MOODY'S
INVESTORS SERVICE

CREDIT OPINION
25 April 2016

Update

Rate this Research

RATINGS

Energest S.A.

Domicile	Brazil
Long Term Rating	Ba2
Type	LT Issuer Rating - Dom Curr
Outlook	Negative

Please see the ratings section at the end of this report for more information.The ratings and outlook shown reflect information as of the publication date.

Energest S.A.

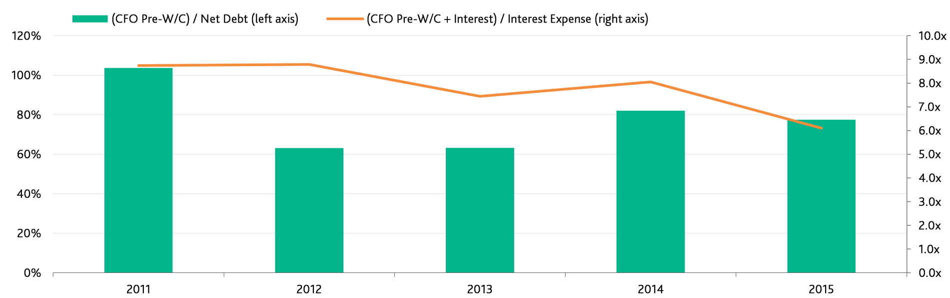
Credit Opinion

Summary Rating Rationale

Energest's Ba2/Aa2.br issuer ratings reflect the company's strong credit metrics and expertise in operating hydro plants and the implicit support of its parent shareholder, EDP Energias do Brasil S.A. (EDB; Ba3/A2.br negative).

Energest's ratings are constrained by Brazil's Ba2 sovereign bond rating as well as by the high concentration of sales in one single client, EDP Comercialização e Serviços de Energia Ltda (not rated), that represents around 70% of the company´s energy supply contracts. Energest has a history of high dividend payments and, more recently, executing capital splits.

Exhibit 1
Leverage and Coverage



Source: Moody's Financial Metrics™

Credit Strengths

- Relatively stable and predictable cash flows supported by medium-term supply contracts
- Low leverage
- Good access to local banking and capital markets

Credit Challenges

- Risk associated with exposure to the spot market
- High concentration in one single client (EDB's affiliate EDP Comercializadora)
- High dividend pay-out ratio expected over the next three years

Rating Outlook

Moody's would consider revising Energest´s outlook to stable if its parent company EDB improves its liquidity position and at the same time achieves consolidated credit metrics commensurate with the implicit consolidated Ba2/Aa2.br ratings. The stabilization of Brazil's sovereign rating outlook could also lead to a stabilization of Energest's outlook.

Factors that Could Lead to an Upgrade

In light of the negative outlook, Moody´s does not expect upward rating pressure in the short to medium term.

Factors that Could Lead to a Downgrade

Moody's could downgrade Energest's ratings and the debentures if the company executes further capital splits or pays higher dividends than expected so that there is a pronounced deterioration of its credit metrics. Quantitatively, there would be pressure for a downgrade rating action if retained cash flow over debt becomes negative and interest coverage falls below 3.5X on a sustained basis. A downgrade of Brazil's sovereign bond rating could also prompt a downgrade.

Key Indicators

Exhibit 2

Energest S.A. -Private

	12/31/2015	12/31/2014	12/31/2013	12/31/2012	12/31/2011
(CFO Pre-W/C + Interest) / Interest	6.1x	8.1x	7.4x	8.8x	8.7x
(CFO Pre-W/C) / Net Debt	77.5%	82.0%	63.2%	63.1%	103.7%
RCF / Net Debt	-7.1%	33.4%	23.6%	-5.3%	86.2%
(CFO Pre-W/C) / Debt	53.8%	68.9%	54.2%	52.5%	57.6%
RCF / Debt	-4.9%	28.1%	20.2%	-4.4%	47.8%

[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™

Detailed Rating Considerations

RISK ASSOCIATED WITH THE EXPOSURE TO THE SPOT MARKET

In line with other Brazilian hydro generation companies, Energest is bound to post significantly lower costs associated with its exposure to the spot market over the next couple of years in comparison with the previous two years. This will result from our expectation of a lower GSF that is estimated to be above 0.90 in the 2016-217 period coupled with lower spot prices (PLD), which should average BRL 80 per megawatt hour over the same period.

Based on these assumptions, Energest's costs associated with exposure to the spot market should not exceed BRL 8 million in 2016 or around 4% of the company's projected net revenues and 7% of its expected EBITDA for the year. These assumptions are relatively conservative in that the current energy oversupply that the Brazilian electricity sector has been facing will not materially change over the short-to-medium term horizon given our expectation of continued low consumption fueled by the economic recession, increased installed capacity coming on line and the regularization of the most important hydro water reservoirs in the southeast of the country.

CASH FLOW SUPPORTED BY MEDIUM-TERM SUPPLY CONTRACTS BUT CONCENTRATED IN ONE SINGLE OFFTAKER

Energest has gradually moved from the safer regulated market, consisting of long-term energy supply contracts to the regulated distribution companies, to the unregulated market largely composed of large industrial free consumers with tenors typically between two and five years.

EDP Comercializadora represents around 70% of total volume sales. EDP Comercializadora is also a wholly owned subsidiary of EDB (EDB; Ba3/A2.br; negative) and is a pure electricity trading company that plays a strategic role within the EDB group. Most of the large industrial consumers that migrated from the regulated markets served by affiliates Bandeirante and Escelsa to the free market over the past several years have signed bilateral supply contracts with EDP Comercializadora.

Under normal circumstances, we expect that Energest will post strong cash flows as measured by CFO (cash from operations) over the next three years as a result of relatively stable operating margins, which are underpinned by medium-term electricity supply contracts mostly in the unregulated market. Accordingly, we estimate that the CFO - WC over debt ratio could exceed 80% while interest coverage will average 5.8x in the same period.

The major downside risks of this projection are higher exposure to the spot market than what we are forecasting of around 10% in 2016 and 5% in 2017 and/or that the company's current hedging strategy is not as efficient as it was in 2014 and 2015 to offset the company's exposure to the spot market.

We do not rule out that in light of an expected gradual reduction in the company's debt over the next three years, Energest will distribute higher dividends than what we are projecting or execute capital splits. Under this scenario, Energest's credit metrics will deteriorate but remain within manageable levels so that the company complies with the existing net debt to EBITDA ratio of 2.5x.

MAIN CASH FLOW OUTLAYS FROM PAYMENT OF DIVIDENDS

We have assumed a high 100% dividend payout ratio throughout the projected period. While this may appear to be a relatively conservative assumption, we believe that this ratio is likely assuming that the company is able to meet certain existing financial covenants embedded in some of its lending contracts and that it is able to maintain adequate access to long-term funding to meet its main cash outlays as envisaged in our projections.

We believe that Energest will distribute the maximum amount of dividends possible but within the legal limits determined by CVM or allowed by ANEEL without jeopardizing its current strong capital structure. The risk of breaching the current Net Debt/EBITDA financial covenant of 2.5x embedded in the company's indenture is very low over the medium term in our view. In 2015, this ratio was 1.1x as calculated by the parameters determined in the debentures, which provides the company with substantial room to potentially increase its leverage.

Liquidity Analysis

Like most Brazilian companies, Energest does not have committed banking facilities to meet any unexpected cash disbursement needs. Despite this limitation, we deem Energest's liquidity position as adequate given EDB's proven resilient access to the local banking and capital markets. In addition, Energest held a healthy consolidated cash position of BRL 50 million, which covers most of its short-term debt of BRL 66 million as of December 31, 2015.

We conservatively estimate that Energest will post positive free cash flow over the next two years in spite of the expected high distribution of dividends because of its healthy CFO and lower capital expenditures going forward. The major downside risk for this forecast is the company's execution of a capital split or the distribution of larger dividends.

Profile

Energest, a wholly owned subsidiary of EDB, is a hydro generation company with an installed capacity of 198 MW (138.5 MW of physical energy) consisting of one single hydro power plant located in the state of Espírito Santo. In 2015, Energest posted consolidated net sales of BRL290 million, EBITDA of BRL 137 million which included BRL 33 million of equity income and cash interest income of BRL 3 million, and net profit of BRL82 million.

Rating Methodology and Scorecard Factors

Exhibit 3

Energest S.A. -Private

Unregulated Utilities and Unregulated Power Companies Industry Grid [1][2]	Current FY 12/31/2015		Moody's 12-18 Month Forward View As of 4/20/2016 [3]	
Factor 1 : Scale (10%)	Measure	Score	Measure	Score
a) Scale (USD Billion)	Caa	Caa	Caa	Caa
Factor 2 : Business Profile (40%)				
a) Market Diversification	Ba	Ba	Ba	Ba
b) Hedging and Integration Impact on Cash Flow Predictability	Baa	Baa	Baa	Baa
c) Market Framework & Positioning	Ba	Ba	Ba	Ba
d) Capital Requirements and Operational Performance	Baa	Baa	Baa	Baa
e) Business Mix Impact on Cash Flow Predictability		NA		
Factor 3 : Financial Policy (10%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Factor 4 : Leverage and Coverage (40%)				
a) (CFO Pre-W/C + Interest) / Interest (3 Year Avg)	7.2x	Baa	4.9x	Baa
b) (CFO Pre-W/C) / Net Debt (3 Year Avg)		NA		
c) RCF / Net Debt (3 Year Avg)		NA	39.7%	A
b) (CFO Pre-W/C) / Debt (3 Year Avg)	58.8%	A	61.7%	Aa
c) RCF / Debt (3 Year Avg)	14.5%	Ba	13.4%	Ba
Rating:				
a) Indicated Rating from Grid		Baa3		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 12/31/2015
[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
Source: Moody's Financial Metrics™

Ratings

Exhibit 4

Category	Moody's Rating
ENERGEST S.A.	
Outlook	Negative
Issuer Rating -Dom Curr	Ba2
Senior Unsecured -Dom Curr	Ba2
NSR Senior Unsecured	Aa2.br
NSR LT Issuer Rating	Aa2.br

Source: Moody's Investors Service

Recent Developments

On April 19, 2016, Moody's América Latina Ltda assigned a Ba2 rating on the global scale and Aa2.br on the national scale to the senior unsecured amortizing debentures of BRL 90 million to be issued by Energest S.A. in the local market. At the same time, Moody's affirmed Energest's Ba2/Aa2.br issuer ratings. The outlook is negative for all ratings.

On February 25, 2016, Moody's downgraded Energest S.A.'s issuer ratings to Ba2/Aa2.br from Baa3/Aa1.br, under review for downgrade on the global scale and on the national scale rating, respectively. Outlook was changed to negative. At the same time, the ratings on the BRL 120 million senior debentures due 2017 were downgraded to Ba2/Aa2.br from Baa3/Aa1.br on the global scale and on the national scale rating, respectively.

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

On January 5, 2016 Energest filed with the regulator ANEEL a request to adhere to the new law 13, 203 on the renegotiation of the hydrological risk, which was formally approved at the end of month of January.

On December 10, 2015, Moody's placed Energest`s ratings under review for downgrade following the placement of Brazil's issuer and bond ratings under review for downgrade on December 09, 2016.

On July 9, 2015, EDP – Energias do Brasil (EDB) requested the regulator ANEEL to approve the spin-off of Energest's assets related to its equity participation in three hydro generation subsidiaries Costa Rica, Santa

Fé and Pantanal, which was formally approved in February 2016. These assets represented around one third of Energest's consolidated hydro generation capacity.

Corporate Governance

As part of the EDB group, the company's corporate governance practices are largely dictated by its parent. The quality of information contained in its audited quarterly and annual financial statements is considered adequate as is the level of disclosure provided by management. EDB has corporate governance practices that are above the average of Latin American issuers. EDB is a publicly listed company with shares traded on the Novo Mercado of Bovespa.

EDB's Board of Directors is made up of eight members, of which four are considered independent. The board relies on four support committees: Audit, Sustainability, Corporate Governance and Related Parties, and Compensation. The Audit, the Sustainability and the Corporate Governance and Related Parties Committees are permanent in nature and are comprised of three members where at least one is independent. There is also a Fiscal Council composed of three members and three alternates elected for a maximum term of one year; however, it is non-permanent and convened only when requested by shareholders.

REPORT NUMBER 1024583

MOODY'S
INVESTORS SERVICE