

ISSUER COMMENT

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 Rate this Research

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JSC Georgia Capital

Georgia Capital's consent solicitation to move to fair value accounting has no impact on rating

On 25 September 2019, JSC Georgia Capital (B2 stable) has solicited consent from its bondholders to adopt the IFRS10 exemption applicable to so called 'investment entities'. Under this IFRS exemption investment entities can account for their investments at fair value rather than on a consolidated basis. This change in accounting approach will have no impact on the current rating of Georgia Capital as we already calculate Georgia Capital's leverage by comparing the net debt of the parent company with the asset value of the portfolio of investments. The adoption of fair value accounting would increase the robustness of the valuation process and the transparency of valuation multiples being used, a credit positive.

IFRS10 exempts investment holding companies from producing consolidated accounts. The majority of the investment holding companies that we rate in Europe have made usage of this exemption and are accounting for their private assets using fair value accounting. Fair value accounting uses valuation multiples of similarly rated peers that are publicly traded to calculate the value of private assets. The valuation process is being audited, which ensures a transparent and robust valuation process. Investments in publicly traded companies are accounted for using their public share price. Our investment holding rating methodology has long adopted this approach and measures the leverage of an investment holding company by dividing the net debt of the holding company on a standalone basis against the value of its underlying investments.

The analysis of the valuation process and valuation multiples (composition and stability of peer group over time, historical evolution of valuation multiples through the market cycle) are important inputs to our overall assessment of the leverage of an investment holding company and its ability to maintain a certain level of leverage through the market cycle. As such the adoption of fair value accounting will improve the transparency of the calculation of Georgia Capital's portfolio value notwithstanding that the issuer already provided unaudited management estimates in the past. We see the increased level of transparency of the valuation process of Georgia Capital as a credit positive.

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