

## **FITCH AFFIRMS GEORGIA'S JSC PARTNERSHIP FUND AT 'BB-'; OUTLOOK STABLE**

Fitch Ratings-Moscow/London-08 September 2016: Fitch Ratings has affirmed Georgia's JSC Partnership Fund's (PF) Long-Term Foreign and Local Currency Issuer Default Ratings (IDR) at 'BB-' with Stable Outlooks. The agency has also affirmed the company's Short-Term Local Currency IDR at 'B'.

### **KEY RATING DRIVERS**

PF's ratings are equalised with those of Georgia (BB-/Stable/B), which reflects PF's status as an extension of the government in managing its strategic assets, tight control by the government and 100% state ownership. They also reflect PF's strong financial and operational integration with Georgian government.

Fitch uses its public-sector entities rating criteria in its analysis of PF and views it as being credit-linked to the sovereign. We view the Georgian government's ability and intent to support PF's potential issued or guaranteed debt as a key factor in determining rating equalisation with the sovereign.

Fitch views PF as an entity of strategic importance for the Georgian government and factors in its integration with the sovereign, including timely support if needed. While the Georgian government remains committed to economic development agenda, we believe PF's strategic role in facilitating investments, particularly in the energy sector, will not change.

Fitch views Georgia's willingness to support PF as largely unchanged, as it remains an important state agent in implementing its development agenda. We treat recent state contributions to PF in the form of pipelines, land plots and other property along with the unchanged funding model via dividends from its portfolio companies as a rating support factor and evidence of high financial integration with the sovereign.

PF is 100% owned by the state and its mandate is to oversee key national infrastructure corporations. The state endowed PF with 100% stakes in Georgian Railway (BB-/Stable), JSC Georgian Oil and Gas Corporation (GOGC, BB-/Stable), JSC Georgian State Electrosystem, and JSC Electricity System Commercial Operator. PF's operations are based on the special law, highlighting its unique nature and special status.

Fitch views the government's control and oversight over PF's operations as strong. PF'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 an external auditor, monitors and controls the use of government funds and property allocated to the entity.

In Fitch's view, PF is deeply integrated with the national budgetary system. Georgia's government uses PF as a financing vehicle to promote investments stimulating growth of the national economy. PF is aimed at development of private equity investments in viable economic projects generating positive economic returns, a market which is currently undeveloped in Georgia. Along with private funding PF co-invests in agriculture, manufacturing, real estate and energy and the successful exit of several finished projects in 2014-2016 proves this strategy to be efficient.

PF's current debt stock comprises a commercial bank loan (USD150m), maturing in 2020 and a subordinated long-term loan from a subsidiary (USD6m). PF can also occasionally borrow on a short-term basis from local banks and its subsidiaries (Grail and GOGC) to fund cash mismatches. The fund's interim liquidity stood at GEL276m at the beginning of September, remaining sufficient to meet debt servicing needs (2015: GEL269m).

#### RATING SENSITIVITIES

Any positive rating action on Georgia, coupled with continued support from the state, would be rating positive, as PF is credit linked to the sovereign.

Weaker links with the state would be rating negative, a downgrade of Georgia would also be negative.

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Applicable Criteria

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

<https://www.fitchratings.com/site/re/878660>

Rating of Public-Sector Entities – Outside the United States (pub. 22 Feb 2016)

<https://www.fitchratings.com/site/re/877128>

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