

May 11, 2012

Bank of Georgia Holdings

Expectedly positive results in 1Q12

Bank of Georgia, the sole subsidiary of Bank of Georgia Holdings (BGH), posted solid 1Q12 financials this week. Net income grew 1.4x yoy (+17% qoq) to USD 24 mln, mainly driven by 11% yoy growth in net interest income to USD 37 mln (with NIM advancing 0.3 pp yoy), tough control of operating costs and improvement in loan quality. The results are supportive of our full-year bottom line estimate of USD 101 mln (+26% yoy), which implies 2012 P/E of 6.0x, a 35% discount to CEE peers. We reiterate our BUY recommendation on BGH with a 12-month TP of USD 23.7 (implying 37% upside), as we think the bank remains one of the most attractive financial sector investments in the CEE universe.

Net interest income robust on loan growth, higher NIM

Bank of Georgia's net interest income increased 2.5% qoq as its net loan book expanded 4.4% and NIM improved 0.5 pp to 7.3%. The lender reversed declining NIM by decreasing the cost of deposits and raising loan yields. Deposit rates were lowered to discourage the inflow of excess liquidity while loan rates inched up on portfolio rebalancing in favor of higher yielding consumer loans. Growth in revenue continued to outpace operating expenses by a wide margin, Cost/ Income ratio fell 6 pp yoy to 49% (0.8 pp growth on a qoq basis is purely seasonal).

Assets declined, but structure better off in 1Q

Assets declined 3% qoq (mainly on shrinking deposits), which came as a surprise, but the bank did a good job rebalancing their structure – the ratio of net loans to assets increased 4 pp qoq to 60%. At the same time, the bank decreased its cash position 1/3 qoq (to 8% of total assets), meaning it got rid of excess liquidity.

Loan quality high, improving further

Loan quality remains healthy and continued to improve: NPLs declined 3% qoq in GEL terms, pushing the bank's NPLs/Gross loans ratio down to 3.3% (vs. 3.8% a year ago). NPL coverage ratio amounted to 127% at end-1Q12.

Drop in leverage is the key concern

Our key concern at this point is the bank's low Asset/Equity ratio of just 4.7x (down from 5.7x at end-2011 on conversion of USD 50 mln in subordinated loans into equity). This compares poorly with the sector average of 5.6x and we think further growth in ROE is hardly possible without improvements in leverage.

Georgia's economic growth remains strong

Georgia's economic performance remains robustly strong, with GDP expansion of 6.0% yoy in 1Q12 leading the government to upgrade its full year growth projection from 5.0% to 6.0%. CPI stood at negative 2.1% yoy in April on the correction in global food prices, thus boosting households' real income. Georgia's external accounts remained broadly balanced in 4M12, end-April NBG gross reserves were at the same level as end-2011. The lari, Georgia's national currency, has appreciated 3% vs. the US dollar YTD.

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Bloomberg	BGEO LN
Reuters	BGEO.L
Recommendation	BUY
Price, USD	17.3
Price, GBp	1071
12M target, USD	23.7
12M target, GBp	1469
Upside	37%
No of shares, mln	35.9
Market Cap, USD mln	619
Performance*	2.1%
ADT, USD mln*	1.54
Free float, %	85%
Free float, USD mln	526

*Since start of trading on Feb. 28, 2012

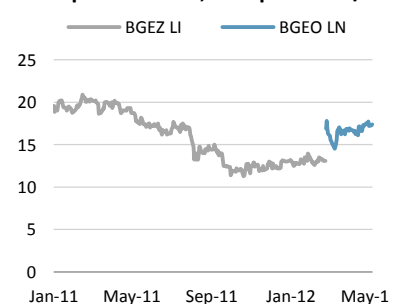
Source: Bloomberg, Company data

Key financials (USD mln) and ratios

	1Q12	qoq	yoy
Net int. income	37	3%	11%
Net income	24	17%	143%
Assets	2,705	-3%	14%
Net loans	1,635	4%	24%
Deposits	1,581	-3%	30%
Equity	571	18%	32%
ROE	17.6%	-0.4 pp	-4.4 pp
NIM	7.3%	0.5 pp	0.3 pp
Cost/Income	49.1%	0.8 pp	-6.4 pp
NPLs	3.3%	-0.3 pp	-0.5 pp
BIS total CAR	28.0%	-0.5 pp	-0.8 pp

Source: Company data

Price performance, USD per share/DR



Note: BGEZ LI is the ticker for Bank of Georgia DRs, BGEO LN is the ticker for Bank of Georgia Holdings (BGH) ordinary shares.

Source: Bloomberg

Peer comparison summary*

			P/B		P/E		ROE	
			2012E	2013E	2012E	2013E	2012E	2013E
Bank of Georgia Holdings	Georgia	BGEO LN	1.0	0.8	6.0	5.0	18.1%	18.2%
Premium/(discount) to peer mean			-5%	-7%	-35%	-30%	4.7pp	4.4pp
PKO BP	Poland	PKO PW	1.6	1.5	10.2	9.4	16.5%	16.3%
Bank Pekao	Poland	PEO PW	1.7	1.6	12.5	11.6	13.5%	14.0%
BRE	Poland	BRE PW	1.3	1.2	11.3	10.6	12.3%	12.0%
BZ WBK	Poland	BPH PW	0.7	0.7	15.7	12.4	4.5%	5.4%
OTP Bank	Hungary	OTP HB	0.7	0.6	7.2	5.5	9.1%	11.6%
Komercni Bank	Czech Rep.	KOMB CP	1.5	1.4	9.8	9.2	15.9%	16.2%
Raiffeisen Bank International	Austria	RBI AV	0.6	0.6	7.1	5.6	9.0%	10.5%
Vozrozhdenie Bank	Russia	VZRZ RM	0.7	0.6	7.8	5.2	9.1%	12.1%
VTB	Russia	VTBR LI	0.8	0.7	5.7	4.7	14.9%	15.8%
Sberbank	Russia	SBER RU	1.5	1.2	5.9	5.8	27.4%	22.4%
Kazkommercbank	Kazakhstan	KKB LI	0.3	0.3	6.1	3.8	6.1%	8.4%
Halyk Savings Bank	Kazakhstan	HSBK LI	0.9	0.8	7.0	5.4	15.5%	15.9%
Akbank TAS	Turkey	AKBNK TI	1.3	1.2	10.0	8.8	13.4%	13.8%
Turkiye Garanti	Turkey	GARAN TI	1.3	1.2	8.4	7.5	16.8%	16.6%
Turkiye Is Bankasi	Turkey	ISCTR TI	0.9	0.8	7.3	6.5	12.9%	13.2%
Tapi Kredi	Turkey	YKBNK TI	1.0	0.9	7.0	6.0	15.1%	15.6%
Halk Bankasi	Turkey	HALKB TI	1.5	1.2	7.1	6.4	21.7%	20.5%
Ukrsotsbank	Ukraine	USCB UK	0.5	0.5	25.7	5.9	5.6%	8.1%
Raiffeisen Bank Aval	Ukraine	BAVL UK	0.4	0.4	3.4	3.4	15.4%	12.5%
Mean			1.0	0.9	9.2	7.0	13.4%	13.7%

*Data as of May 10, 2012

Source: Bloomberg, Concorde Capital

FINANCIALS, IFRS

Income statement, USD mln

	2009	2010	2011	2012E	2013E	2014E	2015E
Interest income	227	237	297	336	372	431	500
Interest expense	-113	-116	-158	-179	-197	-227	-261
Net Interest Income	114	121	139	158	175	204	239
Net fees & commission income	33	36	45	48	56	63	72
Net other non-interest income	30	38	78	77	87	99	113
Total Non-Interest Income	62	73	123	125	143	162	185
Total operating revenues	177	194	262	282	318	367	424
Personnel costs	-60	-59	-71	-79	-87	-95	-105
Other operating expenses	-57	-53	-58	-60	-65	-70	-76
Total operating costs	-117	-112	-129	-138	-151	-165	-180
Profit/(loss) before provisions	60	82	133	144	166	201	244
Net provision expense	-71	-28	-14	-16	-18	-19	-23
Non-operating income/loss	-52	1	-26	-9	-3	0	0
Pre-tax income/(loss)	-63	55	93	119	145	182	221
Income tax benefit/ (expense)	4	-9	-13	-18	-22	-27	-33
Net income/(loss)	-59	46	80	101	123	155	188

Balance sheet, USD mln

	2009	2010	2011	2012E	2013E	2014E	2015E
Cash and cash equivalents	92	91	98	134	145	126	142
Amounts due from credit institutions (incl. NBG)	159	319	452	392	455	525	605
Loans to clients, net	985	1,327	1,529	1,807	2,110	2,489	2,885
Loans to individuals and SME	557	804	816	975	1,141	1,346	1,561
Loans to legal entities	527	622	781	918	1,073	1,267	1,469
Allowance for loan impairment	-99	-99	-69	-85	-104	-123	-146
Fixed income securities	159	166	251	267	310	359	417
PPE and intangible assets	216	213	249	258	264	271	278
Other Assets	117	143	215	261	297	339	386
Total Assets	1,728	2,259	2,793	3,118	3,581	4,109	4,713
Client deposits	755	1,143	1,638	1,900	2,204	2,557	2,966
Legal entities	377	639	1,005	1,170	1,357	1,574	1,826
Individuals	378	504	633	730	847	983	1,140
Amounts due to credit institutions	183	302	304	338	388	439	496
Eurobonds	180	153	57	0	0	0	0
Subordinated debt	189	187	190	107	107	107	107
Other liabilities	67	83	118	139	161	186	211
Total liabilities	1,373	1,868	2,307	2,484	2,861	3,288	3,780
Total equity	355	391	487	634	720	821	933
Liabilities & equity	1,728	2,259	2,793	3,118	3,581	4,109	4,713

Financial ratios

	2009	2010	2011	2012E	2013E	2014E	2015E
Growth							
Assets	-12%	31%	24%	12%	15%	15%	15%
Net loans	-19%	35%	15%	18%	17%	18%	16%
Deposits	6%	51%	43%	16%	16%	16%	16%
Profit/(loss) before provisions	-28%	38%	61%	9%	16%	21%	21%
Net income/(loss)	nm	nm	73%	26%	22%	26%	22%
Profitability							
ROAE	-15.1%	12.4%	18.3%	18.1%	18.2%	20.1%	21.4%
ROAA	-3.2%	2.3%	3.2%	3.4%	3.7%	4.0%	4.3%
Interest spread	8.8%	8.6%	7.7%	7.5%	6.9%	6.7%	6.7%
Net interest margin	8.6%	8.4%	7.2%	7.2%	6.9%	6.9%	6.9%
Total operating revenues / average assets	9.6%	9.8%	10.4%	9.5%	9.5%	9.5%	9.6%
Liquidity							
Net loans / total assets	57%	59%	55%	58%	59%	61%	61%
Interest earning assets / total assets	75%	80%	80%	79%	80%	82%	83%
Net loans / client deposits	130%	116%	93%	95%	96%	97%	97%
Client deposits / total liabilities	55%	61%	71%	76%	77%	78%	78%
Efficiency							
Cost/income ratio	66.1%	57.6%	49.3%	49.0%	47.7%	45.1%	42.5%
Operating cost / average total assets	6.3%	5.6%	5.1%	4.7%	4.5%	4.3%	4.1%
Asset quality							
Cost of risk	6.0%	2.2%	0.9%	0.9%	0.9%	0.8%	0.8%
Reserve for loan losses / gross loans	9.1%	6.9%	4.3%	4.5%	4.7%	4.7%	4.8%
Capital							
Equity to assets	20.5%	17.3%	17.4%	20.3%	20.1%	20.0%	19.8%
BIS total capital adequacy	34.7%	26.6%	28.5%	26.7%	25.4%	24.5%	23.7%
Per share							
BPS, USD	11.3	12.5	14.8	17.4	19.7	22.5	25.6
EPS, USD	-1.89	1.48	2.45	2.77	3.37	4.24	5.15
DPS, USD	0.00	0.00	0.17	0.39	1.01	1.48	2.06

Source: Company data, Concorde Capital

Analyst certification

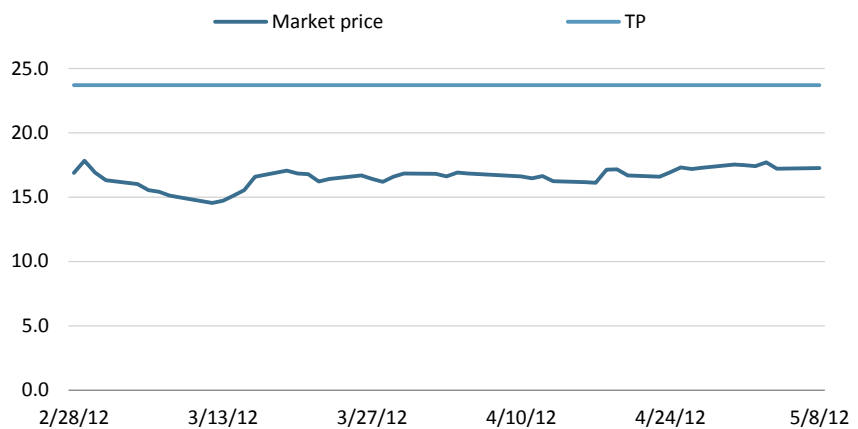
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Company: Rating history

Date	12M target price, USD	Market price, USD	Rating	Action
28-Feb-2012	23.7	14.2	BUY	Initiating
21-Mar-2012	23.7	16.9	BUY	Maintain
11-May-2012	23.7	17.3	BUY	Maintain

Source: Concorde Capital

Target prices vs. share performance, USD/share



Source: Bloomberg, Concorde Capital

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