Fitch Publishes Rating 'AA+(bra)' of Eneva; Stable Perspective

Fitch Ratings-Rio de Janeiro-22 April 2019: Today, Fitch Ratings published the National Long Term Credit Rating 'AA+(bra)' (AA plus (bra)) of Eneva S.A. (Eneva). The rating Perspective is Stable.

Eneva's rating reflects the company's favorable business model, its highlighted position in the Brazilian electric generation industry and the robust financial profile. The evidence is the manageable finance leverage in the many dispatch scenarios of its plants and the strong liquidity position. Eneva is the biggest private group of thermoelectric generation in the country, which counts on an integrated performance and internal supply of natural gas, its main raw material, in levels estimated as sufficient to meet its contractual commitments at least in the following seven years in total dispatch scenarios.

Eneva's credit profile benefits from its robust consolidated operating cash flows generation, favored by revenue linked to long-term contracts in the regulated market for 97% of its installed capacity. The company is able to maintain a satisfactory economic and financial balance even in improbable scenarios of long dispatches of its plants, in the rage of just 0%-10%. Fitch considers positive the fact that the company's assets portfolio, in general, presents growing EBITDA, as far as the dispatch level increases. On the other hand, the evaluation took into account the recent historic of Eneva's operation and its need for investments in the prospection and development of natural gas reserves, within the company's strategy of replacement of the used gas. These are necessary to supply the dispatch of most of the plants up to the end of the energy sale contracts in dispatch levels higher than the historic, but the success degree in this exploratory activity is uncertain.

The Stable Perspective is based on Fitch's expectation that Eneva will maintain the solid financial profile, even considering the material investments expected for 2019 and 2020 and low dispatch scenarios of its plants, improbable for the following years due to the current favorable hydrological scenario.

RATING MAIN GROUNDS
Favorable Business Profile: Eneva benefits from its relevant and synergistic assets basis, mainly comprised of operating plants, which dilutes operating and projects risks With 2.2 GW of installed capacity, the company has six thermal power plants (UTE). Among them, a natural gas complex with four UTEs, totaling 1.4 GW, integrated to a gas treatment unit capable to process 8.4 mm m3/day, and two coal UTEs, with 725 MW of installed capacity, located in the port region, which makes it easier receiving the raw material. For gas supply, Fitch considers positive the fact that Eneva has proved reserves and probable remainders enough to fully meet its current contracts, maintaining a dispatch level of 50% in the gas UTEs, and the company's strategy to annually pursue to develop new reserves in compatible level for replacement of the gas consumed in the year.

Positive Exposition to the Hydrological Risk: The group has favorable exposition tot he hydrological risk. Because of the operations just through UTEs, the company's plants are more dispatched in scenarios of low incidence of rain and pressurized water tanks, common in the last five years, with annual GSF (Generating Scaling Factor) always below 1.0. The company would benefit in the case its UTEs were triggered, once the unit variable cost

(CVU), revenue obtained when they are dispatched by the System National Operator (ONS), overcomes the production effective costs, which generates a positive variable margin. Fitch's basis scenario incorporates average dispatch of 38% between 2019 and 2021, including the coal plants, with peaks of 47% in 2019.

Strong Financial Profile: In its regulated market contracts, whose gradual maturities occur only from December 2026 on, Eneva had at the end of 2018 BRL2.3 billion of fixed revenue in its UTEs, regardless they are dispatched or not, referred to in Brazilian reais and annually adjusted by the inflation. The contracts also contemplate a variable portion of revenue, whose tariff adjustment parameters consider the same of the input purchase contracts, eliminating the risk of mismatch between tariffs and cost, which favors the consolidated financial profile. In the case of zero dispatch, Fitch estimates minimum EBITDA of BRL980 million, supported by the revenue fixed portion. In Fitch's basis scenario, considering the dispatch level, EBITDA might vary between BRL1.2 billion and BRL1.4 billion, from 2019 to 2021, with EBITDA margin around 50%.

Negative Free Cash Flow in 2020: With the beginning of the investments in the construction of its seventh plant, UTE Parnaíba V, Eneva's free cash flow (FCF) might decrease in 2019 and become negative in 2020, year with highest allocation of BRL1.2 billion foreseen in the project's development. Fitch's expectation is that FCF is BRL382 million in 2019, benefited from the robust cash flow of the operations (CFFO) of BRL1.0 billion and from the lack of distribution of dividends. In 2020, FCF might be negative in around BRL300 million, pressed by investments of approximately BRL1.0 billion, mainly associated to the construction of the new plant. From 2021 on, the company might come back to FCF positive levels.

Proper Capital Structure: Eneva has a conservative capital structure, having benefited from the conversion of BRL985 million in debts into equity interest by its creditors and from the rescheduling of other BRL985 million in the judicial recovery process, which occurred from December 2014 to May 2016. In the agency's basis scenario, which just includes as new plants the construction of the UTE Parnaíba V, the leverage index, measured by net debt/EBITDA, remains below 3.0 times in the next four years. Fitch understands that, because the company has cash generation tied to a non-manageable variable, which is the dispatch level, it may present variation in this leverage level. The rating contemplates growth in the net leverage for levels limited to 4.0 times in average dispatches of 10% or less. However, for the agency, to reach this same leverage level in dispatch scenario in the current levels would not be compatible with the assigned classification. At the end of 2018, the net leverage, measured by net debt on EBITDA and net debt on funds from operations (FFO), was 2.8 times and 3.0 times, respectively.

ANALYSIS SUMMARY

Eneva's rating is one degree below two other power generator companies evaluated by Fitch, Engie Brasil Energia S.A. (Engie) and Aliança Geração de Energia S.A., both classified with National Long-term Credit Rating 'AAA(bra)', Stable Perspective. In operating terms, Engie is bigger and presents a more diversified assets basis, with 9,071 MW of installed capacity in operation or in construction. Aliança is smaller, with 1,257 MW of installed capacity, mainly constituted by hydroelectric plants, all of them mature and with energy sale contracts for all the length of the respective concession terms. The constant need for investments in prospection and development of natural gas reserves disfavors Eneva in comparison with both groups because it gives rise to recurring investments volume higher than of the other two companies. In financial terms, Fitch understands that Engie presents more financial flexibility than Eneva, with historic of robust liquidity profile and of conservative leverage. Because it was created through asset allocation and with no debt, Aliança might maintain net financial leverage lower than Eneva, with cash position higher than the total debt.

Regarding AES Tietê Energia S.A. (Tietê), evaluated by Fitch with the same classification as Eneva ('AA+(bra)' (AA plus (bra)/Stable), the longer concession term of Eneva's plants makes up for its more intensive performance in recurring investments. For both companies, Fitch's expectation contemplates financial leverage in similar levels, around 3.0 times. Both companies might keep on holding cash position in proper bases, in order to support the expected negative FCF, with coverage higher than 1.0 time its short-term financial obligations.

MAIN ASSUMPTIONS

Fitch's main assumptions, according to the basis scenario for the issuer, include:
-- Aggregate fixed income of BRL2.3 billion (based on December 2018) in the long-term contracts, adjusted by inflation;
-- Average dispatch of 49% in 2019 and of 35% in 2020;
-- Total investments of BRL2.7 billion between 2019 and 2022;
-- Lack of acquisitions and/or new investments besides those in development stage;
-- Lack of distribution of dividends.

RATING'S SENSITIVITIES

Developments that might, individually or collectively, lead to a positive rating action include:
-- Net debt relation on EBITDA and net debt on FFO below 2.0 times, in supported bases and considering an average dispatch scenario of the plants (real or simulated) of 10% or less.

Developments that might, individually or collectively, lead to a negative rating action include:
-- Net debt relation on EBITDA and net debt on FFO higher than 3.0 times, in supported bases and in a dispatch level of 40% or more.
-- Net debt relation on EBITDA and net debt on FFO higher than 4.0 times, in supported bases and in an average dispatch scenario of the plants of 10% or less;
-- Cash and cash equivalents balance in level lower than short-term debt.

LIQUIDITY

Robust Liquidity Profile: Fitch believes that Eneva will keep strong the liquidity profile in the following years, arising from a schedule of debt maturity not focused on the short-term, cash position higher than the short-term financial obligations and access to sources that grant financings with longer terms.
- development banks and incentive debentures - for the development of UTE Parnaíba V, in the forth quarter of 2018, together with the corporate restructure carried out by the Group, Eneva refinanced debts with the issuance of long-term debentures and prepayment of more expensive debts with shorter terms. At the end of 2018, the Company's liquidity position was strong, of BRL1.5 billion, which covered the short-term debt of BRL297 million in 4.9 times. At the same date, issuance of debentures (BRL1.8 billion) and borrowings with the Brazilian National Bank for Economic and Social Development (BNDES, BRL1.5 billion) represented together 62% of the total debt of BRL5.3 billion.

COMPLETE LIST OF THE RATING ACTIONS

Fitch published the following rating:

Eneva S.A.:
-- National Long Term Credit Rating 'AA+(bra)' (AA plus (bra)); Stable Perspective.

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Summary of the financial statements adjustments - The financial statements adjustments that materially diverge from those included in the published accounting statement of the relevant evaluated entity are the following:

-- Amounts corresponding to financing guarantees, classified in the financial statements as collateral and short and long term bonded deposits, were transferred to cash and financial investments.

REGULATORY INFORMATION:

This publication is a credit risk classification report in order to comply with the Article 16 of the CVM Instruction No. 521/12.

The information uses in this analysis arises from Eneva.

Fitch adopts all the necessary measures in order that the information used in the credit risk classification is enough and arises from reliable sources, including, when appropriate, sources from third-parties. However, Fitch does not perform audit services and cannot carry out independent verification or confirmation of the received information in all the cases.

For its analysis, Fitch used financial information available up to April 4, 2019. Ratings

historical:

Date when the national classification was issued for the first time: March 18, 2019

The risk classification was communicated to the entity or to parties related to it, and the granted rating was not changed due to this communication.

The rating granted by Fitch are reviewed at least annually.

Fitch publishes the real and potential interest conflict list in Attachment X of the Reference Form, available in its Website, in the following address: https://www.fitchratings.com/site/dam/jcr:015e95de-5c3f-41c8-b679- b47388194d17/CVM_Form_Referencia_2018.pdf

For information about possible changes in the credit risk classification, see item: Rating’s Sensitivities.

Additional information is available in 'www.fitchratings.com' and 'www.fitchratings.com.br'.

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Used Methodology and Related Research:

-- Methodology for National Scale Credit Rating (July 18, 2018);
-- Methodology for Corporate Credit Rating (February 19, 2019)

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Used Methodology
Corporate Rating Criteria (pub. 19 Feb 2019)
National Scale Ratings Criteria (pub. 18 Jul 2018)

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