MOODY'S
INVESTORS SERVICE

Credit Opinion: Transmissora Aliança de Energia Eletrica S.A

Global Credit Research - 26 Feb 2016

Brazil

Ratings

Category	Moody's Rating
Outlook	Negative
Issuer Rating -Dom Curr	Ba2
Senior Unsecured -Dom Curr	Ba2
Subordinate -Dom Curr	Ba3
NSR Senior Unsecured	Aa2.br
NSR LT Issuer Rating	Aa2.br
NSR Subordinate	A2.br
Parent: Companhia Energetica de Minas Gerais - CEMIG	
Outlook	Negative
Issuer Rating -Dom Curr	Ba3
NSR LT Issuer Rating	A2.br

Contacts

Analyst	Phone
Paco Debonnaire/Sao Paulo	55.11.3043.7300
Alexandre De Almeida Leite/Sao Paulo	
William L. Hess/New York City	1.212.553.1653

Key Indicators

[1]**Transmissora Aliança de Energia Eletrica S.A**

	3/31/2015(L)	12/31/2014	12/31/2013	12/31/2012	12/31/2011
FFO Interest Coverage	**4.7x**	**3.6x**	**2.8x**	**2.7x**	**0.8x**
Net Debt / RAB	**64.4%**	**60.3%**	**68.5%**	**68.1%**	**56.8%**
FFO / Net Debt	**36.8%**	**34.0%**	**20.3%**	**16.3%**	**-1.1%**
RCF / Net Debt	**11.4%**	**7.2%**	**2.5%**	**2.3%**	**-27.9%**

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

- Strong, stable and predictable operating cash flows supported by long-term concession contracts based on fixed capacity and inflation-adjusted tariffs

- Good track record in accessing bank and capital market financing

- Financial debt concentrated in the long-term

- High expected dividend pay-out ratio

- Relatively strained liquidity profile

Corporate Profile

Transmissora Alianca de Energia Eletrica S.A. ("TAESA" or the "Company") operates and maintains 9,884 km of high voltage (230 to 525kV) transmission lines through 28 (twenty eight) 30-year concessions. The Company directly controls 13 concessions.

TAESA is controlled by CEMIG GT (Ba3/A2.br; negative) and the FIP Coliseu equity fund, which own 43% and 22% of TAESA's total capital, respectively. The remaining 35% shares are free float, traded on the local stock market (BM&FBOVESPA).

According to Moody's standard adjustments, in the last twelve months ended on March 31, 2015 (LTM ended on 03/31/2015), TAESA had consolidated net revenues of BRL1,521 million and EBITDA of BRL1,690 million, an increase of 6.3%, and 7.5%, respectively, as compared to the LTM ended on 12/31/2014. in accordance with our standard adjustments, interest income is included in our EBITDA calculation.

Recent Developments

On February 25, 2016, Moody's downgraded TAESA'S ratings to Ba2/Aa2.br from Baa3/Aa1.br on the Global Scale and on the National Scale, respectively, with negative outlook. At the same time, Moody's downgraded both BRL425 million and BRL 245 million unsecured debentures to Ba2/Aa2.br from Baa3/Aa1.br, with negative outlook. At the same time, Moody's downgraded the BRL 145 million subordinated debentures to Ba3/A2.br from Ba1/Aa2.br, with negative outlook.

On February 24, 2016, Moody's downgraded Brazil's issuer and bond ratings to Ba2 from Baa3, with a negative outlook.

On December 10, 2015, Moody's placed TAESA's ratings under review for downgrade. The review for downgrade follows the placement of Brazil's Baa3 issuer and bond ratings under review for downgrade on December 9, 2015. The company's operational and financial performance is subject to the evolution of the macroeconomic and regulatory environment in Brazil as captured by the sovereign rating.

On July 2, 2015 Fundo de Investimento em Participações Coliseu declared that "considering that certain conditions precedent for the execution of the Purchase and Sale Agreement have not occurred, the negotiations between FIP Coliseu and Empresas Públicas de Medellín ("EPM") regarding the sale of 35.71% of the common shares issued by TAESA, representing 22.14% of its total capital stock, as announced in a Notice to the Market published on April 17, 2015, have been terminated".

On April 22, 2015 the Company announced the total dividend distribution related to FY 2014. The total amount approved was R$ 851.7 million of which: (i) BRL 400 million were paid on October 06, 2014 as dividends, (ii) BRL 197 million were paid on December 17, 2014 as interest on equity and, (iii) R$ 254.7 million on April 30, 2015, based on the shareholder structure of April 22, 2015.

On February 11, 2015 the Company announced the closing of the private equity fund FIP Resling was approved on December 19th, 2014. Due to the liquidation and termination of the fund, the units held by FIP Resling were transferred to Santander Participações SA ("Santander"), the only shareholder of the FIP Resling.

On December 02, 2014 TAESA announced the reduction of the participation of BNDESPAR in TAESA to 1.40% of the common shares and 4.58 % of the preferred shares issued by company.

On October 30, 2014 the Company published a Notice to the Market with the approval of the partial spin-off of FIP Coliseu, with the transfer of Taesa's common shares indirectly held by Santander, then held by FIP Coliseu, to FIP Resling (whose sole quotaholder is Santander).

On April 17, 2014 TAESA redeemed the entire 6th Issuance of Promissory Notes.

On December 13, 2013 TAESA won the auction 013/2013 organized by ANEEL for a 30-year concession to develop a 85km, 500 kV transmission line in the State of Minas Gerais (Baa3 negative).

On October 17, 2013 TAESA, through its affiliate EATE, concluded the acquisition of the totality of the shares held by Orteng Equipamentos e Sistemas S.A. in the transmission companies (i) Companhia Transleste de Transmissao (ii) Companhia Transirape de Transmissao and (iii) Companhia Transudeste de Transmissao. As a result, EATE holds 10% of the voting capital of each of the above companies. The total amount paid was about BRL33.5 million.

On June 28, 2013, TAESA announced that its shareholders approved the merger with its subsidiary ATE II. The transaction was approved by the regulator - ANEEL.

On May 31, 2013, it was announced that the transfer to TAESA of its direct interests in the following electricity transmission concessionaires was completed: Empresa Catarinense de Transmissao de Energia S.A. (ECTE), Empresa Regional de Transmissao de Energia S.A. (ERTE), Empresa Norte de Transmissao de Energia S.A. (ENTE), Empresa Paranaense de Transmissao de Energia S.A. (ETEP), Empresa Amazonense de Transmissao de Energia S.A. (EATE), and Empresa Brasileira de Transmissao de Energia S.A.(EBTE). At the same time, TAESA announced the incorporation of its indirect interests in the following electricity transmission concessionaires: Sistema de Transmissao Catarinense S.A.(STC), Lumintrans - Companhia Transmissora de Energia, Empresa Santos Dumont de Energia S.A. (ESDE), and Empresa de Transmissao Serrana (ETSE), all of which were previously held by Companhia Energetica de Minas Gerais (CEMIG; Ba1 negative) and CEMIG-GT.

On May 15, 2013, TAESA's subsidiary ATE II paid off the loans from the Inter-American Development Bank (IDB) as well as from the BNDES through the issuance of BRL400 million promissory notes. By pre-paying these loans TAESA managed to significantly reduce both its cost of debt and foreign currency exposure.

On April 9, 2013, the regulator ANEEL approved the transfer to TAESA of the Company's direct interests in the electricity transmission concessionaires ECTE, ERTE, ENTE, ETEP, EATE, EBTE as well as its indirect interests in STC, Lumitrans, ESDE, and ETSE which were previously held by CEMIG and CEMIG-GT. TAESA disbursed BRL1,691 million (adjusted by the CDI index as of December 31, 2011, less dividends and/or interest on equity declared, whether paid or not). With this transaction, TAESA added 3,188 km to its asset base (an increase of approximately 50%).

On March 15, 2013, TAESA prepaid the loans from the BNDES to NTE, STE, ATE as well as the financing from a bank syndicate formed by Santander, Citibank and BNP Paribas. The total amount involved was BRL278.1 million.

On January 31, 2013, TAESA announced the full incorporation of its subsidiaries NTE, STE, ATE and UNISA. There was no increase in the Company's share capital, given that these entities were wholly-owned subsidiaries. Following a new instruction from the Brazilian securities and exchange commission (CVM) issued in December 2012 which determined the adoption of IFRS11, as of January 1, 2013 TAESA started to treat ETAU, Brasnorte and TBE as joint-ventures, thus reporting their financial results according to the equity method, as opposed to using the partial consolidation method.

Rating Rationale

The Ba2 issuer rating reflects TAESA's strong consolidated credit metrics for the rating category, which are supported by the stable and predictable cash flows as a result of its many long-term electricity transmission concession contracts. The rating also takes into account the evolving regulatory framework for the transmission sector in Brazil, which we consider relatively new and not fully tested. The historically high dividend payment level, which we expect will continue in our projections, affects leverage and liquidity in a significant way, the main drivers that constrain the ratings.

DETAILED RATING CONSIDERATIONS:

Regulatory Environment And Asset Ownership Model

Since TAESA is a regulated company, the quality of the Brazilian regulatory and political framework is a key factor in our assessment of TAESA's credit quality. We consider the regulatory framework for transmission companies in Brazil well developed, but with a limited track record and relatively untested with regard to certain procedures such as the indemnification of non-depreciated assets upon the non-renewal or termination of a concession.

The stable and predictable nature of the transmission sector results from the Permitted Annual Revenues (RAP), which are fixed capacity payments (i.e. based on availability of the transmission lines, and not on volume transmitted) throughout the concession period that have provisions for automatic annual adjustments for inflation.

On September 11, 2012, the Brazilian Federal Government issued the Provisional Measure 579 (MP579), later converted into Law 12,783 / 2013, which established the terms and conditions according to which generation, transmission and distribution companies could renew their concessions awarded prior to Law 8,987/1995 and scheduled to expire between 2015 and 2017, by accelerating their renewal to January 1, 2013. The broader objective of the Government was to reduce tariffs by 20%, on average, to final consumers. However, MP579 established very harsh conditions for generation and transmission companies by drastically reducing their revenue and cash flow generation capacity in exchange for the renewal of their concessions for an additional 30 years (starting on January 1, 2013). Given that TAESA's concessions as well as those of its subsidiaries were awarded after the enactment of Law 8,987, Law 12,783 did not have any impact on Taesa's concessions. With the exception of the Brasnorte, Sao Gotardo, EBTE, ESDE, ETSE and Mariana concessions (which were awarded after 2006), all of the other 22 concessions operated by TAESA were awarded between 1999 and 2006.

According to the current legal framework, these 22 concessions are entitled to annual inflation adjustments, and will not be subjected to periodic tariff reviews defined by the regulator - ANEEL. However, at their 16th year of operation, these concessions will have their RAPs halved, i.e. reduced by 50%. ETEO will suffer this decrease in RAP in October, 2016, ECTE will have its RAP decrease in March, 2017 and ETEP, in August 2017. In the case of the Brasnorte, Sao Gotardo, EBTE, ESDE, ETSE and Mariana concessions, these will undergo periodic tariff reviews every 5 years. ESDE had its first periodic tariff review in 2014 and both ETSE and São Gotardo will undergo their first periodic tariff reviews in 2017.

Operating Performance

TAESA has had a strong track record of operating performance with an average availability of 99.98% in 2013 and 99.97% in 2014. In the event of non-programmed interruptions and unavailability of the transmission grid, the Company is subject to penalties in the form of variable discounts of up to 12.5% of the scheduled RAP; the Company's historical average of variable discount is 1%. The potential risk of RAP discounts is mitigated by the increasing geographical diversification of TAESA's portfolio of concessions, and the fact that its transmission assets are relatively new with an average age of ten years. Given its relatively new asset base, maintenance CAPEX represents less than 5% of the regulated asset base which translates into a high rating for this factor in our methodology. Additionally, financial losses are mitigated by a contractual guarantee mechanism managed by the National System Operator (ONS), which provides protection against potential payment defaults.

Scale And Complexity Of Capital Program

TAESA has a well-developed asset base. CAPEX is primarily related to maintenance of about BRL 35 million per year according to the Company's projections. However, the Company may make larger investments on an opportunistic basis, such as bidding for a new transmission concession and/or acquiring stakes in other transmission companies.

Financial Policy

Despite the fact that TAESA has had a demonstrable track record of high dividend pay-outs , it is somewhat limited from seeking higher leverage by financial covenants embedded in the indenture of the 2nd debenture issuance with maturity in 2016. Based on said indenture TAESA's Net Debt/EBITDA ratio shall not exceed 3.5 times. In addition, as per Brazilian Corporate Law, companies cannot pay more than 95% of their net income as dividends.

Business Model Based On The Acquisition Of Transmission Assets

TAESA is exclusively dedicated to the operation of a portfolio of electricity transmission concessions, the business with the most stability in the Brazilian electricity sector. However, the mapping within this rating factor has been constrained by the high leverage as a result of the company's policy of making large distributions and its strategy of expanding its core business by both bidding for new concessions as well as acquiring stakes in other transmission companies on an opportunistic basis. We expect TAESA's expansion strategy to continue, albeit at a slower pace, driven primarily by CEMIG's interests, one of the key shareholders of the Company.

Key Credit Metrics

From 2014 to the LTM ended on 03/31/2015, leverage, as measured by the Net Debt-to-Regulatory Asset Value (RAV) ratio, increased to 64.4% from 60.3%; however, the interest coverage ratio ((Funds From Operations + Interest)/Interest) improved to 4.7x from 3.6x as did Retained Cash Flow to Debt from 7.2% to 11.4 while Funds From Operations (FFO) to Net Debt improved marginally to 36.8% from 34%. According to Moody's standard adjustments, in the LTM ended on 03/31/2015, EBITDA reached BRL1,690 million, slightly higher than BRL1,574 million registered in 2014. Therefore, provided the Company prudently manages dividend payments, we expect that TAESA's credit metrics will steadily improve as new operational cash flows continue to be added to the company's portfolio.

Liquidity Profile

Like most Brazilian companies, TAESA does not have committed banking facilities to help fund any unexpected cash disbursements, if needed. Notwithstanding, TAESA has been able to access the local capital markets via debenture issuances as well as financing from local private and public banks, such as the BNDES and CEF.

According to Moody's standard adjustments, as of March 31, 2015, TAESA had a consolidated cash & equivalents position of BRL 117.2 million against total short-term financial debt of BRL717 million due in the following 12 months, and gross financial debt of BRL4,108 million. Given that the majority of TAESA's financial debt is due in the longer term, and that the Company has a proven track record in successfully accessing both the capital markets and bank financing, we expect that TAESA will manage to maintain an adequate liquidity position over the next 12-18 months. If for some reason TAESA were unable to refinance its maturing debt, expected internal cash flow coupled with an appropriate reduction in dividends would provide sufficient funds to service its maturing debt obligations.

Since BNDES' loans contain restrictions regarding changes of control, TAESA's new acquisitions could result in a contractual breach triggering the acceleration of BNDES' outstanding debt. Nevertheless, TAESA has prepaid most of the loans from BNDES, therefore the potential impact is relatively small.

Forward Looking Perspective

We have used the following key assumptions for our 3-year forward looking projections, as per our rating methodology:

- For the calculation of the financial assets and the RAP, we considered the annual inflation adjustments by the IPCA or IGPM official indexes, pursuant to the respective concession contracts, and assumed a 50% reduction of the RAP value for ETEO (October/2016).

- The dividend pay-out ratio considered is the maximum permitted by law (95%), in line with the Company´s assumptions as well as with what the company has paid out historically.

- The 3-year average CAPEX amount considered in our projections is BRL 35 million, based on the Company ´s projections with a cost overrun of 5%. We did not consider any new acquisitions or concessions in our projections, based on the Company's projections.

Rating Outlook

The negative outlook for TAESA's ratings is in line with the negative outlook of Brazil's sovereign rating and reflects our view that the state cannot be rated higher than the sovereign government

What Could Change the Rating - Up

In light of the current rating action and the negative outlook, an upgrade of the ratings is unlikely in the near term.

What Could Change the Rating - Down

Further deterioration in the sovereign's credit quality could exert downward pressure on the ratings. A rapid deterioration in the company's credit metrics could also prompt a rating downgrade.

Other considerations

The principal methodology used in rating TAESA is "Moody's Regulated Electric and Gas Networks rating methodology", published in November, 2014. On a 12-18 month forward and longer term (3 years) view TAESA's rating grid model indicates an outcome of Baa2.

Rating Factors

Transmissora Aliança de Energia Eletrica S.A

Regulated Electric and Gas Networks Industry Grid [1][2]	**Current LTM 3/31/2015**		[3]**Moody's 12-18 Month Forward ViewAs of 7/29/2015**	
Factor 1 : Regulatory Environment and Asset Ownership Model (40%)	**Measure**	**Score**	**Measure**	**Score**
a) Stability and Predictability of Regulatory Regime	Ba	Ba	Ba	Ba
b) Asset Ownership Model	Baa	Baa	Baa	Baa
c) Cost and Investment Recovery (Ability and Timeliness)	A	A	A	A
d) Revenue Risk	Aa	Aa	Aa	Aa
Factor 2 : Scale and Complexity of Capital Program (10%)				
a) Scale and Complexity of Capital Program	A	A	A	A
Factor 3 : Financial Policy (10%)				
a) Financial Policy	Ba	Ba	Ba	Ba
Factor 4 : Leverage and Coverage (40%)				
a) FFO Interest Coverage (3 Year Avg)	3.3x	Baa	2.8x	Baa
b) Net Debt / RAB (3 Year Avg)	67.1%	Baa	78.7%	Ba
c) FFO / Net Debt (3 Year Avg)	24.7%	A	25.4%	A
d) RCF / Net Debt (3 Year Avg)	5.6%	Ba	5.6%	Ba
Rating:				
Indicated Rating from Grid Factors 1-4		Baa2		Baa3
Rating Lift				
a) Indicated Rating from Grid		Baa2		Baa3
b) Actual Rating Assigned		Ba2		

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 3/31/2015(L); Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures

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