

Bulletin:

Transmissora Alianca de Energia Eletrica's New Acquisitions And Greenfield Investments Raise Average Concession Life

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SAO PAULO (S&P Global Ratings) Dec. 20, 2018--S&P Global Ratings said today that Transmissora Alianca de Energia Eletrica S.A.'s (TAESA; global scale: BB-/Stable/--; national scale: brAAA/Stable/brA-1+) acquisition of four operating transmission assets and its successful bid in an greenfield auction don't materially change our expectations for the company's credit metrics, while these investments will increase the average concession life of its portfolio. Our ratings on TAESA are unaffected because we don't expect the investments to significantly affect the company's financial risk profile. We continue to expect funds from operations (FFO) to debt to be above 13% and debt to EBITDA in the 4.0-4.5x range over the next few years.

On Dec. 17, 2018, TAESA announced it agreed to acquire four operational companies (São João Transmissora de Energia S.A., Sao Pedro Transmissora de Energia S.A., Triângulo Mineiro Transmissora de Energia S.A. and Vale do São Bartolomeu Transmissora de Energia S.A. [none rated]). These assets have a combined extension of 1,227 km, are near some of TAESA's existing assets, and their concessions expire in 2043, which will help replace cash flow generation when some of TAESA's largest existing concessions face a revenue reduction of 50% (as per their concession contracts) starting in 2019. Furthermore, today in a transmission auction sponsored by Brazilian regulator Agencia Nacional de

Energia Eletrica (ANEEL), TAESA successfully bid to build a 587 km line in southern Brazil. This will require investments of around R\$600 million (concentrated in 2021-2023) that once operational should allow annual availability-based revenues of R\$59 million for a 30-year concession period.

For the acquisition, the company will pay R\$942.5 million for the equity value, funded by R\$850 million of new debt. According to information disclosed by TAESA, these assets will bring around R\$360 million of existing net debt, and generate R\$130 million of annual revenue and R\$110 million of EBITDA.

The completion of the acquisition is subject to certain conditions including approvals from the shareholders, the anti-trust authority, and ANEEL. For the auction, TAESA shall sign the concession contracts in the first half of 2019, and will have four years after signature to complete the construction.

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