

RatingsDirect®

Research Update:

Transmissora Alianca de Energia Eletrica 'BBB-' Global Scale And 'brAAA' National Scale Ratings Affirmed; Outlook Stable

Primary Credit Analyst:

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

Secondary Contact:

Sergio Fuentes, Buenos Aires (54) 114-891-2131; sergio.fuentes@standardandpoors.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria And Research

Ratings List

Research Update:

Transmissora Alianca de Energia Eletrica 'BBB-' Global Scale And 'brAAA' National Scale Ratings Affirmed; Outlook Stable

Overview

- Brazil-based electricity transmission company TAESA improved its credit metrics as we expected and have reached levels that are aligned with its rating category following higher debt to fund its acquisitions in 2012 and 2013.
- We are affirming our 'BBB-' global scale and 'brAAA' national scale corporate credit ratings on TAESA. At the same time, we affirmed the national scale 'brAAA' long-term issue rating on the company's debt.
- The stable outlook reflects our expectation that TAESA will maintain its solid credit metrics over the next few years despite high dividend pay-outs and potential acquisitions.

Rating Action

On Oct. 1, 2014, Standard & Poor's Ratings Services affirmed its 'BBB-' global scale and 'brAAA' national scale corporate credit ratings Transmissora Alianca de Energia Eletrica S.A.'s (TAESA). We are also affirming our national scale 'brAAA' long-term issue rating on TAESA's debt. The outlook is stable.

Rationale

The ratings on TAESA reflect our view of its "satisfactory" business risk profile and "adequate" liquidity. We also incorporate our expectation that the company will maintain its solid credit metrics.

Our assessment of TAESA's business risk profile reflects its solid competitive position due to its monopoly rights on large electricity transmission assets (about 9,884 km) in Brazil, proven and favorable regulatory framework that supports a stable and predictable revenue stream, very low counterparty risk, and efficient operations.

Electricity transmission represents the lowest risk in the Brazilian electric sector, in our view. TAESA faces no competition or demand risk, and its exposure to counterparty risk is very low. TAESA benefits from a permitted revenues model (Receita Annual Permitida; RAP), which establishes that a transmission concession receives annual inflation-adjusted revenues from users in the National Interconnected System (SIN) based on the availability of the lines, rather than the actual volume of power it transmits. In our view, this

shields the segment from the drought that has hit the Brazilian electricity sector since the end of 2012. Of a total 28 electricity transmission concessions that TAESA currently holds, 24 were contracted before 2006. These contracts stipulate that after 15 years of operation the regulator, Agencia Nacional de Energia Eletrica (ANEEL), will cut their revenues by 50%. This doesn't affect our analysis on TAESA over the next few years. On the other hand, only four of TAESA's concessions, which the company won after November 2006, are subject to regulatory tariff reviews, which we view favorably because it leads to stability and predictability of its revenues and cash flows.

TAESA's operating efficiency is superior to that of its local and global peers. The company has a strong track record in operating transmission assets in Brazil, which is reflected in availability rates above 99% and regulatory penalties below 1.5% of total revenues in the last seven years.

The company's credit metrics improved as we expected, supporting our assessment of an "intermediate" financial risk profile. After it took on more debt to finance acquisitions in 2012 and 2013, TAESA reported consolidated debt to EBITDA of 3.0x and funds from operations (FFO) to debt of 20% in the last 12 months ended June 30, 2014. Our base-case scenario projects debt to EBITDA to remain at 3.0x-3.5x and FFO to debt to continue to hold at 20%-25%. TAESA's aggressive dividend policy and acquisition-based growth strategy, which deplete its strong operating cash generation, somewhat limit the rating.

Companhia Energetica de Minas Gerais S.A. (Cemig; BB+/Stable/--) holds 42.4% of the voting shares of TAESA and investment fund FIP Coliseu (not rated) has 44.1%. We believe TAESA has some independence in terms of decision making and certain cash segregation from its main shareholders, therefore, the rating on Cemig doesn't limit the rating on TAESA.

Liquidity

We view TAESA's liquidity as "adequate." We expect sources of liquidity to exceed uses by at least 1.4x for the next 12 months. We also expect sources to exceed uses even if EBITDA declines by 10%. In our view, TAESA has the flexibility to reduce dividend payments in a stress scenario. TAESA has easy access to the bank and capital markets, as evidenced by the issuance of R\$2.16 billion debentures in October 2012 and, more recently, of R\$450 million term loans.

Principal Liquidity Sources:

- Consolidated cash and liquid investments of R\$ 121 million as of Dec. 31, 2013;
- FFO of about R\$800 million in 2014; and
- Debt issued in the first half of 2014 for about R\$450 million.

Principal Liquidity Uses:

- Debt maturities with early debt amortization of about R\$1 billion in 2014;

- Capital expenditures will remain low, at about R\$35 million for the coming years;
- TAESA will use about R\$200 million to pay for bids in 2014; and
- Above 90% dividend pay-out in 2014.

Outlook

The stable outlook reflects our opinion that TAESA will maintain its financial metrics aligned with its "intermediate" financial risk profile. We expect debt to EBITDA and FFO to debt to remain in the 3.0x-3.5x and 20%-25% ranges, respectively, over the next few years. In the short-term, we don't assume additional mergers and acquisitions or greenfield investments that could significantly weaken its financial metrics.

Upside scenario

We could raise the ratings if credit metrics improve further, leading to a debt to EBITDA consistently less than 3.0x, and FFO to debt consistently above 30%.

Downside scenario

We could lower the ratings if operating metrics decline considerably, leading to EBITDA margins of about 80% or if credit metrics deteriorate, with debt to EBITDA consistently greater than 3.5x and FFO to debt below 20%. We could also downgrade TAESA if liquidity becomes less than adequate or if financial flexibility deteriorates significantly as a result of additional acquisitions or a more aggressive than expected dividend policy.

Ratings Score Snapshot

Corporate Credit Rating

- | | |
|--------------------------------|-----------------|
| • Global scale: | BBB-/Stable/-- |
| • National scale: | brAAA/Stable/-- |
| Business risk profile: | Satisfactory |
| • Country risk: | Moderately high |
| • Industry risk: | Very low |
| • Competitive position: | Satisfactory |
| Financial risk profile: | Intermediate |
| • Cash flow adequacy/Leverage: | Intermediate |

Anchor Score: bbb-

Modifiers

- | | |
|-------------------------------------|--------------------------|
| • Diversification/Portfolio-effect: | Neutral (no impact) |
| • Capital structure: | Neutral (no impact) |
| • Liquidity: | Adequate (no impact) |
| • Financial policy: | Neutral (no impact) |
| • Management & governance: | Satisfactory (no impact) |

- Comparable rating analysis: Neutral (no impact)

SACP bbb-

Related Criteria And Research

Related Criteria

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Ratings List

Ratings Affirmed

Transmissora Alianca de Energia Eletrica S.A.

Corporate Credit Rating	BBB-/Stable/--
Brazil National Scale	brAAA/Stable/brA-1

Transmissora Alianca de Energia Eletrica S.A.

Senior Unsecured	brAAA
Commercial Paper	brA-1

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2014 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. 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.

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 acknowledgement 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 acknowledgement 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 nonpublic 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 (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.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.