

Eneva S.A.'s sixth debentures issuance rated 'brAAA'

Aug. 24, 2020

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On August 24, 2020, S&P Global Ratings assigned its 'brAAA' national scale rating and recovery rating '3' on the sixth issuance of senior unsecured debentures proposed by Eneva S.A. (Eneva: brAAA/Stable/--).

The issuance, in the amount of R\$835 million, has a firm distribution guarantee by the joint book runners and will be carried out in two series--the first in the amount of R\$100 million with final maturity in 2030 and the second in the amount of R\$735 million with final maturity in 2035. The issuance also has an overallotment option of R\$165 million, without a firm guarantee. The proceeds from the issuance will be used mainly to finance the exploration and production of natural gas in the Parnaíba Basin, in the expansion of UTE Parnaíba III, and for additional investments in UTE Jaguatirica II. The debentures are unsecured and will have neither real guarantees nor guarantees from the group's operating subsidiaries.

Eneva is an electricity generator with total installed capacity of 2,153 megawatts (MW), of which 1,428 MW from four natural gas-powered thermal plants located in the Parnaíba complex, in the state of Maranhão. It is the second largest company in terms of thermal capacity in Brazil, accounting for 9% of the installed national gas thermal capacity and the largest private natural gas operator in the country. As part of its expansion plans, the company is building three new plants, slated to be delivered in 2021, 2022 and 2024, which should add 617 MW to its installed capacity. The company is self-sufficient in natural gas, with its own certified reserves totaling 27.7 billion cubic meters (bcm), of which 24.1 bcm in the Parnaíba Basin and 3.6 bcm in the Amazonas Basin (certified in December 2019).

Covenants

The financial covenants on Eneva's debentures may result in non-automatic debt acceleration if the company's leverage, measured by the net debt to EBITDA ratio, exceeds 5.0x between September 2020 and June 2022, and 4.5x onwards.

Despite the lower cushion in relation to the maximum levels recorded in 2020, we do not expect a covenant breach, as a significant share of Eneva's cash generation derives from fixed revenues from asset availability, and an acceleration would only occur if the ratios were exceeded for four consecutive quarters.

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Issue Ratings – Recovery Analysis

Key Credit Factors

The recovery rating '3' on Eneva's sixth debentures issuance indicates our expectation of an approximate recovery of 65% for unsecured lenders under a hypothetical default scenario. As a result, we equalize the issuance rating with Eneva's corporate rating.

In our simulated scenario, a default would occur due to operational issues, which would affect the refinancing of Eneva's short-term debt, potentially leading to a default in payment. In this scenario, we would expect a restructuring instead of a liquidation, considering Eneva's status as a strategic energy generator for the subsystems in which it operates (Brazil's North and Northeast), as well as its vertical integration and energy sale contracts. As a result, we expect higher recovery amounts for the creditors in a restructuring scenario vis-à-vis a liquidation.

Simulated Default Assumptions

- Simulated year of default: 2024
- Emergence EBITDA: R\$1.3 billion
- EBITDA multiple: 5.5x

Payment Waterfall

- Net enterprise value (EV) after applying a 5.5x EBITDA multiple and deducting administrative costs of 5%: R\$6.8 billion
- Expected recovery of senior unsecured debt: 65%.

* All debt amounts include six months of pre-petition interest.

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Related Criteria And Research

Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Methodology And Assumptions: Liquidity Descriptors for Global Corporate Issuers, Dec. 16, 2014
- Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- Corporate Methodology, Nov. 19, 2013
- Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013

- Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012

Research

- S&P Global Ratings Definitions

ADDITIONAL REGULATORY INFORMATION

Linked Rating Action

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