

March 21, 2012

# Bank of Georgia Holdings

## 2011 results support our positive view

**Bank of Georgia, the sole subsidiary of Bank of Georgia Holdings, released its 4Q11 and 2011 results, which were slightly better than consensus. The lender fully took advantage of the favorable macro environment in Georgia last year, boosting assets, core earnings and improving loan quality. With the Georgian economy maintaining momentum, the bank is well positioned to keep up the pace: we see assets growing 18% yoy in 2012 and net income increasing 20% yoy to USD 97 mln. Our DCF-based target price of USD 23.7/share implies 40% upside. We reiterate our BUY recommendation on Bank of Georgia Holdings shares.**

### Core earnings, net income surge

Bank of Georgia posted net income from continuing operations of USD 22 mln in 4Q11 and USD 90 mln in 2011. Accounting for the net loss from discontinued operations (mainly from the disposal of BG Bank in Ukraine), net income amounted to USD 81 mln (up 74% yoy) for a ROE of 18%. Growth in the bank's core earnings was strong, with net interest income adding 22% yoy and net fees and commission improving 26% yoy. Cost control remained tight, which pushed the bank's cost/income ratio down 8 pp yoy to 49%.

### Asset growth robust

The bank achieved a strong asset growth rate of 24% yoy, though net loan growth was weaker at 17% in 2011. While loan portfolio expansion decelerated to 2% qoq in 4Q11, we think the growth will be reinforced already in 1Q12, supported by favorable macro conditions in Georgia. Deposits surged 35% yoy in 2011, which helped the bank decrease reliance on more expensive wholesale funding and lower its net loan-to-deposit ratio 10 pp yoy to 100%.

### No compromise on loan quality

NPLs stayed low at just 3.6% of gross loans as of end-2011 and NPL coverage ratio amounted to 119%. Given improvement in loan quality, the bank cut its cost of risk to 0.9% in 2011 (vs. 2.1% in 2010). We project the lender's cost of risk will decrease marginally to a sustainable 0.8% in 2012.

### Sticking with progressive dividend policy

Given its solid performance the board plans to recommend dividends of USD 0.42/share (vs. USD 0.17 a year earlier) for a dividend payout ratio of 14% and dividend yield of 2.5% on yesterday's closing price. Excessively capitalized (NBG Tier 1 ratio was 15% as of end-February, above the minimum of 8%), the bank should stick to its progressive dividend policy and we think the payout ratio might increase to 40% by 2015.

### Bank of Georgia 4Q11 and 2011 financials, USD mln

	4Q11	qoq	yoy	2011	yoy
Net interest income	36	-6%	13%	143	22%
Net fees and commission	13	14%	24%	45	26%
Operating expenses	34	6%	35%	130	16%
Net income (contin. oper.)	22	-1%	56%	90	94%
Assets	2,794	6%	24%	2,794	24%
Net loans	1,567	2%	17%	1,567	17%
Deposits	1,529	9%	35%	1,529	35%

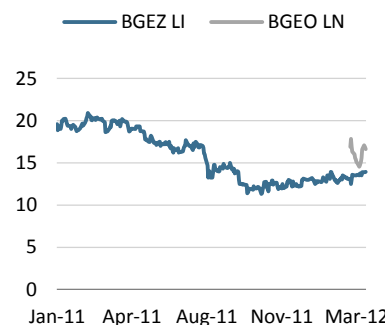
Source: Company data, Concorde Capital

**Olena Zuikova**

olz@concorde.com.ua

Bloomberg	BGEO LN
Reuters	BGEO.L
<b>Recommendation</b>	<b>BUY</b>
Price, USD	16.9
Price, GBP	1063
12M target, USD	23.7
12M target, GBP	1490
Upside	40%
No of shares, mln	35.9
Market Cap, USD mln	598
Performance, MTD	-7%
ADT, USD mln, MTD	0.5
Free float, %	85%
Free float, USD mln	508

### Price performance, USD per share/DR



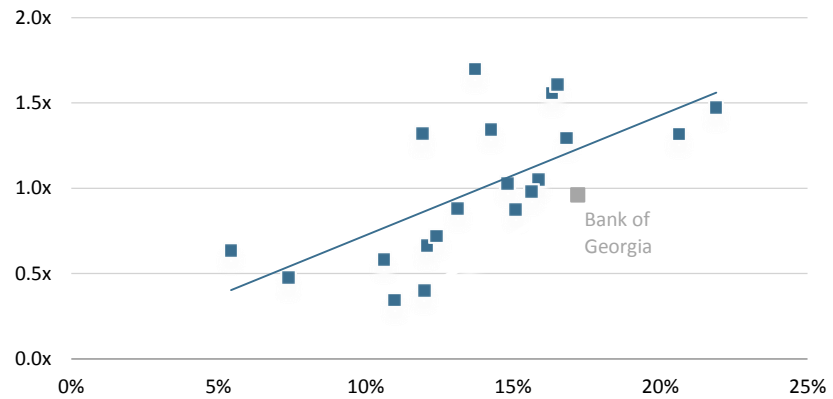
Note: BGEZ LI is the ticker for Bank of Georgia DRs, BGEO LN is the ticker for Bank of Georgia Holdings ordinary shares.

Source: Bloomberg

## Peer comparison

After a strong rally the last couple of weeks (following its shift to a premium listing on the LSE), Bank of Georgia is trading at a 4% discount to peers based on P/B 2012. We think this is unjustified given the bank's superior 2012E ROE of 17% and strong growth prospects that many banks in the region just lack.

### ROE vs. P/B, 2012E



Source: Bloomberg, Concorde Capital

### Peer comparison summary\*

			P/B		P/E		ROE	
			2011E	2012E	2011E	2012E	2011E	2012E
Bank of Georgia Holdings	Georgia	BGEO LN	1.2	1.0	7.5	6.7	18.3%	17.2%
Premium/(discount) to peer mean			10%	-4%	-21%	-11%	4.9pp	3.3pp
PKO BP	Poland	PKO PW	1.7	1.6	10.9	9.9	16.6%	16.3%
Bank Pekao	Poland	PEO PW	1.8	1.7	13.6	12.6	13.3%	13.7%
BRE	Poland	BRE PW	1.4	1.3	13.1	11.9	11.4%	11.9%
BZ WBK	Poland	BPH PW	0.7	0.6	14.1	10.6	4.5%	5.4%
OTP Bank	Hungary	OTP HB	0.7	0.7	8.0	5.8	10.4%	12.1%
BRD-Groupe Soc Ge	Romania	BRD RO	1.1	1.0	16.6	7.7	14.9%	14.8%
Komercni Bank	Czech Rep.	KOMB CP	1.7	1.6	10.9	10.2	16.1%	16.5%
Raiffeisen Bank International	Austria	RBI AV	0.6	0.6	7.4	5.5	8.6%	10.6%
Vozrozhdenie Bank	Russia	VZRZ RM	0.8	0.7	9.4	6.1	9.0%	12.4%
VTB	Russia	VTBR LI	1.2	1.1	7.9	7.3	16.0%	15.9%
Sberbank	Russia	SBER RU	1.7	1.5	6.9	6.9	27.3%	21.9%
Kazkommernbank	Kazakhstan	KKB LI	0.5	0.5	9.3	6.2	5.4%	7.4%
Halyk Savings Bank	Kazakhstan	HSBK LI	1.0	0.9	7.5	5.4	12.9%	15.1%
Akbank TAS	Turkey	AKBNK TI	1.5	1.3	11.5	10.0	13.7%	14.3%
Turkiye Garanti	Turkey	GARAN TI	1.4	1.3	9.4	8.3	16.3%	16.8%
Turkiye Is Bankasi	Turkey	ISCTR TI	1.0	0.9	8.2	7.2	12.6%	13.1%
Tapi Kredi	Turkey	YKBNK TI	1.1	1.0	8.1	6.9	15.2%	15.7%
Halk Bankasi	Turkey	HALKB TI	1.5	1.3	7.5	6.8	21.8%	20.6%
Ukrsotsbank	Ukraine	USCB UK	0.3	0.3	4.8	2.8	7.3%	11.0%
Raiffeisen Bank Aval	Ukraine	BAVL UK	0.4	0.4	3.3	3.6	15.4%	12.0%
<b>Mean</b>			<b>1.1</b>	<b>1.0</b>	<b>9.4</b>	<b>7.6</b>	<b>13.4%</b>	<b>13.9%</b>

\*Data as of March 20, 2012

Source: Bloomberg, Concorde Capital

### Analyst certification

I, Olena Zuikova, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

### Company: Rating history

<i>Date</i>	<i>12M target price, USD</i>	<i>Market price, USD</i>	<i>Rating</i>	<i>Action</i>
28-Feb-2012	23.7	14.2	BUY	Initiating
21-Mar-2012	23.7	16.9	BUY	Maintain

*Source: Concorde Capital*

### Investment ratings

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## Contacts

**CONCORDE CAPITAL**  
 2 Mechnikova Street, 16th Floor  
 Parus Business Centre  
 Kyiv 01601, Ukraine  
 Tel.: +380 44 391 5577  
 Fax: +380 44 391 5571  
 www.concorde.ua  
 Bloomberg: TYPE CONR <GO>

### CEO

Igor Mazepa

im@concorde.com.ua

### RESEARCH

### SALES

#### Head of Sales & Trading

Luba Yurchyk

ly@concorde.com.ua

#### International Sales & Trading

Katerina Shevchenko

ksh@concorde.com.ua

Marina Martirosyan

mm@concorde.com.ua

Rostyslav Shmanenko

rs@concorde.com.ua

#### Head of Research

Alexander Paraschiy

ap@concorde.com.ua

#### Agriculture, Consumer

Yegor Samusenko

syg@concorde.com.ua

#### Economics

Svetlana Rekrut

sr@concorde.com.ua

#### Machinery

Roman Dmytrenko

rd@concorde.com.ua

#### Utilities, Telecommunications

Alexander Paraschiy

ap@concorde.com.ua

#### Fixed income, Energy

Vitaliy Vavryshchuk

vv@concorde.com.ua

#### Metals & Mining

Roman Topolyuk

rt@concorde.com.ua

#### Financials

Olena Zuikova

olz@concorde.com.ua

#### Corporate governance, Politics

Brad Wells

bw@concorde.com.ua

#### Editor

Brad Wells

bw@concorde.com.ua

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