FitchRatings

RATING ACTION COMMENTARY

Fitch Upgrades Georgia Global Utilities to 'BB'; Outlook Stable

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Fitch Ratings - Dubai - 29 Jun 2026: Fitch Ratings has upgraded Georgia Global Utilities JSC's (GGU) Long-Term Issuer Default Rating (IDR) to 'BB' from 'BB-'. The Outlook is Stable. Fitch has also upgraded the senior unsecured rating to 'BB' from 'BB-', with a Recovery Rating of 'RR4'.

The upgrade reflects the revision of GGU's Standalone Credit Profile (SCP) to 'bb-' from 'b+', mainly due to a stronger financial profile. We forecast funds from operations (FFO) net leverage below 3.5x over 2026-2028 (as occurred in 2024-2025), driven by expected EBITDA growth in the next regulatory period from 2027 and moderating capex. The SCP reflects the regulated revenue of the Georgian water utility network, offset by weak asset quality, a regulatory framework prone to social and political influence, and GGU's small scale. The SCP also factors in FX risks due to currency mismatch between revenue and debt and conservative leverage.

The 'BB' IDR reflects a one-notch uplift from GGU's SCP, due to FCC Aqualia S.A.'s (BBB-/Stable) perceived strategic incentive to support its weaker subsidiary.

KEY RATING DRIVERS

Moderate Leverage Drives SCP Improvement: We anticipate GGU's FFO net leverage will remain below the previous positive sensitivity of 3.5x (2.7x in 2025) and FFO interest coverage on average above 3x over 2026-2028 (3x in 2025), driving the SCP improvement. This is despite our assumption of 11% revenue growth in the water segment in 2027, well below management's expectations of 21%, and low single digit growth in electricity revenue from 2027, which we view as conservative.

We forecast capex will moderate to an average of GEL156 million a year in 2026-2028, down from GEL182 million a year over 2023-2025. We also anticipate the company will start distributing dividends in 2027-2028, consistent with its internal leverage target of below 3.5x.

New Water Regulatory Period Ahead: The Georgian regulator should announce new tariffs and parameters at end-2026 for the next three-year Regulatory Period 4 covering 2027-2029. The regulator should also approve GGU's capex programme. GGU expects a percentage revenue increase from water services of the low 20 in 2027. The distribution of the tariff increase between legal entities and households is yet to be decided. We do not expect material changes in the regulatory framework, although the weighted average cost of capital (WACC) may change.

Capex Moderation from 2027: GGU's expected capex moderation from 2027, to be approved by the regulator, will be driven by some projects lacking sufficient returns due to tariff limitations and the slow network quality improvement from previous investments. GGU's investment strategy continues to focus on refurbishing its water network infrastructure to reduce leaks, modernising pumping stations to achieve energy savings, and improving metering and fraud detection.

Weak Asset Quality: We view GGU's weak asset quality as a rating constraint, despite improvements in recent years. GGU managed to decrease the share of water lost before reaching the customer to 62% in 2025 from 74% in 2021. It also reduced electricity consumption for own needs, contributing to higher external sales. The asset quality issues arise from historical underinvestment and complex urban terrain in Tbilisi. Only around 50% of residential customers were metered in 2025, and GGU expects the metering progress to be slow.

Defensive Business Profile: GGU's regulated water segment accounts for 80%-85% of total revenue and benefits from a natural monopolistic position in Tbilisi, and ownership of the water infrastructure. The regulator approves the regulated asset base, nominal WACC (15.45% for 2024-2026) and expense allowances. The regulation is relatively supportive, providing insulation from price and volume risk.

Regulatory Weaknesses: The regulated asset base in Georgia is based on historical book values, rather than replacement values of assets, partially offset by the high WACC. The regulator delays the adjustments related to deviation of actual results from projected figures to the next regulatory period. Regulatory decisions can be influenced by social and political reasons to cap tariffs growth. In our view, water tariffs in Georgia have higher sensitivity to social aspects than electricity.

Deregulated Power Generation: Generation and sale of electricity represent 15%-20% of revenue. GGU owns installed hydro capacity of 149MW. About 40% of GGU's electricity is generated for the group's own consumption under regulated tariffs. Excess electricity is sold mainly through 12-month bilateral agreements with industrial customers at non-regulated prices.

Ring-Fenced Bond Structure: GGU's USD300 million bond due 2029 includes restrictive covenants, and Fitch treats GGU as a non-recourse subsidiary for Aqualia, notwithstanding the 100% ownership. The bonds are guaranteed by Georgian Water and Power LLC. The restricted group may incur additional debt if consolidated net leverage is less than 3.5x.

Strategic Links with Aqualia: The rating uplift reflects our view that Aqualia has a 'Medium' strategic incentive to support GGU, while we assess legal and operational incentives to support as 'Low'. Fitch considers the financial contribution from GGU to the Aqualia group as moderate, at 14% of consolidated EBITDA and 28% of capex in 2025. GGU's business is also aligned with Aqualia's core water and sewage management expertise. In our view, GGU offers moderate growth potential for Aqualia, given the subsidiary's need to modernise its water infrastructure, narrow significant water losses, and lower its own electricity consumption.

PEER ANALYSIS

Namibia Water Corporation Limited's (NamWater, BB-/Stable, SCP: bb-) has a similar business profile to GGU, as Namibia's sole water supplier with regulated revenue. Both companies are exposed to emerging regulatory frameworks with independent regulators and limited tariff visibility, exposed to social and political pressure to cap tariffs growth. GGU has weaker asset quality, but benefits from stronger operating environment in Georgia and much stronger profitability. Nampower's credit profile is supported by its net cash position.

Turkiye-based electricity distribution companies GDZ Elektrik Dagitim Anonim Sirketi (GDZ, BB-/Stable) and ADM Elektrik Dagitim A.S. (ADM, BB-/Stable) benefit from longer regulatory records than GGU, larger scale and stronger asset quality. This is offset by GGU's more stable macro environment and less volatile profitability. GDZ, ADM and GGU are exposed to the mismatch between US dollar-denominated debt and cash flows in local currencies, but the Georgian lari performs more strongly against the dollar than the Turkish lira. Overall, all three have similar debt capacity.

Another peer of GGU is ENERGO-PRO a.s. (EPas, BB-/Stable), a utility headquartered in the Czech Republic with operating companies in Bulgaria, Georgia, Turkiye, Spain and Brazil. Its core activities are power distribution and electricity generation at hydro plants. Energo-Pro's higher debt capacity than GGU reflects its larger size and its diversification by geography and type of business.

NamWater's rating is equalised with Namibia's sovereign at 'BB-'. GDZ and ADM are rated on a standalone basis.

FITCH’S KEY RATING-CASE ASSUMPTIONS

-Regulatory allowed revenue of the water utility business increasing by a conservative 11% in the 2027-2029 regulatory period compared with the 2024-2026 regulatory period

- Energy production of about 415GWh annually over 2026-2028, of which 250GWh sold externally; electricity price at about GEL0.15/kWh in 2026-2028

- Average EBITDA of GEL212 million a year over 2026-2028

- Average capex of GEL156 million a year over 2026-2028

- Dividends totalling GEL175 million to be paid in 2027-2028, above management's expectations

- Georgian lari/US dollar exchange rate of 2.7-2.8 in 2026-2028

CORPORATE RATING TOOL INPUTS AND SCORES

Fitch scored the issuer as follows, using our Corporate Rating Tool (CRT) to produce the SCP:

Business and financial profile factors (assessment, relative importance): management ('bbb-', Lower), sector characteristics ('bb-', Moderate), market and competitive positioning ('bbb-', Lower), diversification and asset quality ('b+', Higher), company operational characteristics ('bb-', Moderate), profitability ('bb-', Moderate), financial structure ('a-', Moderate), and financial flexibility ('b+', Higher).

The quantitative financial subfactors are based on custom CRT financial period parameters: 25% weight for the historical year 2025, 25% for the forecast year 2026, 25% for the forecast year 2027 and 25% for the forecast year 2028.

The governance assessment of 'good' has no impact.

The operating environment assessment of 'bb' has no impact.

The SCP is 'bb-'.

To derive the Long-Term IDR:

Application of Fitch's Parent Subsidiary Linkage Rating Criteria results in a(n) bottom up +1 approach.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- Sustained decline in profitability and cash flow, investment with low returns or aggressive dividend distributions leading to FFO net leverage (excluding connection fees) above 3.5x and FFO interest coverage below 3x (excluding connection fees) on a sustained basis

- Reassessment of Aqualia's incentives to support GGU as 'Low', which will lead to elimination of the one-notch uplift

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- We do not see upside for the SCP in the near term due to limitations in the company's scale, regulatory framework and asset quality.

- Stronger links with Aqualia

LIQUIDITY AND DEBT STRUCTURE

At end-1Q26, GGU had cash of GEL73 million and short-term bank deposits at Georgian banks of GEL109 million. This would be sufficient to cover Fitch-forecasted negative free cash flow in the next three years. GGU's bond matures in 2029, and we do not expect it to incur new debt, other than for refinancing.

GGU's FX risk from the currency mismatch between revenue and debt is partially offset by holding USD24 million of its own notes, most of short-term deposits denominated in US dollars, and revenue from external electricity sales being US dollar denominated. We forecast the exchange rate to be stable at 2.7-2.8 Georgian lari per US dollar in 2026-2028.

ISSUER PROFILE

GGU is a water utility and renewable energy business that supplies potable water and provides wastewater collection and processing services to about 1.3 million people in Georgia.

SUMMARY OF FINANCIAL ADJUSTMENTS

For FFO net leverage and FFO interest coverage calculations, we reduce FFO by revenue from connection fees as they are set off against investment liabilities.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Sector Forecasts Monitor data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

CLIMATE VULNERABILITY SIGNALS

The results of our Climate.VS screener did not indicate an elevated risk for Georgia Global Utilities JSC.

ESG CONSIDERATIONS

GGU has an ESG Relevance Score of '4' for Water & Wastewater Management due to heavily worn-out water infrastructure and large water losses, which has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT ⬍	RATING TYPE ⬍	RATING ⬍	RATING ACTION ⬍	RECOVERY ⬍	PRIOR ⬍
Georgia Global Utilities JSC	LT IDR	BB Rating Outlook Stable	Upgrade		BB- Rating Outlook Positive

senior unsecured	LT	BB	Upgrade	RR4	BB-

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Corporates Recovery Ratings and Instrument Ratings Criteria (pub. 02 Aug 2024) (including rating assumption sensitivity)

Parent and Subsidiary Linkage Rating Criteria (pub. 27 Jun 2025)

Corporate Rating Criteria (pub. 09 Jan 2026) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 09 Jan 2026)

Country-Specific Treatment of Recovery Ratings Criteria (pub. 20 Feb 2026)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.2.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Georgia Global Utilities JSC	UK Issued, EU Endorsed

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