Fitch Affirms Taesa's Ratings at 'BBB' and 'AAA(bra)'; Outlook Stable

Ratings Endorsement Policy
11 Sep 2014 5:10 PM (EDT)

Fitch Ratings-Rio de Janeiro-11 September 2014: Fitch Ratings has affirmed Transmissora Alianca de Energia Eletrica S.A.'s (Taesa) foreign and local currency Issuer Default Ratings (IDRs) at 'BBB' and long-term national scale rating at 'AAA(bra)'. Fitch has also affirmed the national scale rating of the BRL2,160 million third senior unsecured debenture issuance at 'AAA(bra)'. The Rating Outlook is Stable.

KEY RATING DRIVERS

Taesa's investment grade ratings reflect Fitch's expectation that the company will keep a solid financial profile in the medium term, with credit metrics currently strong for the existing IDRs when compared to its peers in Latin America. On a pro forma consolidated basis, Taesa presents low leverage for a company at the power transmission sector, as well as a manageable debt maturity schedule. Pressures in its credit metrics, due to potential relevant acquisitions financed by debt, would be temporary and are also considered in the analysis.

The ratings incorporate Taesa's low business risk relative to its strong and diversified portfolio of power transmission assets, with predictable and robust cash flow generation and high operating margins. Most of Taesa's concessions are not subject to periodical tariff reviews and none of them expire before 2030. The moderate regulatory risk of the Brazilian power sector and the average credit quality of power distribution and generation companies in the country limit the company's IDRs. Taesa's ratings are not constrained by the credit quality of one of its main shareholders, Companhia Energetica de Minas Gerais (Cemig), since Cemig shares the company's control with an investment fund and its access to Taesa's cash is limited to dividends. Fitch also considered that the potential change in the shareholder structure with the end of the life period of FIP Coliseu, one of its main shareholders, will not change the company's credit profile.

Leverage to Remain Low in the Medium Term
Fitch expects Taesa to maintain its consolidated net financial leverage between 2.5 times(x)-3.0x in the following years, absent new acquisitions. The company was able to manage its historical low consolidated leverage, even with substantial dividend payments and significant acquisitions in recent years. During the latest 12 months (LTM) ended June 30, 2014, Taesa reported, under the regulatory accounting rules, which consolidate proportionally all the transmission assets the company participates directly and indirectly, a total debt/EBITDA ratio of 3.0x and net debt/EBITDA ratio of 2.6x, which compare, respectively, with 3.4x and 3.0x reported in 2013, and 4.4x and 2.0x in 2012. If considered IFRS rules, those ratios would be 3.0x and 2.7x.

Low Business-Risk Assets
Taesa's ratings are based on the low business risk of its asset portfolio and no exposure to concession renewals over the short-to-medium term. Taesa is one of the largest power transmission companies in Brazil, with 7.7 thousand km of transmission lines spread across the country. The company participates in 28 concessions, including 13 fully-owned, which dilutes potential operating risks. Taesa benefits from a diversified client base and guaranteed payment structure, despite some revenue concentration in its main customers. The five main clients represented 33% of revenues in 2013. The expiration of its concessions will not begin until 2030, taking place on a staggered basis over the following years.

The company's exposure to periodical tariff reviews is low, since only four of its 28 concessions were obtained after November 2006 and are subject to this procedure. Pursuant to Taesa's other concession contracts, prior to November 2006, the annual permitted revenues (RAPs) of these concessions should decrease by 50% after the 15th year from their initial operation. The first RAP reduction is scheduled for 2016, with more material impacts from 2018 on. Fitch expects Taesa to manage its debt level in order to mitigate the effect of this cash flow generation reduction on its credit metrics.

Predictable Cash Flow and High EBITDA Margins
Taesa's credit profile benefits from its highly predictable power transmission revenues, which are based on the lines availability, rather than on the volume transported. The company's consolidated revenue growth has been driven by the inflation-based annual RAP readjustments and on the acquisition of new assets. During the LTM ended June 30, 2014, the company reported consolidated net revenue and EBITDA of BRL1,826 million and BRL1,618 million, respectively, pursuant to Fitch's criteria and under regulatory accounting rules. These figures favorably compare with BRL1,618 million and BRL1,418 million in 2013, and BRL1,231 million and BRL1,078 million in 2012. EBITDA margin has been high, from 87% to 90%, which is a characteristic of a transmission company in Brazil. Margins tend to fall in the beginning of the RAP reduction cycle and with tariff reviews, following the revenue decrease. During the LTM ended June 30, 2014, EBITDA margin was 89.2%, with 87.6% in 2013 and 2012.

Fitch expects Taesa's free cash flow (FCF) to be linked to the level of dividend payments, as long as it does not obtain significant projects to be developed. The cash flow from operations (CFFO) should remain robust, reflecting the high business margins. In accordance with IFRS accounting rules, CFFO and FCF were BRL1,036 million and BRL214 million, respectively, for the LTM ended June 30, 2014. The FCF should continue to be pressured by strong dividend payments, which reached BRL814 million during that same period.

Manageable Debt Profile
Taesa's consolidated debt is characterized by a manageable maturity profile and no foreign exchange risk. The growth recorded in recent years reflects the debt contracted to finance recent acquisitions, which amounted to BRL3.8 billion, added to the financial obligations which came with the concessions acquired. As of June 30, 2014, Taesa's debt was BRL4.8 billion or BRL4.3 billion by the new IFRS consolidation rule. The BRL4.3 billion debt was mainly composed of debentures (BRL3.7 billion) and Lei 4131 loan with Citibank (BRL462 million).

Taesa's moderate liquidity position compared with short-term debt is mitigated by the company's robust CFFO. By the end of June 2014, the cash and marketable securities, not considering the non-consolidated companies under IFRS, amounted to BRL446 million, covering 63% of the short-term debt of BRL709 million. When considering the CFFO of BRL1,036 million in the LTM, the coverage (CFFO + cash and marketable securities)/short-term debt of Taesa of 2.1x was robust.

RATING SENSITIVITIES

Future developments that may, individually or collectively, lead to a negative rating action:

--Deterioration in Taesa's consolidated financial profile, with net leverage going above 4.5x on a sustainable basis;
--A short-term debt coverage ratio, measured by (CFFO + cash and marketable securities)/short-term debt below 1.5x;
--A more challenging scenario for the power sector in Brazil.

Future developments that may, individually or collectively, lead to a positive rating action:

--Strengthening of Taesa's financial profile, with net leverage below 2.0x;
--Liquidity position above short-term debt;
--Improvement on the regulatory environment of the power sector in Brazil benefitting the credit quality of the companies, mainly distributors.

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Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:

--'Corporate Rating Methodology' (May 28, 2014);
--'National Ratings Criteria' (Oct. 30, 2013).

Additional Disclosure
Solicitation Status