

## Eneva's second debentures issuance rated 'brAAA'

April 29, 2019

*This English version is provided on request and reflects the translation of the original article published only in Portuguese by S&P Global Ratings on April 29, 2019. In case of any discrepancy between this English version and the original in Portuguese, the Portuguese version shall apply.*

On April 29, 2019, S&P Global Ratings assigned its 'brAAA' issue credit rating and the recovery rating '3' on the proposed second debentures issuance to be held by Eneva S.A. (Eneva: brAAA/Estável/--), in the amount of R\$2.0 billion. The issuance has a firm distribution commitment by the coordinating banks and will be held in three series due in 2024, 2027, and 2029. The proceeds from the issuance will be used to refinance the existing debt and to finance the construction of the Parnaíba V thermal power plant, which should require investments of around R\$1.3 billion between 2019 and 2021.

The debentures are unsecured and have no guarantees from the group's subsidiaries or pledge over real assets. Still, Eneva is subject to the following covenants, which are measured on a quarterly basis:

- Net debt to EBITDA of up to 5.0x until 2021;
- Net debt to EBITDA of up to 4.5x from 2022 onwards.

Noncompliance with these covenants may result in the early redemption of the debentures. However, we expect Eneva to present a significant headroom to meet these limits in the next years, even if its EBITDA falls by around 15% in relation to our base-case scenario.

The expansion project to be financed with the proceeds from the issuance consists of the construction of the Parnaíba V steam power plant (the fifth thermal plant of the Parnaíba complex), which will have 386 MW of installed capacity, and will be integrated with the Parnaíba I natural gas power plant, since the new plant will use steam from the burning of gas from the existing plant to generate energy. Parnaíba V already has contracts to sell 326 MW in reserve energy for 25 years as of 2024, with a fixed revenue of R\$272 million per year and variable revenue (to be received when energy dispatch is requested) of R\$105/MWh. Eneva expects the asset to start-up at the end of 2021, when its installed capacity will total approximately 2.5 GW.

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# S&P Global

## Ratings

### Issue Ratings--Recovery Analysis

#### Key analytical factors

The recovery rating '3' assigned on Eneva's second issuance of senior unsecured debentures reflects our expectation of an average 60% recovery for the creditors in 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, resulting in difficulties to refinance the company's short-term debt and potentially leading to a delay in payments. The company presents low leverage, and we believe it would undergo a restructuring in a simulated default scenario. This reflects Eneva's status as a strategic electricity generator in the subsystems where it operates (Brazil's North and Northeast), as well as its vertical integration and contracts for the sale of electricity. As a result, we expect a higher recovery amount for the creditors in a restructuring scenario compared to a liquidation.

#### Simulated default assumptions

- Simulated year of default: 2023
- Emergency EBITDA: R\$1.3 billion
- EBITDA multiple: 5.5x

#### Simplified Waterfall

- Net enterprise value (EV) after applying a 5.5x EBITDA multiple and deducting administrative costs of 5%: R\$6.0 billion
- Expected recovery for the senior unsecured debt: 60%

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

*Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.*

## Related Criteria and Research

### Criteria

- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, Apr 01, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, December 7, 2016
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, December 16, 2014
- Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- Corporate Methodology, November 19, 2013
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology: Industry Risk, November 19, 2013
- Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, November 19, 2013
- Country Risk Assessment Methodology And Assumptions, November 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, November 13, 2012
- Use Of CreditWatch And Outlooks, September 14, 2009

### Research

- *S&P Global Ratings atribui rating 'brAAA' à Eneva S.A.; perspectiva estável, April 22, 2019*

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