

**Rating Action: Moody's affirms EDB's CFR and upgrades senior unsecured debt; outlook stable**

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22 May 2019

Sao Paulo, May 22, 2019 -- Moody's América Latina Ltda., ("Moody's") has today affirmed EDP -- Energias do Brasil S.A.'s (EDB) corporate family ratings at Ba2 on global scale rating and Aa2.br on the Brazilian national scale (NSR). At the same time, Moody's upgraded EDB's senior unsecured debentures to Ba2/Aa2.br from Ba3/A1.br. The outlook remains stable.

list of affected ratings is provided towards the end of this press release.

**RATINGS RATIONALE**

These rating actions reflect Moody's updated views on EDB's credit profile amid the company's growing capital investments and evolving capital structure.

EDB's Ba2/Aa2.br corporate family ratings reflect the company's long operating track record in the Brazilian electricity sector, with a diversified business portfolio that includes activities in the electricity distribution, power generation, energy commercialization and, more recently, electricity transmission sectors. The ratings incorporate the company's robust financial profile, adequate liquidity profile, access to diversified funding sources and strong credit metrics. Moody's views Brazil's regulatory framework for electricity companies as reasonably well-developed and supportive. The ratings consider the benefits of EDP - Energias de Portugal, S.A. (EDP - Portugal, Baa3 stable) ownership of EDB on governance, but do not incorporate any uplift for parental financial support.

EDB's global scale corporate family rating is constrained by the Government of Brazil's (Ba2 stable) bond rating. Moody's notes the company's intrinsic links with the sovereign credit quality because of its local customer base and the regulated nature of its business. EDB's credit profile is also tempered by the execution risks associated with the development of its new transmission assets through 2021 and the growing consolidated leverage to support those investments. The ratings also incorporate Moody's expectation of continued large capital spending requirements to upgrade the distribution network and maintain or improve qualitative of indicators of EDB's utilities following their periodic regulatory reviews in 2019, in addition to a moderate exposure to hydrological risks at the power generation subsidiaries.

With these rating actions, EDB's senior unsecured debt ratings are now at the same level as the company's corporate family ratings, reflecting the limited amount of structural subordination that currently exists within the consolidated organization. Moody's notes that the holding company has a low level of debt relative to total consolidated debt. The operating subsidiaries' also show moderately low leverage. Importantly, we anticipate a reduction in EDB's overall business risk profile and more diverse sources of cash flow, limiting, in Moody's view, structural subordination considerations.

As of March 31, 2019, EDB had long-term parent level debt obligations of BRL554 million, or about 7% of EDB's consolidated long-term total debt of approximately BRL7.5 billion, a substantial decrease from the 21% observed in 2016. As a non-operating holding company, EDB depends on cash distributions from its operating subsidiaries to meet debt service. Despite the economic downturn and unfavorable hydrologic conditions in recent years, operating company dividends remained strong in the range of BRL500-800 million per year since 2016, solidly covering parent company debt service. Over the next five years, we expect that annual dividends to the holding company will remain robust supporting both the service on its existing debt and the bulk of equity requirements for new developments.

EDB is committed to further improve its business diversification through investments in transmission lines. In May 2017, the company won four lots of power transmission licenses auctioned by Brazil's National Electric Energy Agency (ANEEL), comprising 1,184 km of new transmission lines involving about BRL3.1 billion investments through 2022. In 2016, the company also won the auction for a 113 km project in the State of Espírito Santo, which began operations in December 2018, 20 months before the regulatory schedule. EDB expects the transmission business to represent around 22% of the consolidated EBITDA by 2022. These new concessions are credit positive for EDB because they provide the company with greater and more stable cash

flow generation owing to the availability-based revenues provided by regulated contracts' 30-year terms.

On the other hand, EDB's consolidated leverage has been gradually increasing with its growing investment rate, as indicated by a Moody's calculated net debt-to-EBITDA ratio of 2.2x in 2018, up from 1.9x in 2016. Moody's expect the EDP group's leverage will peak over the next 12-18 months, but will remain below 2.5x. The anticipated deterioration in credit metrics incorporates relatively higher leverage to support sizable investments, tempered by a combination of gradual economic recovery, favorable regulatory tariff adjustments and a manageable exposure to hydrological risks. EDB's consolidated credit metrics are expected to recover to historical levels in 2022-2023.

## RATINGS OUTLOOK

The stable outlook on EDB's ratings in line with that on Brazil's sovereign rating, and it also reflects our expectation that the company's credit metrics will remain well positioned for the rating category over the next 12 to 18 months, although relatively lower than the historical levels.

## WHAT COULD MOVE THE RATING UP/DOWN

EDB's global scale ratings are currently constrained by Brazil's sovereign rating; therefore, a rating upgrade is unlikely at this time. A rating upgrade on the national scale or a change in outlook to positive would depend on a sustained improvement in the company's relevant credit metrics and liquidity profile, or a material improvement in the regulatory frameworks under which EDB operates. Quantitatively, the ratings could be upgraded if the company's CFO pre-WC/debt ratio increases above 40% (26.3%, as of 2018 year-end), and the interest coverage stays above 4.5x (4.6x, as of 2018 year-end), for a prolonged period.

Alternatively, the ratings could be downgraded if there is a deterioration in EDB's credit metrics, for example, as a result of weaker-than-anticipated growth in its electricity businesses or higher than anticipated leverage. A perception of reduced support from the regulatory framework to electricity companies in Brazil, or material delays or cost overrun associated with its Greenfield transmission investments would also drive negative pressure on EDB's ratings. Quantitatively, the ratings could be downgraded if the CFO pre-WC/debt falls below 20%, or the interest coverage stays consistently below 3.0x. A sustainable increase in the proportion of parent company debt above 15% or reduced flexibility in the company's ability to upstream cash from its operating subsidiaries could also result in negative pressure on EDB's senior unsecured debt ratings.

## LIST OF AFFECTED RATINGS

Issuer: EDP - Energias do Brasil S.A.

..Affirmations:

...Corporate Family Rating: Ba2 (global scale) and Aa2.br (National Scale Rating)

..Rating changes:

.... Senior Unsecured debentures due in September 2021 and 2024 (4th issuance): upgraded to Ba2/Aa2.br from Ba3/A1.br

.... Senior Unsecured debentures due in April 2022 (5th issuance): upgraded to Ba2/Aa2.br from Ba3/A1.br

The outlook remains stable

## COMPANY PROFILE

Headquartered in São Paulo, Brazil, EDP- Energias do Brasil S.A. (EDB) is a nonoperational holding company, with activities in the distribution, generation, commercialization and transmission of electricity in Brazil. In 2018, the company distributed 24.7 terawatt hour of electricity per year to around 3.4 million clients in the State of Sao Paulo (Ba2 stable) and the State of Espirito Santo, and reported about 2.9 gigawatts of installed capacity in six states. The company also holds concessions to develop 1,300 kilometers of transmission lines in five different states and has a minority ownership stake of 23.56% in Centrais Eletricas de Santa Catarina S.A. (Celesc, Ba3/A1.br positive), an electricity company in the state of Santa Catarina. In 2018, EDB reported consolidated net revenue of BRL12.8 billion, excluding BRL1.1 billion of construction revenue, and net profit of BRL1.3 billion.

EDB is ultimately controlled by EDP - Portugal, through indirect stakes amounting to 51.2% of EDB's equity

capital.

## RATING METHODOLOGY

The principal methodology used in these ratings was Regulated Electric and Gas Utilities published in June 2017. Please see the Rating Methodologies page on [www.moodys.com.br](http://www.moodys.com.br) for a copy of this methodology.

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