FitchRatings

RATING ACTION COMMENTARY

# Fitch Revises Georgia Global Utilities' Outlook to Positive; Affirm IDR at 'BB-'

Thu 03 Jul, 2025 - 09:30 ET

Fitch Ratings - Milan - 03 Jul 2025: Fitch Ratings has revised Georgia Global Utilities JSC's (GGU) Outlook to Positive from Stable and affirmed Long-Term Issuer Default Rating (IDR) at 'BB-'. A full list of rating actions is detailed below.

The revision of the Outlook reflects positive pressure on GGU's 'b+' Standalone Credit Profile (SCP) at 'b+', due to moderate funds from operations (FFO) net leverage for the 2025-2027 regulatory period, comfortable liquidity and an FFO interest coverage of around 3.0x following its bond refinancing in July 2024. Additional visibility on a constructive upcoming regulatory period for water activities starting in 2027 could lead to an upgrade of the IDR.

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

## KEY RATING DRIVERS

**Strong SCP:** We anticipate GGU's FFO net leverage to average slightly below its positive sensitivity of 3.5x in 2025-2027, representing a moderate increase from 3.0x in 2024, and project interest coverage to remain sound at 2.9x-3.2x. This reflects a significant rationalisation of investments for 2025-2027, with average annual capex reduced to GEL165 million from the previously expected GEL210 million. We forecast pre-dividend free cash flow (FCF) to be negative at GEL75 million over 2025-2027. However, we forecast large dividend distributions from 2027 up to the 3.5x net debt documented covenant under our base case.

**Robust Business Profile:** GGU's business mix remains fairly defensive, with regulated water supply and wastewater services accounting for about 85% of group revenues, supported by tariff visibility until end-2026, its natural monopolistic position in Tbilisi, and direct ownership of the water and wastewater infrastructure. The remaining business relates to the generation and sale of electricity, with an installed capacity of 149MW. About 40% of GGU's electricity is generated for the group's own consumption, while excess electricity is sold predominantly through 12-month bilateral agreements with industrial customers.

Regulated water distribution carries no volume or price risk and is well protected against inflation and interest-rate risks, even though regulatory adjustments are delayed to the next regulatory period and the risk of political intervention in the subsector. Hydroelectric generation, in both current and anticipated market configurations, will continue to bear price and volume risks — primarily related to the availability of water — though this is mitigated by the operational adaptability of the Zhinvali reservoir.

**Unchanged Strategy:** GGU's investment strategy continues to focus on refurbishing its water network infrastructure (to reduce leaks), modernising pumping stations (to achieve energy savings and increase electricity sold to customers), and improving metering and fraud detection. The liberalisation of electricity markets in Georgia, including balancing and ancillary services markets, and the related adoption of daily margin pricing are opportunities for GGU to achieve higher electricity prices, further offsetting FX risk. However, neither these developments nor a full regulatory allowed tariff increase for households are included in our assumptions for prudence.

**Manageable FX Risk**: GGU effectively mitigates FX risk on its financial debt and interest charges resulting from the US dollar appreciation against the Georgian lari by holding USD24 million of its own notes and maintaining substantial short-term bank deposits denominated in US dollars (USD64 million held at end-May). In addition, the natural hedge provided by dollar-denominated electricity revenues should cover 50%-60% of interest payments, based on our estimates. We do not expect moderate US dollar appreciation to undermine GGU's financial profile, even though its US dollar reserves will be progressively deployed over 2025-2027 for investments.

**Ring-Fenced Bond Structure:** GGU's USD300 million bond includes restrictive covenants, and Fitch's rating approach treats GGU as a non-recourse subsidiary for Aqualia, notwithstanding an expected full minority buyout. Noteholders benefit from restricted payment and debt incurrence tests. In particular, the restricted group may make aggregate restricted payments of up to 50% of consolidated net income, provided the issuer meets the debt incurrence test, among other conditions. The restricted group may incur additional debt if consolidated net leverage is less than 3.5x and may also make unlimited restricted payments if consolidated net leverage does not exceed 2.5x.

**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 reasonable, at about 14% of consolidated EBITDA and up to 20% of the investment plan. 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

A close peer of GGU is ENERGO-Pro a.s. (EPas, BB-/Negative), a utility headquartered in the Czech Republic with operating companies in Bulgaria, Georgia, Spain and Turkiye. Its core activities are power distribution, grid support services and electricity generation. ENERGO-Pro's higher debt capacity than GGU's reflects its larger size and its diversification by geography and type of business.

Other peers for GGU in the CIS regions are the Uzbekistan-based distribution and supply company, Regional Electrical Power Networks JSC (IDR BB/Stable, SCP: ccc). The latter has a larger asset base and greater geographical coverage than GGU, but this is more than offset by GGU's more established regulated asset base framework, driving the difference between their SCPs, alongside the Uzbek company's weak liquidity. Its IDR is aligned with Uzbekistan's due to the state's 'Very Strong' decision-making and oversight and precedents of support and 'Strong' preservation of government policy role.

## KEY ASSUMPTIONS

-- Regulatory allowed revenue of the water utility business increasing by a conservative 10% in the 2027-2029 regulatory period compared with the 2024-2026 regulatory period, without fully factoring in regulatory provisions

-- Energy production of 400GWh annually, of which around 240GWh sold externally; electricity price to rise GEL17/KWh in 2027, from GEL14/KWh in 2024, without factoring in the eventual benefit from market liberalisation

-- EBITDA margin on average at 68% during 2025-2027

-- Capex averaging GEL165 million a year over 2025-2027

-- No dividend distributions in 2024-2026. Dividends of GEL144 million assumed by Fitch in 2027 while adhering to the 3.5x net debt /EBITDA bond covenant

-- Georgian lari/US dollar annual average exchange rate of 2.9 in 2025 and 2.99 in 2026 and 2027

## RATING SENSITIVITIES

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

A downgrade is unlikely given the Positive Outlook, unless Aqualia's incentives to support GGU are reassessed as 'Low', which would lead Fitch to rate GGU on a standalone basis and result in a downgrade of its IDR.

-The Outlook would be revised to Stable if we lack visibility on a supportive regulatory framework for 2027-2029, or if there is a sustained decline in profitability and cash flow (e.g., persistent water losses or weaker cash collection), leading to FFO net leverage (excluding connection fees) above 3.5x. on a sustained basis

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

- Mainteinance of FFO net leverage (excluding connection fees) sustainably below 3.5x, accompanied by a coherent financial policy

- Improved visibility around supportive regulatory evolution and material improvement in asset quality (i.e. significantly smaller network losses or lower own electricity consumption)

- Stronger links with Aqualia

## LIQUIDITY AND DEBT STRUCTURE

At end-2024, GGU's cash and cash equivalent totalled GEL219 million, of which GEL169 million is held in short-term deposits at Georgian banks. This would mostly cover negligible debt maturities in 2025-2027 and cumulative negative FCF of GEL220 million expected in the next three years.

## 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. More than half of the electricity generated by GGU is sold to third parties, with the rest used by its water supply and sanitation services business to power its water distribution network.

## 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 Macro and Sector Forecasts 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.

## 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 | | | RECOVERY | PRIOR |
|---|---|---|---|---|---|
| Georgia Global Utilities JSC | LT IDR | BB- | Affirmed | | BB- |
| senior unsecured | LT | BB- | Affirmed | RR4 | BB- |

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VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

## PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

## APPLICABLE CRITERIA

Country-Specific Treatment of Recovery Ratings Criteria (pub. 03 Mar 2023)

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. 27 Jun 2025) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 27 Jun 2025)

## APPLICABLE MODELS

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

## ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

## ENDORSEMENT STATUS

| | |
|---|---|
| Georgia Global Utilities JSC | EU Issued, UK Endorsed |

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