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CREDIT OPINION
28 June 2022

Update

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RATINGS

JSC Georgia Capital

Domicile	Georgia
Long Term Rating	B1
Type	LT Corporate Family Ratings
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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CLIENT SERVICES

Americas	1-212-553-1653
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Japan	81-3-5408-4100
EMEA	44-20-7772-5454

JSC Georgia Capital

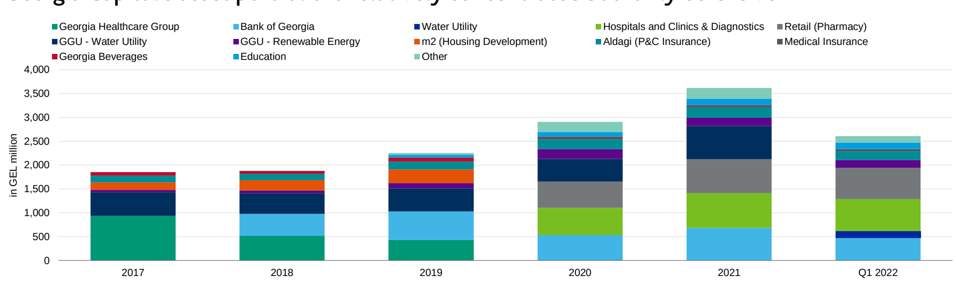
Update following rating upgrade

Summary

JSC Georgia Capital's (Georgia Capital) B1 corporate family rating (CFR) is supported by (1) the company's clearly defined investment strategy, which is focused on Georgia's (Ba2 negative) economy; (2) good track record of raising capital (both debt and equity), which gives it a competitive edge in acquiring Georgia-based assets; (3) a portfolio of defensive investments (exhibit 1) with a stable dividend stream; (4) relatively good business diversification across its investment portfolio especially in light of the small size of the portfolio (around $800 million as of 31 March 2022; GEL/USD of 0.32) although there is value concentration in the top three assets in the portfolio (around 69% of the portfolio value and 54% including cash in total assets); (5) relatively moderate market value leverage (MVL) of around 16% as of 31 March 2022 (about 20% pro forma for the reclassification of loans issued to the real estate and beverage businesses); (6) and management's commitment to bring its Net Capital Commitment (NCC) ratio below 15% (excluding intercompany loans from the gross asset value calculation of the portfolio of investments) by the end of 2025 and maintain it at this threshold at any point during the market cycle going forward.

Georgia Capital's (1) relatively small investment portfolio; (2) geographical concentration of its portfolio in the Georgian economy; (3) relatively high portfolio concentration, with the top two and three assets accounting for around 51% and 69%, respectively, of the overall value of the investment portfolio (40% and 54% respectively including cash in total assets); (4) weak interest cover; (5) and limited exit options as finding buyers for Georgia-based assets could be challenging, although the recent disposal of an 80% stake in the water utility business to FCC Aqualia S.A. (Aqualia) and the sale of selected real estate assets has demonstrated Georgia Capital's ability to exit.

Exhibit 1
Georgia Capital's asset portfolio is relatively concentrated but fairly defensive



Sources: Company and Moody's Investors Service

Credit strengths

» Clearly defined investment strategy

» Superior knowledge of Georgian economy and strong access to capital along with some evidence of ability to monetize investments at attractive valuations

» Portfolio focused on defensive assets (utilities, healthcare and education), with a stable dividend stream

» Relatively good business diversification across its investment portfolio, especially in light of small and concentrated portfolio

Credit challenges

» Small portfolio concentrated in the Georgian economy

» Relatively short history of operating as a standalone company

» High portfolio concentration, despite the recent investments in the auto service, education and renewable energy businesses, which account for a small portion of the overall portfolio value

» Low, but improving, interest coverage

» Limited exit options and limited liquidity of the portfolio

Rating outlook

The stable outlook reflects Georgia Capital's commitment to a more conservative financial policy and assumes that Georgia Capital will operate within the perimeters of its financial policy targets, including an NCC below 15% by 2025. The stable outlook also assumes timely refinancing of the bonds maturing in March 2024.

Factors that could lead to an upgrade

» Mature investments that allow Georgia Capital to generate higher dividend income to support stronger and sustained interest cover above 3.0x

» Track record of sustained net MVL at or below 15%

» Maintenance of strong liquidity

Factors that could lead to a downgrade

» Interest cover below 1.0x on a sustained basis

» Net MVL above 25% on a sustained basis

» Lack of progress on timely refinancing of the bonds maturing in March 2024 or deterioration of Georgia Capital's liquidity, such as material cash calls or support requirements for underlying investments

» Heightened geopolitical risk factors that lead to lower asset valuations or the inability to extract dividends from investments could also result in a downgrade

Key indicators

Exhibit 2
JSC Georgia Capital

	2017	2018	2019	2020	2021	Q1 2022
GAV in GEL Million	1,851	1,883	2,253	2,908	3,616	2,609
Net MVL (Moody's defined)	na	28.9%	31.1%	28.4%	24.4%	16.1%
Net MVL (Georgia Capital defined)	na	19.9%	27.9%	28.9%	24.2%	16.5%
Interest Coverage	1.8x	2.1x	2.3x	0.3x	0.8x	0.8x

Net MVL includes guarantees issued and is based on management fair values; Georgia Capital defined net MVL includes loans issued to portfolio companies.
Sources: Company and Moody's Investors Service

Profile

JSC Georgia Capital (Georgia Capital), the issuer of the rated bond, is a Georgia-based intermediate holding company of a number of investments focused on the Georgian economy. Georgia Capital is ultimately owned by Georgia Capital PLC, the parent company of the group listed on the London Stock Exchange.

Georgia Capital actively manages a portfolio of companies largely operating in Georgia and to a lesser degree in neighbouring countries. The group's portfolio (as of 31 March 2022) includes stakes in the following companies: Georgia Healthcare Group (including hospitals, clinics & diagnostics, pharmacy and medical insurances, 100% stake, pharmacy is owned 67%), Georgia Global Utilities (GGU), a water utility, with an 80% stake disposed of in February 2022, and renewable energy business with a 100% equity ownership; both owned through GGU; Aldagi, a property and casualty insurance company (a 100% stake); and investments in education (majority stakes in five private K-12 schools and campuses). Other investments include housing development, hospitality beverages, auto services and IT outsourcing. Georgia Capital also owns a 19.9% stake in JSC Bank of Georgia (BoG, Ba2 negative),[1] a Georgian bank listed on the premium segment of the London Stock Exchange.

The group's focus is typically on asset-light large investment opportunities in Georgia, without requiring intensive capital commitments, which have the potential to reach at least GEL0.3 billion equity value over three to five years from the initial investment and to monetise them through exits as they mature. The group manages its portfolio companies individually and does not focus on achieving intragroup synergies.

Recent developments

In February 2022, Georgia Capital completed the disposal of an 80% equity stake in the water utility business for an enterprise value (EV) of $365 million, reflecting an equity value of $225 million, with cash proceeds amounting to $180 million. According to management, proceeds from the disposal will be used for leverage reduction, share buybacks ($10 million in August 2021, $10 million in Q1 2022 and another $10 million in May 2022), further potential business investments, and lending to portfolio companies. Loans issued to subsidiaries will ensure renewable energy business $95 million portion towards the partial repayment of the $250 million green bond issued by Georgia Global Utilities, the holding company of both water utility and the operational renewable energy assets, until August 2022. The transaction had a positive impact on Georgia Capital's MVL, which declined to 16.1% as of March 2022 from 24.4% in 2021, and will bring in significant industry expertise into Georgia through the strategic partnership between Georgia Capital and Aqualia. The company has also announced the plan to spin-off its renewable energy business, but to maintain its 100% direct ownership, through September 2022.

In October 2021, Georgia Capital announced the agreement to acquire the remaining 33% minority interest in its retail (pharmacy) business, which is agreed to be executed in six annual tranches.

Detailed credit considerations

Clearly defined investment strategy focused on the Georgian economy and supported by good access to capital

In light of its knowledge and experience operating in the Georgian economy, Georgia Capital has focused its investment strategy on building a portfolio of assets almost entirely exposed to the Georgian economy. Some investment companies have been regionally expanding into neighbouring countries thereby diversifying their income streams. We do not expect this strategy to change, and it has been successful so far.

Georgia Capital has a competitive edge as an investor in the local Georgian economy, mainly because of its strong access to capital. Foreign capital remains scarce in the Georgian economy because of its small size. Therefore, Georgia Capital has faced minimal competition when bidding for assets because there are no local investment firms with sufficient capital to compete for the same assets. Foreign investors generally have limited interest because of the small size of the investments and the economy. BGEO Group Plc (the former parent of Georgia Capital), through its public listing on the London Stock Exchange, its access to the international public debt capital markets and its bank licence, was able to raise around $5 billion in capital through different channels over the last 10 years. This has enabled the group to either make investments in relatively undervalued companies and generate incremental value by providing capital for value-accretive projects at its investments.

We expect Georgia Capital to continue to benefit from this competitive edge, and we do not expect significant competition for bidding assets to emerge. Georgia Capital has also started building a track record of generating value through the successful development of its assets. Its management is usually fairly actively involved in the management of investments during the early phase, with a focus on the strategic development of the assets; this active involvement reduces as investments mature.

In recent years, Georgia Capital's investment strategy has focused on renewable energy and education. Its focus on the service industry makes sense because the Georgian economy has no strong industrial businesses as the economy lacks scale and local industrial businesses cannot compete with large industrial conglomerates. The company's strategy will remain focused, to a large extent, on the domestic service industry, with a focus on investing in defensive and asset-light businesses. Its recent investments have been in the auto service industry (a 90% stake in Amboli LLC, a Georgian importer, distributor, wholesaler and retailer of car consumables and spare parts, such as tires, oil, batteries and lubricants for light vehicles) and in the field of education and renewable Energy. Georgia Capital has also launched the organic development of a mandatory vehicle inspection service, an immature market in Georgia. Lastly, Georgia Capital has started investing in private education. Its investment in this sector increased to GEL135 million as of March 2022 from GEL7 million in December 2018, through five investments in private schools and campuses. The investment strategy in recent years has been successful; however, the group still needs to build a long-term track record as an independent investment holding company after the carve-out from BGEO and independence in 2018.

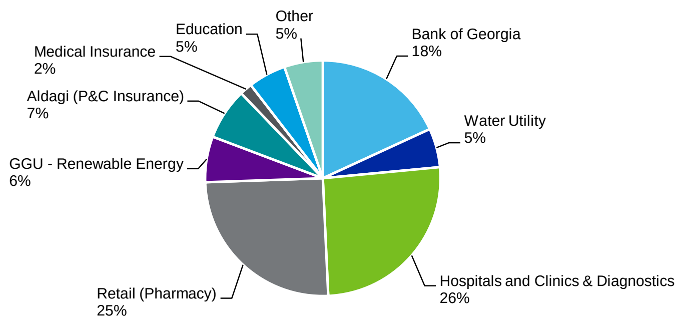
Georgia Capital will aim at divesting its investments after a five- to ten-year ownership period, with the preferred route to exit being a trade sale.

Focus on Georgian economy and small size lead to high asset concentration and weak geographical diversification

While Georgia Capital has a competitive edge in investing in Georgian assets, this strategy implies high asset concentration, a lack of geographical diversification and a small overall portfolio (around $800 million as of 31 March 2022). Exhibit 3 illustrates the high concentration of Georgia Capital's investment portfolio, with its top two and top three largest holdings accounting for 51% and 69%, respectively, of the overall portfolio value. The disposal of an 80% stake in the water utility business (completed in February 2022) intensified the asset concentration. The defensiveness of some of the underlying assets, such as the group's investment in healthcare, water utility and renewable energy, somewhat mitigates the concentration.

Exhibit 3

Georgia Capital's top three investments accounted for 69% of the overall value of the investment portfolio
Georgia Capital's portfolio composition as of 31 March 2022



Other includes Housing Development, Hospitality, Beverages, Auto Services and IT Outsourcing
Sources: Company and Moody's Investors Service

The focus on the Georgian economy also results in very weak geographical diversity and a high exposure to the Georgian economy. The underlying investments are domiciled in Georgia but have been expanding their own operations to mostly neighbouring countries, thereby somewhat increasing their own diversification.

We rate the Government of Georgia Ba2 with a negative outlook. According to our latest Credit Opinion (published on 9 May 2022), the strength of its institutions has fostered economic resilience and underpin the country's track record of robust economic growth; Moody's real GDP growth expectation for Georgia in 2022 of 3.8%. These strengths are balanced against its small, low-income economy, while the banking sector and external vulnerability risks continue to constrain the rating. Russia's invasion of Ukraine (Caa3, negative) has raised Georgia's geo-political risk and presents heightened risks for Georgia's economic and fiscal outlook, particularly in 2022 and 2023.

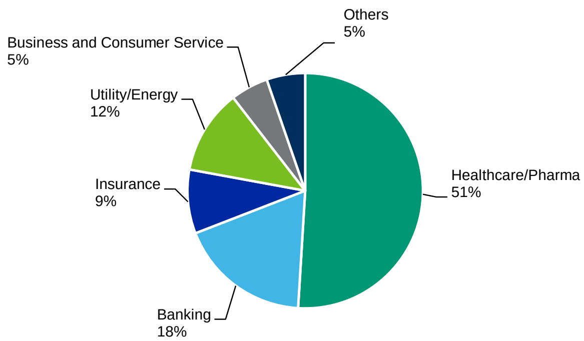
Reasonably good business diversification weakened by disposal of the water utility business

Despite an investment strategy focused on the Georgian economy and the service sector, with a bias towards defensive end industries, the investment portfolio of the investment arm of Georgia Capital is well-diversified across sectors. As illustrated in Exhibit 4, as of 31 March 2022, Georgia Capital had exposure to the healthcare (51% of the portfolio value), utility (12%) and banking (18%) sectors, with insurance and education accounting for most of the remaining value of the portfolio. This is a reasonably good degree of diversification in light of the overall small size of the investment portfolio. While we consider the utility and healthcare assets as one sector each, there is some diversification within the utility sector (water distribution and electricity generation) and the healthcare sector (hospitals, clinics & diagnostics, pharmacy and the small medical insurance business). After the disposal of an 80% equity stake in the water utility business, Georgia Capital's business diversification has been significantly reduced, with healthcare and banking accounting for 51% and 18% of its investment portfolio, respectively.

Exhibit 4

Reasonably well-diversified investment portfolio in light of its small size ($800 million)

Business sector contribution to the overall value of the investment portfolio (as of 31 March 2022)



Other includes GEL138 million investments in Housing Development, Hospitality, Beverages, Auto Services and IT Outsourcing as of 31 March 2022.
Sources: Company and Moody's Investors Service

Only 18% of the asset value is from listed companies, which reduces flexibility to raise additional liquidity. The company could potentially increase its liquidity through the put option for the remaining 20% stake in the water utility business that it can exercise in 2025 and 2026. We also view Georgia Healthcare Group (GHG) as solid assets with strong cash flow and growth prospects.

MVL improved to below 25% resulting from the divestment in the water utility business as well as a conservative capital allocation policy

With the exception of the insurance business, the operating performance of all of Georgia Capital's underlying investments improved materially due to stronger revenue generation and improved profitability. Georgia Capital's private (unlisted) portfolio of investments posted aggregate revenue growth of 15% in Q1 2022 and EBITDA growth of 10% for the twelve months that ended in March 2022, which will support dividend income to GCAP of GEL90 million to GEL100 million (around $31 million to $34 million) in 2022, significantly improved against dividend income in 2020 of around GEL30 million (around $10 million) and of GEL74 million (around $25 million) in 2021.

Despite the improvement in profitability, gross asset value decreased as geopolitical risks stemming from the military conflict in Ukraine and tighter monetary policy hurt valuation multiples. GAV fell by 28% to GEL2.6 billion as of March 2022, compared to GEL3.6 billion as of December 2021, largely because of the disposal of an 80% stake in Water Utility business (accounting for about GEL317 million on the change of GAV) and lower asset valuations.

Georgia Capital's net MVL declined to 16.1% as of March 2022 (about 20% pro forma for the expected reclassification of some loans and repayment of the Renewable Energy portion of the GGU Eurobonds that will be redeemed in August 2022) from 24.4% in 2021 due primarily to debt reduction with proceeds from the sale of an 80% stake in its water utility business. Reduced net MVL offers sufficient headroom in comparison with our downgrade trigger of 25% and also against the risk of a further deterioration in valuation multiples across the broader market over the next 12-18 months. The monetization of water utility business investment demonstrates tangible liquidity of the investment portfolio despite the concentration of assets in Georgia and illustrates the potential for exit options, in this case from buyers outside of Georgia. We expect an element of volatility in Georgia Capital's underlying investments' operating performance and valuation multiples in at least the next few quarters as a result of the ongoing conflict in Ukraine combined with spiking energy price increases, which will decelerate global economic growth.

In May 2022, Georgia Capital updated its financial policy with a commitment to bringing NCC ratio down to 15% by 2025, from 28% as of March 2022. NCC represents the aggregated view of all confirmed, agreed and potential capital outflows at GCAP holding company level and will effectively result in net MVL over time trending below the current threshold of 25%.

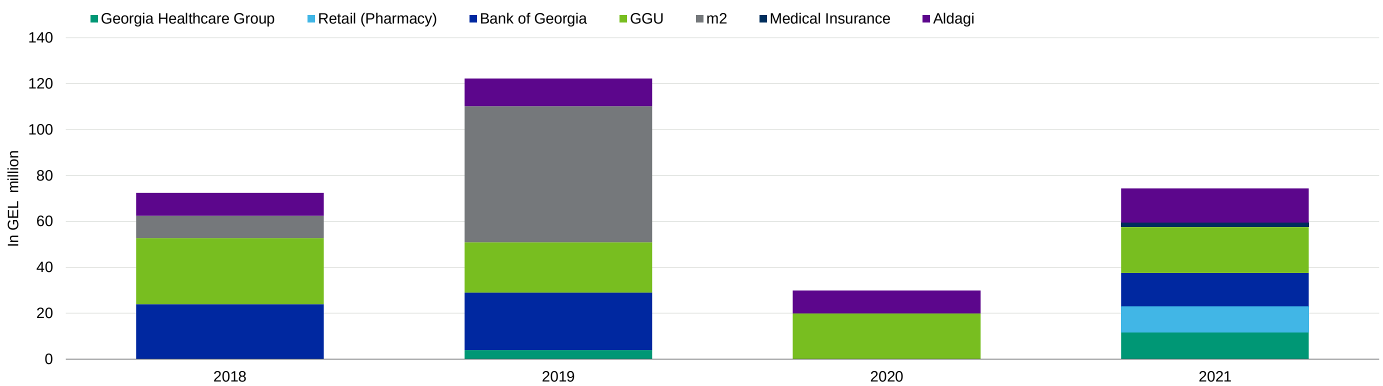
Georgia Capital made investments of only GEL18 million in 2021, a significant reduction in comparison with the investments of GEL195 million (including GEL138 million of non-cash capital allocation related to the buyout of minority shareholders in GHG) made in 2020 and GEL358 million (including GEL113 million of non-cash acquisition for a 13.6% stake in GHG as part of a share exchange) made in 2019. Operating expenses increased to GEL36.5 million in 2021 (including share-based payments) from GEL32.1 million in 2020. Capital allocation in 2022 will be subject to the use of the $180 million of proceeds from the water utility business. We expect dividend distribution to improve as its investments continue to benefit from improving operating conditions.

The issuer's interest coverage increased to 0.8x in 2021 from 0.3x in 2020 but still remains below its own average of above 2.0x until 2019. We expect interest coverage to further recover from 2022 onwards supported by higher dividend income. Georgia Capital has a significant liquidity buffer, with GEL719 million cash on balance sheet as of 31 March 2022.

Exhibit 5

Georgia Capital's interest coverage is likely to improve gradually over the next 12-18 months; its cash on balance will provide a solid liquidity buffer

Dividend income from portfolio companies



Actual cash dividends received in 2019 amounted to GEL73 million.

Sources: Company and Moody's Investors Service

ESG considerations

Governance considerations

Georgia Capital in May 2022 committed to achieving a more conservative capital structure by changing its financial policy. It aims to bring the Net Capital Commitment (NCC) ratio down to 15% by 2025 from 28% as of March 2022. NCC is defined as the tally of all confirmed, agreed and potential capital outflows at GCAP holding company level. Georgia Capital's capital allocation continues to include share buybacks.

Environmental and social considerations

The environmental risks for Georgia Capital are mainly centred on its underlying assets. Overall, we view the environmental risks of its major underlying assets as manageable in the next five to ten years.

The company has established a strong framework to ensure limited social risks, including appropriate training where necessary to ensure compliance along with communicating regularly with employees to preserve good labour relations.

Liquidity analysis

Liquidity at the GCAP holding level as well as at the level of underlying investments remained adequate as of March 2022. GCAP had GEL719 million ($232 million) of cash as of March 2022 mainly as a result of the receipt of the water utility disposal proceeds. The cash position compares to operating expenses of GEL36 million and net interest expense of around GEL54.3 million, both on an annual basis. The company will allocate around $90 million to $95 million to repayment of a portion of the Georgia Global Utilities (GGU) $250 million Green Eurobond related to the renewable energy business due in August 2022. According to the company, GCAP has no material short term maturities at its portfolio level that cannot be covered from cash on their balance sheet.

In Q1 2022, GCAP continued the execution of its buyback programme with an additional tranche of shares valued at $10 million. GCAP's rationale for the share buyback is the very high discount of the share price compared to Net Asset Value. GCAP's capital allocation continues to include share buybacks.

Methodology and scorecard

In assessing the credit quality of Georgia Capital, we apply our Investment Holding Companies and Conglomerates rating methodology, published in July 2018. In our 12-18-month forward-looking view, the scorecard indicates a Ba3 outcome, one notch above the actual assigned rating. The difference between the scorecard-indicated outcome and the assigned rating reflects the small size of the overall investment portfolio ($800 million), as well as the lack of a track record of operating as a rated investment holding company and within the updated financial policy target of reducing its NCC ratio to below 15% at all times during the market cycle by 2025. At the same time, Georgia Capital has built a track record of managing a portfolio of investments while generating value.

Exhibit 6

Rating factors

JSC Georgia Capital

Investment Holding Companies Industry [1][2]	Current 03/31/2022		Moody's 12-18 Month Forward View As of 6/23/2022 [3]	
Factor 1 : Investment Strategy (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Investment Strategy	Ba	Ba	Ba	Ba
Factor 2 : Asset Quality (40%)				
a) Asset Concentration	B	B	B	B
b) Geographic Diversity	Caa	Caa	Caa	Caa
c) Business Diversity	Ba	Ba	Ba	Ba
d) Investment Portfolio Transparency	B	B	B	B
Factor 3 : Financial Policy (10%)				
a) Financial Policy	Ba	Ba	Ba	Ba
Factor 4 : Estimated Market Value-based Leverage (MVL) (20%)				
a) Estimated Market Value-Based Leverage	A	A	A	A
Factor 5 : Debt Coverage and Liquidity (20%)				
a) (FFO + Interest Expense) / Interest Expense	0.8x	Caa	1.2x	B
b) Liquidity	B	B	B	B
Rating:				
a) Scorecard-Indicated Outcome		Ba3		Ba3
b) Actual Rating Assigned				B1

[1] All ratios are based on adjusted financial data and incorporated Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 03/31/2022.
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Investors Service

Ratings

Exhibit 7

Category	Moody's Rating
JSC GEORGIA CAPITAL	
Outlook	Stable
Corporate Family Rating	B1
Senior Unsecured	B1/LGD4

Source: Moody's Investors Service

Appendix

Exhibit 8
Peer comparison

	JSC Georgia Capital		Kuwait Projects Company (Holding) K.S.C.P.		Koc Holding A.S.		Ordu Yardimlasma Kurumu (OYAK)		Svyazinvestneftekhim JSC (SINEK)*	
Current rating	B1 Stable		Ba2 Negative		B2 Negative		B2 Negative			
Country of Domicile	Georgia		Kuwait		Turkey		Turkey		Russia	
Long-term issuer rating of domicile government	Ba2 Negative		A1 Stable		B2 Negative		B2 Negative			
	LTM Mar-22	FWD	LTM Jun-21	FWD	FY 2020	FWD	FY 2020	FWD	FY 2020	FWD
Investment Strategy (10%)										
a) Investment Strategy	Ba	Ba	Ba	Ba	Baa	Baa	Baa	Baa	B	B
Asset Quality (40%)										
a) Asset Concentration	B	B	Ba	Ba	Baa	Baa	Ba	Baa	Caa	Caa
b) Geographic Diversity	Caa	Caa	Ba	Ba	B	B	B	B	Caa	Caa
c) Business Diversity	Ba	Ba	Ba	Ba	Baa	Baa	Ba	Ba	B	B
d) Investment Portfolio Transparency	B	B	Ba	Ba	A	A	Ba	Ba	Ba	Ba
Financial Policy (10%)										
a) Financial Policy	Ba	Ba	Baa	Baa	A	A	Baa	Baa	B	B
Estimated MVL (20%)										
a) Estimated Market Value-Based Leverage	A	A	B	Ba	Aaa	Aaa	Aa	Aa	Aaa	Aaa
Debt Coverage and Liquidity (20%)										
a) (FFO + Interest Expense) / Interest Expense	Caa	B	Caa	Caa	Ba	Ba	Caa	Baa	Baa	Aaa
b) Liquidity	B	B	Ba	B	Aaa	Aaa	Caa	Caa	A	A

* Government-related entity.
Source: Moody's Investors Service

Endnotes

1 The bank ratings shown in this report are the bank's deposit rating, senior unsecured debt rating and LT counterparty risk rating.

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