

Fitch Revises Outlook on Georgia's JSC Partnership Fund to Positive; Affirms at 'BB-'

Fitch Ratings-Moscow-10 April 2018: Fitch Ratings has revised Georgia-based JSC Partnership Fund's (PF) Outlook to Positive from Stable while affirming the entity's Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BB-'. The agency has also affirmed the company's Short-Term Local Currency IDR at 'B'.

The revision of the Outlook follows a recent similar action on Georgia (see 'Fitch Revises Georgia's Outlook to Positive; Affirms at 'BB-', dated 16 March 2018 at www.fitchratings.com and reflects the equalisation of PF's ratings with those of Georgia (BB-/Positive/B).

Based on its Government Related Entities (GRE) Criteria, Fitch classifies PF as an entity with strong linkage to the Georgian sovereign and assesses the probability of the Georgian government to provide extraordinary support to the company as high. Fitch applies a top-down approach, which irrespective of PF's standalone credit profile, leads to an equalisation of PF's ratings with the sovereign's.

KEY RATING DRIVERS

Under the criteria, we assess four key rating factors: status, ownership and control, and support track record and expectations to determine the strength of linkage between PF and the sovereign. Incentive-to-support factors cover the socio-political and financial implications of a GRE default.

Status, Ownership and Control Assessed as Very Strong

PF is 100%-owned by the state and operates under its own act - Georgia's law on JSC Partnership Fund - highlighting its unique nature and special status. Its mandate is to promote private equity investments in Georgia and oversee key national infrastructure corporations. The state endowed PF with 100% stakes in Georgian Railway (GR, B+/Stable), JSC Georgian Oil and Gas Corporation (GOGC, BB-/Positive), JSC Georgian State Electrosystem, and JSC Electricity System Commercial Operator.

The fund's supervisory board is chaired by the Georgian Prime Minister and composed of leading cabinet members and independent directors from the private sector. The state mandates PF's key policies on debt, dividends and investments, appoints PF's audit committee and external auditor, monitors and controls the use of government funds and property allocated to the entity.

Support Track Record and Expectations Assessed as Strong

Our assessment is mostly based on the long-term well-established national regulation that is generally supportive of the financial viability of PF. In Fitch's view, PF is deeply integrated with the national budgetary and economic system as it holds stakes in the largest national corporations in Georgia, and plays the role of the government's quasi-budget agent in state asset management. PF manages on behalf of the government key state-owned companies in Georgia, receiving regular dividends from the largest state-owned companies and investing the proceeds in economically viable projects.

We treat continuous in-kind contributions from the government in the form of pipe-lines, land plots and other properties along with an unchanged funding model via dividends from major state companies as evidence of support. We expect this to remain unchanged in the future.

Socio-Political Implications of Default Assessed as Strong

Fitch views PF as an entity of strategic importance to the Georgian government and its financial default would endanger the continued provision of funding to a wide list of national industries. This

is because PF is the only state financing vehicle to promote investments, stimulating growth of the national economy, including SMEs and other important industries.

The fund's aim is to develop private equity investments in a wide range of economic projects generating positive economic returns, a market which is currently undeveloped in Georgia. As long as the Georgian government remains committed to its economic development agenda, we believe the fund's strategic role in facilitating investments in the key sectors of the national economy, particularly in the energy sector and infrastructure development, will not change.

Financial Implications of Default Assessed as Very Strong

Fitch views PF as a proxy state financial vehicle. PF, together with its strategic subsidiaries GOGC and GR, are the major and the only GREs that borrow on external debt markets. A default of PF and its subsidiaries would significantly affect Georgia, as it is highly dependent on external financing for its structural current account deficit.

Operating Performance

PF's profitability is dependent on dividends from its subsidiaries. PF saw a moderate profit recovery last year after losses in 2016 as dividends from GOGC and GR fell on weak performance. According to preliminary figures, PF's profit net of impairment turned positive in 2017 on GEL32.2 million dividends from GOGC and Telasi, and according to management projection it will improve further in 2018, driven by GEL70 million dividends.

Debt and Liquidity

The bulk of PF's debt stock comprises a USD130 million outstanding bank loan from Credit Suisse maturing in 2020. In September 2017 the fund made about USD31 million interest and principal amortisation payment and another USD53 million (including interest) should be repaid in September 2018. To meet this obligation the fund has accumulated USD43.5 million in its special reserve account as of 1 January 2018. The remaining amount will be collected during the year.

During 2018-2020 PF will face annual principal debt repayment of USD43.5 million. This will require higher dividend inflow (about USD28 million is expected in 2018), which may be challenging given the slow recovery of GR's profitability. This is however mitigated by a strong cash position (about USD55 million as of end-2017 net of reserve fund) and strong recovery at GOGC.

RATING SENSITIVITIES

An upgrade may result from an upgrade of the sovereign ratings, provided that PF's links to the government are unchanged.

Weaker links with the state, leading to a diminished probability of support by the sovereign could lead Fitch to widen the notching, resulting in a downgrade. Negative rating action on Georgia's IDR would also be reflected in PF's ratings.

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Additional information is available on www.fitchratings.com

Applicable Criteria

[Government-Related Entities Rating Criteria \(pub. 07 Feb 2018\)](#)

[International Local and Regional Governments Rating Criteria - Outside the United States \(pub. 18 Apr 2016\)](#)

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