

Rating Action: Moody's affirms Taesa's ratings, changes outlook to stable

Global Credit Research - 24 Oct 2017

Sao Paulo, October 24, 2017 -- Moody's América Latina ("Moody's") today affirmed the Ba2 global scale ratings of Transmissora Alianca de Energia Eletrica ("Taesa" or "the company"). Moody's also revised Taesa's national scale ratings to Aa1.br from Aa2.br and to A1.br from A2.br, respectively for the senior unsecured and subordinated ratings.

The outlook is stable on all ratings.

ISSUER AND RATINGS AFFECTED

Transmissora Alianca de Energia Eletrica

-- Corporate Family Ratings and senior unsecured debt ratings affirmed at Ba2 (Global Scale) and revised to Aa1.br from Aa2.br (Brazil National Scale)

-- Subordinated debt ratings affirmed at Ba3 (Global Scale) and revised to A1.br from A2.br (Brazil National Scale)

-- Outlook: changed to stable from negative

RATINGS RATIONALE

The revision and outlook stabilization follows Taesa's successful issuance of BRL 543 million in debentures that will cover the company's 2017 debt maturities and future investments. The action reflects our expectations that the company's credit metrics will remain robust, driven by a very stable and predictable cash flow profile inherent to the transmission sector in Brazil.

Taesa's Ba2/Aa1.br corporate family rating (CFR) further reflects (i) the company's large scale and high geographic diversification of assets, (ii) robust and growing credit metrics for the rating category evidenced by a Funds from Operations (FFO) to net debt of 43.4% and FFO interest coverage of 5.7x in the last twelve months ended 30 June 2017, (iii) access to debt and capital markets as shown by the recent issuance of the 4th debentures; and (iv) a relatively supportive regulatory framework.

Taesa's CFR is constrained by (i) the expected increase in capital expenditures following the company's won auctions which, together with limited track record in implementing large greenfield projects simultaneously, points to risk of cost overruns, (ii) the prospects of a reduction in regulated revenues ("RAP") from 2018 onwards as per the concessions contracts; (iii) the company's intention to pursue external growth through debt-financed acquisitions of brownfield or greenfield projects which could result in a re-leveraging event; and (iv) a track record of high dividend payouts above 90% which absorbs a material part of cash flow generation.

Moody's views Taesa's credit profile as strongly linked to that of the sovereign to the extent that the company is exposed to the same economic revenue base and subject to government policies.

Taesa's liquidity profile is adequate. As of 30 June 2017 the company had BRL 728 million in available cash (including marketable securities) and BRL 1 billion in debt maturing in the next 12 months. In October 2017, the company issued two debentures for a total of BRL 543 million, the proceeds of which will be used to refinance debt maturing in 2017 and to cover capital expenditures needs. The agency expects that the company's strong cash flow profile and ability to reduce historically high dividend payouts will enable the company to build up its cash position and, in conjunction with good access to capital markets, to cover its upcoming debt maturities on a timely basis.

WHAT COULD CHANGE THE RATING UP/DOWN

An upgrade of Brazil's sovereign bond rating of Ba2 could result in an upgrade of Taesa's ratings.

Conversely a rapid deterioration in the company's credit metrics such that FFO to Net Debt falls below 20%

and FFO interest coverage remains sustainably below 4.0x could prompt a rating downgrade. Further deterioration in the sovereign's credit quality could also exert downward pressure on Taesa's ratings.

Taesa is a power transmission company operating and maintaining around 11,972 km of high voltage (230 to 525kV) transmission lines through 34 concessions with an average life of 30-year. The company directly controls 10 concessions, and operates the remaining 24 concessions through equity participations in the companies TBE (through a 48% equity participation- company holds 14 concessions), Brasnorte (39%), Etau (53%), Ate III (100%) and Sao Gotardo (100%); as well as in 6 other concessions still in construction phase.

Taesa is controlled by Cemig (B2/Ba1.br; negative) and Interconexión Eléctrica S.A. E.S.P (Baa2, stable) which own 31.5% and 14.9% of Taesa's total capital, respectively. The remaining 53.6% shares are free float, traded on the local stock market (BM&FBOVESPA).

The principal methodology used in these ratings 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 this methodology.

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