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Research Update:

Georgia Global Utilities Upgraded To 'BB' On Continued Strong Performance; Outlook Stable

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Rating Action Overview

- Georgia Global Utilities' (GGU's) funds from operations (FFO) to debt has stayed above 20% over the past three years, supported by the third regulatory period's tariff increase, which boosted revenue by about 30%.
- We expect FFO to debt to remain at about 20% for the remaining year of the current regulatory period and expect it to be well above 20% from 2027 onward, driven by increased revenue from both regulated water and unregulated electricity businesses.
- We therefore raised to 'BB' from 'BB-' our long-term issuer credit rating on Georgia Global Utilities JSC and took the same action on its outstanding notes.
- The stable outlook reflects our expectation that GGU's performance will remain strong in 2026 and our assumption that--as part of the next regulatory period--allowed revenue will increase thanks to continued investments, which will help FFO to debt remain above 20%.

Rating Action Rationale

The upgrade reflects that we expect credit metrics to remain strong, with FFO to debt above 20% in 2026 and over the next regulatory period. Since the last year of the previous regulatory period, RP2 (2021-2023), and across the first years of RP3 (2024-2026), GGU's FFO to debt stayed above 20%, supported by RP3's tariff increase. Compared with 2024's low cash interest expenses--thanks to GGU's parent shareholder loan-- and after 2025's exceptional EBITDA margin due to unusually low operating expenses, we expect 2026 to display weaker credit metrics. However, FFO to debt should remain above 20%.

For the upcoming RP4 (2027-2029) regulatory period, under our base case we assume higher revenue from both the regulated water and unregulated electricity businesses to uplift revenue to Georgian lari (GEL) 380-GEL410 million per year, and the EBITDA margin to be at about 70% versus 60%-65% historically. We expect free operating cash flow (FOCF) to remain negative in 2026 but to turn positive in RP4, with shareholder distribution starting from 2027, and no material changes to the company's capital structure. Still, GGU's lari-denominated debt would increase over the year on the back of our GEL depreciation assumptions. Combined with topline growth, which is the key driver of our adjusted ratios, we expect FFO to debt to strengthen further to above 25% and toward 30%, building solid rating headroom over the 20% threshold, which we view as commensurate with a 'BB' rating.

We anticipate continued network investments will significantly increase allowed revenue over the next regulatory period, although uncertainty will remain until tariff publication in January 2027. RP4's tariffs are expected to be published in late December 2026 or early January 2027. As part of our base case, we expect investments to remain elevated over RP4, even after RP3's high capital expenditure (capex) cycle, which we expect to total GEL500 million across the period. We assume about GEL150 million of yearly capex for RP4, as the network's investment needs to lower water losses and improve energy efficiency are still high. Non-revenue water ratio remains above 60% and GGU's self-electricity consumption above 160 gigawatt hours (GWh; over 40% of production). Assuming weighted-average cost of capital and the allowed operating expenses calculation remain unchanged, the regulated asset base (RAB) increase from new investments should increase regulated water revenue between RP3 and RP4 by a similar percentage as seen between RP2 and RP3, up to about GEL310 million-GEL320 million per year.

Commercial customers fully bore the tariff increase implemented in RP3 (a rise of 35.3% in Tbilisi and plus 75.2% in Rustavi) while residential customer tariffs stayed flat and remain among the lowest compared to Caucasus (Armenia, Azerbaijan, and Georgia) and European countries. We would therefore expect those tariffs to increase as part of RP4, although we view residential tariff increases to be more challenging to implement as they bring more public scrutiny. Our assumption is based on the networks' infrastructure rehabilitation needs, the matching allowed revenue derived from the regulatory framework, and limited room for further increases in commercial customer tariffs compared with residential tariff levels. We also view positively the time value-adjusted correction factor and possibility of tariff revisions within the regulatory period in case of material deviations, supporting our revenue growth assumption. It also supports our expectation of FFO to debt remaining above 20%, especially given the expected headroom over this threshold in our base case.

Further electricity market liberalization postponement wouldn't materially reduce rating headroom but would prolong the dollar-lari currency mismatch. Fully organized electricity markets implementation including day ahead, intraday, balancing and ancillary services, is currently planned for July 2027. We expect it to benefit GGU's electricity business, as its four hydropower plants (HPPs)--with 149MW of capacity, of which 130MW stemming from Zhinvali, Georgia's second largest HPP with a dam--have strong positioning. Despite about 40%-50% of GGU's generation being consumed by its water operations, the rest is mainly being sold to the wholesale market. We therefore expect the market liberalization implementation to increase GGU's average electricity tariff from 2027, increasing revenue to about GEL50 million-GEL60 million per year from about GEL30 million-GEL40 million per year. While this helps to strengthen revenue and the EBITDA margin, the impact on FFO-to-debt metrics is about 2%-3%. Therefore, under our current base case, should the implementation be further postponed--as it has been the case for several years--we do not expect it to drive FFO to debt below 20%. However, this would prolong GGU's current currency mismatch; while its electricity business is its sole source of U.S. dollars, its debt is denominated in various hard currencies, with its U.S. dollar-denominated Eurobond accounting for more than 99%. Therefore, GGU's debt interests in dollars, of about GEL60 million-GEL70 million account for about two times its dollar inflows. We expect GGU to continue to operate with a dollar-lari mismatch, although it would be eased post electricity market liberalization. It is also partly mitigated by the group's large U.S. dollar three-to-six-month bank deposits with Georgian banks, amounting to GEL109 million at the end of March 2026.

Our analysis encompasses GGU's parent support, for which our assessment remains unchanged. We continue to assess GGU as moderately strategic for its parent FCC Aqualia. This leads us to apply a one-notch uplift from our stand-alone credit profile (SACP) assessment of 'bb-', reflecting our expectation that FCC Aqualia would provide extraordinary support to GGU if required, as previously demonstrated by the shareholder loan. With our expectation of FOCF turning positive from 2027, we expect GGU to pay its first dividend to its parent. While there is no clear financial policy in place, we currently do not expect shareholder distribution to be aggressive and debt funded. Under its bond documentation, GGU is subject to a net leverage incurrence covenant of maximum 3.5x, and we understand the company and its shareholders are supportive of keeping some buffer under this threshold. Hence, we assume dividends to be solely funded by FOCF generation, which supports the current rating level.

Outlook

The stable outlook reflects our view that GGU will continue to report strong metrics, with FFO to debt remaining well above 20% on a weighted-average basis over the end of the current regulatory period and the beginning of the following one. We also assume that GGU will continue to keep a supportive liquidity position and that the backing from its parent, FCC Aqualia, will remain in line with our current assessment.

This reflects our view that FFO to debt will be close to 20% in 2026, before increasing toward 28%-32% in the next regulatory period, as we expect EBITDA to remain close to GEL200 million this year and to increase to GEL275 million-GEL300 million for the rest of the forecast period. Our base-case considers GGU's elevated network investment needs and uncertainty around future shareholder remuneration, leading to relatively weak FOCF and discretionary cash flow-to-debt metrics.

Downside scenario

We could lower our rating on GGU if:

- The group's FFO to debt falls below 20% without a clear recovery trajectory, which could occur if it fails to deliver its business plan in line with its cost allowances, or amid a more aggressive financial policy from the group;
- We observe any negative rating actions on the sovereign rating of Georgia (BB/Stable/B) or any form of negative political interference in the group's operations that could, for instance, weaken our assessment of Georgia's water regulatory framework;
- GGU's liquidity position deteriorates to the point where we no longer consider it to be adequate; or
- We revise our assessment of GGU's support from its parent, FCC Aqualia, seeing it as weaker and leading to GGU no longer being viewed as strategic to its parent.

Upside scenario

We view rating upside as relatively remote as it would require a two-notch improvement in the SACP, which is unlikely to materialize over the next 12-18 months.

Given that our 'BB' rating on GGU is at the same level as that on Georgia, to be rated above Georgia, GGU would need to pass our ratings above the sovereign stress test on a stand-alone basis, without parent support. To achieve an SACP of 'bb+' we would need to revise our assessment of the regulatory framework for water networks in Georgia to strong/adequate (in line with our assessment in France or the U.K.) and the company's financial profile to strengthen further, with FFO to debt of sustainably above 30%.

We generally view regulated utilities as highly sensitive to economic volatility and potential changes in the legal and regulatory environment in the country. However, some elements, such as a strong liquidity position, could support GGU potentially passing our ratings above the sovereign stress test.

Company Description

GGU is one of the largest privately owned utility companies in Georgia. It operates water and wastewater networks serving 1.3 million customers in Georgia's capital, Tbilisi, and its surrounding areas. The company also owns and operates four hydropower plants with a total capacity of 149 megawatts (MWs), including the 130 MW Zhinvali unit. GGU's annual S&P Global Ratings-adjusted EBITDA was GEL207 million (about $77 million) in 2025. The group is owned by Spanish utility FCC Aqualia S.A. (BBB-/Stable/--).

Our Base-Case Scenario

Assumptions

- Our foreign exchange assumption is in line with our sovereign base case for Georgia, with USD/GEL rising from about 2.7 in 2025 to 3.0 in 2028.
- Revenue from the water business, including non-regulated operations, of about GEL272 million in 2026 and about GEL330 million-GEL350 million for 2027-2028 as part of RP4.
- Revenue from the electricity business of about GEL36 million in 2026 and GEL50 million-GEL60 million for 2027-2028 assuming a full implementation of electricity market liberalization in 2027.
- EBITDA margin of about 63% in 2026 and about 70% for 2027-2028.
- Capex of about GEL175 million in 2026 and GEL140 million-GEL150 million per year for 2027-2028.
- Dividends of about GEL65 million in 2027 and GEL75 million in 2028, although we understand those could be revised downward in case of adverse developments.

Key metrics

Georgia Global Utilities JSC--Forecast summary

Period ending	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027	Dec-31-2028
	2022a	2023a	2024a	2025a	2026e	2027f	2028f
Monetary assumption							
Exchange rate, year-end (GEL/$)	2.7	2.7	2.8	2.7	2.8	2.9	3.0
Adjusted metrics (Mil. GEL)							
Revenue	210	220	289	298	309	380-410	380-410

Georgia Global Utilities JSC--Forecast summary

EBITDA	133	125	183	207	195	270-290	270-290
Funds from operations (FFO)	62	116	177	147	132	195-220	195-220
Capital expenditure (capex)	110	193	192	162	175	140-150	140-150
Free operating cash flow (FOCF)	(14)	(66)	(3)	(8)	(47)	45-80	45-80
Dividends	--	--	--	--	--	65	75
Debt	413	506	578	573	644	677	705
Adjusted ratios							
EBITDA margin (%)	63.1	56.8	63.1	69.5	63.3	70.7	71.3
Debt/EBITDA (x)	3.1	4.0	3.2	2.8	3.3	2.3-2.6	2.3-2.6
FFO/debt (%)	15.0	22.9	30.5	25.7	20.5	28.0-32.0	28.0-32.0
FOCF/debt (%)	(3.5)	(13.1)	(0.5)	(1.3)	(7.3)	7.0-11.0	7.0-11.0

Liquidity

We assess GGU's liquidity as adequate as sources will cover uses by more than 1.2x over the next 12 months for the period starting March 31, 2026. We also factor into our liquidity assessment GGU's healthy relationships with local banks and supranational institutions as well as GGU's proven track record of successful access to international capital markets.

Principal liquidity sources	Principal liquidity uses
We estimate that principal liquidity sources for the 12 months from March 31, 2026, include: • Cash and deposits balance of about GEL182 million; and • Our cash FFO estimate of GEL140 million-GEL150 million.	We estimate that principal liquidity uses for the same period include: • Debt maturities of about GEL12 million; and • About GEL150 million-GEL175 million of capex.

Environmental, Social, And Governance

We consider environmental, social, and governance factors as neutral in our analysis of GGU. GGU is self-sufficient for its power consumption, operating four hydro power plants including Zhinvali, which has a 130MW capacity. GGU’s own power consumption accounts for about 40%-50% of its production and has been declining over the years as the company’s investments in the network have improved energy efficiency. The company’s investments have also improved the non-revenue water ratio over the years, although it remains elevated, reducing leakages that result from ageing infrastructure and local topography. We understand that energy efficiency and non-revenue water are key focus areas for the company and should continue to improve with future investments, although at a slower pace, as the easier-to-achieve gains have already materialized.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of Dec. 31, 2025, GGU's capital structure consists of:

- About GEL765 million linked to its U.S. dollar-denominated Eurobond.
- About GEL2 million of bank debt denominated in hard currencies (euro and dollar).

Analytical conclusions

We rate GGU's outstanding senior unsecured notes at 'BB', the same level as the long-term issuer credit rating.

Rating Component Scores

Component	
Foreign currency issuer credit rating	BB/Stable/--
Local currency issuer credit rating	BB/Stable/--
Business risk	Fair
Country risk	Moderately high risk
Industry risk	Very low risk
Competitive position	Fair
Financial risk	Significant
Cash flow/leverage	Significant
Anchor	bb
Modifiers	
Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Adequate
Management and governance	Neutral
Comparable rating analysis	Negative
Stand-alone credit profile	bb-

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, July 7, 2025
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016

- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Georgia Global Utilities, Feb. 24, 2026
- Georgia 'BB/B' Ratings Affirmed; Outlook Stable, Feb. 6, 2026
- Georgia Global Utilities Outlook Positive After Bond Issuance; 'BB-' Rating Affirmed; Off Watch Positive, Sept. 27, 2024

Ratings List

Ratings List		
Upgraded; Outlook Action		
	To	**From**
Georgia Global Utilities JSC		
Issuer Credit Rating	BB/Stable/--	BB-/Positive/--
Upgraded		
	To	**From**
Georgia Global Utilities JSC		
Senior Unsecured	BB	BB-