Research Update:

Gulf Cooperation Council Interconnector Authority (GCCIA) Rated 'A'; Outlook Stable

March 27, 2025

Rating Action Overview

- Gulf Cooperation Council Interconnector Authority (GCCIA) is the interconnector for the Gulf Cooperation Council (GCC) member countries ensuring security of electricity supply in the region operating under a framework that allows full costs pass through with no more than one year lag to recover differences between budgeted and actual costs.
- About 85% of the revenue is paid according to the formula by GCCIA's shareholders, limiting delays in reception of the fees. The remaining 15% come from the recent Iraq expansion, which we view as riskier.
- GCCIA is currently expanding its network with about $1.1 billion-$1.3 billion of investments over 2025-2027, which will pressure its credit metrics over the same horizon given all projects are fully debt funded.
- We assigned a 'bb' stand-alone credit profile (SACP) to GCCIA. Given Saudi Arabia is the main benefactor, it provides a six-notch uplift to the 'bb' SACP.
- We assigned an 'A' issuer credit rating to GCCIA because it is fully owned by GCC member states and we view GCCIA as benefitting from an extremely high likelihood that the GCC would intervene in case of distress.
- The stable outlook indicates that we expect GCCIA to continue receiving timely support from the GCC states, enabling the company to expand its existing network as planned.

PRIMARY CREDIT ANALYST

Emeline Vinot
Paris
+ 33 014 075 2569
emeline.vinot
@spglobal.com

SECONDARY CONTACTS

Sapna Jagtiani
Dubai
+971 (0) 50 100 8825
sapna.jagtiani
@spglobal.com

Erik Leconte
Paris
erik.leconte
@spglobal.com

Rating Action Rationale

We view the GCC countries extremely likely to support GCCIA in case of distress, notably its biggest shareholder Saudi Arabia (unsolicited; A+/Stable/A-1). Over the past 15 years, GCCIA has supported national electricity transmission networks for more than 2,000 emergency cases, enabling GCC countries to develop renewable capacities while ensuring that there is enough electricity to support the increasing demand and avoiding blackouts and managing peaks. We base our view of an extremely high likelihood of government support for GCCIA on our assessment of the company's:

- Critical role to the GCC countries since it has been providing an essential role of ensuring security of electricity supply in the region since its inception in 2009. We believe that GCCIA is considered by the member states as equivalent, in terms of role, to the national networks when planning for domestic electricity demand.
- Very strong link with the GCC countries given its 100% joint ownership based on benefits. It benefits from strong governance as defined by its general agreement signed by all member states that supersedes local regulations. We believe GCC members will support GCCIA by ensuring it can raise funding to drive expansion at a lower interest rate than that prevailing with national development banks.

The financial support to GCCIA is notably seen by the annual fees being included in government budget when planning for the electricity needs. In addition, we view that GCCIA, being 100% owned, is strongly governed by its shareholders, who we expect will support the entity and continue to pay their obligations on time. With payables representing less than 0.2% of each state's GDP, ongoing obligations have been serviced in a timely manner, despite periods of external shocks and regional disputes. We link our rating on GCCIA to that on Saudi Arabia to reflect both the largest shareholding as well as the largest likely future benefactor of the assets, with Saudi Arabia benefiting from up to 25%-30% of the existing grid and all expansion projects. This results in six notches of uplift to the 'bb' SACP to arrive at the 'A' long-term issuer credit rating.

We believe that GCCIA benefits from full cost pass-through through its annual fees paid by its shareholders in a timely manner. Annual fees paid by its shareholders contribute 85% of GCCIA's revenue. Until 2019, GCCIA received annual fees based on the benefit each shareholder had in the assets. The annual fees were calculated to cover for operating expenditure. Since 2019, and as GCCIA was annually loss making, the fees now include depreciation and amortization, enabling GCCIA to be profit neutral. We expect that, from 2026, GCCIA will receive an additional contribution from the shareholders to support debt-servicing, ensuring that both interest and principal payments are fully covered. The framework under which GCCIA operates is, in our view, predictable and stable with full cost pass through, given that operating expenditure is annually budgeted and approved by the board of directors to ensure that full payment for the coming year is made before the end of first quarter of that year. As a result, should there be any deviation in GCCIA's cost base, the difference can be recovered with a maximum of a one-year lag. In addition, we view positively the ability that GCCIA will retain the fees should it operate more efficiently. Finally, compared with networks across Europe, the Middle East, and Africa, GCCIA isn't exposed to volume risks or price risks because its revenue is calculated based on its planned expenses.

We view the expansion to Iraq as riskier than the local interconnection business. GCCIA signed a contract with the state-owned South of Iraq General Company of Electrical Energy Distribution (SIGC) for seven years regarding the construction of a 295 kilometer (km) overhead transmission line from a substation in Kuwait to Iraq and the expansion of the Iraqi substation. We expect the project to be commissioned in the second half of 2025, following which we expect the assets located in Iraq to be transferred to SIGC, resulting in a positive financial impact for GCCIA. We also expect SIGC to pay a fixed annual amount to GCCIA (paid semi-annually starting in second-half 2025) until the first half of 2032. This additional revenue should be used to fully service the debt related to the Iraq project. While we view high counterparty risk on this commercial contract with Iraq (B-/Stable/B), we understand that the obligation of SIGC to GCCIA should be backed by a sovereign guarantee and that GCC member states are committed to service the Iraq project-related debt should SIGC fail to pay GCCIA as per the contract.

GCCIA's expansion projects are fully debt funded and will pressure credit metrics over 2024-2027. Over 2024-2027, we expect GCCIA to invest at least $1.1 billion-$1.3 billion to expand the network and up to $1.5 billion should the funding for the backbone expansion project be secured. This investment program will be fully debt funded with financing expected to come from local development banks, including of Kuwait, Qatar, and United Arab Emirates. This will lead to negative free operating cash flow (FOCF) of about $500 million in 2025 decreasing to be free cash flow neutral from 2027 (2028 should the backbone project be secured). As a result, we currently expect net debt to peak at about $800 million-$850 million in 2026-2027, decreasing to about $600 million by 2029. Once the backbone expansion project starts, we expect gross debt to grow by an additional $300 million from 2026, amortizing over at least 10 years. However, we expect GCCIA to be able to cover additional debt-servicing related to this project with the additional contribution it should receive from the shareholders. We include in our EBITDA calculations the contributions from member countries used to service the debt. We consider funds from operations to debt (FFO) and FOCF to debt as the key ratios because they capture the cash flow after interest-servicing and the high capital spending (capex) plans in the future years. We believe FFO to debt of more than 9% is commensurate with the financial risk profile and expect the ratio to improve in 2026-2027 to 10%-22%.

Outlook

The stable outlook on GCCIA mirrors our stable outlook on Saudi Arabia. It also incorporates our expectation that GCCIA will receive annual fees and contributions from its shareholders to service debt in a timely manner, ensuring smooth operations and deleveraging over the forecast horizon. We therefore expect the company's FFO to debt to be above 9% and to improve to 10%-22% in 2026-2027

Downside scenario

A downgrade of GCCIA could occur if we took a similar action on Saudi Arabia. We could also lower the rating if we re-assess the financial support to GCCIA as insufficient or not timely.

Upside scenario

An upgrade of GCCIA could occur if we took a similar action on Saudi Arabia.

Company Description

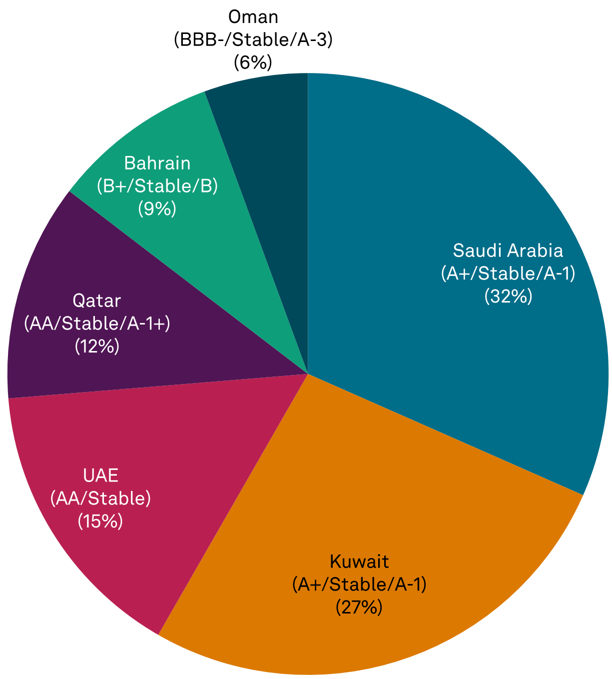
GCCIA, established in Saudi Arabia, is the electricity transmission interconnector for the GCC member countries providing the required investment to achieve the technical and economic benefits as stated in the GCCIA bylaws.

In terms of economic benefits, GCCIA provides member states with emergency support by avoiding black outs, enabling power exchanges, reserve sharing, and capacity saving. It also allows the transfer of electricity between GCC states to utilize excess capacity and limits the need for new investments in additional power generation capacity. The network boosts efficiency and reliability by ensuring uninterrupted electricity supplies across GCC.

In 2024, GCCIA's EBITDA amounted to $39 million and debt $142 million.

GCCIA is owned by the six GCC member states:

GCCIA ownership structure



Copyright © 2025 by Standard & Poor's Financial Services LLC. All rights reserved.

Our Base-Case Scenario

Assumptions

- Annual fees for current and new projects based on benefit analysis and split between shareholders paid in a timely manner.
- Iraq take-or-pay revenue paid annually and used to service the debt related to the Iraq project.
- Our expectations that annual debt-servicing is fully covered by additional contributions received from shareholders.
- No taxes in the GCC region and ability for GCCIA to capitalize interest during the construction phase of each project.
- About $1.1 billion-$1.3 billion expansion investments over 2024-2027, fully debt funded from local development banks.
- Supportive financing with GCCIA benefitting from interest rates below market rates.

- Supportive liquidity policy ensuring that there is always at least 12 months of operating expenses in cash.

Key metrics

Gulf Cooperation Council Interconnector Authority--Key Metrics*

	--Fiscal year ended Dec. 31--				
Mil. $	2023a	2024a	2025f	2026f	2027f
Revenue	81	89	100-110	140-150	170-180
EBITDA	34	39	45-55	175-185	125-135
Funds grom operations	33	36	40-45	165-175	80-90
Capital expenditures	203	256	550-560	330-340	60-70
Free operating cash flow	(225)	(177)	(500)-(490)	(160)-(150)	Neutral
Debt	-	142	600-650	770-820	750-800
FFO to debt (%)	-	25.4	6-8	20-22	10-13

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

Liquidity

We assess GCCIA's liquidity as adequate because its sources will cover its uses by more than 1.1x in the next 12 months. We include in our liquidity analysis the strong support from shareholders for GCCIA's investments and operations, as well as the ability for GCCIA to secure financing with local and regional development banks at more than favorable rates.

As of Dec. 31, 2024, sources of liquidity include:

- $71 million of available cash.
- $704 million of contracted loans with regional development banks linked to specific projects. We expect GCCIA to draw upon them as investments occur.
- About $160 million of cash FFO.

Over the same period, uses of liquidity include:

- About $100 million negative working capital linked to the transfer of ownership of the Iraq part of the interconnector.
- Capex of $560 million; of which $339 million is linked to a project in Oman.
- No dividends.

Environmental, Social, And Governance

ESG factors are neutral for the rating on GCCIA. Socially, GCCIA ensures smooth supply of electricity across the Gulf so that no industries or households endure blackouts. We view GCCIA's governance as supportive, backed by a strong general agreement superseding all local regulations and laws and signed by the six member states. Although electricity comes mostly from fossil fuel in the region, GCCIA has a purpose of ensuing security of supply while member states expand renewables projects in the region to reduce their carbon footprint. GCCIA's role is therefore of utmost importance for the region for the coming years

Ratings Score Snapshot

Issuer Credit Rating	**A/Stable/--**
Business risk:	Satisfactory
Country risk	Moderately high
Industry risk	Very Low
Competitive position	Satisfactory
Financial risk:	Significant
Cash flow/leverage	Aggressive
Anchor	bb
Modifiers:	
Diversification/Portfolio effect	Neutral
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Adequate
Management and governance	Neutral
Comparable rating analysis	Neutral
Stand-alone credit profile:	bb
Related government rating	A+/Stable/A-1
Likelihood of government support	Extremely high (+6 notches)

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, 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
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014

- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Ratings List

New Rating	
Gulf Cooperation Council Interconnection Authority	
Issuer Credit Rating	A/Stable/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

Copyright © 2025 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.