

## Despite Large Investments, Winning Auction Bids Among Four Rated Brazilian Utilities Won't Impair Their Credit Metrics

**Primary Credit Analysts:**

Marcelo Schwarz, CFA, Sao Paulo (55) 11-3039-9782; marcelo.schwarz@spglobal.com

Vinicius Ferreira, Sao Paulo + 55 11 3039 9763; vinicius.ferreira@spglobal.com

Andre Pugliese, Sao Paulo + 55 11 3039 9776; andre.pugliese@spglobal.com

SAO PAULO (S&P Global Ratings) Dec. 20, 2018--the Brazilian electric power regulator Agencia Nacional de Energia Eletrica - ANEEL auctioned today 16 transmission lines for R\$1.2 billion in annual availability-based revenues, which are annually adjusted to inflation.

Among the winners, there are four entities that S&P rates: CPFL Energia S.A. (CPFL), Energisa S.A. (Energisa), Neoenergia S.A. (Neoenergia), and Transmissora Alianca de Energia Eletrica S.A. (Taesa). In general, we believe these companies will benefit from a wider diversification of revenues and the stable and predictable availability-based cash flows from the transmission segment. As part of the auction conditions, the four companies must invest R\$8.1 billion, which we expect to mostly occur between 2021 and 2023, and could temporarily weaken their credit metrics. However, given the investments' amount and concentration, we expect a quick deleveraging once the cash flows of these assets come on stream. We don't expect any impact on liquidity either, because according to the conditions of the auction, the companies will have five years to complete building the lines and begin their operations, after the signing of the concession contracts, which we expect to happen in mid-2019.

### Selected Indicators Of The Winning Bidders

	Global scale rating	Brazil national scale rating	Number of assets awarded	Extension (km)	Capex (mil. R\$)*	Annual revenues (mil. R\$ )
CPFL Energia S.A.	--	brAAA/Stable/--	2	405	714.9	60.3
Energisa S.A.	BB-/Stable/--	brAAA/Stable/--	1	772	699.4	62.9
Neoenergia S.A.	BB-/Stable/--	brAAA/Stable/brA-1+	4	3,000	6,091.30	501.2
Transmissora Alianca de Energia Eletrica S.A.	BB-/Stable/--	brAAA/Stable/brA-1+	1	587	610.4	59
Others	--	--	8	2,387	5,058.90	474.5
Total	--	--	16	7,152	13,174.90	1,157.80

\*According to ANEEL's estimates.

Finally, the sovereign ratings on the Federative Republic of Brazil (global scale: BB-/Stable/B; national scale: brAAA/Stable/--) currently cap the credit quality of these. However, their stand-alone credit profiles are higher than the sovereign rating, which gives a cushion to the ratings.

- CPFL: We don't consider the amount of the required investments to be considerable compared with the group's already robust investment plan (especially in the distribution segment). Therefore, they shouldn't impair CPFL's financial metrics. Moreover, CPFL could benefit from the support from its controlling shareholder, State Grid China Co., Ltd (A+/Stable/--), if intrinsic credit quality of the former falls below the sovereign level.
- Energisa: We also don't expect these investments to erode the company's currently comfortable credit metrics.
- Neoenergia: The group was the largest winner of the auction. It already has a very robust investment plan to perform, especially in its four electricity distribution companies. Although we acknowledge that the investments in the transmission segment could put some pressure on its credit metrics, we don't expect ratings to fall below the sovereign level because of the potential extraordinary support from its controlling shareholder, Iberdrola, S.A. (BBB+/Stable/A-2).
- Taesa: In addition to the today's awarded assets, on Dec. 17, 2018, the company announced the acquisition of four transmission lines (two of which with a 51% stake) for R\$942.5 million, which will bring estimated revenues of R\$130 million and EBITDA of R\$100 million. The addition of the new concession and the acquisitions to the company's committed large investment program will in aggregate stretch its credit metrics, although not enough to change our assessment on the company's financial risk profile at this point. For the next few years, we expect Taesa's funds from operations to Debt above 13% and debt to EBITDA of 4.0-4.5x. Taesa's latest acquisition is subject to some conditions precedent, including approvals by its shareholders, ANEEL, and the Brazilian anti-thrust

authority (CADE).

This report does not constitute a rating action.

S&P Global Ratings, part of S&P Global Inc. (NYSE: SPGI), is the world's leading provider of independent credit risk research. We publish more than a million credit ratings on debt issued by sovereign, municipal, corporate and financial sector entities. With over 1,400 credit analysts in 26 countries, and more than 150 years' experience of assessing credit risk, we offer a unique combination of global coverage and local insight. Our research and opinions about relative credit risk provide market participants with information that helps to support the growth of transparent, liquid debt markets worldwide.

Copyright © 2018 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.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.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.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

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