TBC CAPITAL

TBC Capital report on **Georgian automotive** sector points to sector growth on the horizon

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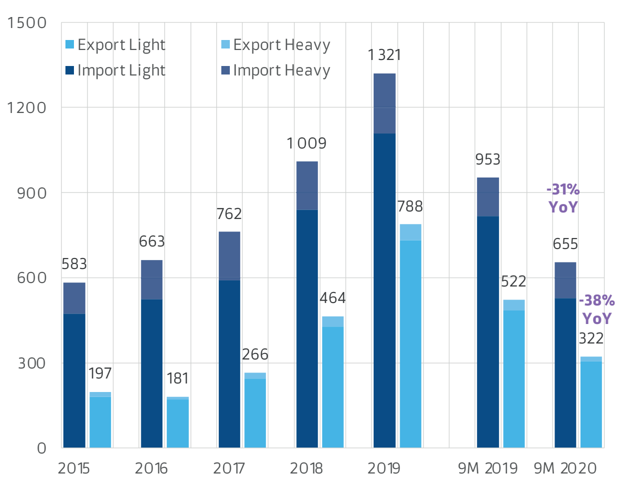
Just before Covid hit, Georgia was the 6th largest re-exporter of light vehicles in the world due to its transit position in the South Caucasus offering routes into Armenia, Russia and Azerbaijan.

As borders across the world began to close this past spring and given the largely informal nature of the industry, the country's automotive sector began to shut down as well – and it wasn't just vehicle herders that were out of jobs.

In the first 9 months of 2020, imports and exports of light vehicles into Georgia fell by 31% and 37% respectively, TBC Capital's recently released Automotive Sector Market Watch reports.

TRADE OF LIGHT & HEAVY VEHICLES, USD MLN

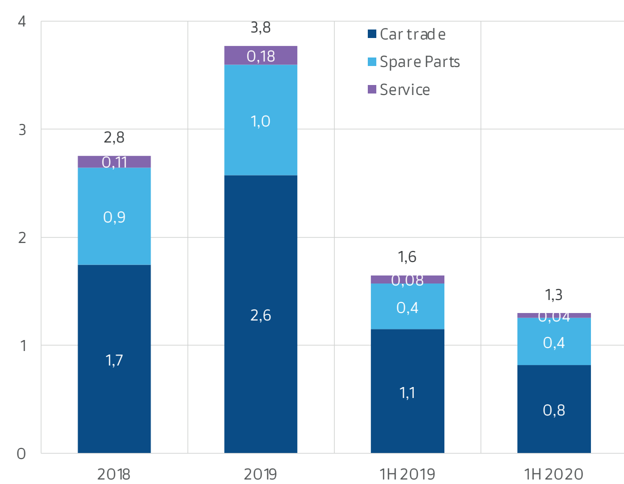


But it wasn't all due to Covid. Much of the dip is attributable to new customs regulations introduced in Armenia, which essentially shut down this export market for Georgia in 2020 after a brief one-time surge in demand at the end of 2019.

This was ultimately the primary reason for the drop in vehicle exports, of which 100% is re-export in Georgia.

Before the pandemic, the sub-category of car trade accounted for 68% of turnover in the automotive industry, while 27% was generated by the spare part trade and just 5% in car services.

TURNOVER BY SUB-CATEGORIES, GEL BN



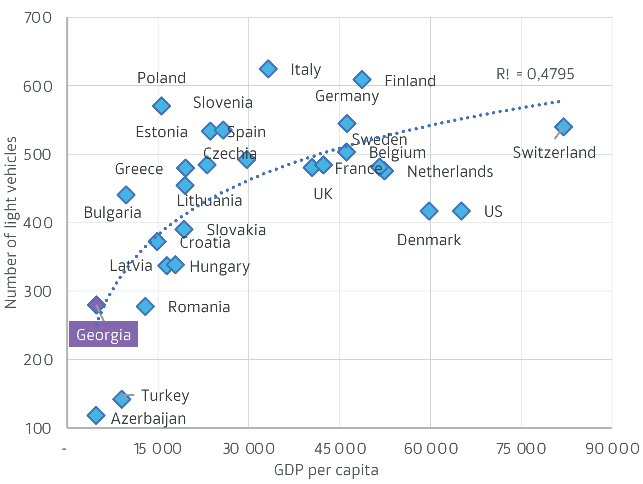
During the pandemic, it was the service sub-sector turnover that took the biggest dive, falling 71% in Q2 2020. Car trade fell by 48% in the same period, while sales of spare parts decreased just 17%.

However, expectations for real GDP and external trade growth starting in 2021 are optimistic for Georgia and the extended region, offering a positive outlook for the domestic automotive sector and the external trade of cars if the Armenian market is substituted.

Once the motor of the world economy gets revving again, there will be plenty of upside to look forward to in the country's automotive sector.

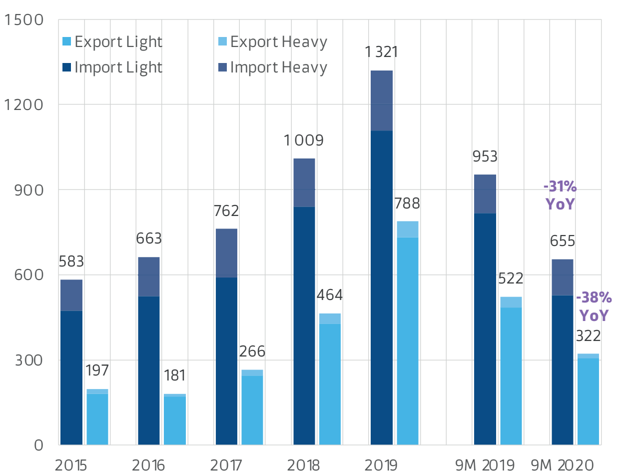
For starters, compared to regional countries and certainly compared to Europe, the number of light vehicles per inhabitants is low in Georgia the TBC Capital report points out, indicating the possibility for significant further penetration of sectoral growth.

NUMBER OF LIGHT VEHICLES PER 1,000 INHABITANTS*



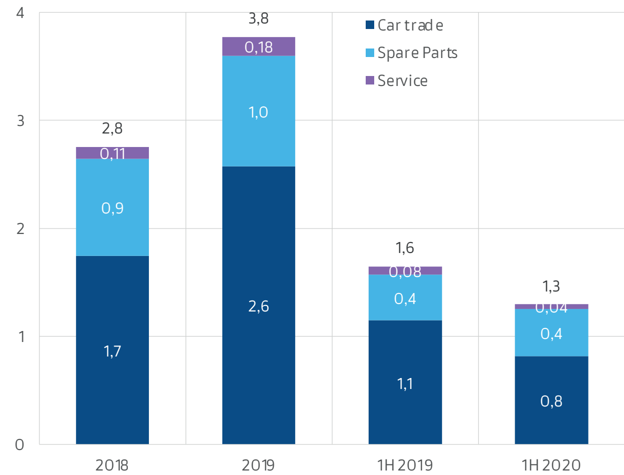
Another factor pointing to an uptick in the automotive industry in Georgia is the fact that 87% of cars in the country are more than 11 years old making Georgia's car fleet one of the oldest in Europe, and indicating an upside through substitution.

TRADE OF LIGHT & HEAVY VEHICLES, USD MLN



This phenomenon, the report points out, has already started to a degree. The average age of newly registered light vehicles has been decreasing since 2017, as the share of newly registered light vehicles that are 10 years and younger exceeds 80%.

TURNOVER BY SUB-CATEGORIES, GEL BN



And yet a third indicator that there is considerably more growth to be had: the number of active drivers license holders exceeds the number of active registered vehicles, indicating an upside for local sales.

Global data too largely points at a sector on the mend. Major automotive company prices have been recovering steadily on the back of the news of the efficacy of the Pfizer vaccine, and prices for industry inputs such as aluminium, steel, copper and rubber have all passed the pre-Covid levels as of the end of October.

TBC Capital put together data on the most in-demand brands in Georgia in its report as well. With its highly demanded Prius and Camry models, Toyota has a leading position in new registrations of light vehicles,

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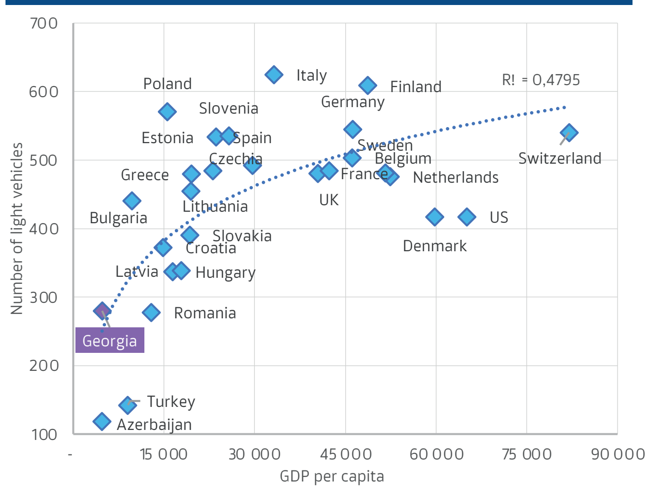

however its decreasing share has been dragging down the share of hybrid light vehicles since 2018, while petroleum engines have been on the rise and in the first nine months of 2020 reached c. 52% of all newly registered vehicles.