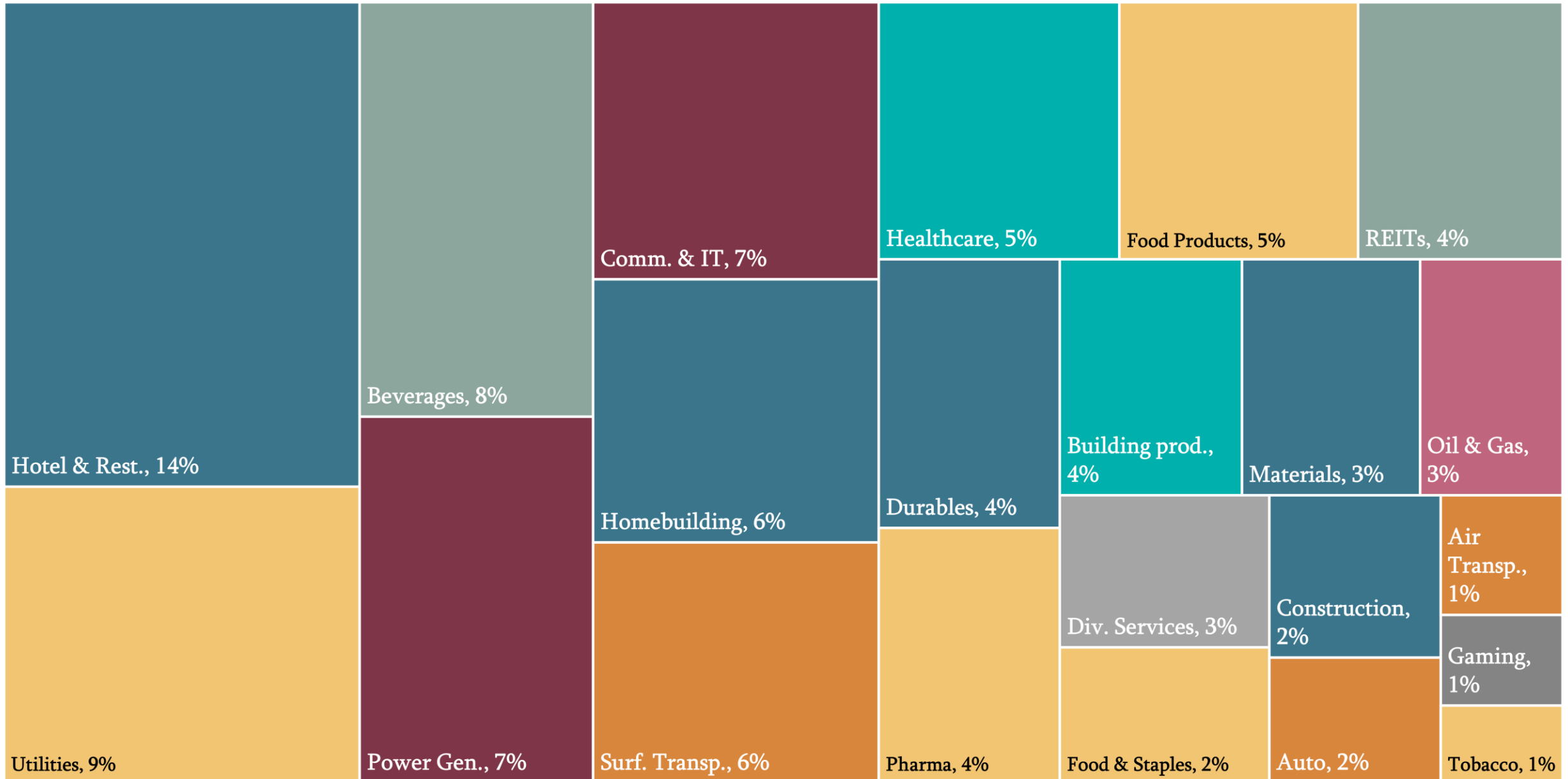
---

- The corporate sector research is based on 492 privately owned companies (category I and II entities according to the SARAS classification). The subject population covers 70% of total corporate sector assets as reported under Geostat statistics.
- The research report may incorporate following limitations:
  - The report covers only non-financial corporate sector;
  - Individual company financial information is based on electronic reports submitted to the Service for Accounting, Reporting and Auditing Supervision's (SARAS) online platform - [www.reportal.ge](http://www.reportal.ge) . Hence, reporting entities are responsible for the completeness and accuracy of the information;
  - The data is available only for the years of 2017 and 2018;
  - The data used for analyses incorporates individual rather than consolidated financial statements;
  - For calculating specific financial ratios, certain proxies have been used for interpreting financial results, as disclosed on individual slides;
- **Sources:**
  - SARAS | National Bank of Georgia | Geostat | Eurostat | S&P

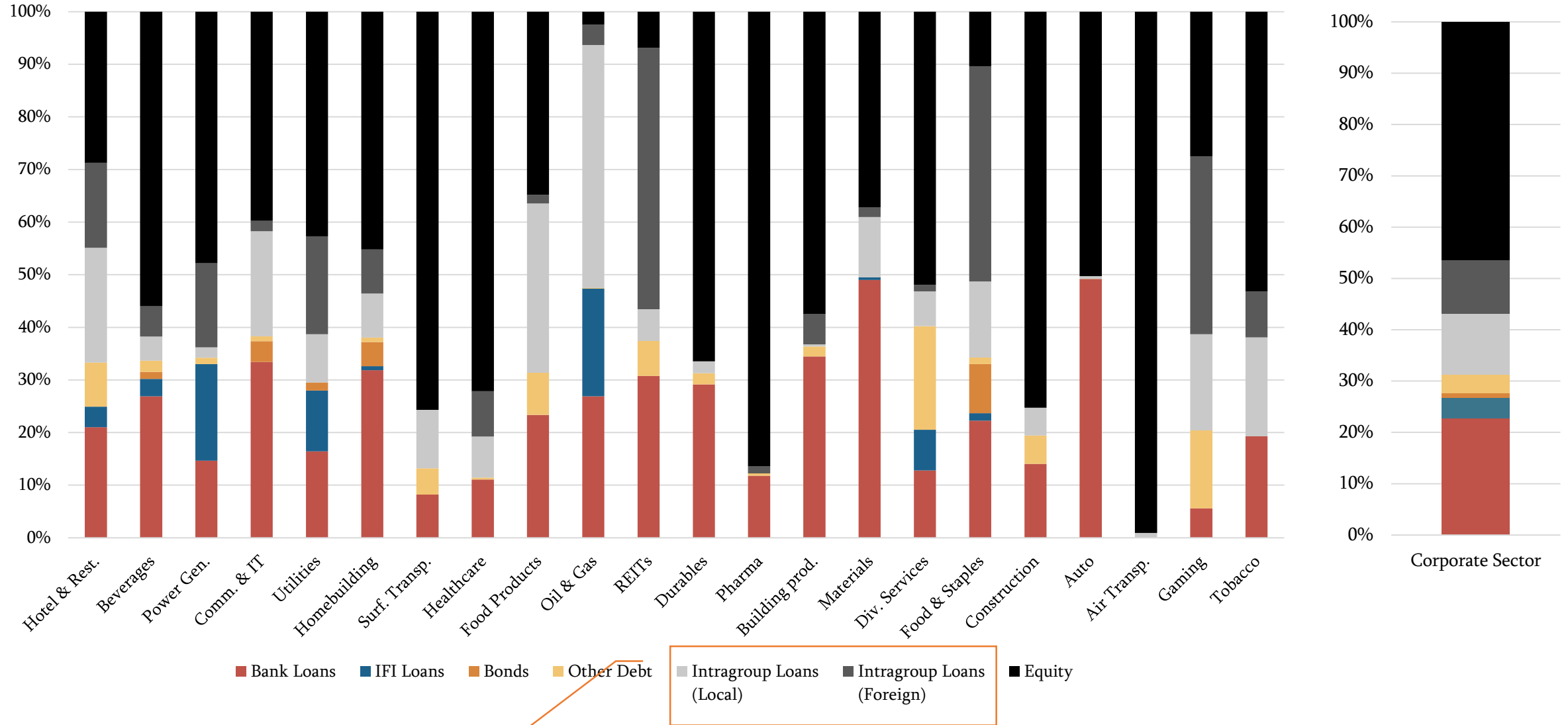
# Sectoral “Market Capitalization” and Concentrations



# Market Capitalization (%): Geo Corporate sector theoretical “index” composition

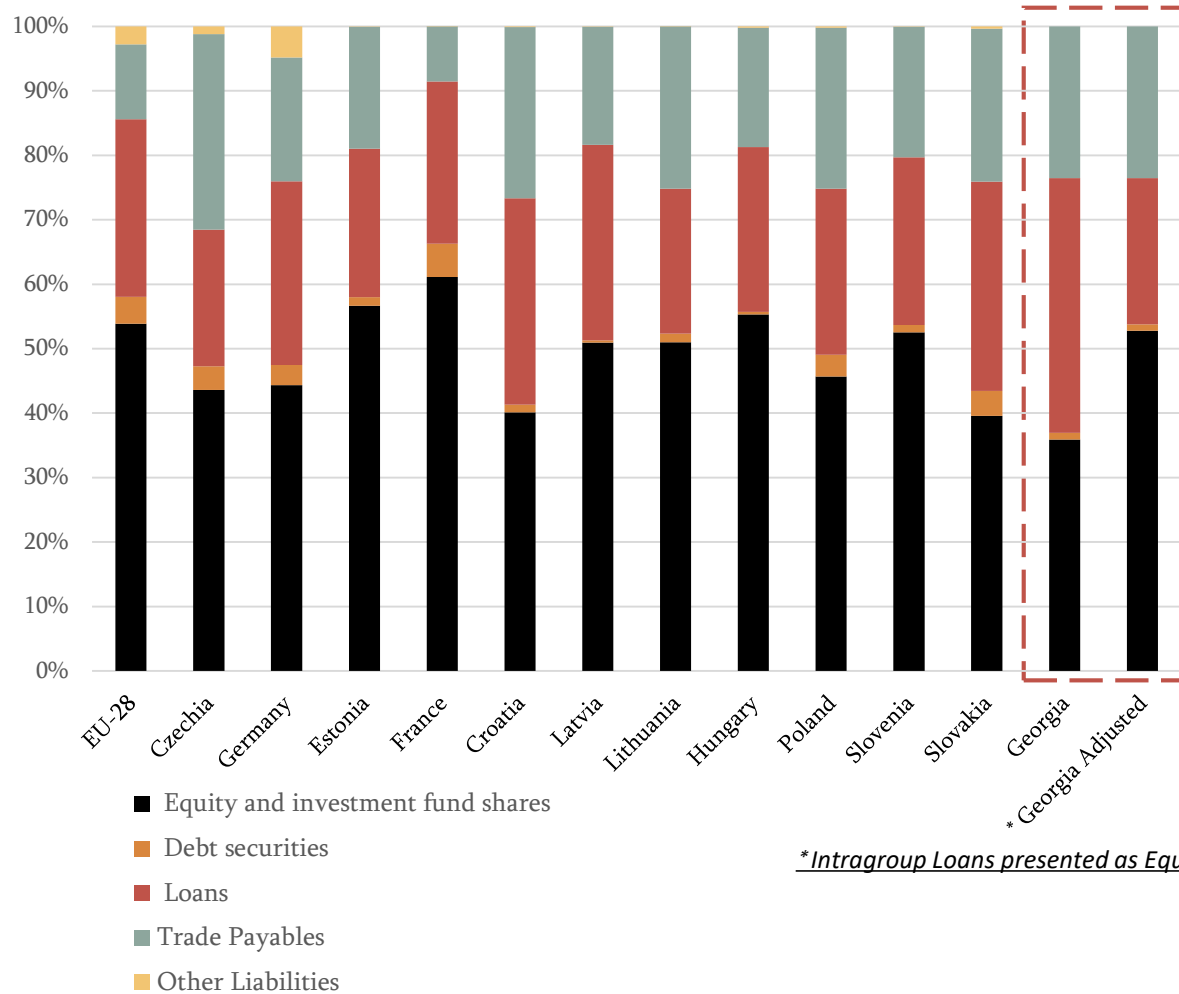


# Sectoral Funding Structure

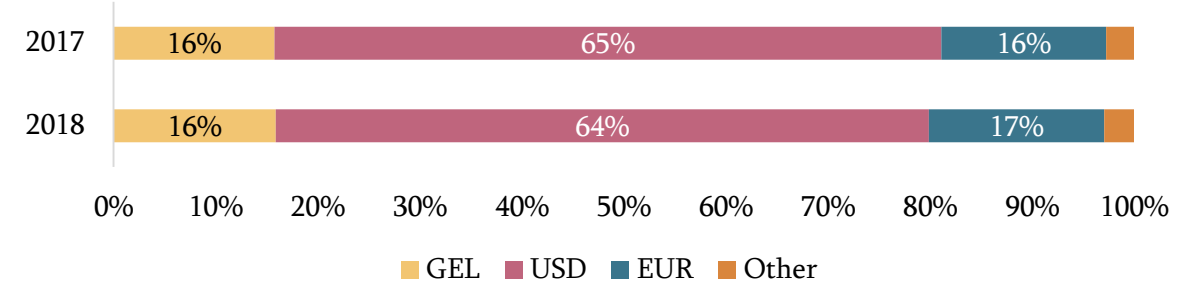


# Funding Structure Characteristics: International Perspective

## Corporate funding structure: EU vs Georgia: need for equity funding

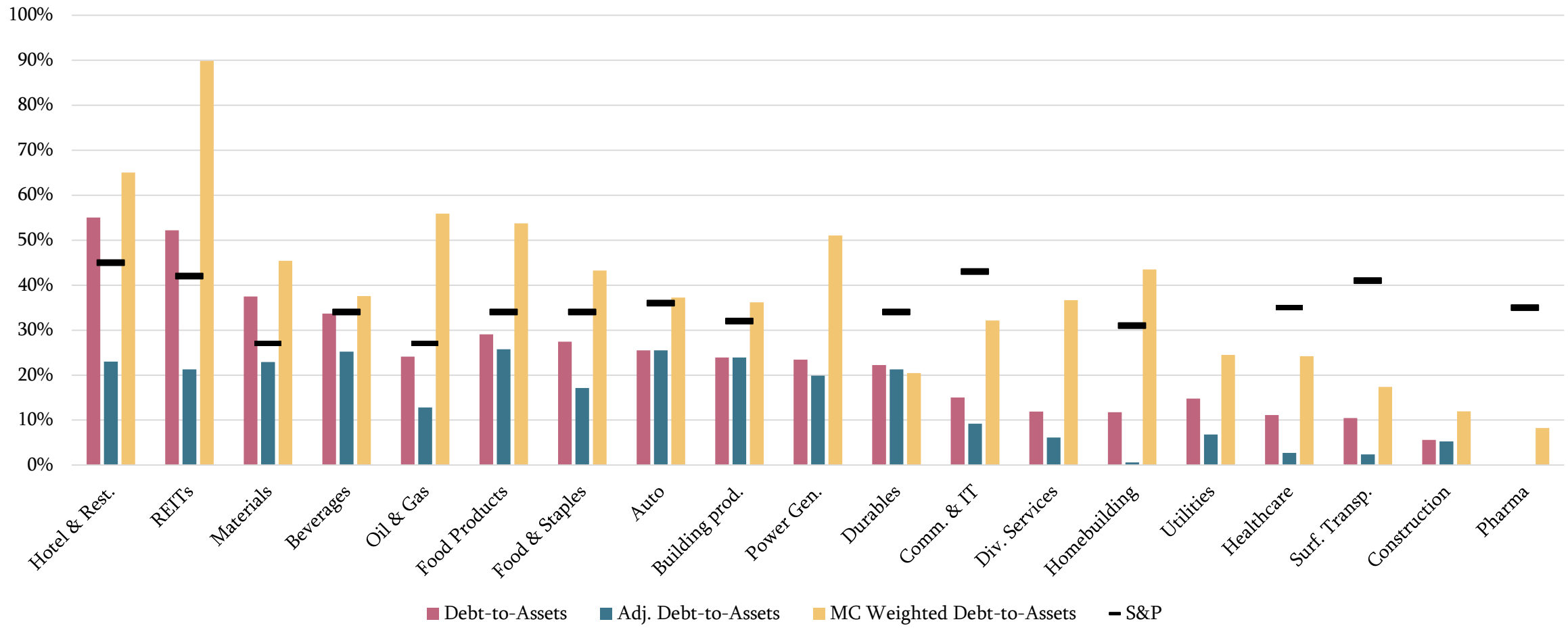


## Currency composition of the borrowings



# Corporate Sector Financial Performance: Leverage

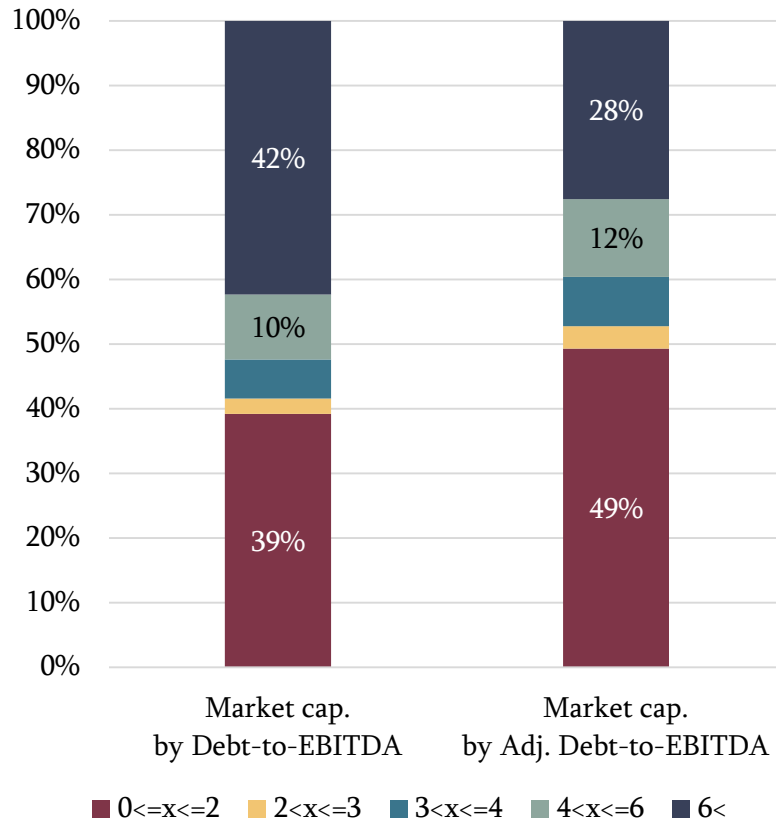
Debt-to-Assets: Sectoral Perspective vs. S&P comparables<sup>1</sup> : higher debt burden across large caps.



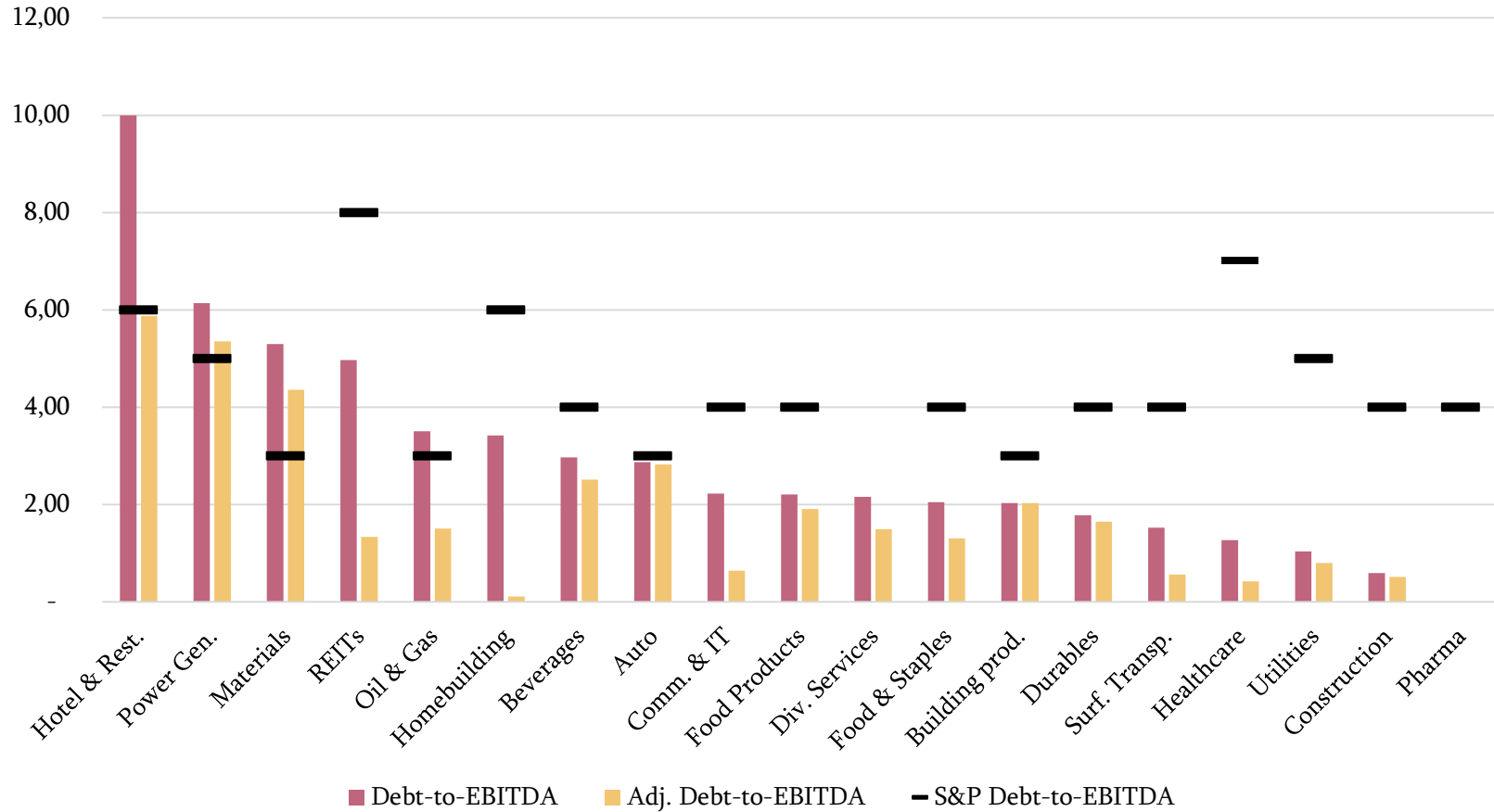
<sup>1</sup> Medians are used for calculations, unless specified as MC (market capitalization) weighted;

# Corporate Sector Financial Performance: Leverage

## Market Capitalization by Debt-to-EBITDA<sup>1</sup>



## Debt-to-EBITDA<sup>1</sup>: Sectoral Perspective vs. S&P comparable

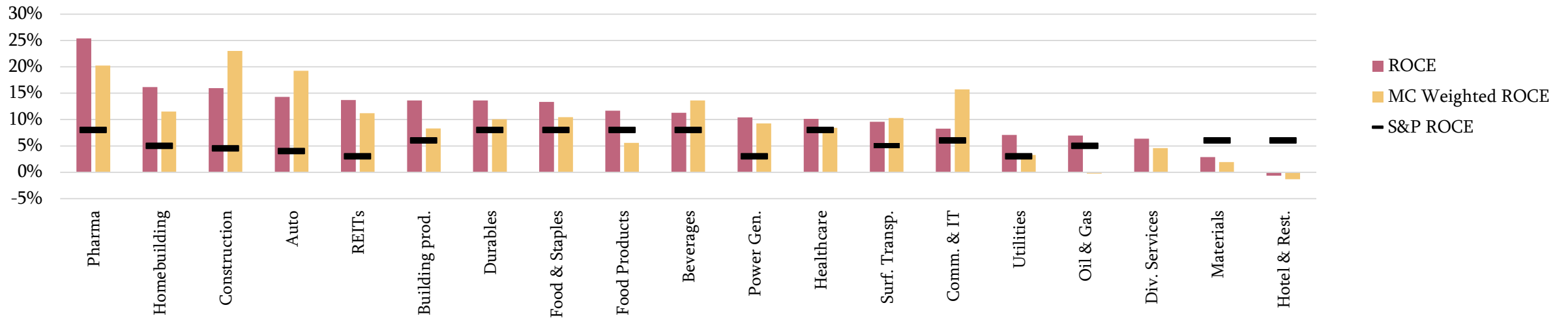


<sup>1</sup> Medians are used for calculations. For companies with negative EBITDA, 10x is used as proxy when calculating the range and median Debt-to-EBITDA and Adjusted Debt-to-EBITDA;



# Corporate Sector Financial Performance: Profitability

ROCE: Sectoral Perspective vs. S&P comparables<sup>1</sup> : Great H expectations?

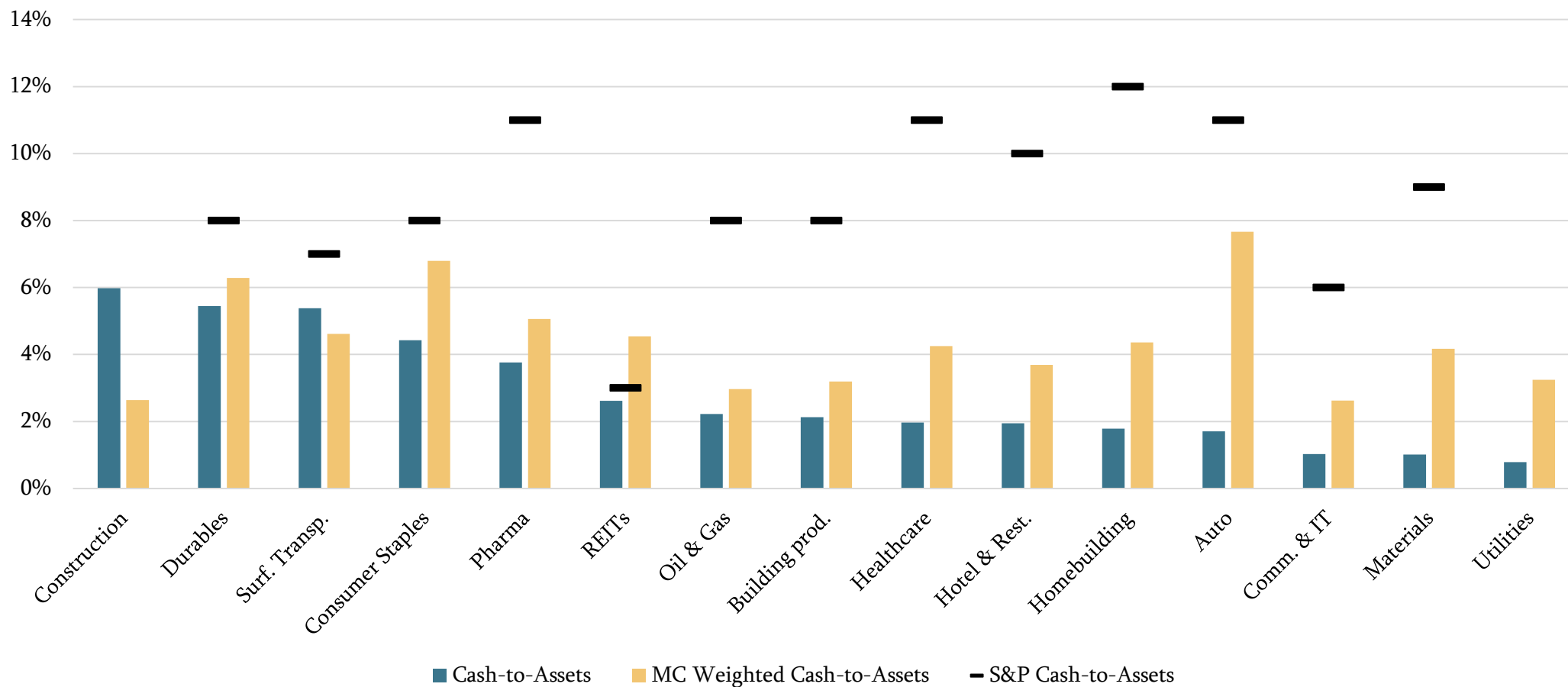


EBITDA Margin: Sectoral Perspective vs. S&P comparables<sup>1</sup> : potential for productivity/efficiency growth?



# Corporate Sector Financial Performance: Liquidity

Cash-to-Assets: Sectoral Perspective vs. S&P comparables<sup>1</sup> : cash too expensive to be “buffered” or seasonal trends?



<sup>1</sup> Medians are used for calculations, unless specified as MC (market capitalization) weighted;

# Corporate Sector: Synthetic Ratings

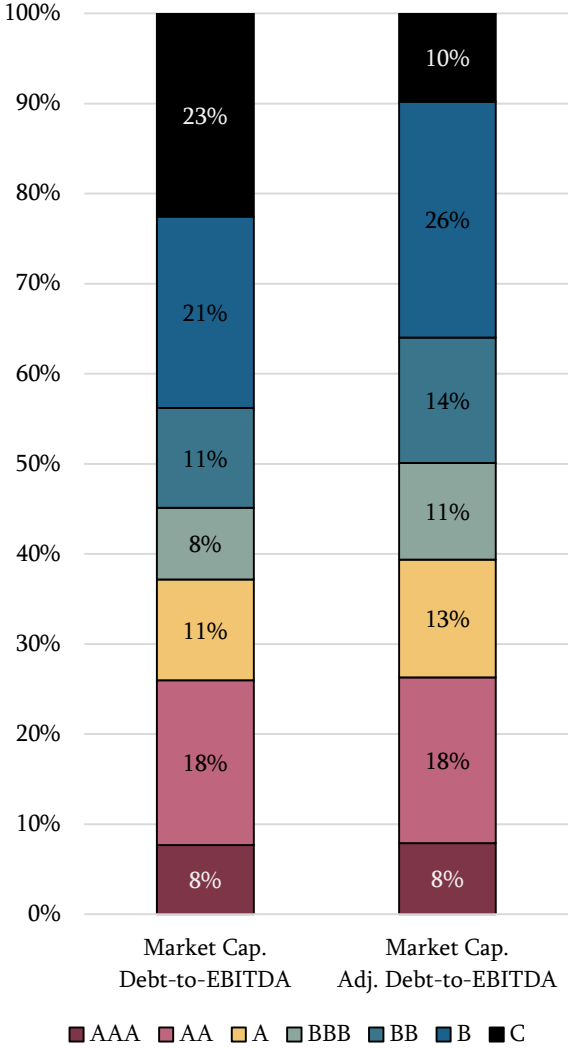
## Key Assumptions

- **Objective:** objective of synthetic ratings is to assign theoretical rating grades to non-financial companies and gauge a general view about the performance and strength of the sector;
- **Scope:** there are 492 non-financial private<sup>1</sup> companies, subject to synthetic rating analyses;
- **Methodology:** The synthetic rating methodology has been developed based on approach of big three rating agencies. However, it incorporates only quantitative financial criteria as presented in the table on the right. There are five financial indicators, with equal weights for rating assessment. The values of financial ratios are structured by buckets, replicating individual rating class, and driving final rating assigned to the entity.
- **Limitations:** Synthetic credit ratings are not intended to reflect exhaustive treatment of all factors reflected in the credit ratings. Rather, they describe only quantitative considerations that are usually significant for assessing credit risk. Generally, quantitative factors only account for 40-50% of the actual credit ratings assigned by the CRAs, and **should be incorporated with qualitative criteria such as macro-economic, industry and company-specific characteristics as well as specific analyst judgment in order to arrive at the final credit ratings and comprehensive assessment.**

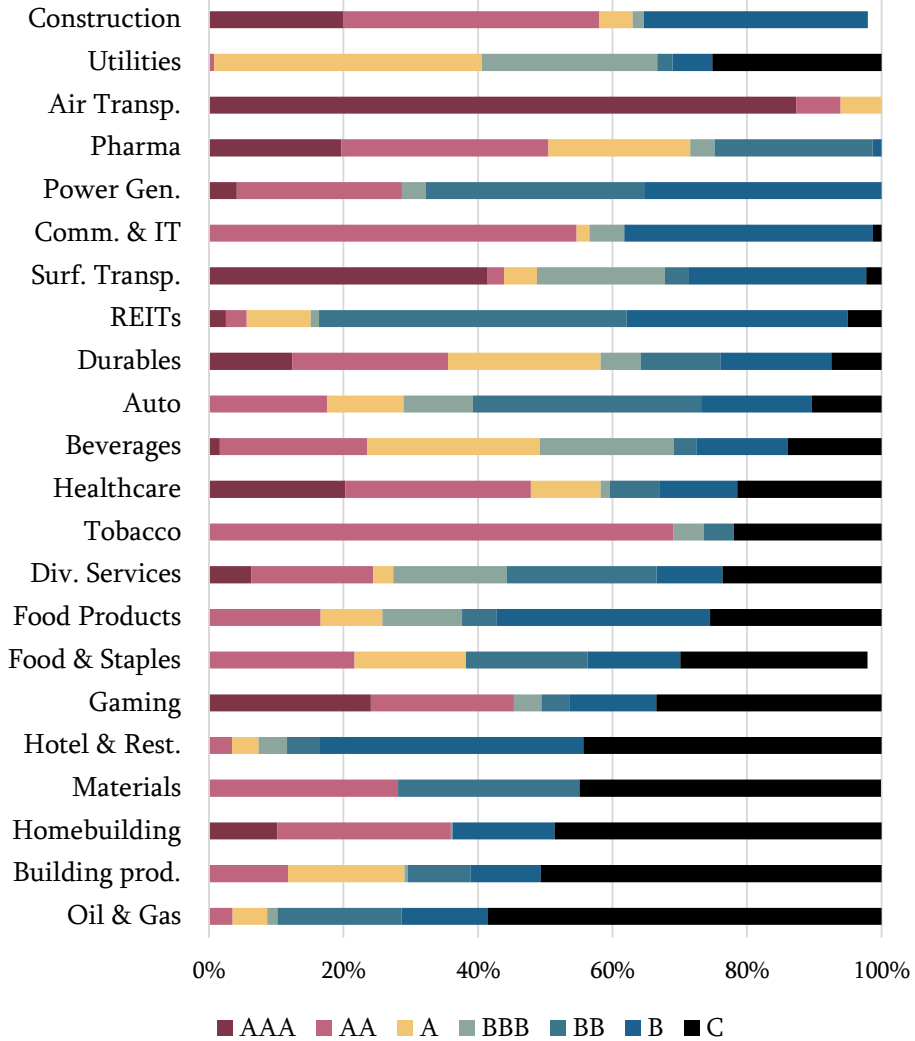
			Ranges based on Averages used by Moodys' rating methodologies for different sectors							
Factor	Sub-Factor	Weight	Aaa	Aa	A	Baa	Ba	B	Caa	Ca
Leverage	Debt / EBITDA	20%	<0.5	0.6x - 1.30x	1.30x - 2.10x	2.10x - 3.20x	3.20x - 4.50x	4.50x - 6.30x	6.30x - 8.60x	8.60x<
	RCF / Debt	20%	55%<	39%-55%	27%-39%	17%-27%	10%-17%	4%-10%	<4%	
Coverage	EBIT / Interest Expense	20%	18.44x<	12.46x - 18.44x	7.44x - 12.46x	4.24x - 7.44x	2.35x - 4.24x	1.07x - 2.35x	<1.07x	
Financial Strength	Debt / Capital Employed	20%	<19%	19%-32%	32% - 42%	42% - 53%	53% - 68%	68% - 77%	77% - 85%	85%<
Profitability and Efficiency	EBIT/ Revenue	20%	37%<	27% -37%	19% - 27%	13% - 19%	9% - 13%	5% - 9%	<5%	

<sup>1</sup>non-government owned entities

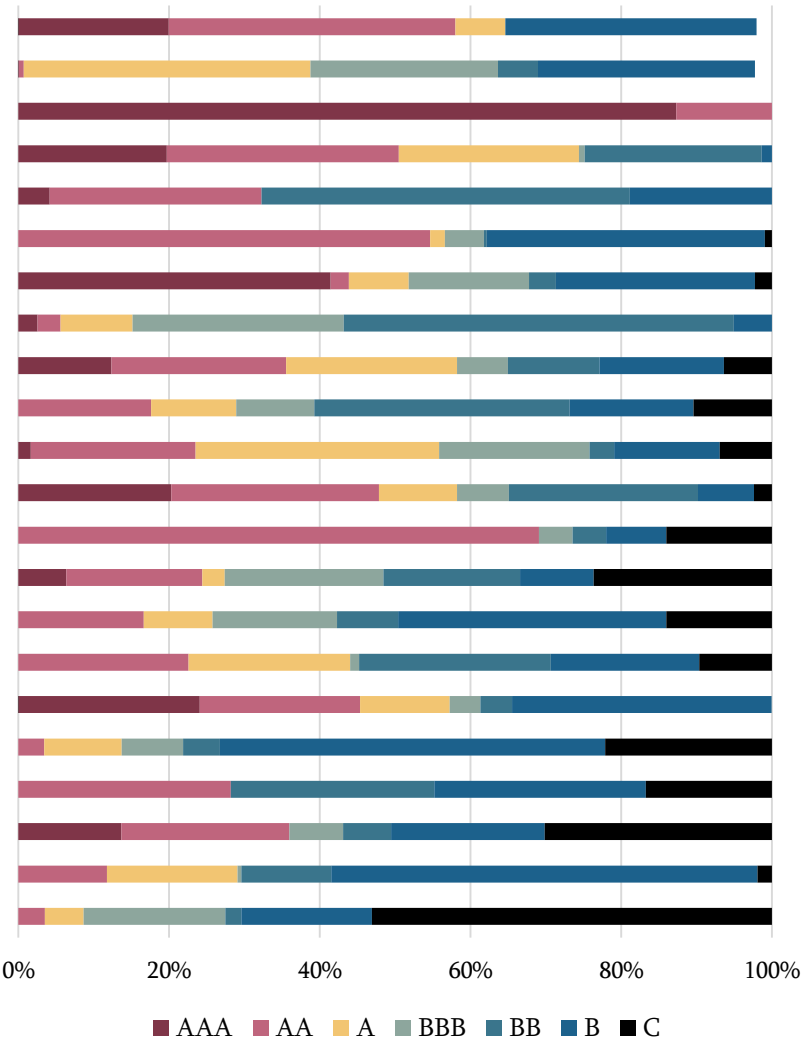
# Corporate Sector: Synthetic Ratings



Market Cap Weighted  
Ratings: calculated by unadjusted Debt



Market Cap Weighted  
Ratings: calculated by adjusted Debt



# Comments

---

- The shape of recovery path from Covid-19 crisis to define structural changes in NF corporate fundamentals;
- Potential room for productivity/efficiency growth;
- Need for equity type funding;

**Is the investment fund (PE/VC) best fit solution for small developing/emerging economies?**

**Thank You!**

---

- **Market Capitalization = Interest Bearing Debt + Equity**
- **MC Weighted financial ratios = Market Capitalization Weighted financial ratios by Industry**
- **Adjusted Debt = Total Interest Bearing Debt excluding Related Party Debt (Foreign & Local)**
- **Debt/Assets = Total Interest Bearing Debt/Total Assets**
- **Debt-to-EBITDA = Total Interest Bearing Debt/EBITDA**
- **ROCE = EBIT/Average Capital Employed**
  - **Capital Employed = Market Capitalization = Equity + Total Interest Bearing Debt**
  - **Total Interest Bearing Debt = Debt Securities Issued + Finance Lease Payable + Current Borrowings + Non-Current Borrowings + Subordinated Debt**
- **EBITDA Margin = EBITDA/Revenue**
- **Cash-to-Assets = Cash/Total Assets**
- **RCF = Retained Cash Flow**
  - **Retained Cash Flow = Funds from Operations (FFO) - Dividend Announced**
  - **Funds from Operations (FFO) = EBITDA - Interest Expense - Income Tax**
- **S&P comparable data** represents medians of S&P rated companies

FY: 2018	Market Cap (mGEL)	Total Assets (mGEL)	Revenue (mGEL)	N of Companies
<b>Consumer Discretionary Sector</b>	<b>5,580</b>	<b>6,826</b>	<b>5,742</b>	<b>137</b>
Automobiles Industry	421	623	1,445	14
Diversified Consumer Services Industry	624	818	300	23
Gaming Industry	216	311	993	15
Hotels, Restaurants & Leisure Industry	3,369	3,680	663	37
Household Durables Industry	951	1,393	2,341	48
<b>Consumer Staples</b>	<b>3,833</b>	<b>5,071</b>	<b>7,941</b>	<b>121</b>
Beverages Industry	1,892	2,170	1,661	35
Food & Staples Retailing	556	998	2,279	26
Food Products Industry	1,200	1,474	2,136	50
Tobacco Industry	184	430	1,865	10
<b>Energy Sector   Oil, Gas &amp; Consumable Fuels Industry</b>	<b>657</b>	<b>1,109</b>	<b>2,986</b>	<b>14</b>
<b>Health Care Sector</b>	<b>2,113</b>	<b>2,728</b>	<b>2,475</b>	<b>48</b>
Health Care Providers & Services Industry	1,211	1,389	703	35
Pharmaceuticals Industry	903	1,339	1,772	13
<b>Industrial Sector</b>	<b>3,015</b>	<b>4,002</b>	<b>3,025</b>	<b>76</b>
Air Freight, Airports & Airline Industry	285	306	291	3
Building Products Industry	841	1,014	1,142	20
Construction & Engineering Industry	545	1,044	1,011	31
Marine, Road & Rail, Other Surface Transportation	1,344	1,637	581	22
<b>Information Technology and Communication Services Sector</b>	<b>1,548</b>	<b>2,231</b>	<b>1,058</b>	<b>12</b>
<b>Materials Sector</b>	<b>822</b>	<b>1,229</b>	<b>1,029</b>	<b>11</b>
<b>Real Estate Sector</b>	<b>2,497</b>	<b>3,812</b>	<b>1,206</b>	<b>49</b>
Homebuilding & Property Development	1,469	2,709	968	34
Real Estate Management (REITs)	1,028	1,102	238	15
<b>Utilities Sector</b>	<b>3,734</b>	<b>5,001</b>	<b>4,043</b>	<b>24</b>
Electric, Gas & Water Utilities	2,061	3,269	3,599	13
Power Generation Industry	1,673	1,731	444	11
<b>Grand Total</b>	<b>23,799</b>	<b>32,009</b>	<b>29,506</b>	<b>492</b>

For S&P comparable ratios, Hotels, Restaurants & Leisure Industry has been combined with the Gaming Industry; Sub-industries within the Consumer Staples sector have been combined, as well as industries comprising Utilities sector; Diversified consumer services and Air Freight, Airports & Airline industries has been excluded from the comparisons;



Sector	Industry	N of Companies	GEO Industry Characteristics
<b>Consumer Discretionary Sector</b>	Automobiles Industry	14	Automobile Industry basically consists of auto importers and retail/wholesalers as well as service operators in Georgia, which are not engaged in auto manufacturing;
	Diversified Consumer Services Industry	23	Diversified Consumer Services incorporate companies engaged in service activities, including media (mainly print) and education;
	Hotels, Restaurants & Leisure Industry	37	Industry is represented mainly by the hotels and hospitality service providers. Only 3 companies are engaged in primarily the restaurant industry;
	Gaming Industry	15	Mostly casinos, including online gambling platforms.
	Household Durables Industry (including Textile, Apparel & Luxury Goods Industry)	48	Household Durables Industry comprises of Home Durables, Appliances, Electronics and other related sub-industries. Companies within the industry are engaged mostly in wholesale or retail trade, with only 5 companies engaged in light manufacturing as well. Industry is also comprised of retail apparel companies, with small representation of apparel wholesale (1 company) and light manufacturing (2 companies).
<b>Consumer Staples</b>	Beverages Industry	35	Beverages Industry incorporates companies engaged in light manufacturing of both alcoholic and soft beverages as well as wholesale distribution; Most of the companies represent light manufacturers of alcoholic beverages (wine & beer);
	Food & Staples Retailing	26	Industry is composed mostly of the retail supermarkets, other food retailers and retailers of personal products;
	Food Products Industry	50	Food Products Industry is composed of the companies engaged in light manufacturing of different types of food products, agriculture sector as well as wholesale food distributors;
	Tobacco Industry	10	All of the companies within the industry represent wholesale tobacco distributors;
<b>Energy Sector</b>	Oil, Gas & Consumable Fuels Industry	14	Most of the companies within the Oil & Gas Industry represent oil & gas station chains;

Sector	Industry	N of Companies	GEO Industry Characteristics
<b>Health Care Sector</b>	Health Care Providers & Services Industry	35	All of the companies within the Healthcare Industry are hospitals and medical clinics. Only 2 companies are engaged in light manufacturing/trade of medical products and devices.
	Pharmaceuticals Industry	13	Pharma Industry is largely represented by the retail drug stores, with relatively small number of companies engaged in wholesale and light manufacturing of pharma products;
<b>Industrial Sector</b>	Air Freight, Airports & Airline Industry	3	The industry is composed of privately owned airport, air freight company and local passenger airline.
	Marine, Road & Rail, Other Surface Transportation	22	The industry consists of privately managed port companies, and companies engaged in surface transportation & logistics as well as shipping.
	Building Products Industry	20	The industry consists of privately managed port companies, and companies engaged in surface transportation & logistics as well as shipping.
<b>Information Technology and Communication Services Sector</b>	Construction & Engineering Industry	31	Most of the companies within the industry represent those engaged in execution of large infrastructural projects, such as road construction.
	Communication Services & Information Technology Sector	12	Companies within the industry represent large telecommunication service providers as well as several engaged in diversified technologies and software development.
<b>Materials Sector</b>	Materials Sector	11	Materials sector is mostly composed of companies engaged in the activities related to metals & mining (mostly steel sub-industry).
<b>Real Estate Sector</b>	Homebuilding & Property Development	34	Industry is composed of homebuilders and other property developer companies.
	Real Estate Management (REITs)	15	REITs industry is mostly composed of large shopping malls and centers, receiving primary income from the rented properties.
<b>Utilities Sector</b>	Electric, Gas & Water Utilities	13	Companies within the Power Generation industry are mostly large electricity generation companies, including power plants.
	Power Generation Industry	11	Companies within the industry mostly represent regulated electric, gas and water utilities companies, networks and few environmental services and waste management companies.

## Industry Breakdown:

---

Industry	Short Description
Hotels, Restaurants & Leisure Industry	Hotel & Rest.
Beverages Industry	Beverages
Power Generation Industry	Power Gen.
Communication Services & Information Technology Sector	Comm. & IT
Electric, Gas & Water Utilities	Utilities
Homebuilding & Property Development	Homebuilding
Marine, Road & Rail, Other Surface Transportation	Surf. Transp.
Health Care Providers & Services Industry	Healthcare
Food Products Industry	Food Products
Oil, Gas & Consumable Fuels Industry	Oil & Gas
Real Estate Management (REITs)	REITs
Household Durables Industry	Durables
Pharmaceuticals Industry	Pharma
Building Products Industry	Building prod.
Materials Sector	Materials
Diversified Consumer Services Industry	Div. Services
Food & Staples Retailing	Food & Staples
Construction & Engineering Industry	Construction
Automobiles Industry	Auto
Air Freight, Airports & Airline Industry	Air Transp.
Gaming Industry	Gaming
Tobacco Industry	Tobacco