



საქართველოს ეროვნული ბანკი
National Bank of Georgia

The Construction Materials Sector Research

Small and Medium Credit Risks Division

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Content

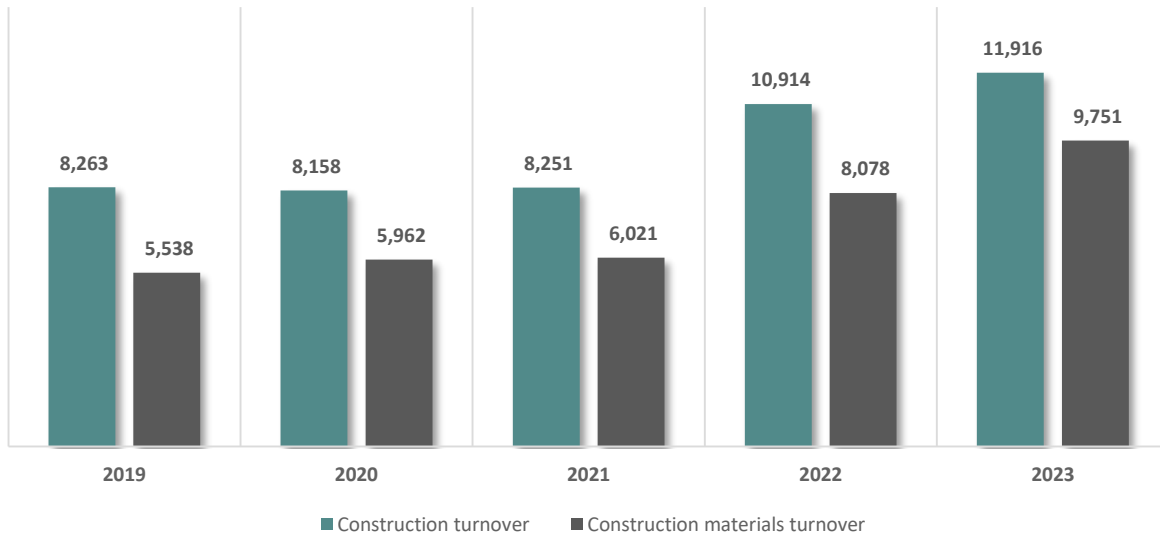
- General Overview of the Construction Materials Sector in Georgia
- Comparability Analysis of Georgian Construction Materials Sector with Other Regions
- Analysis of Main Indicators and Recent Trends of Credit Portfolio of Georgian Construction Materials Sector
- Evaluation of Financial Performance of Companies Operating in Georgian Construction Materials Sector
- Main Conclusions

Content

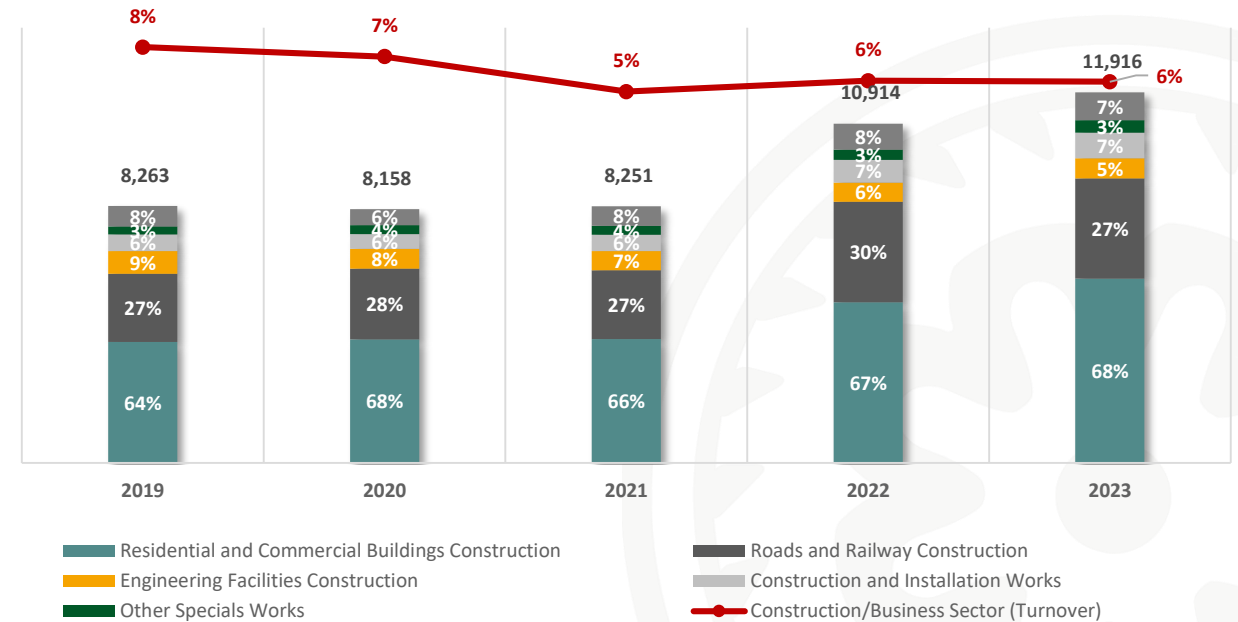
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The value of the construction materials sector's turnover increased in the recent years due to the growth of economic activity and prices of the main building materials

Dynamics of Construction and Construction Materials Sectors Turnover (mln. GEL)



The Volume of Construction Turnover by Economic Activity Type (mln. GEL)

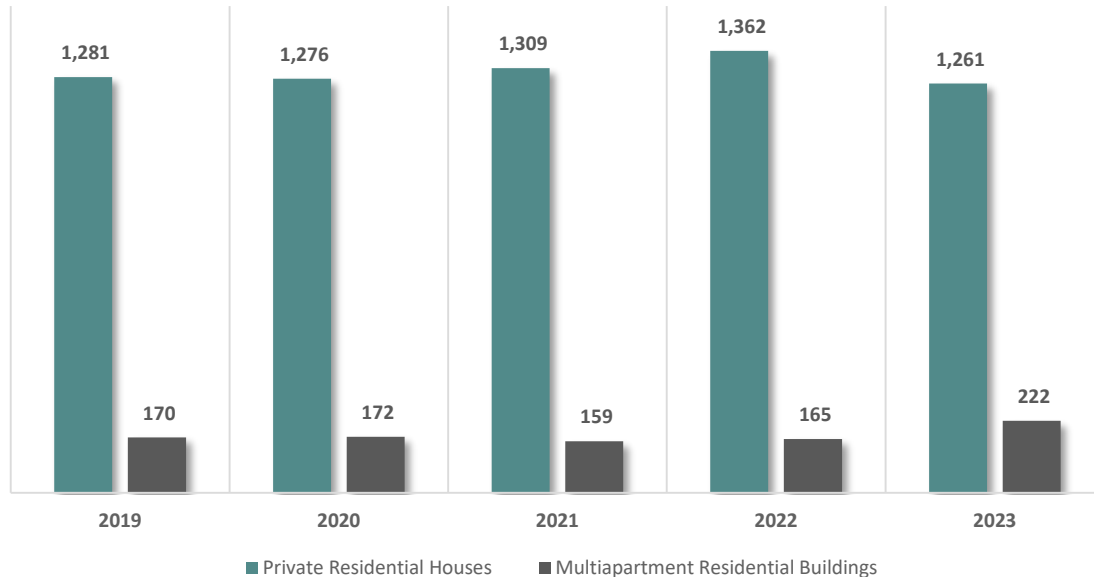


□ Construction materials turnover represents the volume of purchases of goods and services in construction.

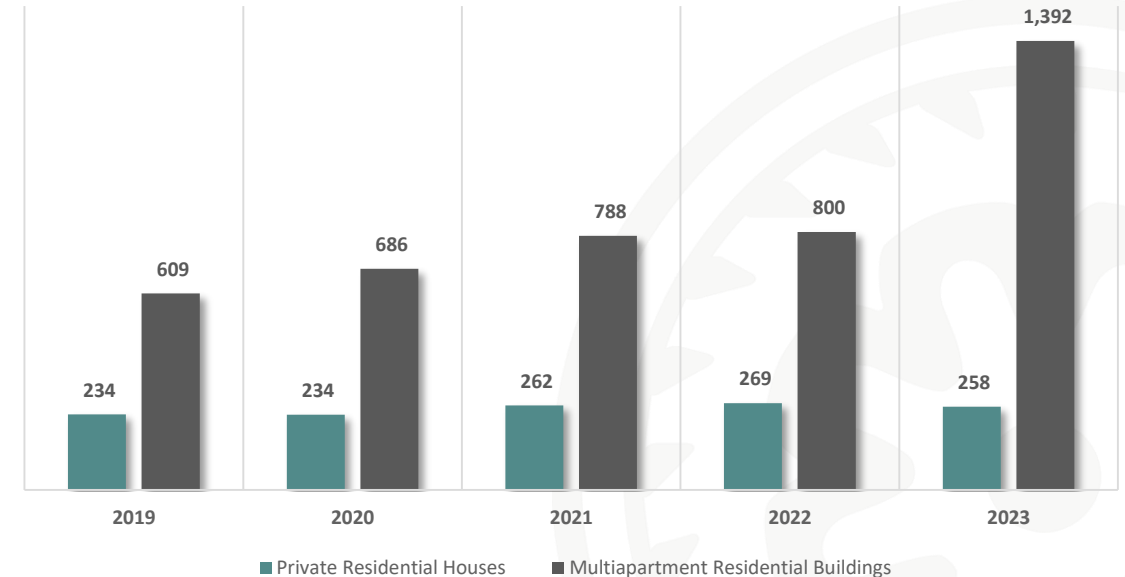
Source: GeoStat

In 2023 permissions granted to construction of multi-apartment residential buildings increased by 75% in terms of total area, which will reflect in growth of construction sector turnover in the following years

Issued Building Permits - Private Residential Houses and Multi-apartment Residential Buildings (Quantity, Tbilisi)



Issued Building Permits - Private Residential Houses and Multi-apartment Residential Buildings (Total area, thousand sq.m, Tbilisi)

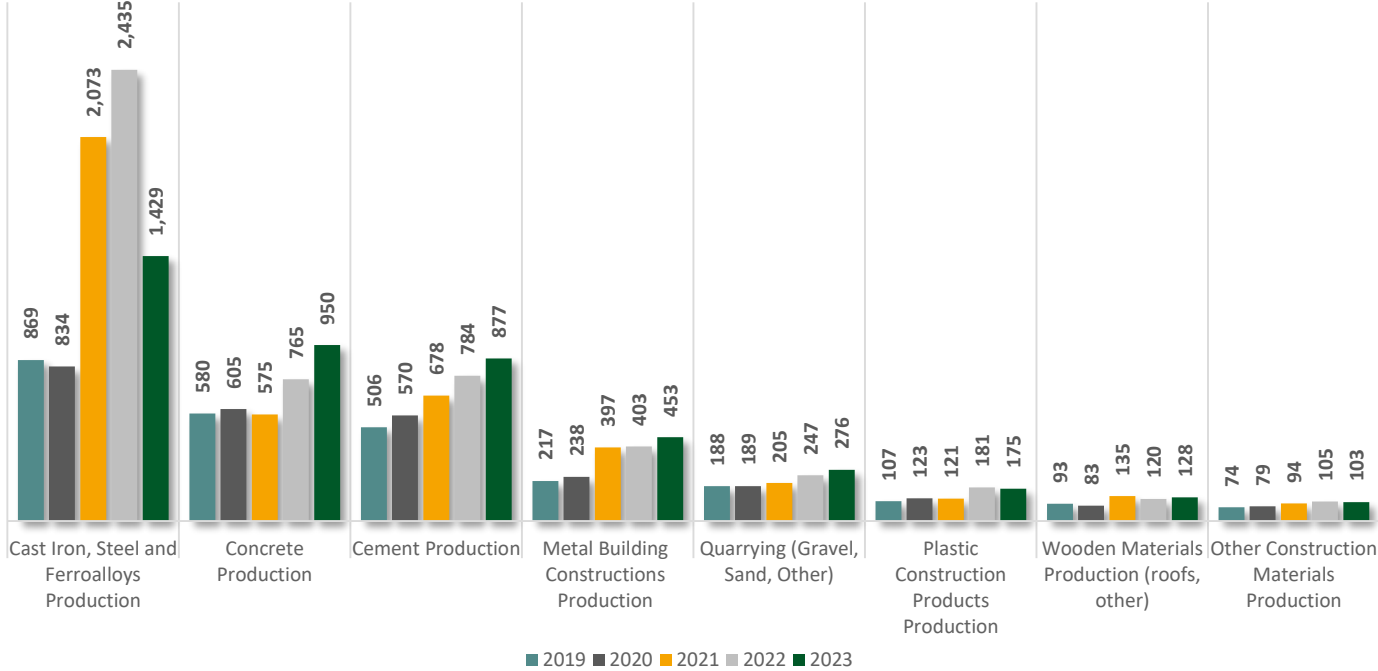


- ❑ In 2023 number of permissions granted to construction of multi-apartment residential buildings increased by 35%, which was reflected in 75% increase in terms of total area;
- ❑ The new law, which regulates the minimum requirements of buildings' energy efficiency, came into force in July 2024.

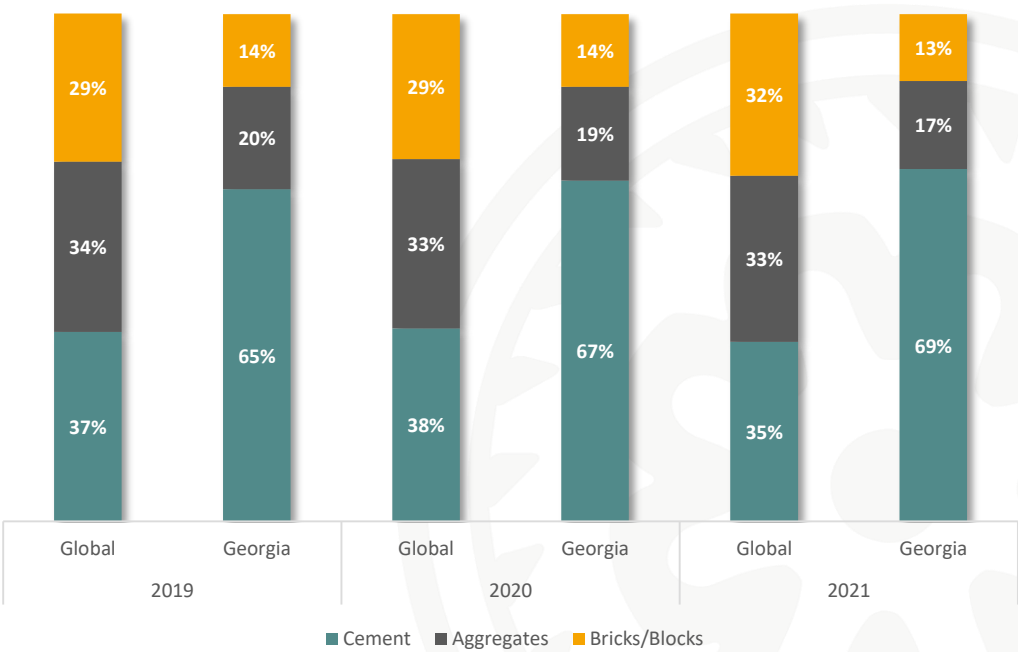
Source: Tbilisi State Hall

In the third quarter of 2022 the downward trend of prices of the main metals and energy carriers is observed, while the production value of other building materials is characterized by upward trend

Georgian Construction Materials Production Dynamics by Product Type (mln. GEL)



Global and Georgian Construction Materials Market Segmentation by Product Category

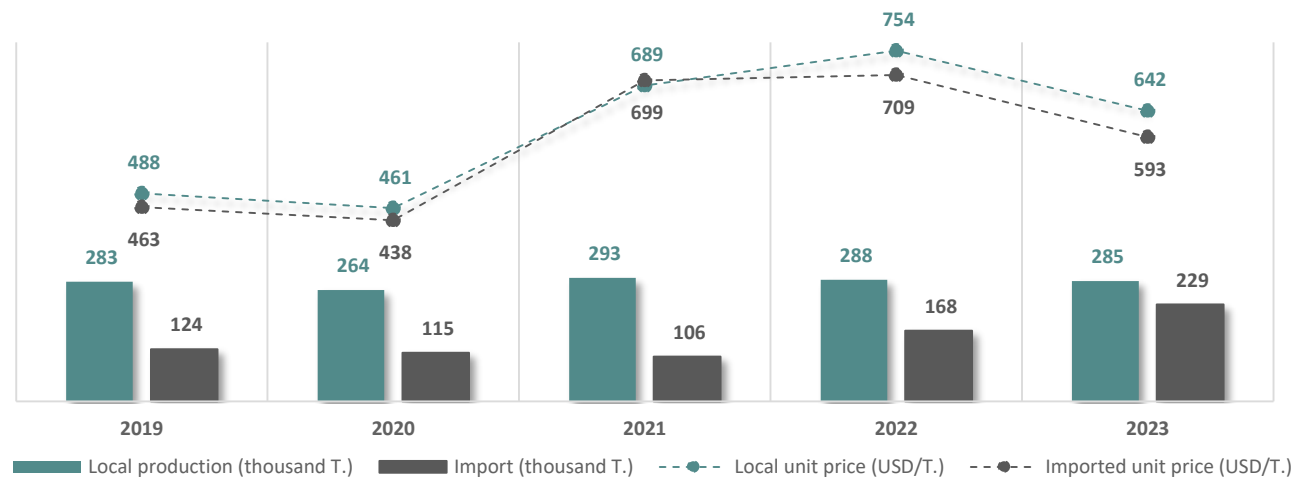


- The category of the aggregates unites sand, gravel and crushed stones;
- The bricks and blocks are the products of the clay and concrete.

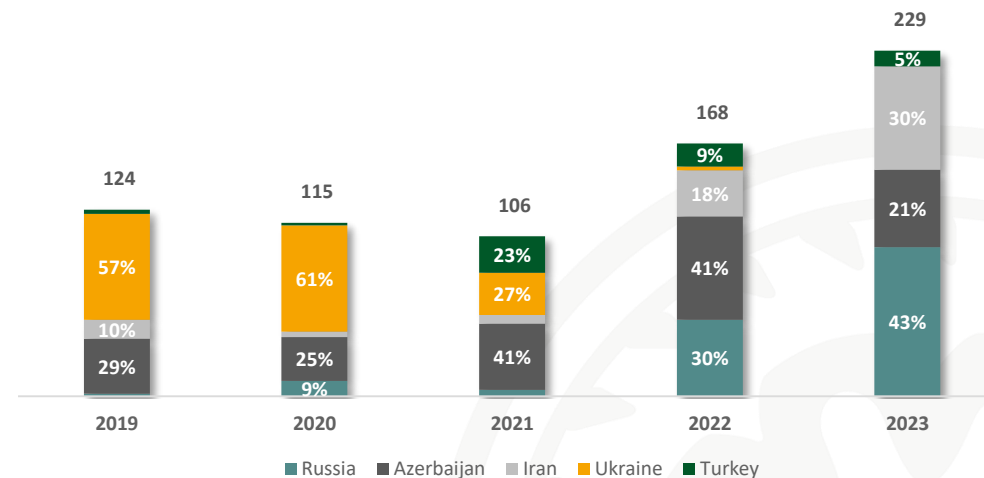
Source: GeoStat; MARKETLINE

The volume of imported re-bars is characterized by an increasing trend since 2022

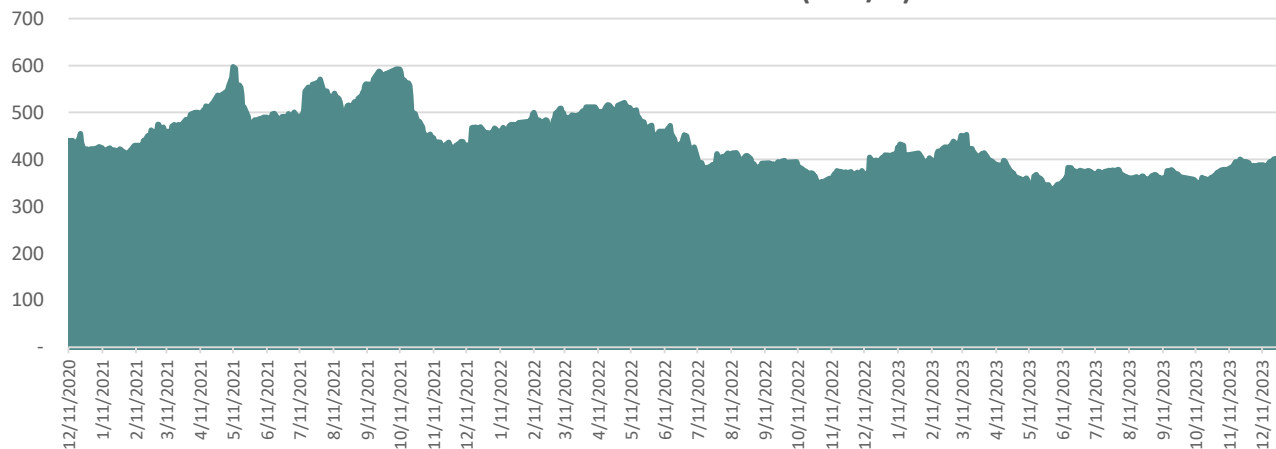
Dynamics of the Quantity and Average Unit Price of the Produced Re-bars



Re-bars Import in Georgia (thousand T.)



The Global Price of the Re-bars (USD/T.)

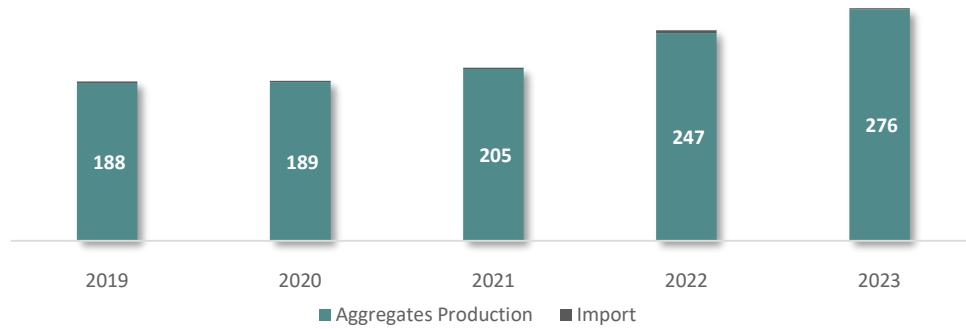


- The halt in production due to the Russia-Ukraine war and economic sanctions imposed on Russia led to a decrease in the volume of products imported from these countries;
- A decrease in the price of re-bars on the global market has been observed since the third quarter of 2022.

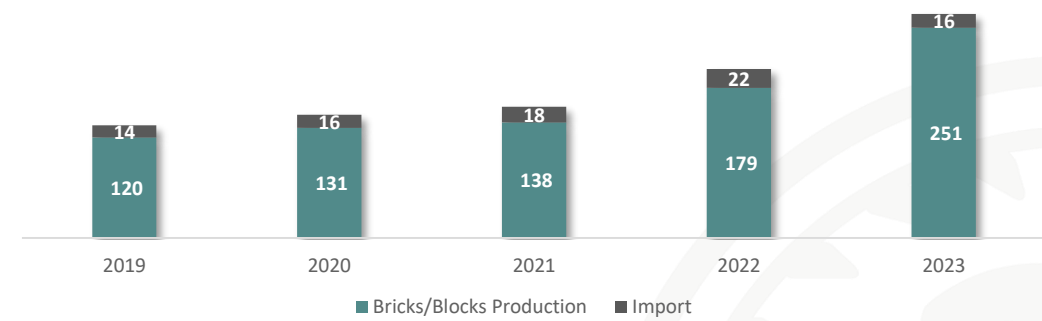
Source: GeoStat; NBG; Bloomberg

On average, 83% of the demand on cement was fulfilled by local production, and 17% was imported from Turkey and Azerbaijan in period of 2019-2023

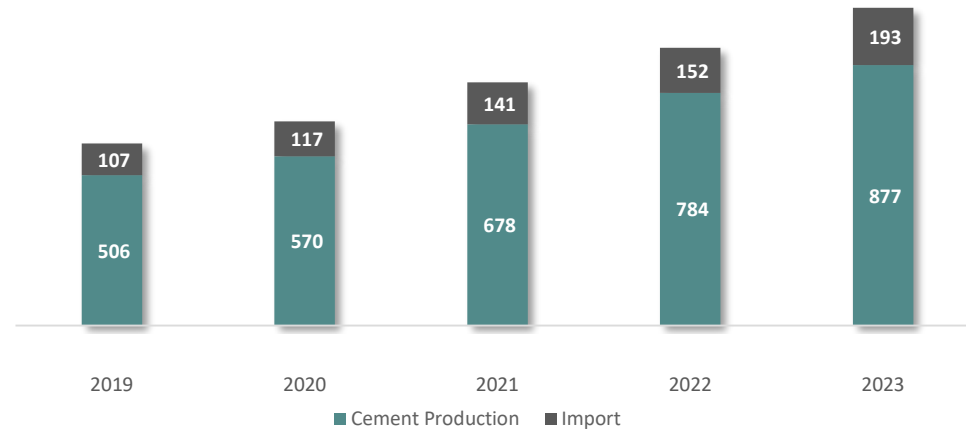
Aggregates Production and Import (mln. GEL)



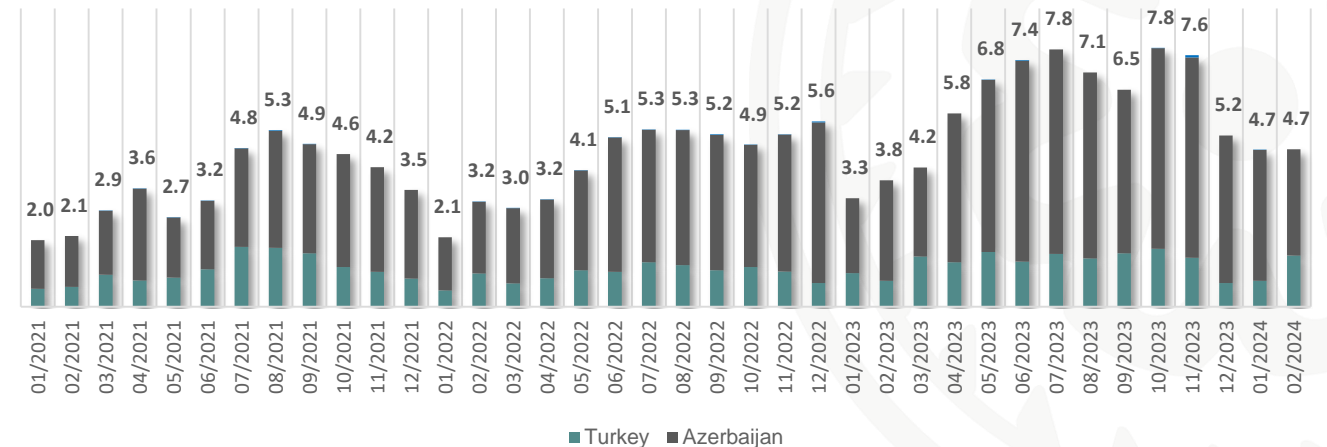
Bricks/Blocks Production and Import (mln. GEL)



Cement Production and Import (mln. GEL)



Cement Import (mln. USD)



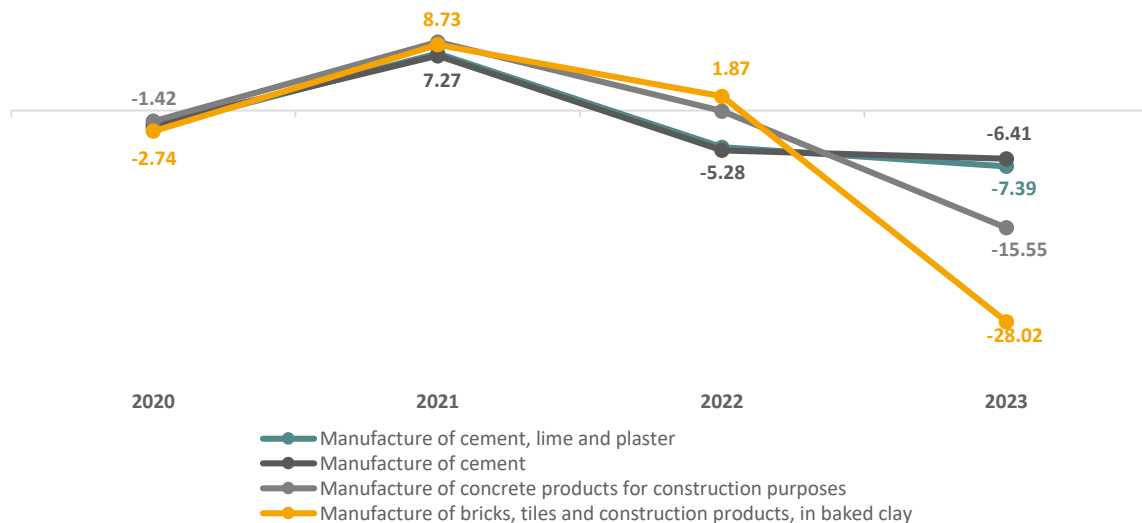
Source: GeoStat

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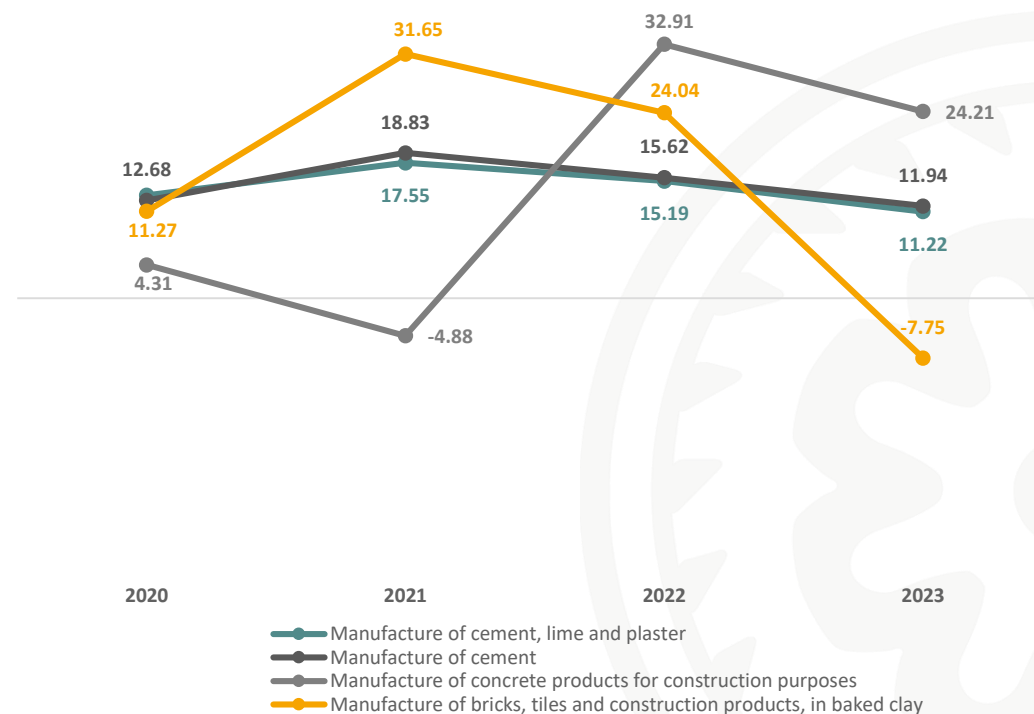
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In comparison with European countries, the value of Georgian building materials production is characterized by growth trend due to increased economic activity and prices

Dynamics of construction materials production index by materials type
- European Countries



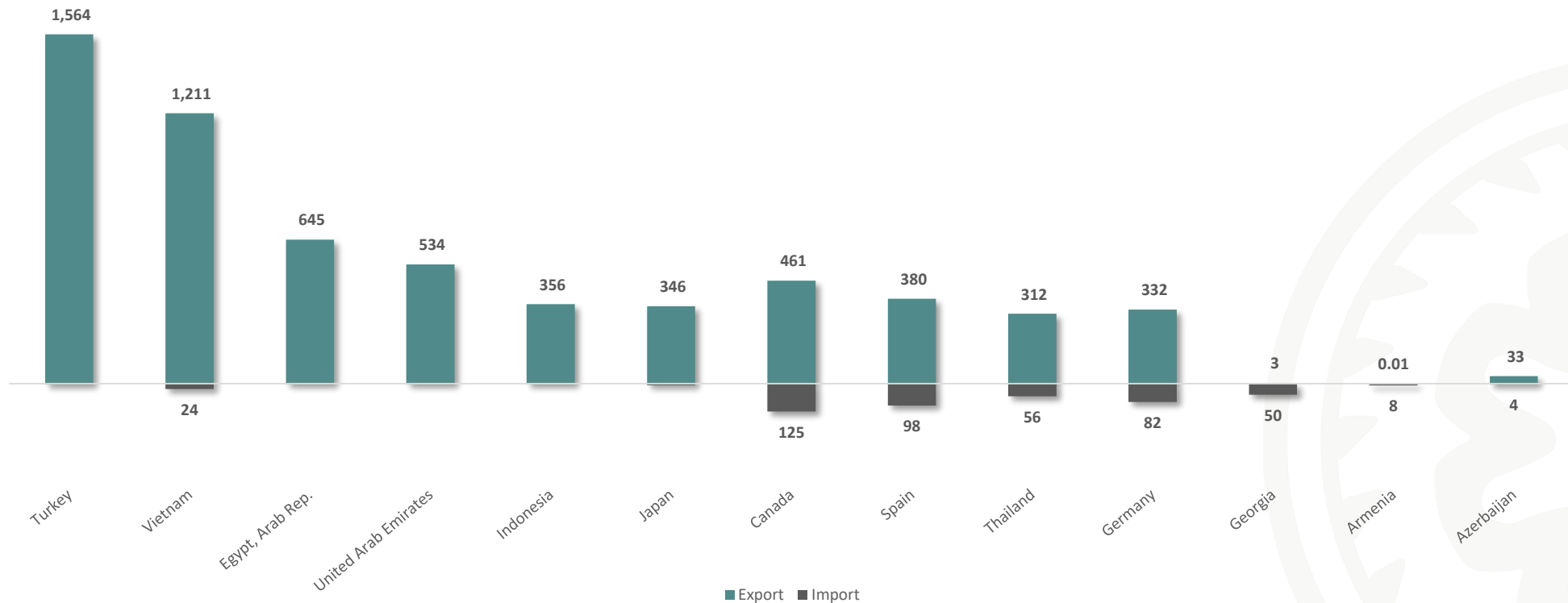
Dynamics of construction materials production index by materials type
- Georgia



Source: GeoStat; EUROSTAT

Georgia's supplier of the cement, Turkey is the largest cement exporter in the world

The Value of the Export-Import Volume of Cement (including clinker) by Country (mln. EUR) - 2022

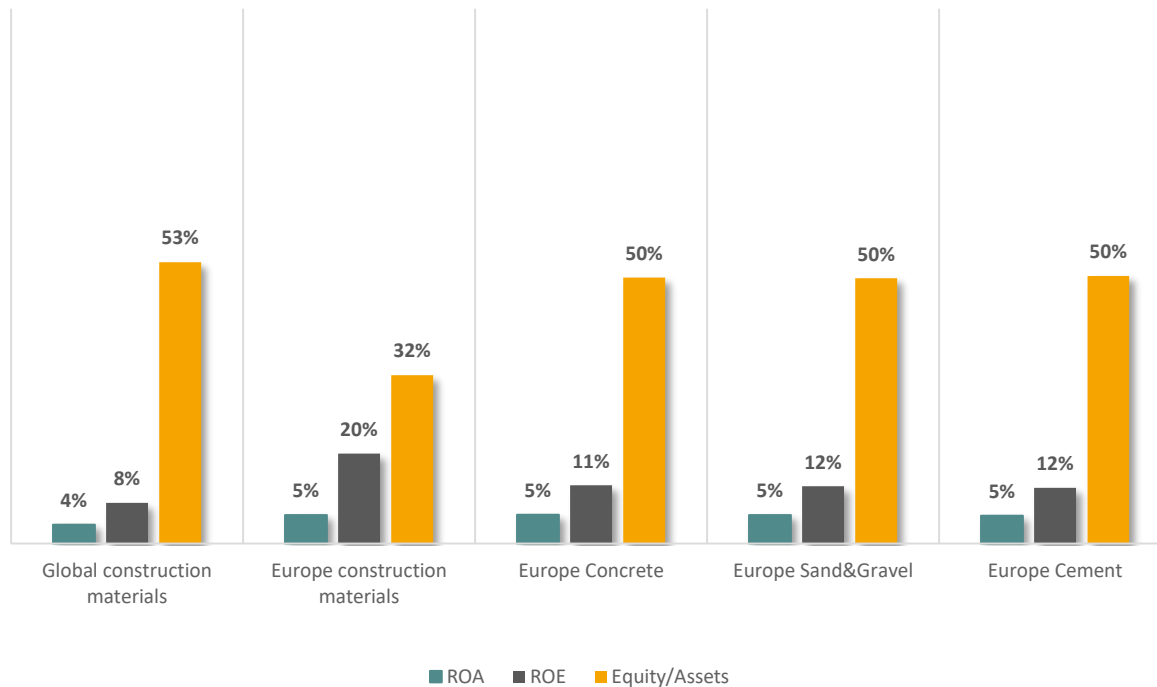


□ Georgia's neighbor country, Turkey is the largest cement exporter in the world. 99% of cement imported into Georgia comes from Azerbaijan and Turkey.

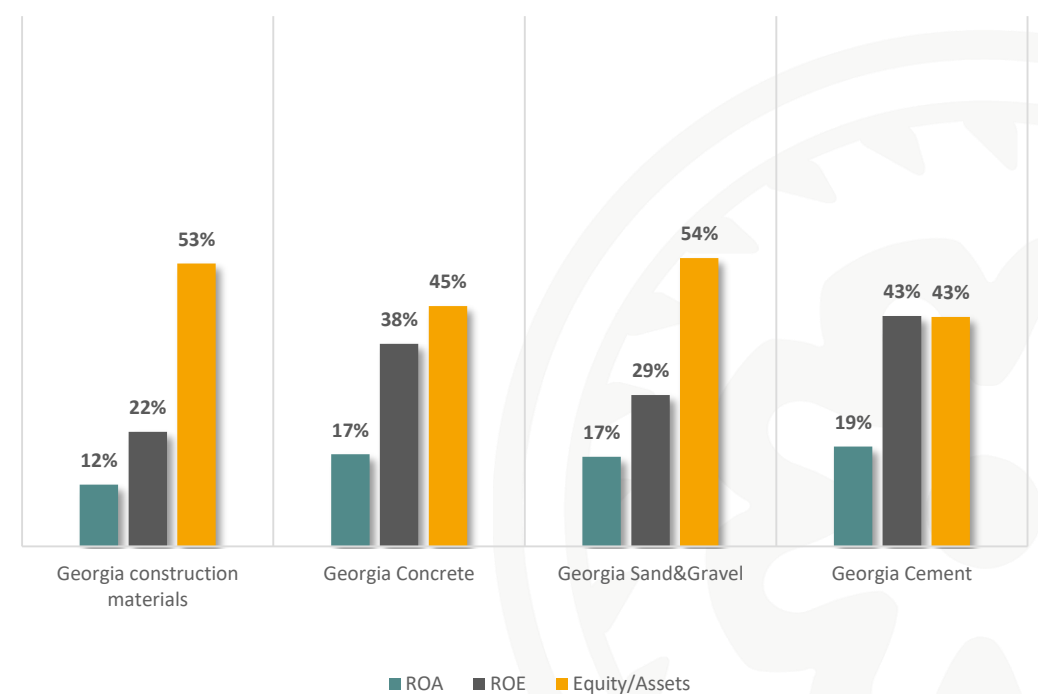
Source: GeoStat; WORLD BANK

In terms of the equal capital participation, Georgian companies operating in the building materials sector, are characterized by higher profitability ratios, compared to EU countries

ROA, ROE, Equity/Assets - Global and Europe



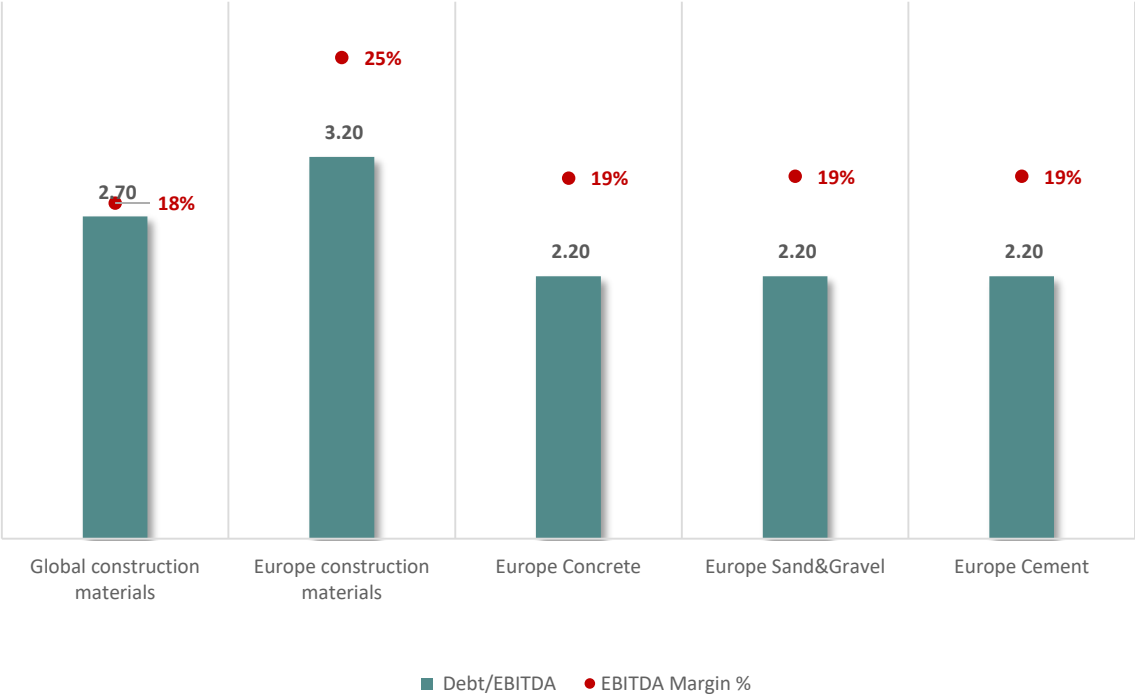
ROA, ROE, Equity/Assets - Georgia



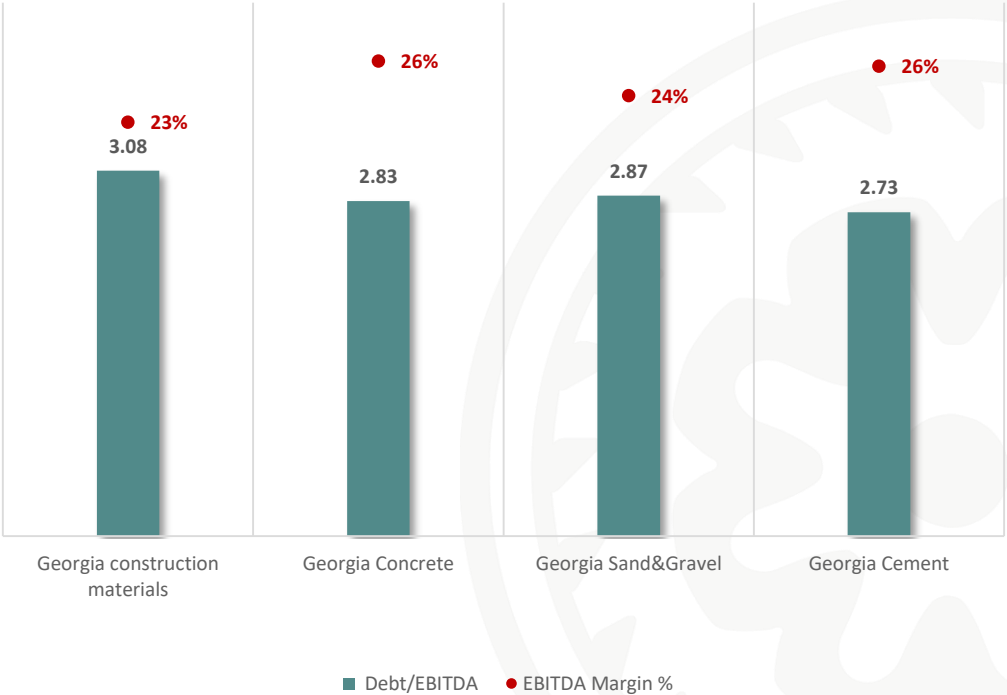
Source: NBG; S&P Capital

The financial leverage and operational profit ratios of Georgian companies, operating in the building materials sector, are the compliance with the similar indicators of EU

Debt/EBITDA, EBITDA Margin % - Global and Europe



Debt/EBITDA, EBITDA Margin %



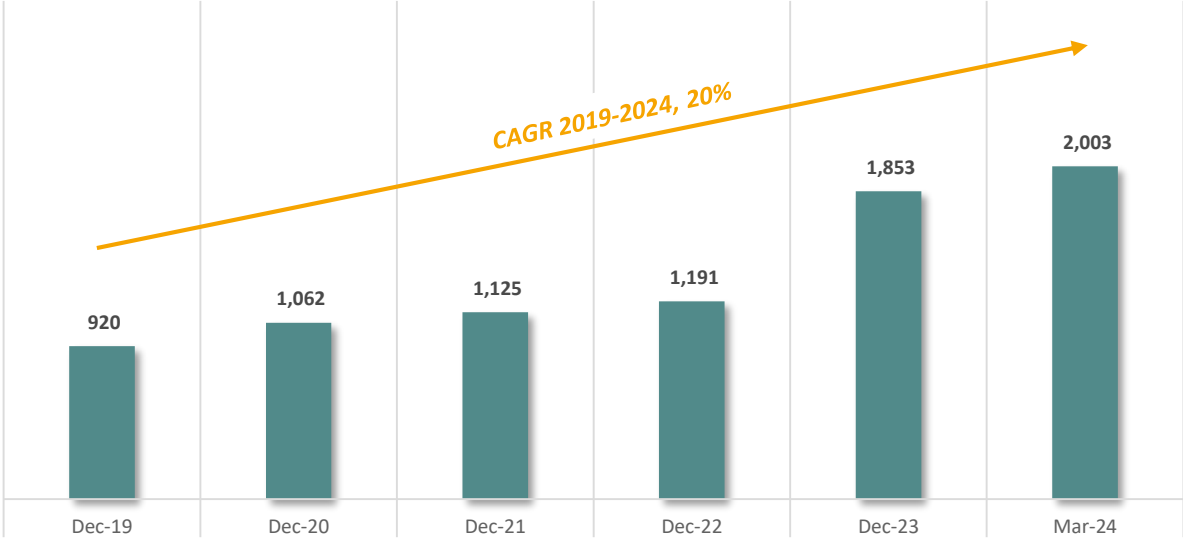
Source: NBG; S&P Capital

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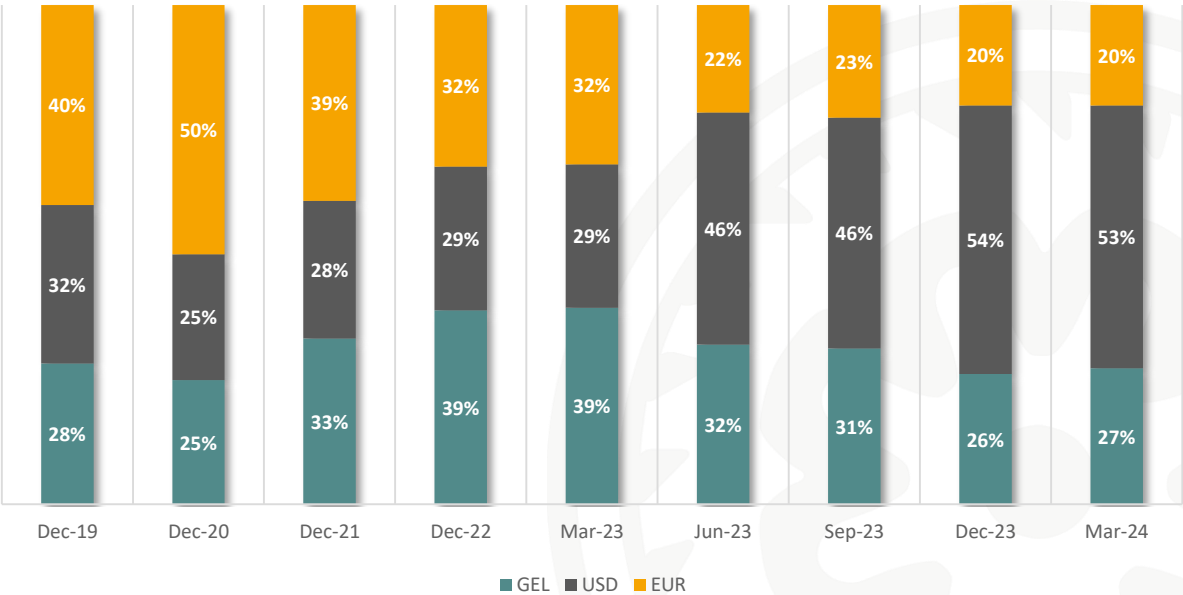
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In 2019-2024 construction materials sector's credit portfolio exhibits dynamic growth trends, with 20% average growth rate

Construction Materials Sector's Credit Portfolio Dynamics (mln. GEL)

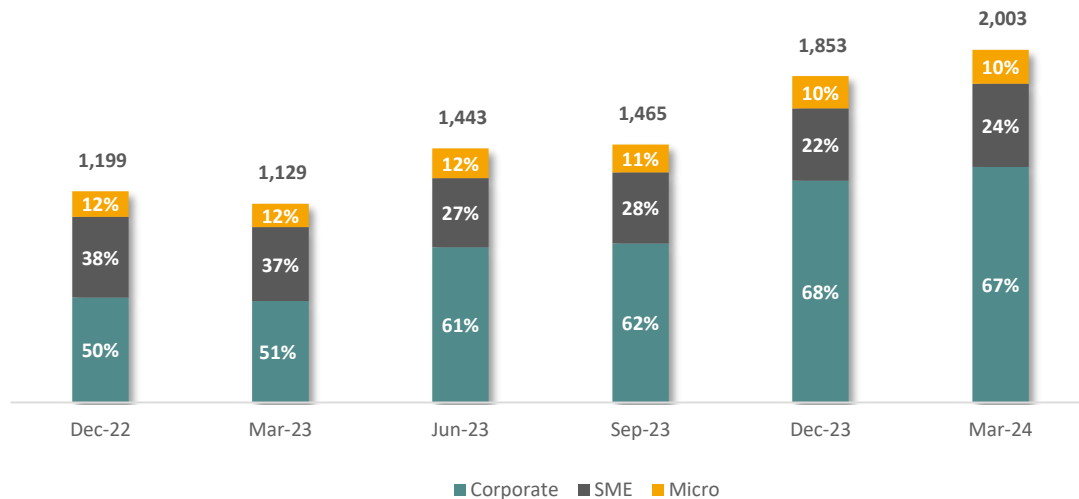


Construction Materials Sector Credit Portfolio by Currency

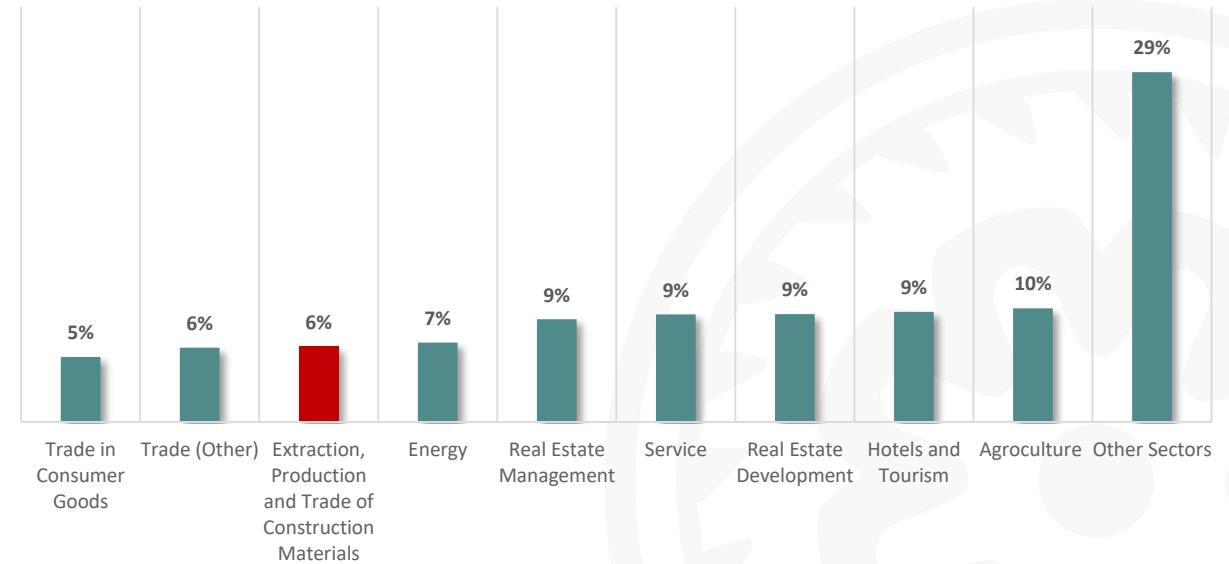


Liabilities, issued to construction materials sector, occupy a significant share in total business credit portfolio

Construction Materials Sector Business Portfolio by Segments - Dynamics (mln. GEL)

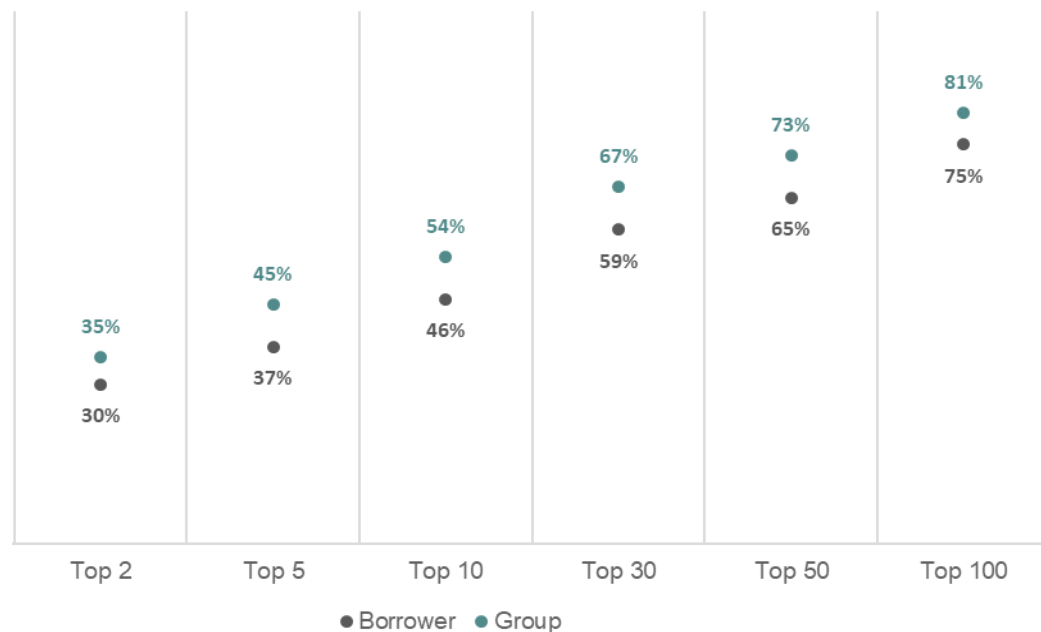


Business Exposures Breakdown by Economic Sectors (03/2024)

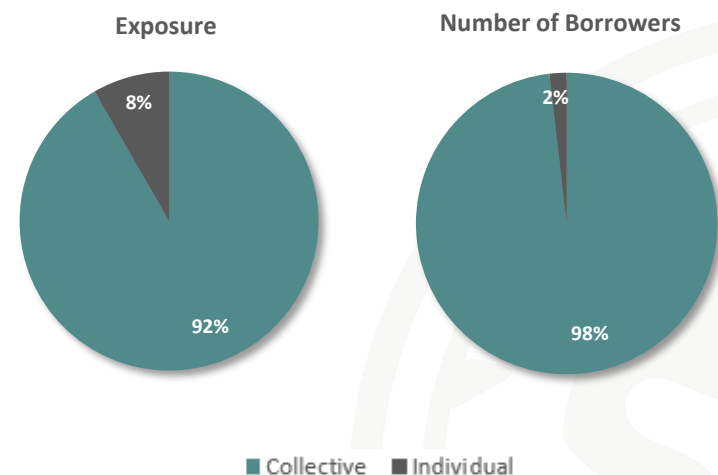


The credit portfolio of the construction materials sector is characterized by low concentration, compared to other business sectors

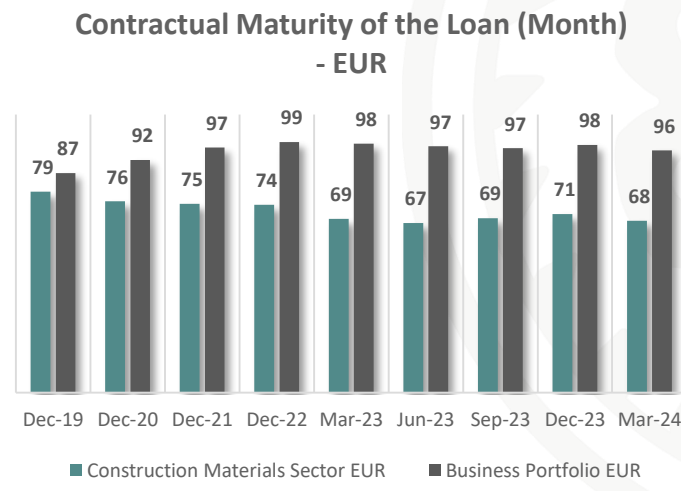
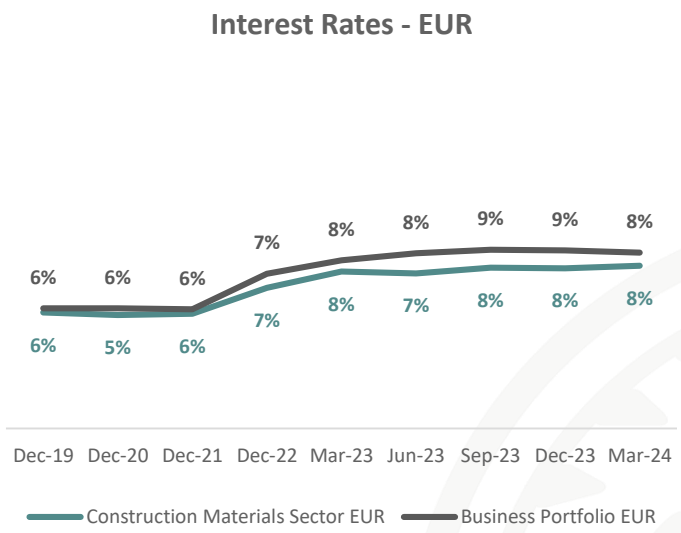
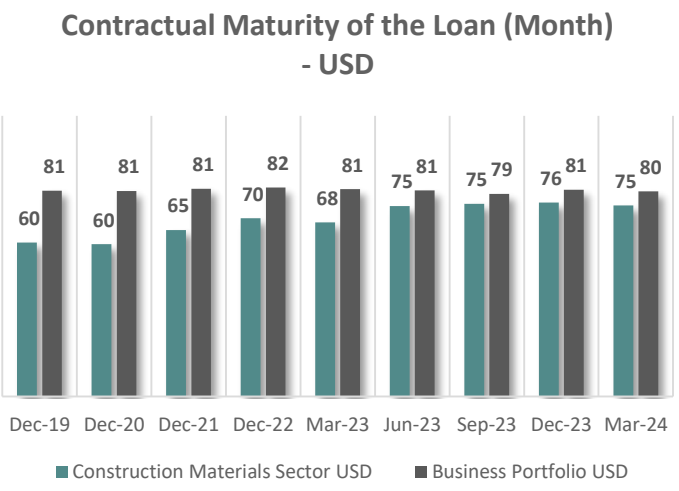
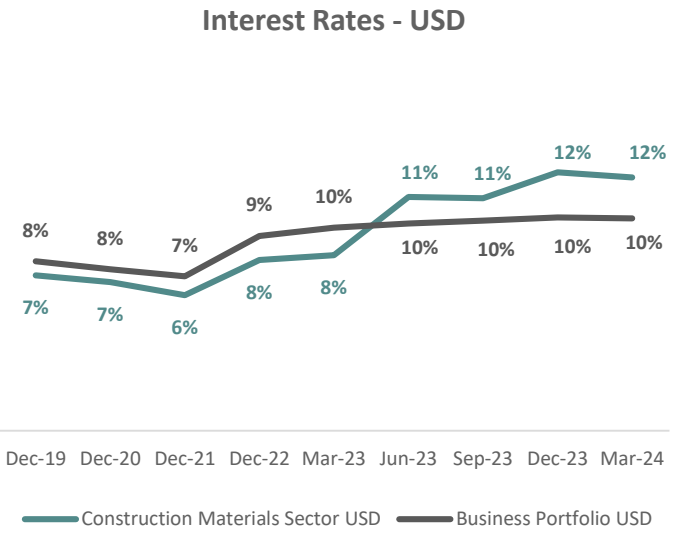
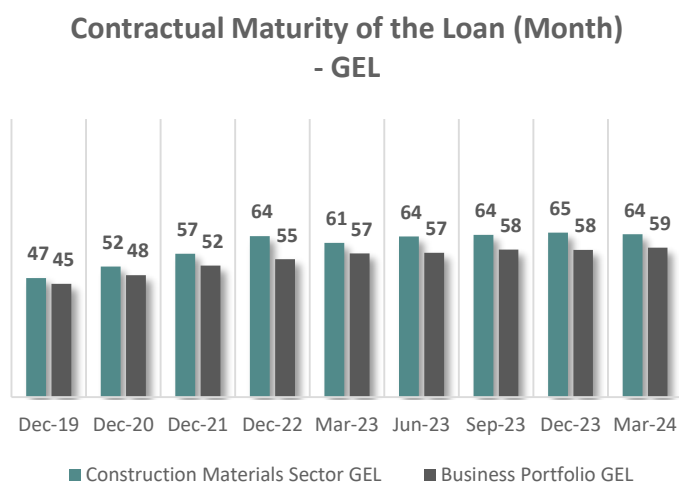
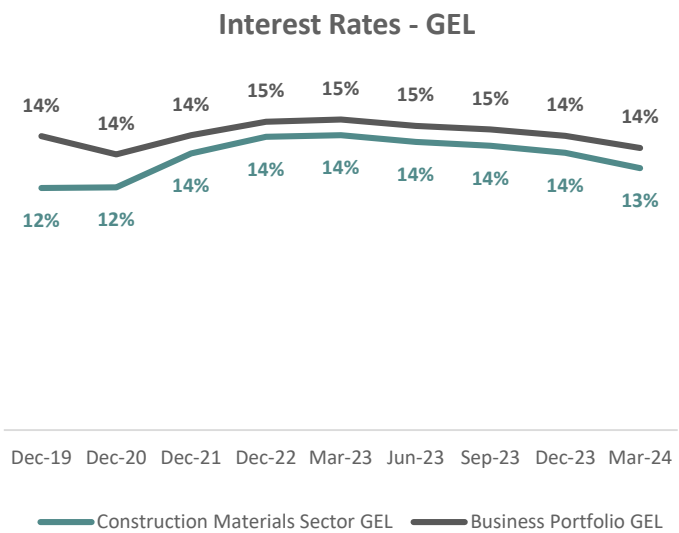
Concentration of Top Borrowers by On-Balance Exposures (02/2024)



Financial Instruments Assessment Approach by Exposure and Numbers of Borrowers (02/2024)



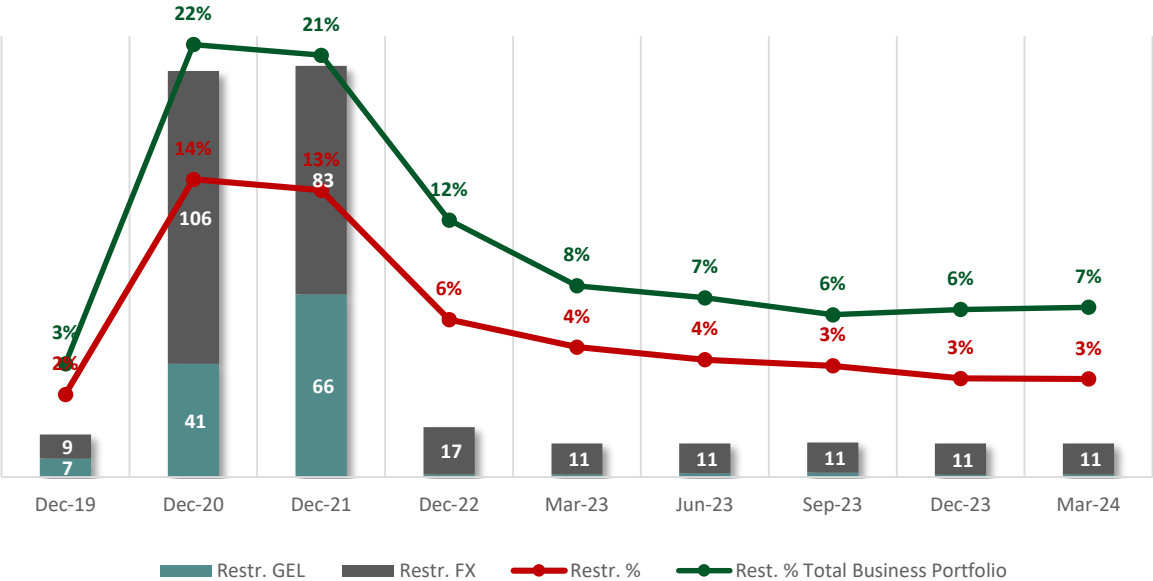
The loans issued to construction materials sector in foreign currency are characterized by shorter maturity, compared to the average indicator of the total business portfolio



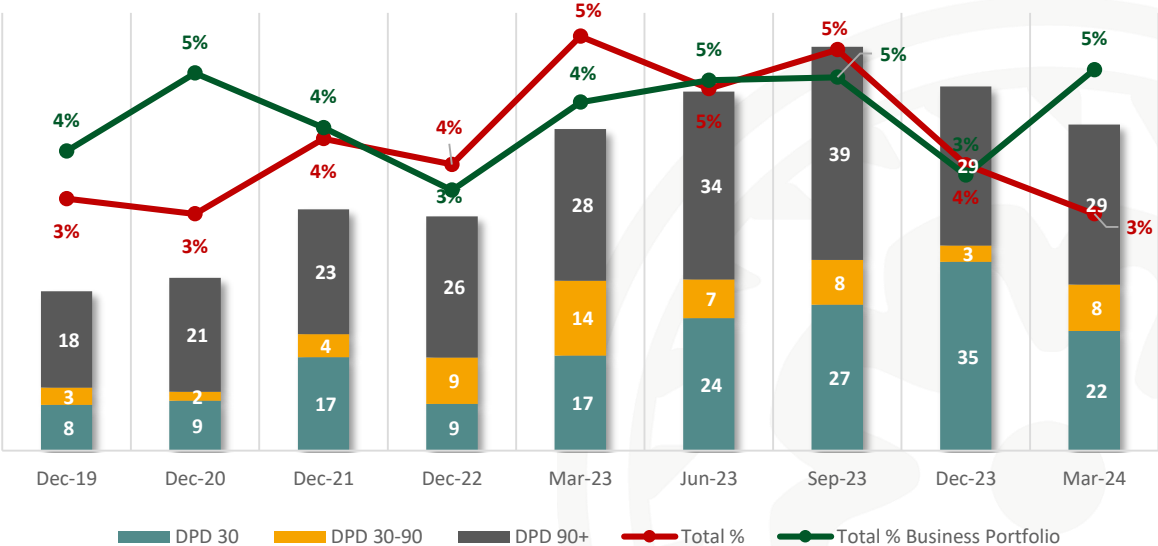
□ The interest rates have increased from December 2021 to December 2022 due to the growth of EURIBOR 6M (from -0.54% to 2.56%) for the euro loans, and the growth of SOFR 6M (from 0.049% to 2.89%) for usd dollar loans;

Construction materials sector's credit portfolio is characterized by low overdue and restructuring rates

Volume (mln. GEL) of Restructured Credit Portfolio and Share (%) in the Construction Materials Sector Credit Portfolio, by Currency



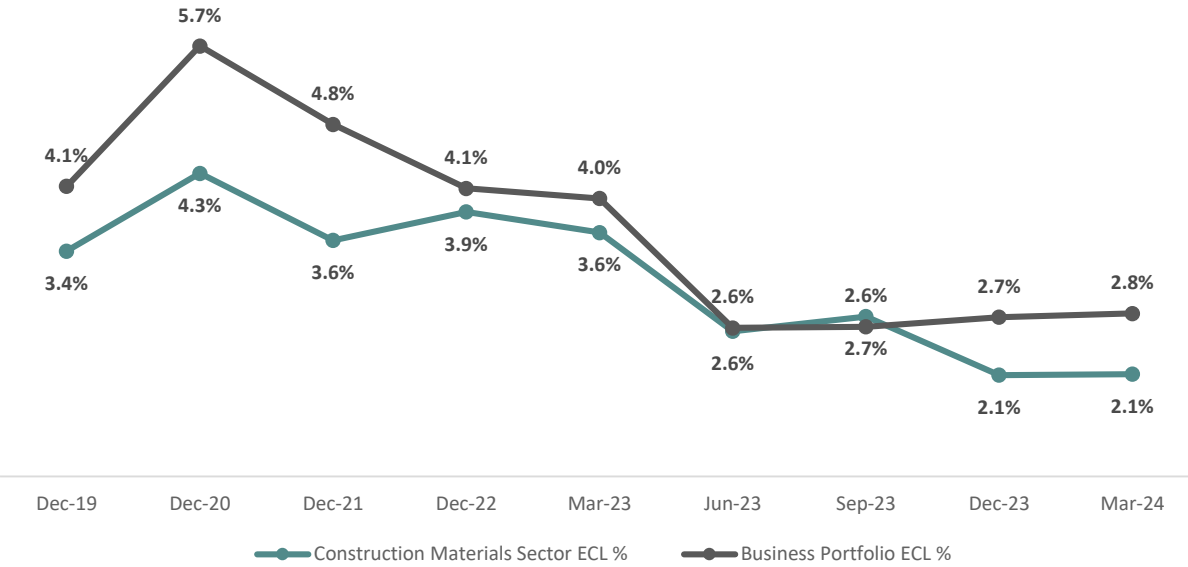
Overdue Credit Portfolio's Volume (mln. GEL) and share (%) in the Construction Materials Sector, by DPD



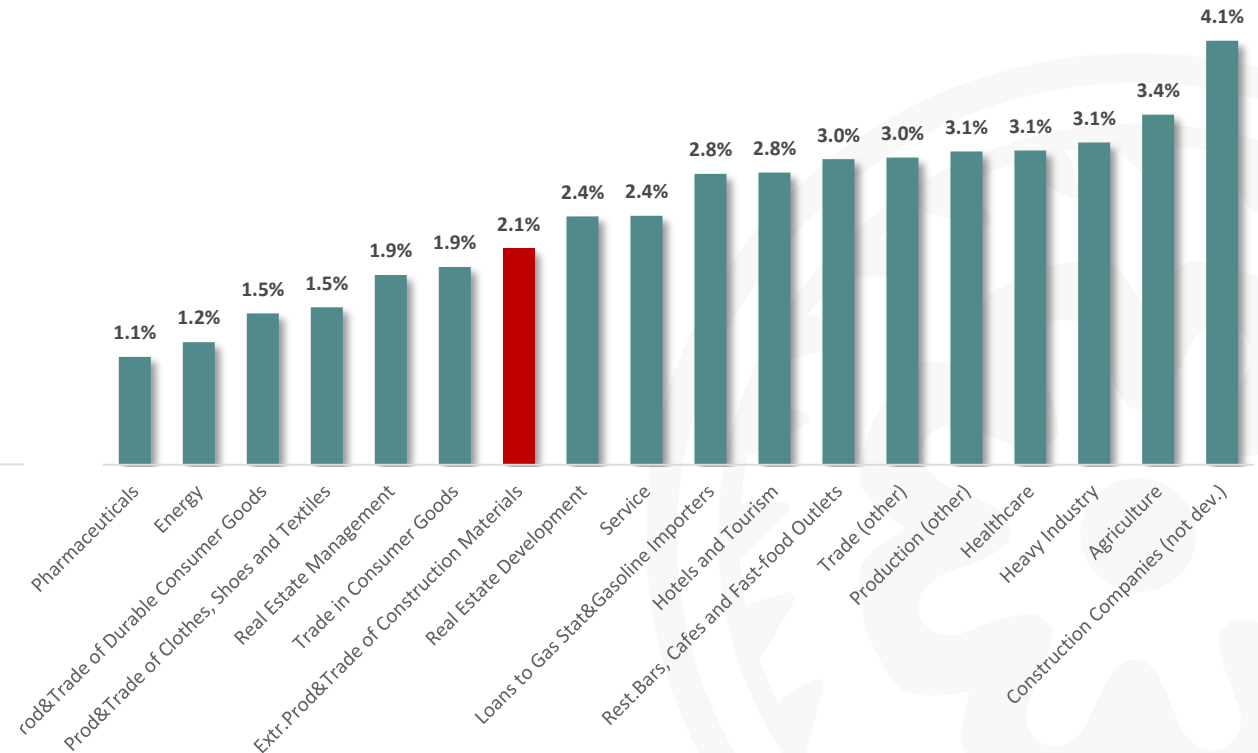
- ❑ The growth of restructuring matches the pandemic period;
- ❑ In 2023 the decline in restructured loans is due to normalization of the sector after the pandemic.

Construction materials sector's expected credit loss indicator is lower than the average rate of the total business credit portfolio

Expected Credit Loss (ECL) Dynamics



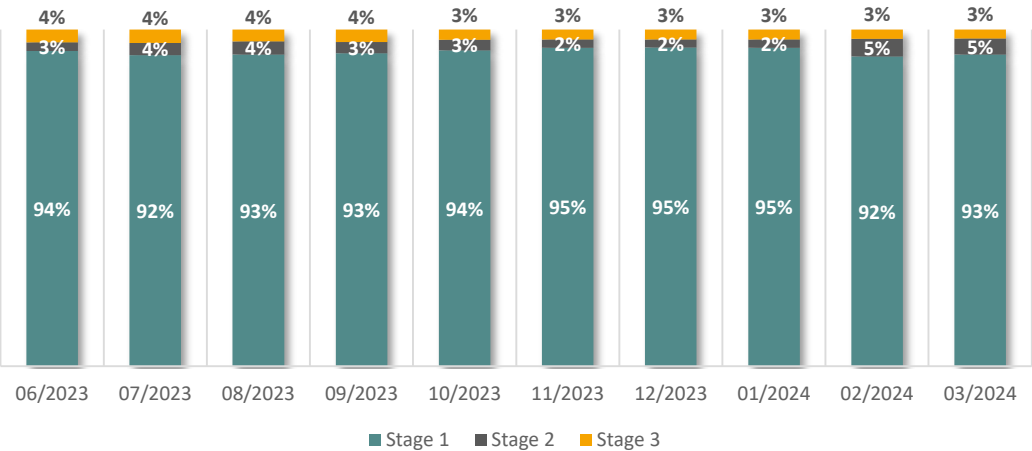
ECL by Economic Sectors (03/2024)



As of December 2022, data is represented based on the „Regulation on Approval of Asset Classification and Setting Up and Use of Loan Loss Reserves by Commercial Banks”, and for the following period—under the „The Regulation on Identifying Risk Categories of Financial Instruments and Expected Credit Losses”.

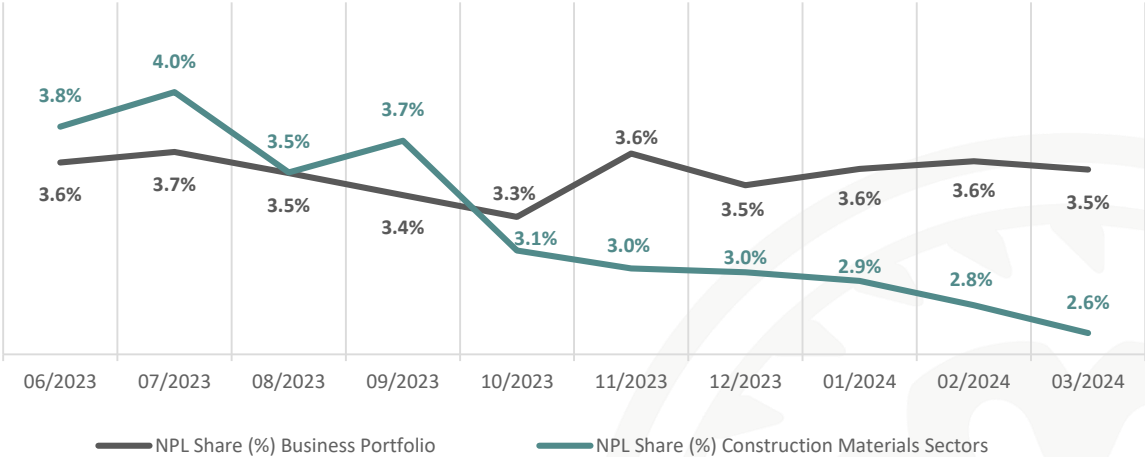
Construction materials sector's credit portfolio is characterized by downward trend of the non-performing loans ratio

Construction Materials Sector Exposures Breakdown by Stage

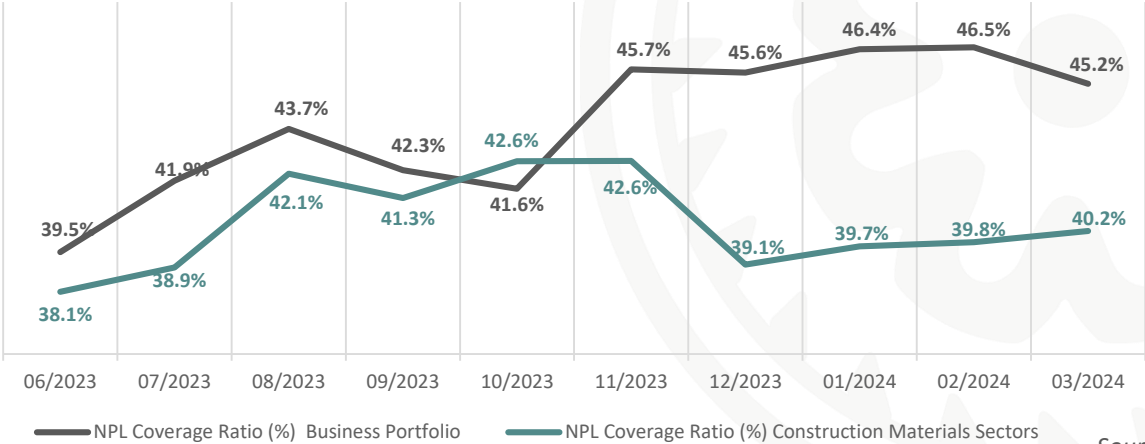


□ The non-performing loan coverage ratio in financial instruments in the construction materials sector is lower than the similar indicator in the total business portfolio, although the difference is immaterial.

NPL Portfolio Share (%) in the Construction Materials Sector and Total Business Credit Portfolio



NPL Coverage Ratio (%) in the Construction Materials Sector and Total Business Credit Portfolio

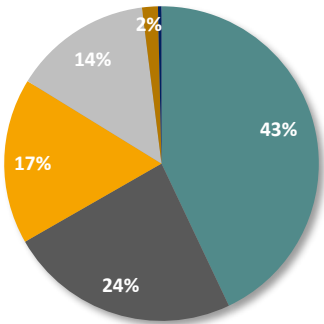


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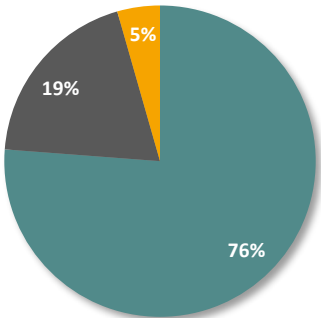
In terms of total exposure and client numbers, most of the building and renovation materials sector comes from trade activity

Building Materials - Exposure Distribution by Activity Type (02/2024)



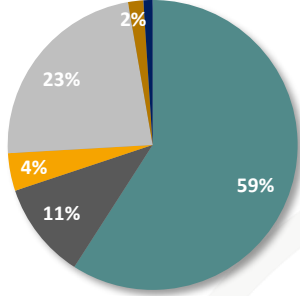
■ Trade ■ Production and Trade ■ Extraction, Production and Trade
■ Production ■ Extraction and Production ■ Extraction

Renovation Materials - Exposure Distribution by Activity Type (02/2024)



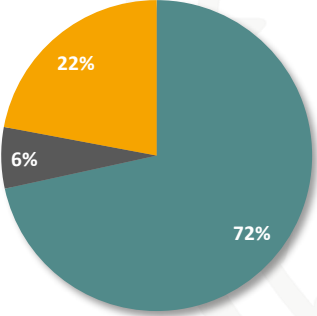
■ Trade ■ Production and Trade ■ Production

Building Materials - Borrowers Distribution by Activity Type (02/2024)



■ Trade ■ Production and Trade ■ Extraction, Production and Trade
■ Production ■ Extraction and Production ■ Extraction

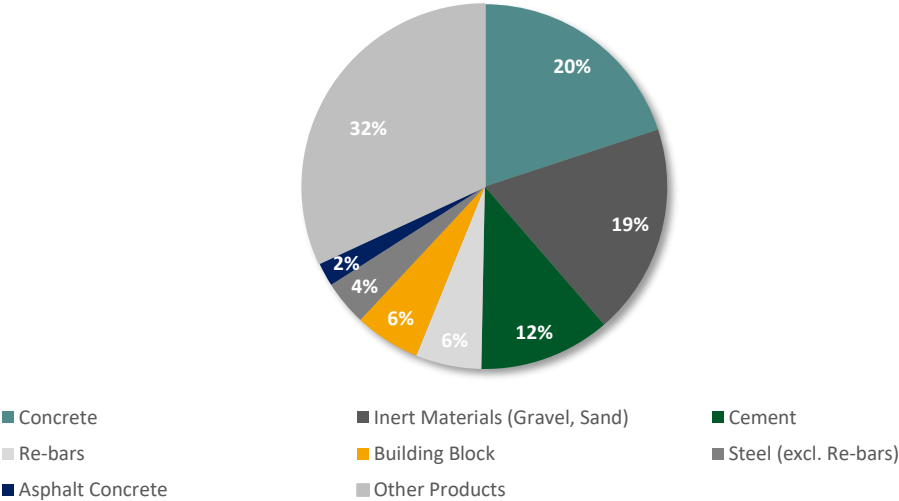
Renovation Materials - Borrowers Distribution by Activity Type (02/2024)



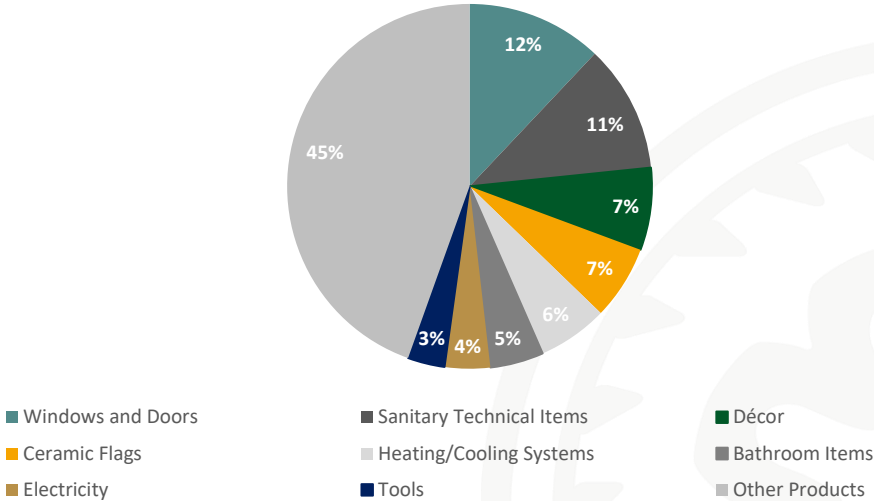
■ Trade ■ Production and Trade ■ Production

Concrete is the top manufactured product in the category of the building materials, and windows and doors are top produced in the category of the renovation materials

Building Materials - Borrowers Distribution by Product Type
(02/2024)



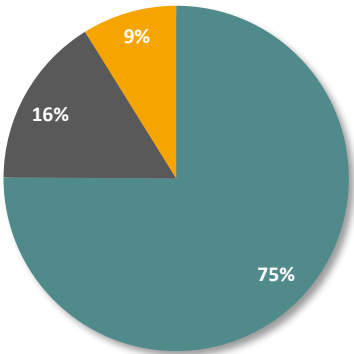
Renovation Materials - Borrowers Distribution by Product Type
(02/2024)



- ❑ The top 3 of the building materials categories includes: concrete (20%), inert materials (19%) and cement (12%). The construction materials category also includes the production of re-bars, however, for the purposes of this study, only borrowers who are assigned the „extraction, production and trade of construction materials” and not the „heavy industry” sector according to the source of loan repayment are taken into account;
- ❑ The top 3 of the renovation materials categories includes: doors and windows (12%), sanitary technical items (11%) and decor items (7%).

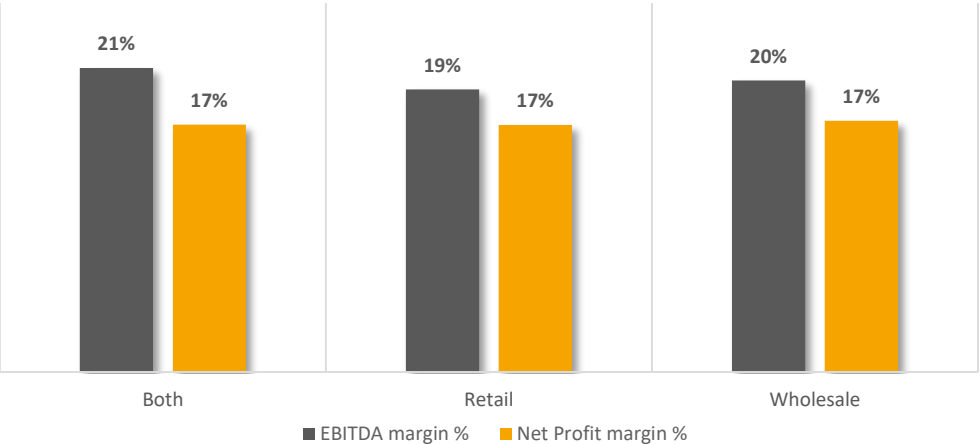
The traders of the building and renovation materials in the hypermarkets are characterized by lower profitability margins, compared to ones, which trade goods in specialized stores

Building and Renovation Materials - Revenue Distribution by Trade Activity Type (02/2024)

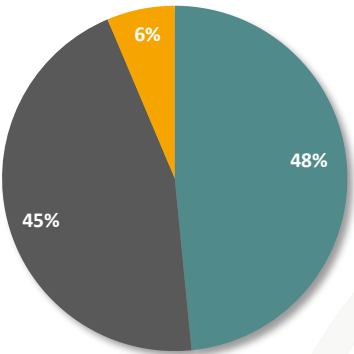


Both Wholesale Retail

Average Profitability Ratios by Trade Activity Type (02/2024)

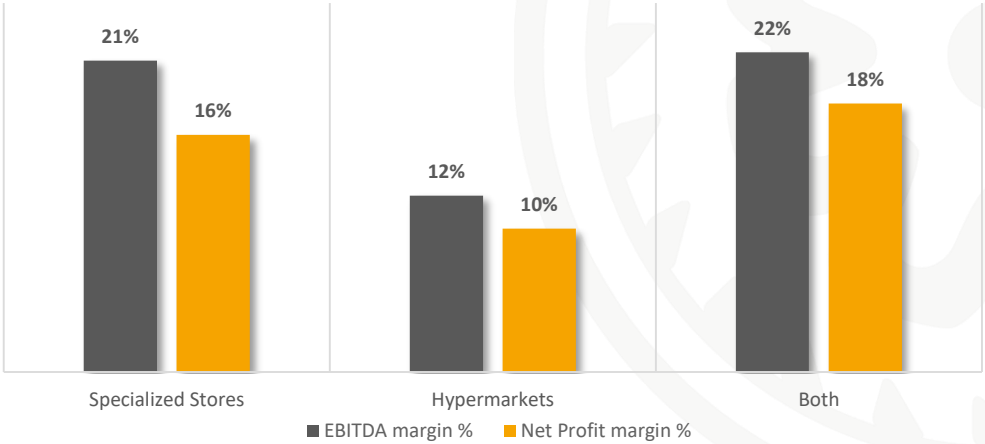


Building and Renovation Materials - Revenue Distribution by Trade Place Type (02/2024)



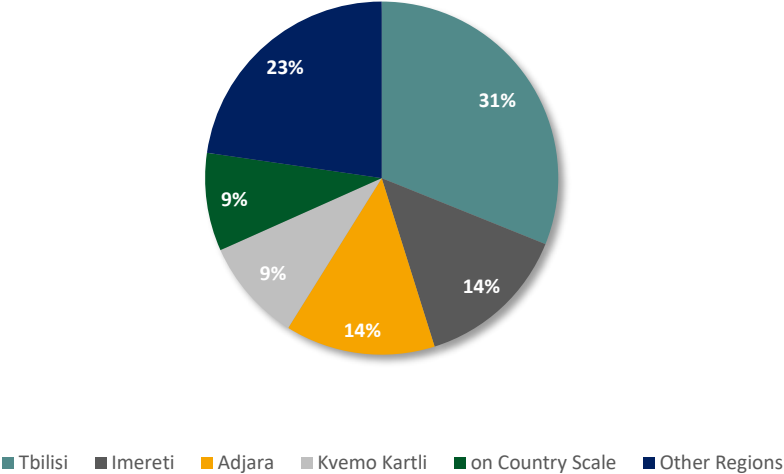
Both Specialized Stores Hypermarkets

Average Profitability Ratios by Trade Place Type (02/2024)

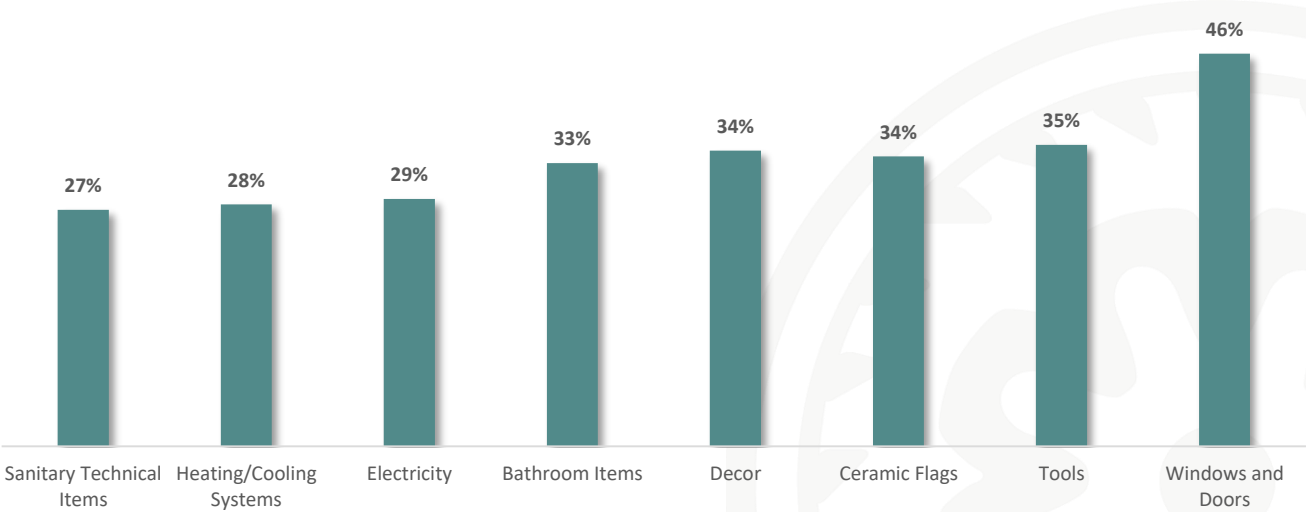


The windows and doors category is characterized by the highest profit margin in the renovation materials category

Borrower Distribution by Regions (exposure, 02/2024)

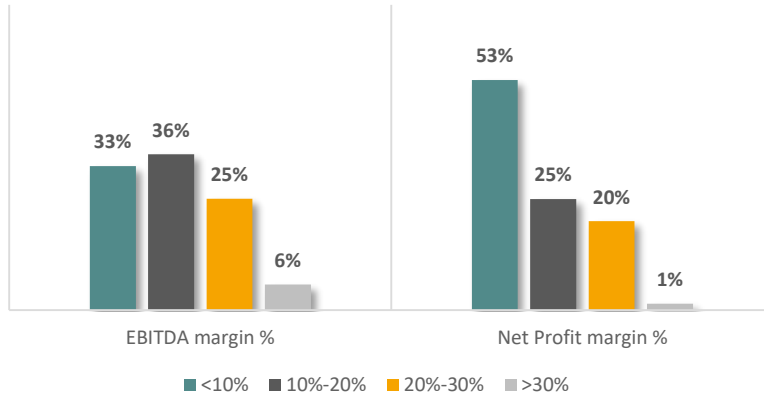


Renovation Materials- Average Margin by Product Type (02/2024)

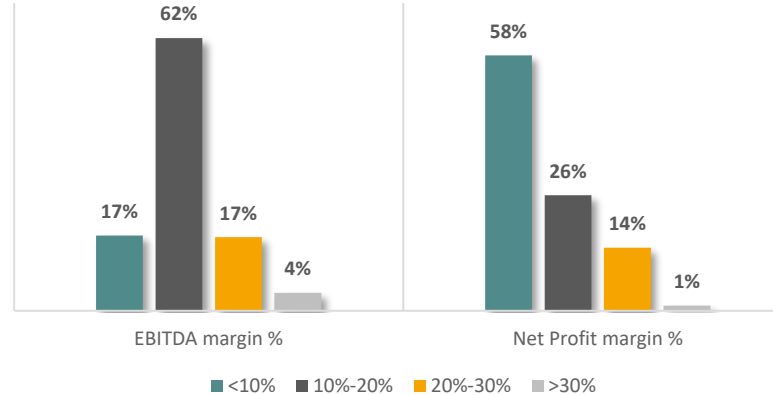


The companies, operating in renovation category, have higher EBITDA margin, compared to building materials category, as of 02/2024

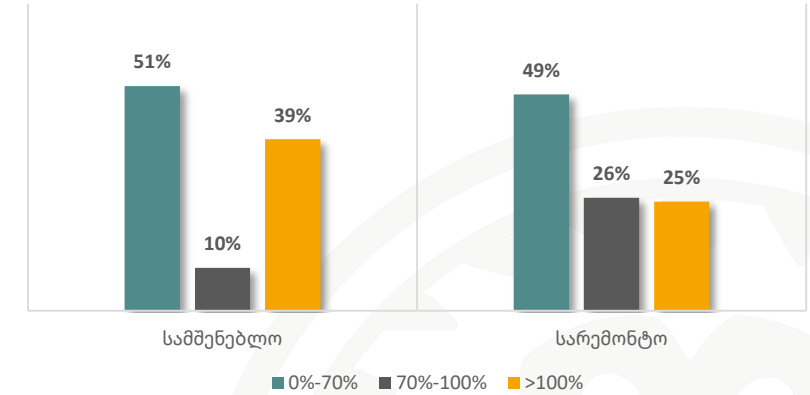
EBITDA and Net Profit Margins - Building Materials



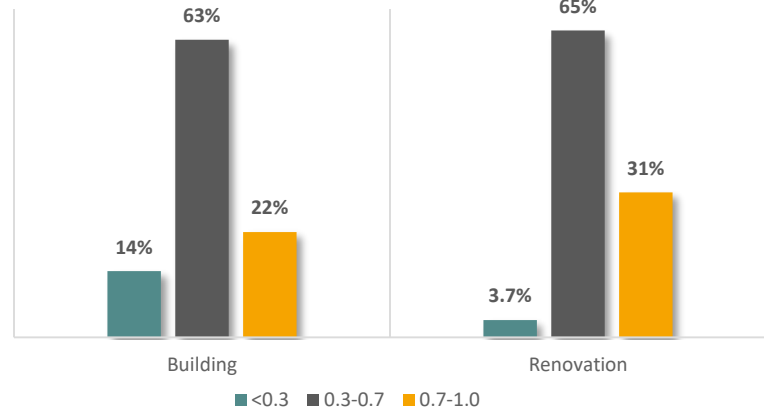
EBITDA and Net Profit Margins - Renovation Materials



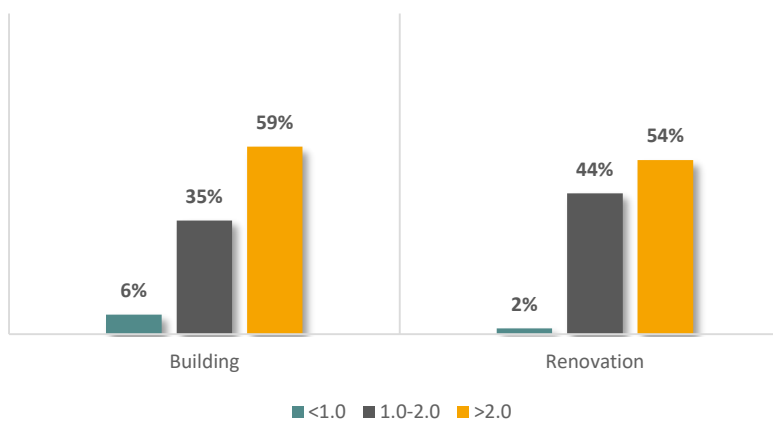
LTV - Building and Renovation Materials



Equity/Assets - Building and Renovation Materials



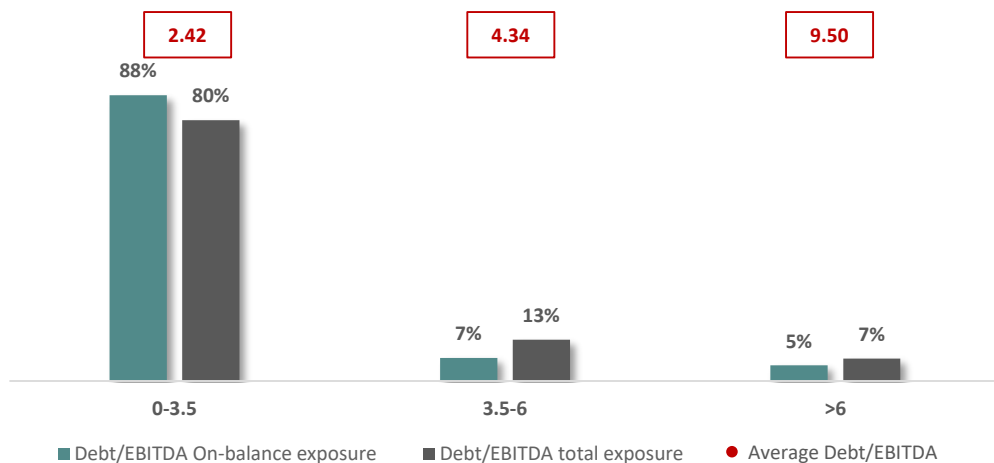
Current Ratio - Building and Renovation Materials



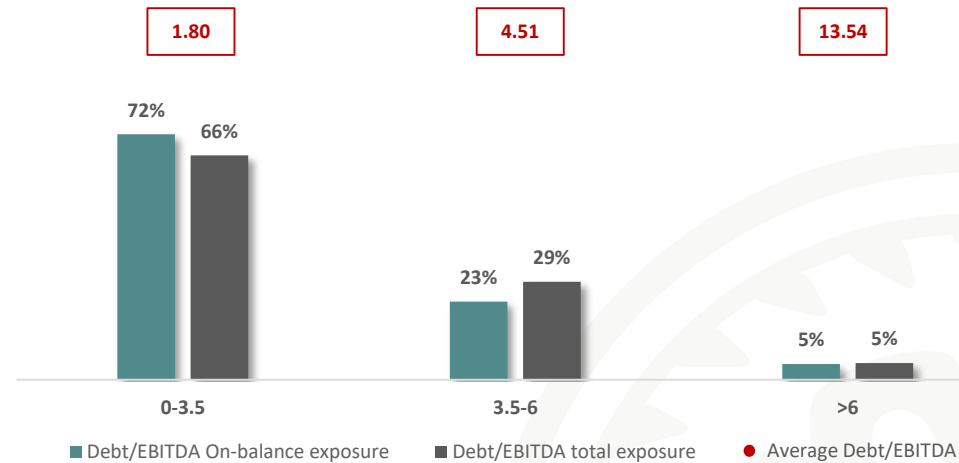
- The companies, operating in renovation category, have higher EBITDA margin, compared to building materials category, since building materials manufacturers have higher operational costs;
- In terms of LTV indicator, most part of sector's loans are secured by real estate;
- Current ratio and Equity/Assets ratio are within the satisfactory limits.

The solvency of the borrowers, operating in building and renovation materials sector, is within satisfactory limits from the regulatory perspective, as of 02/2024

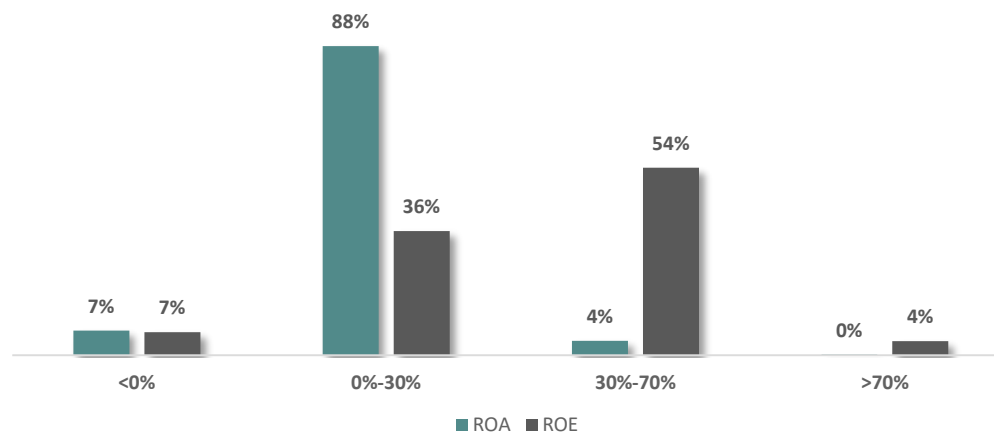
Debt/EBITDA - Building Materials



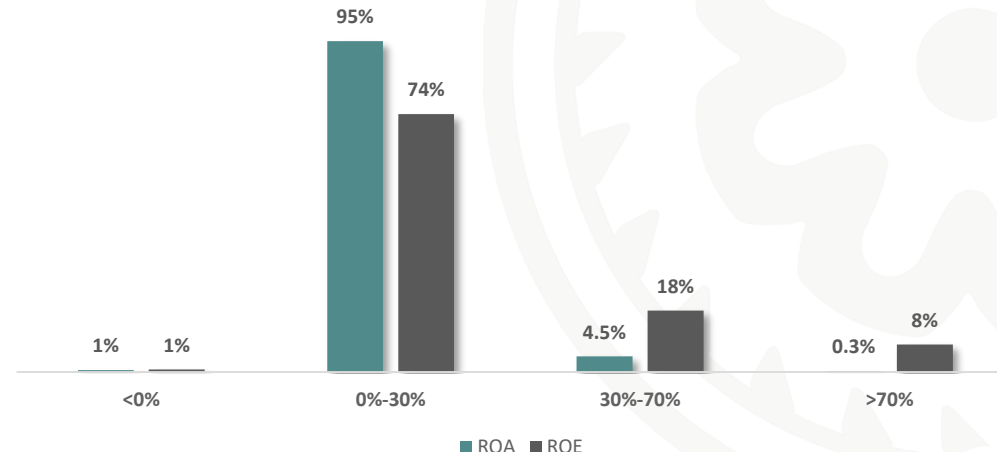
Debt/EBITDA - Renovation Materials



ROA, ROE - Building Materials

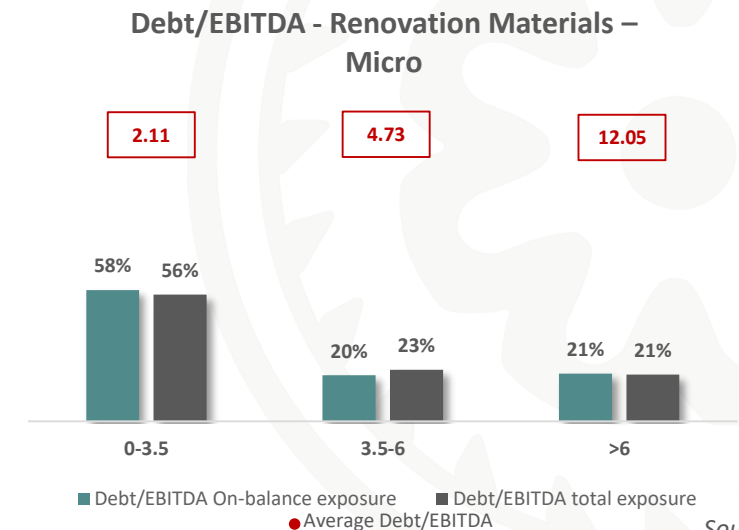
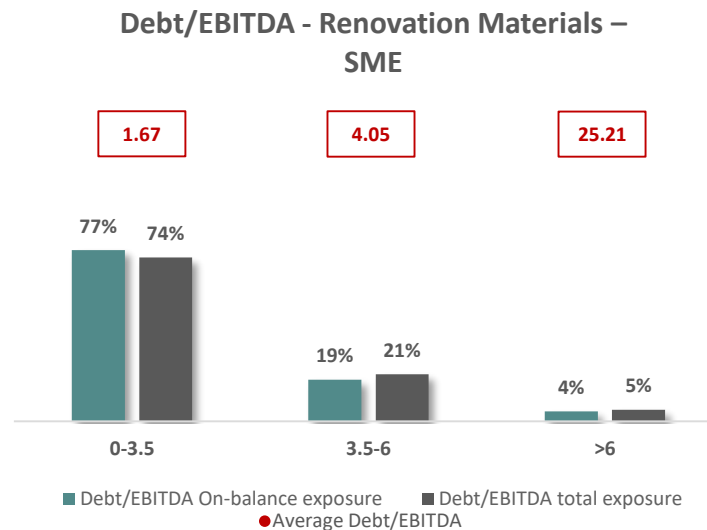
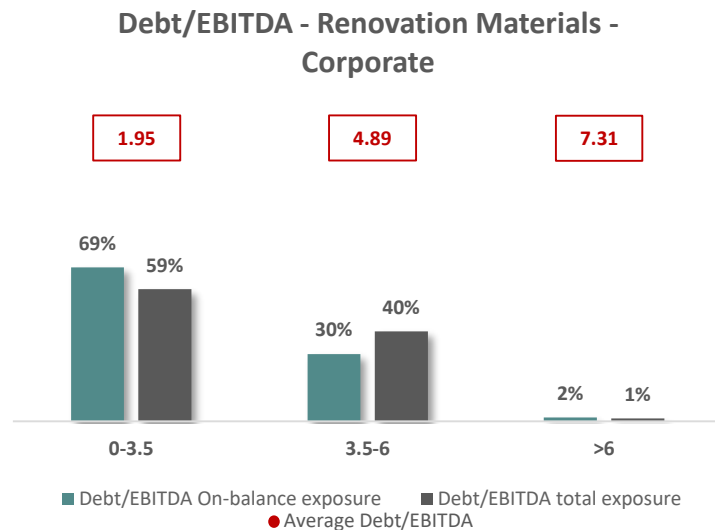
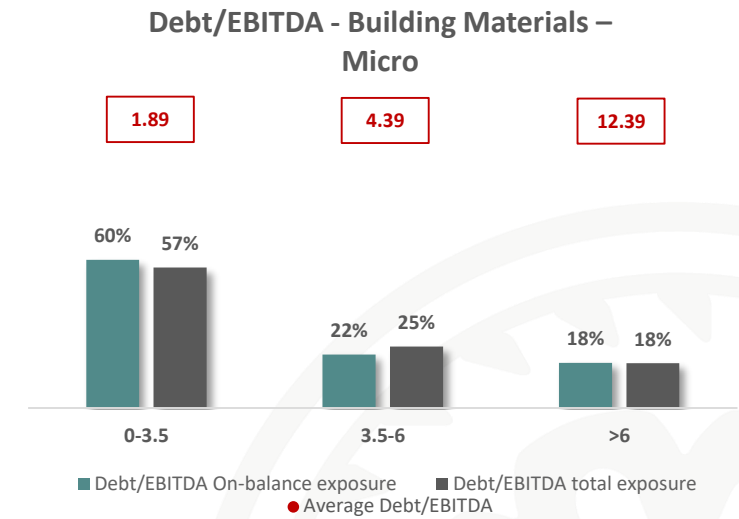
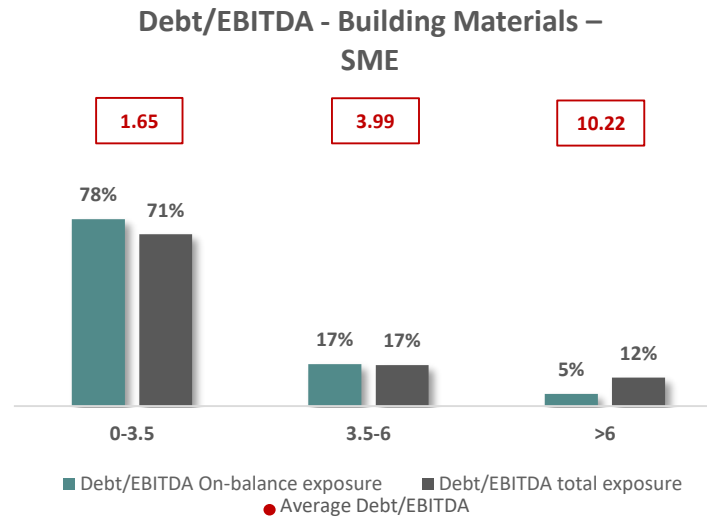
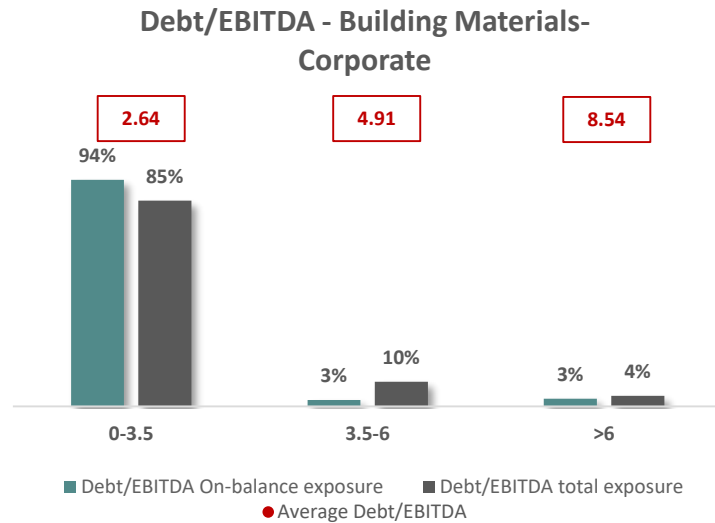


ROA, ROE – Renovation Materials



Source: NBG

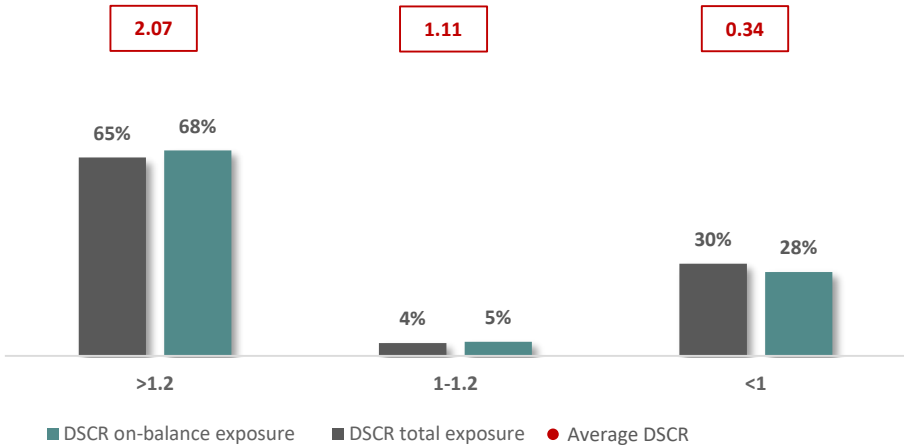
The ability to meet debt obligations of the Corporate and SME segment borrowers, operating in building and renovation materials sector, is higher than the similar indicator of the micro segment borrowers, as of 02/2024



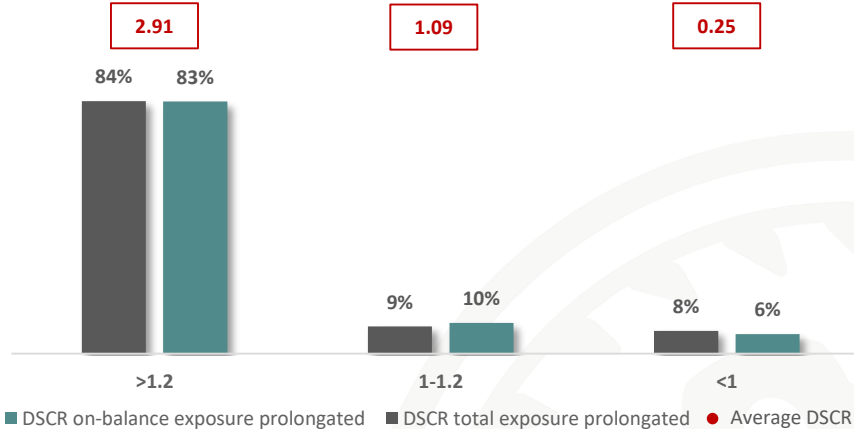
Source: NBG

The debt service coverage ratio of building and renovation materials sector's borrowers improves in case of prolongation of debt obligations for maximum period, as of 02/2024

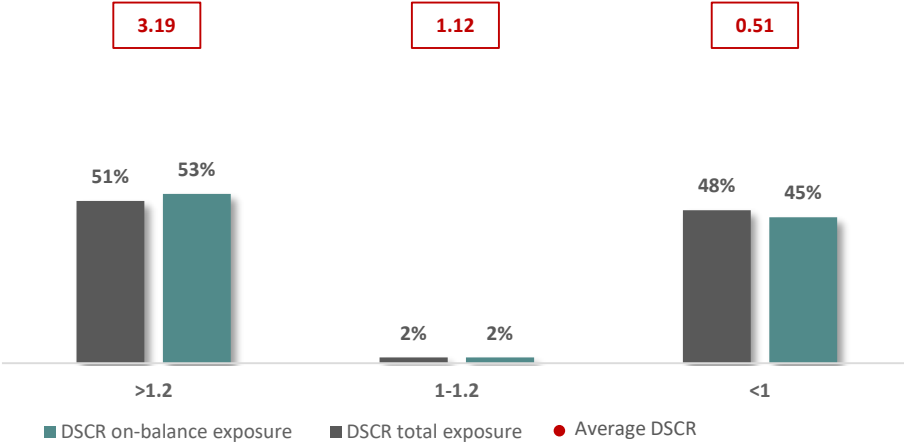
DSCR - Building Materials



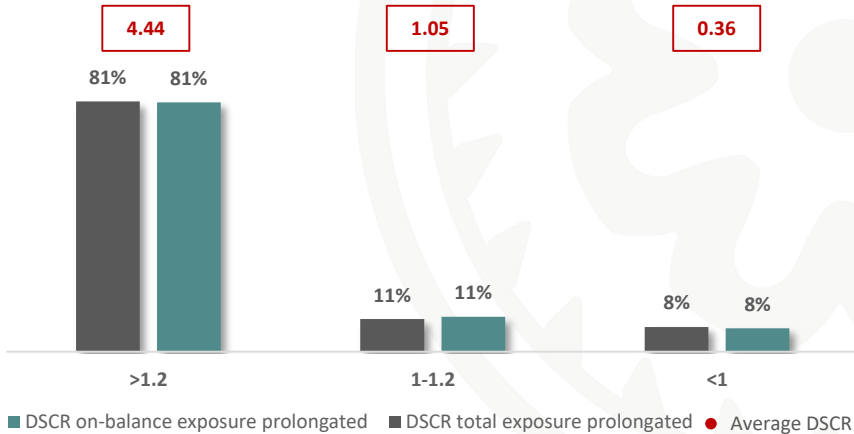
DSCR prolonged - Building Materials



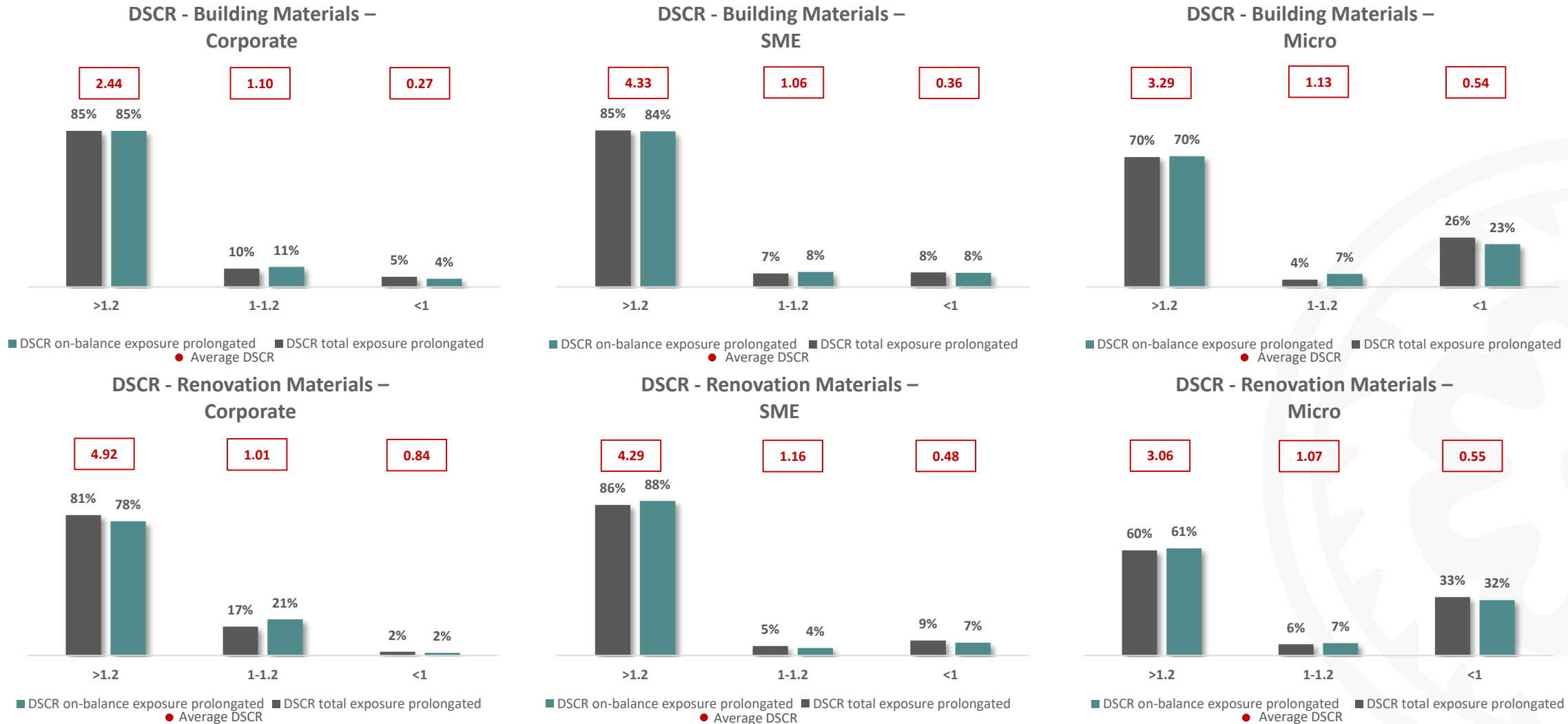
DSCR - Renovation Materials



DSCR prolonged - Renovation Materials



The debt service coverage ratio of the Corporate and SME segment borrowers, operating in building and renovation materials sector, is higher than the similar indicator of the micro segment borrowers, as of 02/2024



Source: NBG

Content

- General Overview of the Construction Materials Sector in Georgia
- Comparability Analysis of Georgian Construction Materials Sector with Other Regions
- Analysis of Main Indicators and Recent Trends of Credit Portfolio of Georgian Construction Materials Sector
- Evaluation of Financial Performance of Companies Operating in Georgian Construction Materials Sector
- **Main Conclusions**

Main Conclusions

- In 2020-2023, economic activity and rising prices of basic materials led to an increase in turnover in the construction materials sector;
- Compared to the regions represented in the study, Georgian construction materials sector is characterized by higher profitability indicators, under conditions of equal capital participation;
- Lending to the construction materials sector is characterized by stable growth dynamics, high concentration in foreign currency, and low liability concentration compared to other business sectors;
- An analysis of borrowers revealed that the largest volume of bank liabilities falls on trading companies operating in the renovation category;
- The companies operating in the renovation materials category are characterized by higher profitability indicators, compared to the building materials category;
- Solvency analysis of the building and renovation materials sector highlights its sustainability and indicates growth potential.

Thank You For Your Attention!