

Rating Action: Moody's takes action on Brazilian infrastructure issuers following sovereign rating action

Global Credit Research - 10 Apr 2018

Sao Paulo, April 10, 2018 -- Moody's America Latina ("Moody's") has taken rating actions on several infrastructure issuers operating in Brazil. The rating actions follow the change in the outlook on the Government of Brazil's ratings to stable from negative, and the affirmation of Brazil's issuer and senior unsecured ratings at Ba2 on April 9, 2018.

Moody's rating action on Brazil's government issuer rating reflects the strengths of Brazil's credit profile despite relatively weak fiscal metrics. The sovereign's weak fiscal metrics are balanced against moderately strong economic and institutional factors that are in line with regional and Ba-rated global peers, with much lower external vulnerability. For further information on Brazil's sovereign credit profile, refer to the rating action press release:

https://www.moodys.com/research/Moodys-changes-outlook-on-Brazils-ratings-to-stable-from-negative--PR_380048

Please click on this http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_199000 for the list of affected credit ratings. This list is an integral part of this press release and identifies each affected issuer.

RATINGS RATIONALE

The stable outlook for all these companies reflects Moody's stable outlook for Brazil's government bond rating and Moody's view that the creditworthiness of these companies continues to be dependent on the credit quality of the sovereign.

Regulated utilities and concessions of public services have strong linkages to the sovereign credit quality to the extent that those companies are exposed to the same economic revenue base and subject to government policies. Unregulated power companies and power projects are also exposed to the sovereign credit quality due to the highly regulated nature of the energy sector and its domestic end-customer base. Nevertheless, the extent to which each company is immediately affected by an eventual reversal of the economic growth and its ability withstand a prolonged downturn varies according to its intrinsic credit quality and business profile.

Despite the regulated nature, companies in the Brazilian transmission sector rely on fixed revenues that are not volume dependent, which mitigate their exposure to a declining economy. As a result, the upgrades on EATE - Empresa Amazonense de Transmissão de Energia S.A., ECTE - Emp. Catarinense Trans. Energ. S.A., ENTE - Emp. Norte de Trans. de Energ. S.A, ETEP - Emp. Paraense Trans. Energ. S.A. and Transmissora Aliança de Energia Elétrica ("TAESA")'s ratings to Ba1/Aaa.br, reflect the highly predictable nature of cash-flows of those companies coupled with their adequate liquidity positions and low leverage for the rating category.

In the case of Rio Parapanema Energia S.A., the ratings' upgrade to Ba1/Aaa.br reflects Moody's perception that this entity's strong credit metrics stemming from the unregulated power generation business will remain robust, supported by Brazil's higher-than-expected short- and medium-term growth prospects. The ratings also consider Moody's expectation of timely and reliable support from a foreign parent to mitigate eventual cash flow volatilities. Rio Parapanema Energia S.A. is ultimately controlled by China Three Gorges Corporation (CTG Corp, A1 stable).

The upgrade of EDP Sao Paulo Distribuicao de Energia S.A.'s corporate family and senior unsecured ratings to Aa1.br on the Brazilian national scale reflect the outlook change, as well as the positioning of its credit profile relative to other domestic peers in the regulated electric utility sector.

The upgrade of Energisa S.A.'s senior unsecured national scale rating to A1.br reflect the outlook change, as well as the positioning of its credit profile relative to other domestic peers in the regulated electric utility sector.

WHAT COULD CHANGE THE RATINGS UP/DOWN

A rating or outlook change of the sovereign could result in subsequent rating actions for these companies. A rating or outlook change could also be triggered if Moody's perceives a material change in the regulatory frameworks under which these companies operate, or disruptive political interference in the normal course of their businesses. Sustained deterioration or improvement in the relevant credit metrics or the liquidity profile is also a trigger for a rating change for those issuers.

PRINCIPAL METHODOLOGIES

The principal methodology used in rating Concessionária de Rod Int do Oeste SA (SPVias) and Linha Amarela S.A. was Privately Managed Toll Roads published in October 2017. The principal methodology used in rating COMPANHIA PTA DE FORÇA E LUZ - CPFL PAULISTA, CPFL Energia S.A., EDP - Energias do Brasil S.A., EDP Espírito Santo Distribuição de Energia S.A., EDP São Paulo Distribuição de Energia S.A., and Energisa S.A. was Regulated Electric and Gas Utilities published in June 2017. The principal methodology used in rating AES Tietê Energia S.A., Energest S.A., Lajeado Energia S.A., Rio Paranapanema Energia S.A. and Rio Parana Energia S.A. was Unregulated Utilities and Unregulated Power Companies published in May 2017. The methodologies used in rating Companhia de Saneamento Básico do Estado de São Paulo - SABESP and Companhia de Saneamento do Paraná - SANEPAR were Regulated Water Utilities published in December 2015, and Government-Related Issuers published in August 2017. The principal methodology used in rating Cea I - Centrais Eólicas Assurua I Spe S/A, Omega Energia e Implantação 2 S.A. and CEA II - Centrais Eólicas Assurua II SPE S/A was Power Generation Projects published in May 2017. The principal methodology used in rating Concessão Metroviária do Rio de Janeiro S/A was Global Passenger Railway Companies published in June 2017. The principal methodology used in rating EATE - Emp. Amazonense Trans. Energ. S.A., ECTE - Emp. Catarinense Trans. Energ. S.A., ENTE - Emp. Norte de Trans. de Energ. S.A., ETEP - Emp. Paraense Trans. Energ. S.A., Transmissora Aliança de Energia Elétrica was Regulated Electric and Gas Networks published in March 2017. Please see the Rating Methodologies page on www.moodys.com.br for a copy of these methodologies.

Moody's National Scale Credit Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from Moody's global scale credit ratings in that they are not globally comparable with the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".za" for South Africa. For further information on Moody's approach to national scale credit ratings, please refer to Moody's Credit Rating Methodology published in May 2016 entitled "Mapping National Scale Ratings from Global Scale Ratings". While NSRs have no inherent absolute meaning in terms of default risk or expected loss, a historical probability of default consistent with a given NSR can be inferred from the GSR to which it maps back at that particular point in time. For information on the historical default rates associated with different global scale rating categories over different investment horizons, please see https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1113601.

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Information types used to prepare the rating are the following: financial data, economic and demographic data, operating data, historical performance data, and Moody's information.

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The date of the last Credit Rating Action for Concessionaria de Rod Int do Oest SA (SPVias) was 31/5/2017

The date of the last Credit Rating Action for Linha Amarela S.A. was 12/7/2017

The date of the last Credit Rating Action for COMPANHIA PTA DE FORCA E LUZ - CPFL PAULISTA was 23/8/2017

The date of the last Credit Rating Action for CPFL Energia S.A. was 23/8/2017

The date of the last Credit Rating Action for EDP - Energias do Brasil S.A. was 31/5/2017

The date of the last Credit Rating Action for EDP Espirito Santo Distribuicao de Energia SA was 31/5/2017

The date of the last Credit Rating Action for EDP Sao Paulo Distribuicao de Energia S.A. was 31/5/2017

The date of the last Credit Rating Action for Energisa S.A. was 15/7/2017

The date of the last Credit Rating Action for AES Tiete Energia S.A. was 11/1/2018

The date of the last Credit Rating Action for Energest S.A. was 31/5/2017

The date of the last Credit Rating Action for Lajeado Energia S.A. was 31/5/2017

The date of the last Credit Rating Action for Rio Parana Energia S.A. was 16/1/2018

The date of the last Credit Rating Action for Companhia de San Bas do Estado de Sao Paulo was 16/8/2017

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The date of the last Credit Rating Action for Cea I - Centrais Eolicas Assurua I Spe S/A was 31/5/2017

The date of the last Credit Rating Action for CEAll Centrais Eolicas Assurua was 6/3/2018

The date of the last Credit Rating Action for Concessao Metroviaria do Rio de Janeiro S/A was 12/7/2017

The date of the last Credit Rating Action for EATE - Emp. Amazonense Trans. Energ. S.A. was 19/10/2017

The date of the last Credit Rating Action for ECTE - Emp. Catarinense Trans. Energ. S.A. was 29/10/2017

The date of the last Credit Rating Action for ENTE - Emp. Norte de Trans. de Energ. S.A was 17/3/2017

The date of the last Credit Rating Action for ETEP - Emp. Paraense Trans. Energ. S.A. was 17/3/2017

The date of the last Credit Rating Action for Transmissora Alianca de Energia Eletrica was 15/12/2017

The date of the last Credit Rating Action for Rio Paranapanema Energia S.A was 8/2/2018

The date of the last Credit Rating Action for Omega Energia e Implantacao 2 S.A. was 23/8/2017

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