

ISSUER COMMENT

14 August 2020

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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™

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AES Tiete Energia S.A.

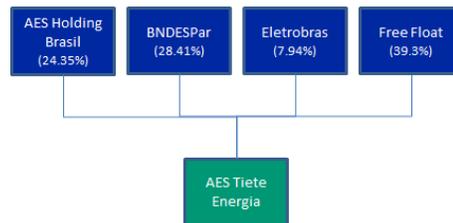
Recent developments are overall positive with short term impact on leverage

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

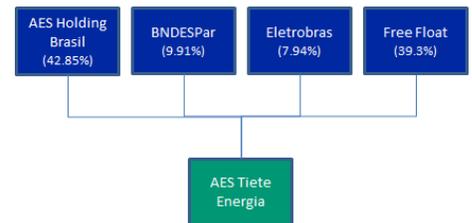
Before AES Corporation acquisition of BNDES stake



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](#)

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