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Bulletin:

Georgia Capital Has Sufficient Financial Flexibility To Absorb Some Asset Volatility

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Moscow (S&P Global Ratings) March 10, 2021--S&P Global Ratings today said that investment holding company JSC Georgia Capital (B/Stable/--) has sufficient financial flexibility to absorb some asset volatility.

Georgia Capital's S&P Global Ratings-adjusted loan-to-value (LTV) ratio has slightly improved to 35% pro forma the $65 million tap issuance at end-December 2020 (assuming $30 million of proceeds is kept as cash buffer) from 37% at end-June 2020. As a result, Georgia Capital will maintain sufficient headroom under our ratio threshold of 45% for the current rating level.

That said, we anticipate some market volatility and downward trends for Georgia Capital's asset prices given the company's exposure to the Georgian economy (please refer to "Georgia Outlook Revised To Negative; 'BB/B' Ratings Affirmed," published Feb. 26, 2021, on RatingsDirect). We have therefore applied an analytical haircut of 10% on all unlisted asset fair values disclosed as of Dec. 31, 2020.

We also note that Georgia Capital's portfolio value was somewhat volatile during first-half 2020 as a result of the COVID-19 pandemic. Following financial market recovery in second-half 2020, Georgia Capital's portfolio value increased by more than 40%, supported by a 30% increase in Bank of Georgia's valuation in the same period, as well as a larger-than-expected revaluation of Georgia Healthcare Group's businesses, which increased by more than 3x after Georgia Capital made the company private. Additionally, the sound performance of a number of investee companies in second-half 2020 supported a positive portfolio revaluation. For example, the water utility business' last-twelve-months (LTM) reported EBTIDA to December 2020, calculated based on the retrospective impact of new tariffs on 2020 performance, increased by 17% to Georgian lari (GEL) 98.7 million from GEL84.6 million for LTM to September 2020.

We believe Georgia Capital will show some resilience in terms of cash dividend income. We anticipate that its cash flow adequacy will improve to about 1.0x in 2021 from about 0.5x in 2020 on the back of recovery in dividend income from its investee companies and a particularly large contribution from Georgia Healthcare Group.

This report does not constitute a rating action.