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Research Update:

Transmissora Alianca de Energia Eletrica 'BB' Global And 'brAA-' National Scale Ratings Remain On Watch Negative

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Overview

- Brazil-based electric power transmission company Taesa is diversifying its growth strategy through new projects, which will demand about R\$2.8 billion investments in the next five years.
- We expect Taesa to continue posting low leverage in the next two years, but it will gradually increase as the company starts to build the new transmission lines.
- We're keeping our 'BB' global scale and 'brAA-' national scale ratings, both of which capped at the sovereign level, on CreditWatch with negative implications. Its 'bbb-' SACP remains unchanged.
- The CreditWatch negative listing on Taesa reflects that of the sovereign rating on Brazil.

Rating Action

On May 30, 2017, S&P Global Ratings kept its 'BB' global scale and 'brAA-' Brazil national scale corporate credit ratings on Transmissora Alianca de Energia Eletrica S.A. (Taesa) on CreditWatch with negative implications. The company's 'bbb-' stand-alone credit profile (SACP) remains unchanged. At the same time, our 'brAA-' issue-level rating on Taesa's third debentures' issuance of R\$2.2 billion in three series due 2024 remains on CreditWatch negative.

Rationale

The CreditWatch update reflects the ratings on the Federative Republic of Brazil (Brazil: BB/Watch Neg/B; brAA-/Watch Neg/--) cap on those on the company. In our view, Taesa has an appreciable likelihood of following the sovereign in a default scenario, as other companies that operate in a regulated environment. In this scenario, Taesa would be subject to tariff controls, and we believe that revenue collection and credit availability could suffer.

The regulatory framework in Brazil for electric power transmission segment is proven and favorable, allowing a stable and predictable revenue stream derived from the permitted revenues model (Receita Anual Permitida)[RAP]) related to the availability of the transmission lines, rather than the actual volume of power it transmits. In our view, this shields the segment from electricity

demand volatilities and an adverse macroeconomic scenario.

Taesca has recently shifted its growth strategy from acquisitions to one based on greenfield projects. This entails execution risk, but we expect the company to leverage on the expertise of its controlling shareholders. Taesca participated in the last three regulatory transmission auctions, because of higher rates of return and longer tenors (five instead of three years) to build these lines and some flexibility to perform the required investments. This, in our view, will help the company to replace cash flows of some of its transmission lines that are getting closer to the middle of their concession terms, when revenues are reduced by half, according to their concession contracts.

Taesca is planning to build seven new assets in the next few years (four of them in partnership with other players), which will require about R\$2.9 billion investments from the company that's likely to be mostly financed through new debt. In addition, we made the following assumptions in our base-case scenario:

- Revenues (RAP) will grow in line with our inflation forecast for Brazil of 4.2% in 2017 and 4.0% in 2018.
- RAP dropping by half for some assets: ETEP in 2017; TSN, NVT, Gtesa and EATE in 2018; Patesa, STE, NTE, and ERTE in 2019; and Munirah, ATE I, ETAU, ENTE and Transleste in 2020, according to contractual terms that require this reduction in the 16th year of these concessions.
- Investments of around R\$150 million in 2017 and R\$250 million in 2018, mostly for the construction of the new transmission lines.
- No acquisitions.
- A 100% dividend payout.

These assumptions should result in the following credit metrics:

	2015A	2016A	2017E	2018E
Adjusted EBITDA (Mil. R\$)	1,488.4	1,389.1	1,400-1,500	1,300-1,400
Debt/EBITDA (x)	2.3	2.1	2.0-2.3	2.2-2.5
FFO/debt (%)	25.0	33.9	30-35	25-30

A--Actual. E--Estimate

We expect Taesca to continue presenting low leverage in the next two years, but we believe it will gradually increase afterwards as the company starts increasing its investments on the new assets and RAP at some of its existing transmission lines will drop 50%.

Taesca will be jointly controlled by Companhia Energetica de Minas Gerais - CEMIG (B/Stable/--; brBB+/Stable/--) and Interconexión Eléctrica S.A.E.S.P. (ISA: BBB/Negative/--). In the end of 2016, FIP Coliseu and FIA Taurus sold

their controlling stake in Taesa to ISA, which will join the shareholders' agreement with CEMIG under the same terms and conditions, so we continue to view Taesa as a single group. The conclusion of the transaction is pending creditors' approval.

Liquidity

We expect Taesa's sources of cash to surpass its uses of cash by more than 10%, and the difference between them to remain positive if EBITDA in the next 12 months were to decline by 10%. In addition, we believe that Taesa will continue complying with its financial covenants on the second debentures' issuance, even if its EBITDA declines by 10%.

The company has good relationship with banks and access to debt markets, as seen in the sizable amount of debentures issued in the market. Although Taesa's operations are stable and predictable, which don't demand a large liquidity cushion, we believe Taesa will have the appropriate mechanisms to face any high-impact, low-probability event with limited need for refinancing because we believe it can reduce dividend payout and postpone investments in stressful periods.

Principal liquidity sources:

- R\$715.9 million in cash and liquid investments, as of March 31, 2017; and
- Around R\$1 billion of cash flow generation in the next 12 months.

Principal liquidity uses:

- Short-term debt maturities of R\$963.6 million in the next 12 months;
- Acquisition of CEMIG's Transmineira transmission lines for about R\$100 million;
- Minimum maintenance investments of about R\$15 million in the next 12 months; and
- Minimum dividend distribution.

CreditWatch

The CreditWatch negative listing of Teasa's ratings reflects that of the sovereign rating on Brazil, given that we believe that the ratings on the company are capped at the sovereign rating level.

Downside scenario

We expect to resolve Taesa's CreditWatch listing in connection with the resolution of that on the sovereign. If we downgrade Brazil, Taesa's ratings will move in tandem.

On a stand-alone basis, we could downgrade Taesa in the intermediate term if its FFO to debt is below 13% and debt to EBITDA above 4.5x, combined with a cushion of less than 10% on its sources of cash compared with its uses. This could happen if the investments in the transmission lines take longer than expected, delaying the collection of incremental cash flows, while dividend

payout remain at 100%.

Upside scenario

We expect Taesa's rating will remain capped at the sovereign level.

Ratings Score Snapshot

Corporate Credit Rating:

Global scale: BB/Watch Neg/--

National Scale: brAA-/Watch Neg/--

Business risk: Satisfactory

- Country risk: Moderately High
- Industry risk: Very Low
- Competitive position: Satisfactory

Financial risk: Intermediate

- Cash flow/Leverage: Intermediate

Anchor: bbb-

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: bbb-

Related Criteria

- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables, June 1, 2016
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: National And Regional Scale Credit Ratings, Sept. 22, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, 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

- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Related Research

- Brazil 'BB' Long-Term Ratings Placed On CreditWatch Negative On Increased Political Uncertainty , May 22, 2017
- Ratings On Several Brazilian Corporations Placed On CreditWatch Negative Following A Similar Action On The Sovereign, May 23, 2017

Ratings List

Ratings Affirmed

Transmissora Alianca de Energia Eletrica S.A.

Corporate Credit Rating

Global Scale

BB/Watch Neg/--

Brazil National Scale

brAA-/Watch Neg/brA-1

Senior Unsecured

brAA-/Watch Neg

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. 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 the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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