

ISSUER COMMENT

14 August 2020

 Rate this Research

RATINGS

AES Tiete Energia S.A.

Long Term Corporate Family Rating	Ba2/Aa1.br
Senior Unsecured	Ba2/Aa1.br
Senior Secured	Ba2/Aa1.br
Outlook	Stable

Source: Moody's America Latina

KEY METRICS:

AES Tiete Energia S.A.

	2018	2019	June 2020
(CFO Pre-W/C + Interest) / Interest Expense (3 Year Average)	3.5x	3.6x	3.6x
(CFO Pre-W/C) / Debt (3 Year Average)	20.8%	18.9%	18.4%
RCF / Debt (3 Year Average)	4.7%	8.3%	8.9%

[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™

Contacts

Aneliza Crnugelj +55.11.3043.6063
AVP-Analyst
aneliza.crnugelj@moody.com

Bruno Britto 551130437343
Associate Analyst
bruno.britto@moody.com

Alejandro Olivo +1.212.553.3837
Associate Managing Director
alejandro.olivo@moody.com

AES Tiete Energia S.A.

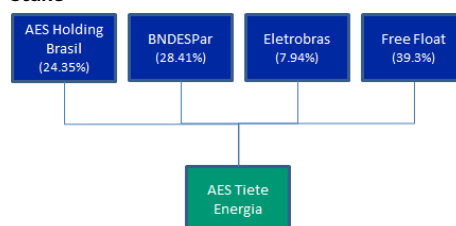
Recent developments are overall positive with short term impact on leverage

Change in shareholder's structure should not affect leverage and is positive for the business strategy

AES Tiete Energia S.A. ("AES Tiete, "company", Ba2/Aa1.br) concluded a shareholder structure change last week. The group's ultimate holding AES Corporation (Ba1, stable) increased its participation in the Brazilian operations to 42.9% (from 24.4%) by acquiring a stake of 18.5% from BNDES.

Exhibit 1

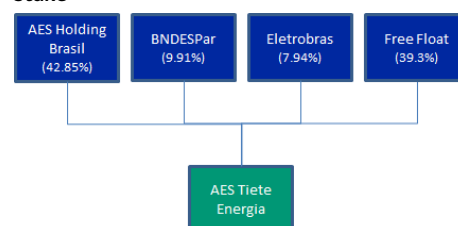
Before AES Corporation acquisition of BNDES stake



Source: Company

Exhibit 2

After AES Corporation acquisition of BNDES stake



Source: Company

The acquisition was made through an intermediate holding (AES Holdings Brasil II Ltda.), fully owned by AES Corporation with a BRL 1.27 billion payment funded by a combination of cash and debt secured non-recourse at the intermediate holding level. AES Tiete's dividends are the main source to service the debt.

We understand this structure does not impact AES Tiete's leverage since:

- » There is no cross default between the company and this debt and we assume the entities will not incur new debt containing cross default provisions;
- » Our base case scenario already incorporated 100% dividend payout from AES Tiete, so there is no additional cash leakage from the shareholder change;
- » According to our projections, there is adequate coverage (1.5x to 2.5x) from AES Tiete's dividend flow to service the intermediate holding debt, limiting the risk of pressure for additional cash transfers;
- » AES Tiete's outstanding debt stipulates a Net Debt/EBITDA covenant of 3.85x.

Nonetheless, the intermediate holding debt solely reliance on AES Tiete's dividends to service principal and interest translates into less flexibility from AES Tiete to cut dividends in case of need of additional cash/liquidity.

AES Corporation acquisition excludes the potential hostile takeover from Eneva S.A., maintaining the company's strategy to diversify its power generation portfolio into wind/solar power generation, mitigating its exposure to hydrological risk while maintaining a portfolio focused on renewable energy sources. Also, we see the acquisition as a demonstration of support and importance of the local operation to AES Corporation's global strategy.

Acquisition of Ventus wind power complex has minor impact on leverage

Last week, AES Tiete also acquired a wind power complex from J. Malucelli Energia S.A. (J. Malucelli), totaling 187 MW of installed capacity in the northeast region of Brazil (Rio Grande do Norte state). The acquisition adds another 5% capacity to the company's generation capacity and about BRL 80 million yearly EBITDA.

AES Tiete will perform an equity payment of BRL 449 million for the acquisition, half in 2020 and the remaining in 2021. The complex has a net debt of about BRL 201 million, increasing the company's total debt by 4% (BRL 4.9 billion in June 2020, as per Moody's standard adjustments). We consider AES Tiete will fund this acquisition with a combination of the current cash position and additional leverage if needed.

The complex is operational since 2014, with a fully contracted revenue profile through a 20-year take or pay contract with CCEE (Brazilian Electricity Clearing House) hired under the 2009 energy reserve auction (LER 2009), in which the average contracted electricity price is adjusted by the IPCA inflation index on a yearly basis (at average BRL 269.3 per MWh as of June 2020). The energy is paid by CCEE through the Reserve Energy Fee (ERR) charged from all electricity consumers within the national integrated system (SIN).

Resolution of the Judicial dispute adds to lower credit metrics in the short-term

A major driver of the projected leverage increase in the short term is our forecast that still this year the company will fully pay the BRL1.1 billion provisioned amount derived from its spot market exposure judicial dispute. Under such scenario, our projected net debt/EBITDA could increase to up to 3.5x from 2.4x as of June 2020. We do not incorporate any EBITDA compensation in this projection, which is pending Aneel's resolution. AES Tiete's most restrictive financial covenant among the outstanding debt stipulates the Net Debt/EBITDA must be maintained at levels equal or below 3.85x while interest coverage above 1.5x.

The law project that regulates this matter was just approved by Senate however the details around payment outflow and compensation by lengthening the concession period are dependent on Aneel, which should be announced up to year end.

The company reported a strong cash position of BRL 2 billion as of June 2020, which we understand is adequate to meet this obligation, in case of need.

Moody's related publications

[AES Tiete Energia S.A. - Credit opinion](#)

[AES Corporation, \(The\) - Update to credit analysis](#)

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

© 2020 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND/OR ITS CREDIT RATINGS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S INVESTORS SERVICE DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S INVESTORS SERVICE CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454