



Fitch Affirms Engie Brasil's Ratings Following TAG Acquisition; Outlook Stable

Fitch Ratings-Rio de Janeiro-09 April 2019: Fitch Ratings has affirmed Engie Brasil Energia S.A.'s (Engie Brasil) Foreign Currency (FC) and Local Currency (LC) Issuer Default Ratings (IDRs) at 'BB' and 'BBB-', respectively, and its National Scale Rating at 'AAA(bra)'. The Rating Outlook is Stable. A full list of rating actions follows at the end of this press release.

KEY RATING DRIVERS

Fitch believes Engie Brasil's announced acquisition of 29.25% of Transportadora Associada de Gas S.A. (TAG) while meaningful does not change its robust credit fundamentals. The company will maintain a strong financial profile with net debt-to-EBITDA ratio below 3.0x, which is consistent with its IDRs, and presents proven financial flexibility to finance this acquisition. Fitch also expects the acquisition to strengthen Engie Brasil's business profile due to TAG's very predictable operations and long-term contracts with its sole client Petroleo Brasileiro S.A. (Petrobras; FC and LC IDRs 'BB-/Stable).

TAG is the largest natural gas transporter in Brazil with a pipeline infrastructure of approximately 4,500 km. It extends throughout the coastline of the Southeast and Northeast regions of the country and connects Urucu (petroleum fields in the Amazon) and the City of Manaus in the State of Amazonas. As of 2017, net revenues and EBITDA of BRL4.6 billion and BRL4.3 billion, respectively, represented an EBITDA margin of 93%. The mature stage of the assets and reduced variable costs of the natural gas transportation segment benefit the company's business profile. TAG's contracts are based in ship-or-pay agreements with Petrobras, without demand risk.

On April 5, 2019, Engie Brasil, together with Engie S.A. (IDR 'A'/Stable), its final controlling shareholder, and Caisse de Depot et Placement du Quebec Canadian (CDPQ) were the winners through a consortium for the acquisition of a 90% stake in TAG with Petrobras retaining 10%. The acquisition will occur through Alianca Transportadora de Gas Participacoes S.A. (Alianca). Engie Brasil holds a direct participation of 32.5% in Alianca. The final binding offer represented an Enterprise Value of BRL35.1 billion (USD9.1 billion) to 100% of TAG, using the base date of Dec. 31, 2017. The transaction is expected to close in May 2019 after approval of the precedent conditions.

This transaction will be 70% financed by project finance at Alianca (BRL22.1 billion), guaranteed by TAG's contracts with Petrobras. The remaining 30% will come from equity contribution from the three shareholders of Alianca. In the case of Engie Brasil, the equity contribution estimated at BRL3.5 billion will be financed through corporate debt. Fitch believes that Engie Brasil's proved financial flexibility and large access in the local market debt will enable timely raising of the transaction amount, including a bridge loan and the long-term final structure. On a pro forma basis, considering that Engie Brasil will neither consolidate Alianca nor guarantee its debt, its net debt-to-EBITDA ratio should increase to 2.4x in 2019 from Fitch's previous base case projection of 1.6x. At the end of 2018, Engie Brasil presented EBITDA of BRL4.3 billion and gross and net leverages of 2.2x and 1.6x, respectively.

Engie Brasil's ratings reflect its prominent market position as the largest private electric energy generation company in Brazil with a sizeable and diversified portfolio, operational efficiency and robust operating cash flow generation benefited by the existence of long-term power purchase agreements with its clients. The company also benefits from a conservative financial profile with historical low leverage and strong financial flexibility to deal with new debt needs resulting from investments in its asset growing cycle.

Engie Brasil's FC IDR is constrained by Brazil's country ceiling of 'BB', as the company generates all of its revenues in local currency (BRL), with no cash and committed credit facilities abroad. The analysis does not incorporate any potential support from the parent company. Fitch also considers the three-notch difference between the company's LC IDR and the sovereign rating as appropriate due to its regulated nature. The Stable Outlook for the FC and LC IDRs follows the same Outlook of Brazil's 'BB-' sovereign rating. Fitch also expects Engie Brasil will be able to sustain its solid consolidated credit profile over the next few years despite a period of higher investment levels, which also supports the Stable Outlook for the National Scale rating.

DERIVATION SUMMARY

Engie Brasil's FC IDR 'BB'/Stable is three notches below peers in Latin America, such as Emgesa (BBB/Stable), the second largest generation company in Colombia, and Engie Chile (BBB/Stable), the fourth largest generator in Chile, primarily as a result of the Brazilian country ceiling at 'BB'. Emgesa and Engie Chile benefit from a better economic environment in investment grade countries. Engie Brasil's 'BBB-/Stable' LC IDR is comparable to these 'BBB' rated peers. Fitch considers the three-notch difference between the company's LC IDR and the sovereign rating appropriate due to the regulated nature of the business. All three companies benefit from strong business profile, with Engie Brasil's installed capacity being the largest among them, although the energy mix of Engie Chile differs from the related company in Brazil and Emgesa. Engie Brasil and Emgesa are more exposed to hydrological conditions, while Engie Chile needs to deal with the coal and natural gas prices volatility. All the companies have predictable and robust cash flow generation since they have managed business risks properly, but Engie Brasil has a stronger financial profile.

KEY ASSUMPTIONS

The main assumptions of Fitch's base scenario for the issuer include:

- GSF of 0.83 in 2019 and 0.85 in 2020;
- Capital expenditures of BRL5.0 billion from 2019 to 2021;
- Dividends Payout of 100%;

- Absence of asset sale and further acquisitions.

RATING SENSITIVITIES

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action:

--An upgrade is unlikely in the near term because the Foreign Currency IDR is constrained by the country ceiling (BB) and the Local Currency IDR is limited to three notches above the sovereign rating (BB-).

Future Developments That May, Individually or Collectively, Lead to Negative Rating Action:

--Sizable investments or acquisitions currently out of Fitch's base case that could lead to net leverage consistently above 3.5x;

--Funds from operations (FFO) Adjusted Net Leverage above 4.0x on a sustainable basis;

--Difficulties in financing the capex plan through project finance debts;

--A downgrade of the sovereign rating would trigger another downgrade of Engie Brasil's IDRs.

LIQUIDITY

High Financial Flexibility: Engie Brasil's consolidated liquidity is robust with no concentration on the short-term debt maturities. As of Dec. 31, 2018, cash and marketable securities of BRL2.4 billion were significantly above the short-term debt of BRL662 million. The high cash balance will be partially used to finance the negative FCF for 2019 and 2020 period, when the group will still need to raise new debt. Engie Brasil's ample access to debt and capital markets benefits the group to raise alternatives funding with structure adequate to project finance and maintaining a well-balanced debt maturity profile. Engie Brasil's debt were mainly based on debentures (BRL3.4 billion) and BNDES (BRL2.9 billion), representing the main sources of financing (67%).

FULL LIST OF RATING ACTIONS

Fitch has affirmed the following ratings:

Engie Brasil Energia S.A.

--Long-Term Local Currency IDR at 'BBB-';

--Long-Term Foreign Currency IDR at 'BB';

--Long-Term National Scale Rating at 'AAA (bra)';

--6th Debenture Issuance of BRL600 million at 'AAA(bra)';

--7th Debenture Issuance of BRL747 million at 'AAA(bra)'.

The Rating Outlook for the issuer ratings is Stable.

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Additional information is available on www.fitchratings.com

Applicable Criteria

Corporate Rating Criteria (pub. 19 Feb 2019)

National Scale Ratings Criteria (pub. 18 Jul 2018)

Parent and Subsidiary Rating Linkage (pub. 16 Jul 2018)

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