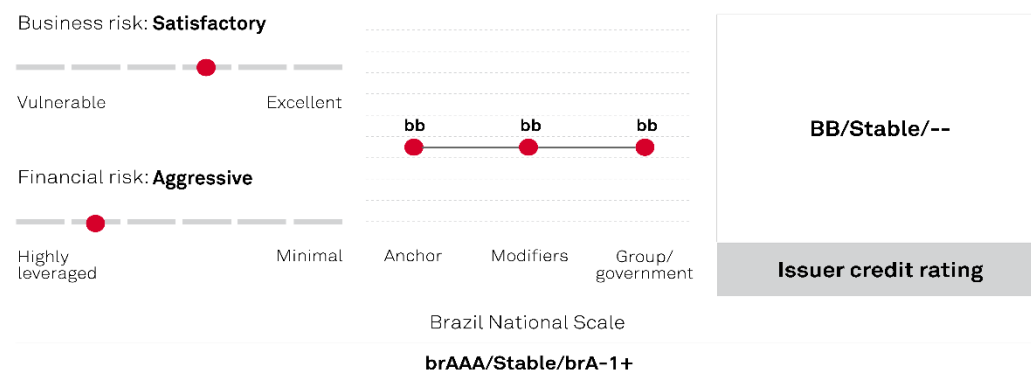


Neoenergia S.A. And Subsidiaries

March 27, 2024

Ratings Score Snapshot



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Credit Highlights

Overview

Key strengths	Key risks
Distribution of energy to roughly 16.3 million clients, more than 2,500 kilometers (km) of operational transmission lines, and 4.34 gigawatts (GW) of installed capacity.	Risks in disbursing substantial investments, given the need to raise additional debt amid Brazil's tightening financing conditions, although Neoenergia has a track record of high amounts of capex.
About 85% of EBITDA comes from stable and regulated electricity activities. Most of the distribution client base are residential customers, protecting the group during market downturns.	High domestic interest rates will keep interest expenses costly, because half of debt bears floating rates indexed to the benchmark interest rate.
Focus on expanding the transmission business, improving the distribution segment, and divesting some non-core assets, which will increase financial flexibility amid sizable capital expenditure (capex).	Delays in the renewal of distribution concessions in Brazil
High standing in domestic capital markets and good relationship with banks.	Exposure to hydrology increases energy costs and working capital needs.

Focus on organic growth and completion of projects. Neoenergia S.A. continues focusing on internal growth, either through expanding its distribution networks and developing greenfield transmission and renewable assets. In 2024 and 2025, the group's capex will total roughly R\$19 billion (compared with R\$8.9 billion in 2023 and R\$9.9 billion in 2022) for expand and upgrade its distribution networks, connect new clients, improve service quality metrics, lower the percentage of energy losses, as well as to finalize the construction of seven transmission projects (5,320 km of line extension and 11 substations) for permitted annual revenues (RAP) of R\$1.2 billion. In addition, we believe the group would continue looking for opportunities for greenfield developments, especially in the transmission and renewables segments.

Negative free operating cash flows (FOCF) as a result of sizable investments. We expect Neoenergia to post a FOCF shortfall for two consecutive years, especially in 2024, which will require the group to raise additional debt in capital and debt markets to fund investments as well as to refinance its upcoming maturities of up to R\$8.2 billion in 2024. In the first quarter, Neoenergia has raised roughly R\$3 billion in new debt. Despite Neoenergia's substantial financing needs, we're not concerned about the group's ability to refinance its debt, as it has a wide access to domestic capital markets and it benefits from good relationship with a variety of lenders, including development agencies, which broadens its options for the refinancing and raising new debt. In addition, the group's cash flow is increasing with the ramp-up of new renewable and transmission assets that were previously under construction, which will help finance new investments with internal cash flows. Also, as of Dec. 31, 2023, Neoenergia posted a healthy cash position of R\$7.5 billion along with undisbursed committed credit facilities of R\$4.3 billion.

We expect relatively stable credit metrics in 2024 and a gradual improvement starting in 2025. We believe the group's sizable investments and high interest rates in Brazil will continue weighing on Neoenergia's credit metrics, while it increased cash generation from transmission assets in the absence of other asset sales. As a result, we expect relatively stable debt to EBITDA in 2024: around 4.5x and funds from operations (FFO) to debt at 10%-15%, compared with 4.3x and 15.6% in 2023. We expect these metrics to improve to 4.0x and 17%, respectively, in 2025 and 2026 following higher cash generation from new transmission lines that are ramping up and as Neoenergia's investment requirement declines.

Neoenergia's asset rotation strategy may alleviate financing needs. Following the conclusion of the sale of 50% of eight transmission lines to Warrington Investment Pte. Ltd., an investment vehicle of the Singaporean Investment Fund GIC (GIC; not rated) for R\$1.1 billion in September 2023, Neoenergia may sell additional transmission lines, as according to the agreement, GIC will have preference to acquire additional stakes in Neoenergia's transmission lines if it decides to divest other transmission lines. Moreover, both GIC and Neoenergia could partner up to jointly participate in the National Agency of Electric Energy's (ANEEL; the Brazilian electricity regulator) upcoming transmission auctions. In our view, this could reduce Neoenergia's capital requirements in case it decides to pursue new investments in the transmission segment. We incorporate the sale of 50% of Neoenergia's stake in Guanabara and Itabapoana transmission lines in 2024, as communicated by the group. We believe Neoenergia will keep its strategy of optimizing its group structure and divesting non-core assets, which could include:

- The sale of its thermal plant, Termopernambuco S.A. (Termope), in line with its energy transition strategy;
- The divestment of its 10% stake in Belo Monte, which is already booked as an asset held for sale. In our view, this could be more challenging because it involves negotiations with other shareholders, but if it occurs, it would strengthen Neoenergia's credit metrics because,

Neoenergia S.A. And Subsidiaries

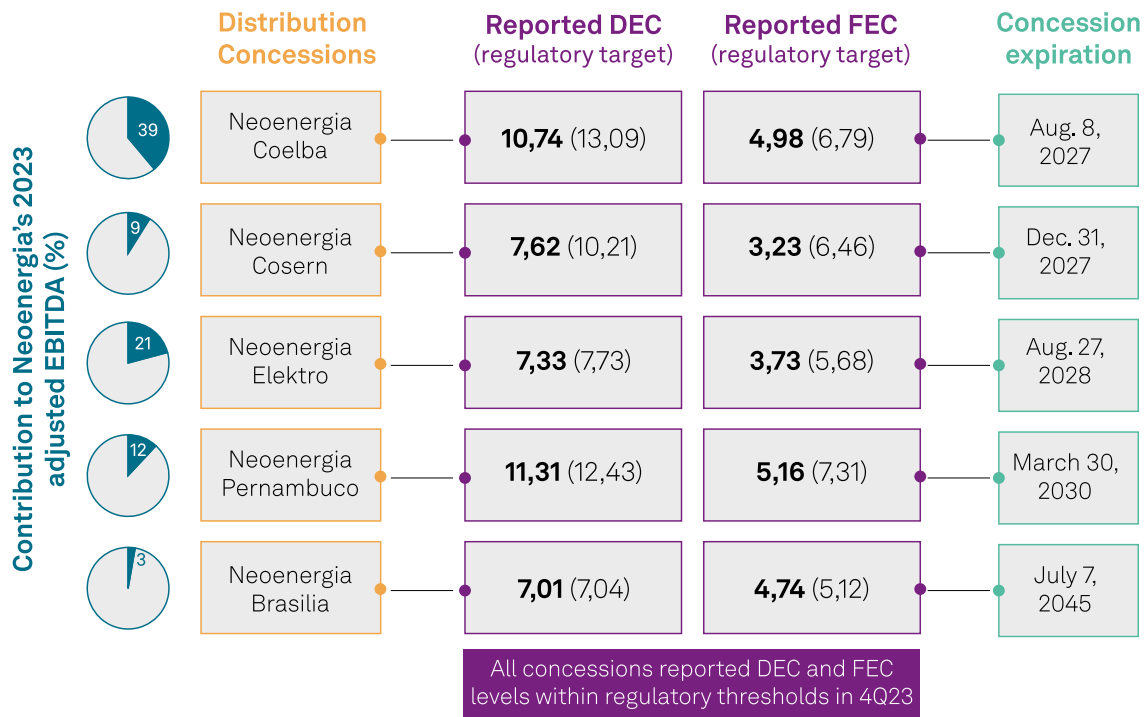
besides receiving the equity amount upon on the sale, the group would eliminate about R\$2.9 billion in debt guarantees related to the construction of Belo Monte.

We don't incorporate these potential transactions in our base-case scenario because timing and amounts are still uncertain. Any improvement in the group's financial risk profile related to these transactions would also depend on the use of proceeds and on the longer-term investment strategy.

We assume the renewal of Neoenergia's distribution concessions. The Ministry of Mines and Energy (MME) released in September 2023 the preliminary terms for the renewal of 20 distribution concessions coming due in 2025-2031, which was further ratified by Brazil's Audit Court (TCU). Neoenergia is planning to renew four of its concessions: Neoenergia Coelba (due on Aug. 8, 2027), Neoenergia Pernambuco (March 30, 2030), Neoenergia Cosern (Dec. 31, 2027), and Neoenergia Elektro (Aug. 27, 2028). The renewal process is delayed, pending a government decree that will authorize the extension of these concessions, but there has been some resistance from Congress.

Our base-case scenario assumes the renewal of these concessions without the payment of renewal fees and in line with renewals completed in 2015-2017, as in the case of Cemig Distribuição S.A. (BB-/Stable/--; brAA+/Stable/--) and some concessions of CPFL Energia S.A. (brAAA/Stable/--), and Energisa S.A. (BB/Stable/--; brAAA/Stable/--). Neoenergia's concessions' service quality metrics, measured by duration and frequency of service interruptions (DEC and FEC, respectively), have been within the regulatory limits in the past few years. Compliance with such quality targets, in addition to financial balance of the concession, is key to ANEEL's analysis when granting the renewal of concessions. In our view, Neoenergia's expertise in operating its concessions and its investments in past years are also factors that might facilitate the concession renewal, although we anticipate distribution companies (discos) to continue investing sizable capex to comply with stricter quality metrics, especially across subregions within the concession areas. We don't believe this will be a problem for Neoenergia, as long as investments are recognized into its asset base, and considering the group's wide access to credit markets and strong cash flow generation that may also support additional investments.

Neoenergia's Distribution Concessions



DEC: Duration of energy interruption, FEC: Frequency of energy interruption. Source: S&P Global Ratings. Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

Outlook

The stable outlook on Neoenergia for the next 12 months is based on our view that its investments in 2024 and 2025 won't materially raise its leverage, which in 2024 should be similar to that last year, with debt to EBITDA of 4.0x-4.5x and FFO to debt of 10%-15%. We expect these metrics to improve within these ranges as a result of additional cash flow from new assets and organic growth. Nevertheless, high investments to finish the construction of transmission lines and to expand and improve service quality metrics of its distribution business will require additional debt. The latter is not a concern, as we expect that Neoenergia will continue benefiting from ample access to capital and debt markets in order to fund its capex of R\$19 billion in the next two years and refinance its upcoming maturities. The stable outlook on the subsidiaries, Neoenergia Coelba, Neoenergia Pernambuco, Neoenergia Cosern, Neoenergia Elektro and Neoenergia Brasilia, mirrors the one on Neoenergia, as they are the group's most important subsidiaries, operating in the distribution business, generating 75%-80% of Neoenergia's cash flow.

Downside scenario

We could downgrade Neoenergia in the next 12 months if a similar action occurs on Brazil. We could also lower the global and national scale ratings on Neoenergia if its controlling shareholder, Iberdrola S.A. (BBB+/Stable/A-2), has fewer incentives to provide support to its Brazilian operations, combined with a deterioration in Neoenergia's credit metrics. The latter scenario would consist of FFO to debt below 9% and debt to EBITDA above 5.5x on a consistent basis, which could result from lower electricity consumption, worsening of hydrology conditions that raise working capital needs as a result of energy costs, or due to higher-than-expected

investments or a large debt-financed acquisition. The ratings on the subsidiaries will move in tandem with those on Neoenergia in case of a negative rating action.

Upside scenario

Currently, the sovereign rating on Brazil caps the rating on Neoenergia. Therefore, we would raise the rating on the group if we upgraded the sovereign. On a stand-alone basis, we could revise the stand-alone credit profile (SACP) to 'bb+' if Neoenergia posts adjusted debt to EBITDA below 3.5x and FFO to debt above 23% on a consistent basis, as a result of increasing cash flow and possibly lower investments, which will reduce the group's need to issue new debt while interest rates in Brazil fall. Under this scenario, we would also expect the group to generate FOCF, enabling it to finance investments with its own cash. The national scale rating is already at the highest level possible. An upgrade of Neoenergia would result in a similar action on its subsidiaries.

Our Base-Case Scenario

Assumptions

- Energy demand in Neoenergia's concession areas to grow slightly below our GDP growth forecast of 1.8% in 2024, 2.0% in 2025 and 2.1% in 2026, as a result of migration of captive clients to the free market and distributed generation segment. The macroeconomic assumptions follow our latest report published on March 26, 2024, "Economic Outlook Emerging Markets Q2 2024: Growth Divergence Ahead".
- For 2024, we incorporated rate adjustments approved by ANEEL, and starting in 2025, they're to mirror the inflation rate of the previous year: 4.6% in 2024, 4.1% in 2025, and 3.7% in 2026.
- Average cost of energy in the distribution business of R\$300/megawatt hour (MWh) – R\$320/MWh in 2024, which is about 6% higher than in 2023. Starting in 2025, energy costs to increase in line with inflation and still favorable hydrology in the next few years. Costs of energy also follows the slight depreciation of the Brazilian real against the U.S. dollar for the portion of energy produced by Itaipu, purchased by Neoenergia Elektro and Neoenergia Brasilia.
- For hydro plants, a generation scaling factor (GSF), which determines the group's level of energy delivery, of about 85% in 2024 and afterward. For wind and solar plants, availability levels of 97%-98% and utilization rates at 55% and 30% annually, respectively.
- In the transmission segment, RAP of R\$570 million in 2024 and R\$1.1 billion in 2025, following the start-up of new projects currently under construction.
- Investments of R\$9.8 billion in 2024, R\$9.0 billion in 2025, and R\$7.0 billion in 2026, mostly for expanding and maintaining the distribution segment and developing new transmission lines. These investments will be mostly financed through new debt.
- Year-end basic interest rates of 9% starting in 2024, affecting the group's interest expense and FFO.
- A conservative dividend policy, distributing the minimum required by law, which is equivalent to 25% of previous year's net income.

- Our adjusted debt figures include pension-related liabilities of about R\$953 million, financial guarantees of R\$4.0 billion provided to Belo Monte and the transmission lines, and fair value of derivatives amounting R\$1.3 billion in the fiscal 2023. Our adjusted EBITDA excludes the effects of variations in the distribution concession's financial assets and the IFRS 15 accounting in the transmission segment.

Key metrics

Neoenergia S.A.--Key Metrics*

Mil. R\$	2022A	2023A	2024P	2025P	2026P
Energy distributed (GWh)	66,777	67,649	68,000-68,500	69,000-69,500	70,000-70,500
Revenues	32,458	35,387	37,250-37,750	39,500-40,000	41,500-42,000
EBITDA	9,697	10,499	10,750-11,250	11,500 - 12,000	12,250 - 12,750
EBITDA Margin (%)	29.9	29.7	28,5-29,5	29,5-30,5	30,0-31,0
Funds from operations (FFO)	6,962	6,990	6,000 - 6,500	7,000 - 7,500	7,250 - 7,750
Capex	9,892	8,903	9,500-10,000	8,750-9,250	6,750-7,250
Debt to EBITDA (x)	4.4	4.3	~4.5	4.0 - 4.5	~4.0
FFO to debt (%)	16.5	15.6	10 - 15	12 - 17	12 - 17
FOCF to debt (%)	-12.5	-16.2	(12) - (7)	(7) - (2)	~0
EBITDA interest coverage (x)	2.4	2.4	2.5 - 3.0	~3.0	~3.0
FFO cash interest coverage (x)	3.6	3.3	~2.5	2.5 - 3.0	2.5 - 3.0

*All figures adjusted by S&P Global Ratings. A--Actual. P--Projected.

Base-case projections

Neoenergia has funding for more than half of its financing plan of R\$11.5 billion in 2024.

Despite Neoenergia's considerable investments and refinancing needs, the group has issued more than half of the debt necessary for all of its financing needs for 2024, which evidences Neoenergia's good access to capital markets and its solid relationship with banks. In the first quarter of 2024, Neoenergia issued roughly R\$3.0 billion in new debt through bank loans and local debentures through its subsidiaries, mostly to finance their investments, and refinanced close to R\$1.5 billion in short-term debt. In addition, the group has R\$4.3 billion in available committed facilities, which also illustrates its ability to obtain financing.

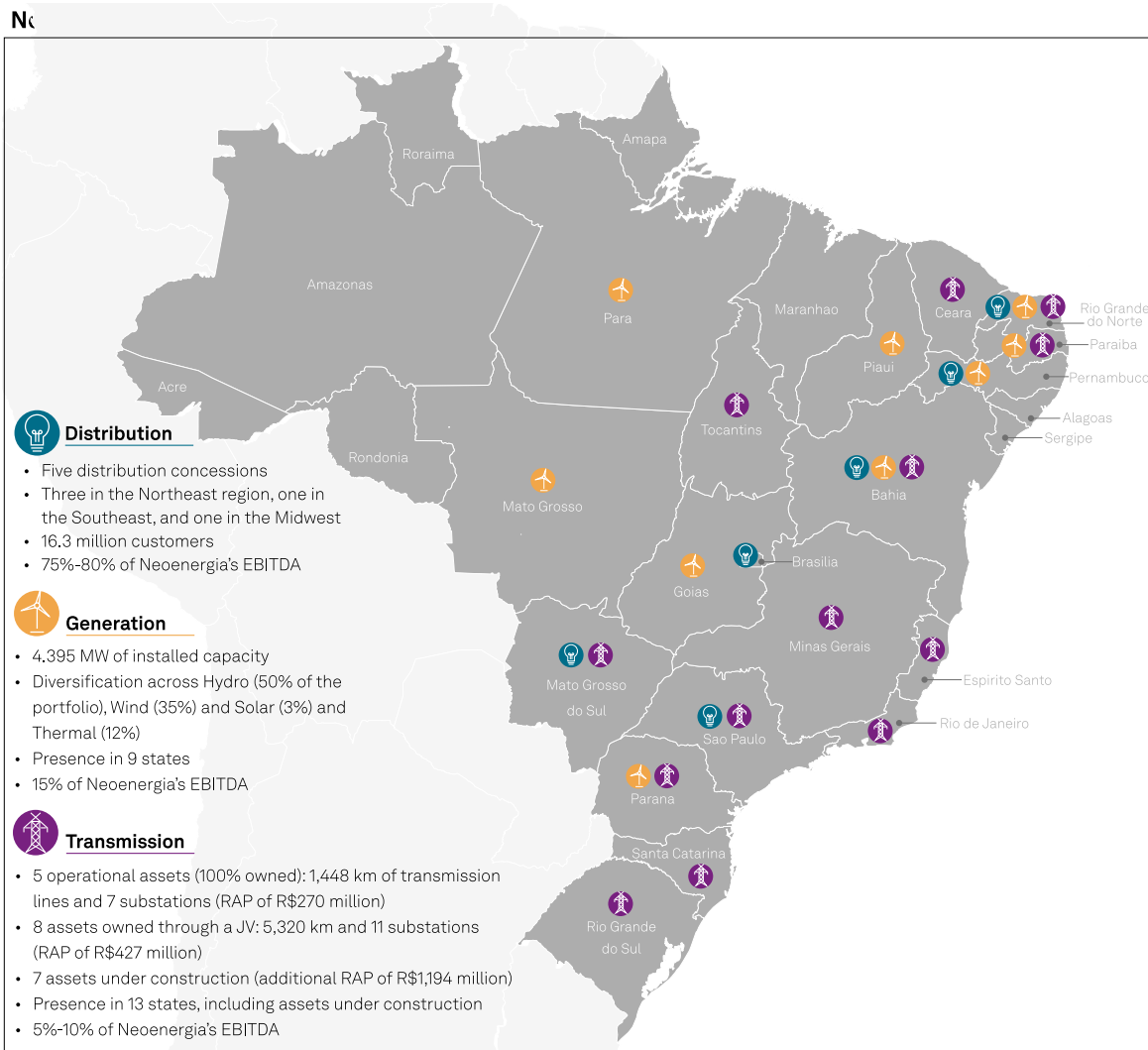
The sale of high-margin businesses may lower consolidated EBITDA margins. We expect EBITDA margins of about 29% in 2024 (down from 29.7% in 2023), and increase starting in 2025 to the 30%-31% range as Neoenergia ramps up new transmission lines. Nevertheless, we may see lower to relatively steady margins if the group sells additional transmission lines to GIC, as transmission lines generate EBITDA margins of more than 85%. And in the case of additional sales, Neoenergia would only benefit from 50% of the transmission lines' dividends, instead of their full cash flows. On the other hand, the sale of transmission lines entails de-consolidating their debt (although Neoenergia may continue providing financial guarantees to these assets proportionally to its stake), which will strengthen credit metrics, coupled with the equity receipt from the sale.

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In addition, the power purchase agreement (PPA) of Neoenergia's thermal plant Termope with Neoenergia Coelba and Neoenergia Pernambuco, which have favorable terms to provide energy to them, ends in 2024. Starting in 2026, the plant will operate as reserve capacity, receiving fixed revenue of R\$207 million annually (as of November 2021, adjusted to inflation), plus variable revenue in case the operator of the electric system (ONS) requires Termope to dispatch. That compares negatively to Termope's EBITDA of R\$590 million in 2023, which will also lower the group's cash generation and EBITDA margins in 2024.

Company Description

Neoenergia is an integrated energy group operating in a wide range of electricity-related businesses: distribution, transmission, generation, and trading activities. It operates solely in Brazil, primarily in the northeastern region. Neoenergia has 16.3 million clients in the distribution segment through its five discos and a regulatory asset base of about R\$41.3 billion, considering its distribution and transmission assets. Following the asset exchange with Centrais Elétricas Brasileiras S.A. — Eletrobras, which entailed consolidating 100% of the Dardanelos dam and transferring Teles Pires, Neoenergia's installed capacity reached 4.4 GW through hydro (50%), wind (35%), thermal (12%), and solar (3%) power plants, including its minority 10% stake (1,123 MW) in the hydro plant Belo Monte. In addition, Neoenergia has five wholly-owned operational transmission lines (totaling 1,448 km) and seven substations totaling RAP of about R\$270 million in the 2023-2024 cycle, along with seven transmission assets under construction that should add R\$1.2 billion in RAP through 5,320 km of lines and 11 substations. Also, the group owns eight operational transmission lines through a joint venture with Warrington Investment, an investment vehicle of GIC. These total 5,320 km of extension, eight substations, and RAP of R\$427 million.



Source: S&P Global Ratir
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Iberdrola controls Neoenergia through a 53.57% stake. Caixa de Previdência dos Funcionários do Banco do Brasil (not rated) holds 30.32% of the group, and the remaining 16.1% is free floating. Iberdrola is the second-largest power generator and distributor in Spain, as well as the leader in renewables, and it has operations in the U.K. through Scottish Power, in Latin America through Iberdrola Renovables, and in the U.S. through Avangrid.

Peer Comparison

We selected the following companies as peers for Neoenergia:

- CPFL Energia, which is also one of the largest private players in the Brazilian electricity sector;
- Equatorial Energia S.A., another large player in Brazil's energy segment, which has been expanding internally and through acquisitions;
- Iberdrola, the parent company; and
- Enel Americas S.A., which operates across Latin America, with Brazil as its largest market.

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We believe Neoenergia compares well with CPFL and Equatorial in terms of size and geographic diversification, as they operate multiple distribution concessions in Brazil. Given Neoenergia's currently higher level of investments, its credit metrics are slightly weaker than those of CPFL, and better than Equatorial's, which also has a considerable growth strategy, which explains our view of Neoenergia's and Equatorial's financial risk profiles as aggressive. Enel Americas, and especially Iberdrola, are better positioned because they operate in multiple regulatory jurisdictions. Neoenergia's parent has operations in countries with well-established, stable, and predictable regulatory regimes.

Neoenergia S.A.—Peer Comparisons

	Neoenergia S.A.	CPFL Energia S.A.	Equatorial Energia S.A.	Iberdrola S.A.	Enel Americas S.A.
Foreign currency issuer credit rating	BB/Stable/--			BBB+/Stable/A-2	BBB-/Stable/--
Local currency issuer credit rating	BB/Stable/--			BBB+/Stable/A-2	BBB-/Stable/--
Local scale issuer credit rating	brAAA/Stable/--	brAAA/Stable/--	brAAA/Stable/--		
Period	Annual	Annual	Annual	Annual	Annual
Period ending	12/31/2023	12/31/2023	12/31/2023	12/31/2023	12/31/2023
Mil.	R\$	R\$	R\$	R\$	R\$
Revenue	35,387.0	34,753.8	31,030.3	264,595.4	62,534.0
EBITDA	10,499.0	12,268.6	8,759.7	72,430.6	18,881.8
Funds from operations (FFO)	6,990.0	8,034.2	3,982.5	50,749.7	10,795.9
Interest	4,398.0	2,237.8	4,856.7	16,403.5	4,711.4
Cash interest paid	3,044.0	1,901.2	4,400.7	13,678.9	4,432.6
Operating cash flow (OCF)	1,632.0	8,861.1	3,139.2	53,055.3	8,541.0
Capital expenditure	8,903.0	4,452.3	9,148.1	46,826.4	14,325.9
Free operating cash flow (FOCF)	(7,271.0)	4,408.8	(6,008.9)	6,228.9	(5,784.9)
Discretionary cash flow (DCF)	(8,688.0)	838.3	(6,805.6)	(19,313.6)	(7,534.5)
Cash and short-term investments	7,522.0	5,532.6	12,237.7	16,770.9	8,029.6
Debt	44,860.0	27,094.8	40,538.1	283,728.3	29,727.7
Equity	30,076.0	19,998.8	25,062.7	301,237.1	82,586.5
EBITDA margin (%)	29.7	35.3	28.2	27.4	30.2
Return on capital (%)	13.8	24.2	12.9	9.2	12.6
EBITDA interest coverage (x)	2.4	5.5	1.8	4.4	4.0
FFO cash interest coverage (x)	3.3	5.2	1.9	4.7	3.4
Debt/EBITDA (x)	4.3	2.2	4.6	3.9	1.6
FFO/debt (%)	15.6	29.7	9.8	17.9	36.3
OCF/debt (%)	3.6	32.7	7.7	18.7	28.7
FOCF/debt (%)	(16.2)	16.3	(14.8)	2.2	(19.5)
DCF/debt (%)	(19.4)	3.1	(16.8)	(6.8)	(25.3)

Business Risk

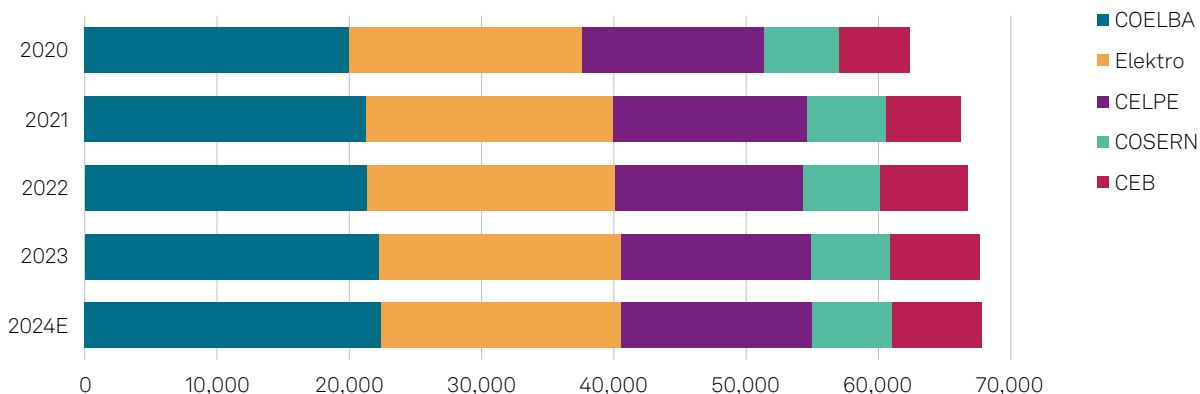
Neoenergia's cash flow is mostly stable because it comes from regulated activities under a favorable regulatory framework. One of Neoenergia's business strengths is that electric power distribution and transmission activities generate 80%-85% of the group's EBITDA, offering a high degree of cash flow predictability. This is particularly so for transmission lines: since

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revenue is based on availability, there's no volume risk exposure. We expect the transmission segment to generate 5%-10% of Neoenergia's EBITDA in the next few years, increasing gradually in this range as the group completes the construction of new transmission lines and substations. Meanwhile, the distribution segment should continue representing the bulk of Neoenergia's EBITDA in the next few years, with 75%-80%. The cash flow stability of regulated activities is supported by Brazil's regulatory framework that we view as favorable, based on the track record of fully respected contracts among industry players. In Brazil, discos operate with cost pass-through mechanisms and investment-reward schemes. In addition, discos are subject to rate readjustments every three to five years (depending on the concession contract). The latter enables passing through incurred electricity costs, and general and administrative expenses (usually pegged to inflation). Neoenergia's highly regulated distribution business operates five concessions in Brazil, whereas three of them (operated by Neoenergia Coelba, Neoenergia Pernambuco, and Neoenergia Cosern) serve the country's largest states in terms of share of national GDP in northeastern Brazil. Neoenergia Elektro operates in the states of São Paulo, the country's most populous and wealthiest state, and Mato Grosso do Sul. Neoenergia Brasilia, the group's latest acquisition, completed in March 2021, serves the densely populated Federal District. Electricity consumption in Neoenergia's concession areas has historically grown above the national consumption pace, but we forecast electricity demand starting in 2024 to grow somewhat in line with our expectation of Brazil's GDP expansion, as a result of the liberalization of the energy market in the country. This is because since January 2024, clients consuming at least 500 kilowatts (kW) may select their electricity provider.

Electricity consumption (GWh)

Neoenergia's distribution companies - captive and free markets



F: Forecast | Source: S&P Global Ratings

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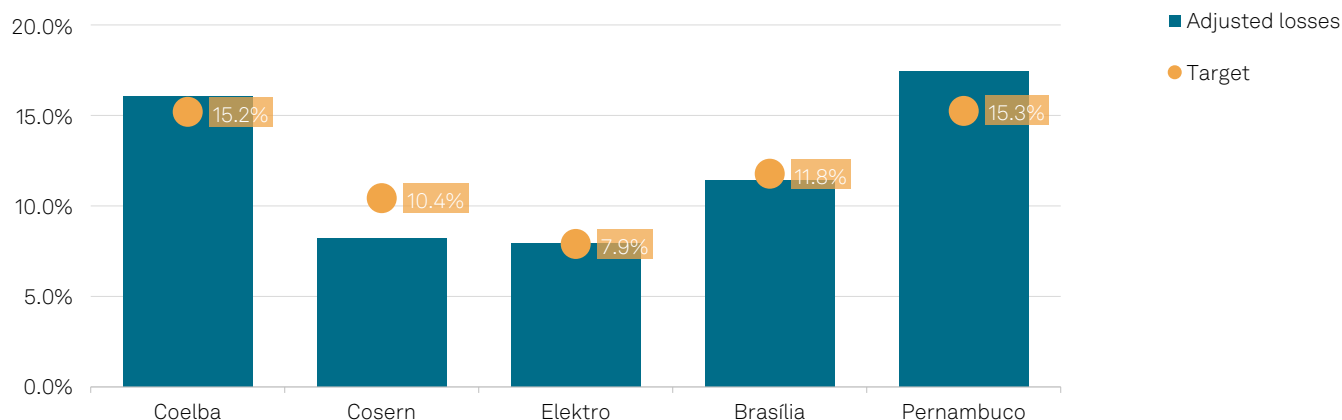
Operating efficiency continues improving. Neoenergia has been investing consistently to improve the service quality at its five concession areas, and has managed to improve the average DEC and FEC metrics across its concession areas throughout 2023, in compliance with regulatory thresholds, including Neoenergia Brasilia, which is experiencing a rapid turnaround since its acquisition. In terms of energy losses, the group continues investing on increasing inspections, replacing obsolete power meters, and standardizing illegal connections in all its concessions. However, at Neoenergia Coelba and Neoenergia Pernambuco, energy losses are

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still above the regulatory target. The group's investments at Neoenergia Brasília are bearing fruits, as the subsidiary's quality metrics and energy losses have converged to regulatory target ahead of the initial business plan. Even so, macroeconomic conditions and purchasing power of the population in Brazil strain discos' collection rates, which dropped to 96.5% across Neoenergia's concessions from 99% in 2022. In response, the group has been implementing various measures to help its customers cover their electricity bills, including offering moratoriums on payments and disconnecting services for delinquent clients.

Adjusted electricity losses

As of Dec. 31, 2023



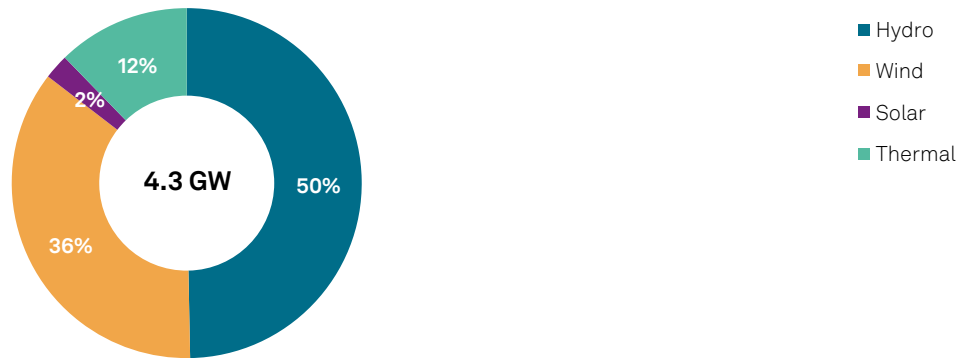
Source: S&P Global Ratings.

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Increasing cash flow in the generation segment as a result of corporate restructuring and ramp-up of new assets. With the conclusion of the asset swap with Eletrobras in September 2023, Neoenergia consolidated Dardanelos' 261 MW, which allows the group to fully benefit from the plant's cash flow derived from PPAs fully contracted in the regulated market at relatively high prices. In addition, Neoenergia completed in 2023 the construction of the wind farm Oitis and the solar plant Luzia, which added 566.5 MW and 100 MW to the group's installed capacity, respectively, reaching 4.34 GW on a consolidated basis. The total installed capacity includes 10% of Belo Monte's hydro dam capacity, which Neoenergia now reports as an asset held for sale, as well as Termope's 533 MW that the group may also divest in line with its energy transition strategy. Although Neoenergia still aims to sell its stakes in both assets, the timing is uncertain. In our view, the group's expansion of its renewables capacity is in line with Iberdrola's global strategy to maintain its leading position in renewable energy generation. Moreover, Neoenergia's diversified generation capacity across hydro, wind, thermal, and solar supports stable cash flows as it mitigates volatile conditions of a specific segment, especially hydrology risks.

Generation installed capacity

Gigawatts (GW)



Source: S&P Global Ratings

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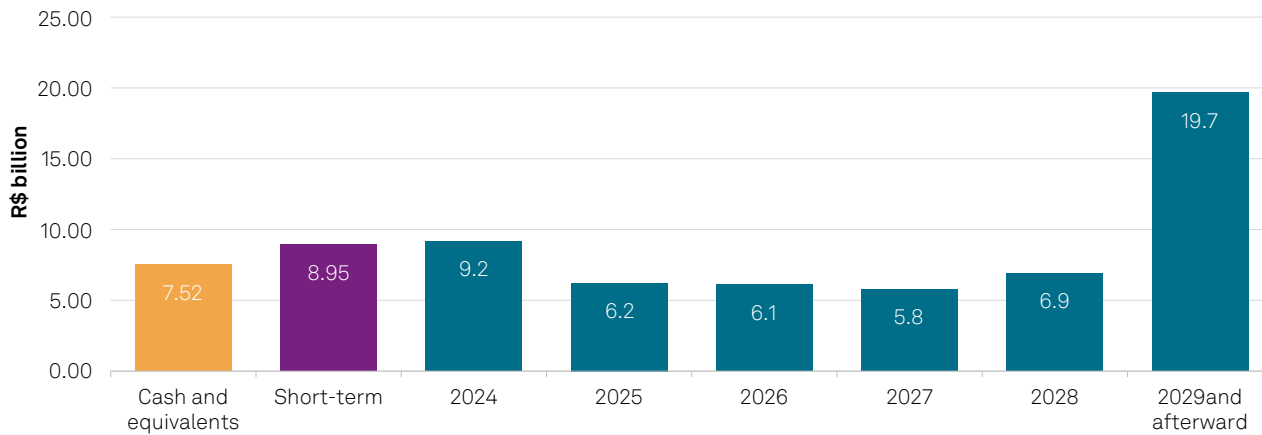
Financial Risk

Our assessment of Neoenergia's financial risk profile incorporates its sizable capex, mainly in distribution and transmission, and the additional debt to finance it. As a result, we expect negative FOCF in the next two years, especially in 2024. In addition, we consider the group's plans to distribute minimum mandatory dividends of 25% of previous year's net income, and we assume that maturing concessions will be renewed. Consequently, we expect Neoenergia's leverage, measured by net debt to EBITDA, to be about 4.5x in 2024, slightly above 4.3x in 2023, while FFO to debt should be 10%-15% in 2024 (versus 15.6% in 2023). In the absence of additional asset sales and/or acquisitions, we expect these metrics to improve to 4.0x and 17%, respectively, in 2025 and 2026 following higher cash generation from new transmission lines that are ramping up and as Neoenergia's investment requirement lowers.

Debt maturities

Debt amortization profile

As of Dec. 31, 2023, Neoenergia reported R\$45.9 billion in gross debt, and the debt maturity schedule is as follows:



Footnote. Source.

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Neoenergia S.A.--Financial Summary

Period ending	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	R\$	R\$	R\$	R\$	R\$	R\$
Revenues	21,981	23,525	26,331	33,756	32,458	35,387
EBITDA	4,067	4,810	6,664	7,047	9,697	10,499
Funds from operations (FFO)	2,534	3,215	5,160	5,208	6,962	6,990
Interest expense	1,295	1,330	1,484	2,627	4,071	4,398
Cash interest paid	1,276	1,270	948	1,265	2,675	3,044
Operating cash flow (OCF)	1,328	3,410	3,543	132	4,620	1,632
Capital expenditure	4,143	4,309	6,337	9,369	9,892	8,903
Free operating cash flow (FOCF)	(2,815)	(899)	(2,794)	(9,237)	(5,272)	(7,271)
Discretionary cash flow (DCF)	(3,349)	(1,596)	(3,261)	(9,945)	(5,982)	(8,688)
Cash and short-term investments	3,955	4,066	5,076	5,617	6,901	7,522
Gross available cash	3,955	4,066	5,076	5,617	6,901	7,522
Debt	16,919	18,141	24,303	36,426	42,241	44,860
Common equity	17,577	19,259	21,509	24,238	26,937	30,076
Adjusted ratios						
EBITDA margin (%)	18.5	20.4	25.3	20.9	29.9	29.7
Return on capital (%)	10.0	10.2	12.3	9.1	12.7	13.8
EBITDA interest coverage (x)	3.1	3.6	4.5	2.7	2.4	2.4
FFO cash interest coverage (x)	3.0	3.5	6.4	5.1	3.6	3.3
Debt/EBITDA (x)	4.2	3.8	3.6	5.2	4.4	4.3
FFO/debt (%)	15.0	17.7	21.2	14.3	16.5	15.6

Neoenergia S.A.--Financial Summary

OCF/debt (%)	7.9	18.8	14.6	0.4	10.9	3.6
FOCF/debt (%)	(16.6)	(5.0)	(11.5)	(25.4)	(12.5)	(16.2)
DCF/debt (%)	(19.8)	(8.8)	(13.4)	(27.3)	(14.2)	(19.4)

Reconciliation Of Neoenergia S.A. Reported Amounts With S&P Global Adjusted Amounts (Mil. R\$)

Financial year	Dec-31-2023	Shareholder Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Company reported amounts		45,883	29,866	44,343	11,112	9,799	4,398	10,499	1,632	1,378	5,619
Cash taxes paid		-	-	-	-	-	-	(465)	-	-	-
Cash interest paid		-	-	-	-	-	-	(3,044)	-	-	-
Lease liabilities		210	-	-	-	-	-	-	-	-	-
Accessible cash and liquid investments		(7,522)	-	-	-	-	-	-	-	-	-
Dividends from equity investments		-	-	-	80	-	-	-	-	-	-
Income (expense) of unconsolid. cos.		-	-	-	1	-	-	-	-	-	-
Nonoperating income (expense)		-	-	-	-	922	-	-	-	-	-
Noncontrolling/ minority interest		-	210	-	-	-	-	-	-	-	-
Debt: Guarantees		4,038	-	-	-	-	-	-	-	-	-
Debt: Workers comp/ self insurance		953	-	-	-	-	-	-	-	-	-
Debt: Derivatives		1,298	-	-	-	-	-	-	-	-	-
Revenue: other		-	-	(8,956)	(8,956)	(8,956)	-	-	-	-	-
COGS: other nonoperating nonrecurring items		-	-	-	8,056	8,056	-	-	-	-	-
EBITDA - Gain/(loss) on disposals of PP&E		-	-	-	206	206	-	-	-	-	-
D&A: other		-	-	-	-	(51)	-	-	-	-	-
Working capital: Taxes		-	-	-	-	-	-	-	465	-	-
Working capital: other		-	-	-	-	-	-	-	4,231	-	-
OCF: Taxes		-	-	-	-	-	-	-	(465)	-	-
OCF: other		-	-	-	-	-	-	-	(4,231)	-	-
Capex: other		-	-	-	-	-	-	-	-	-	3,284
Total adjustments		(1,023)	210	(8,956)	(613)	177	-	(3,509)	-	-	3,284

S&P Global Ratings adjusted	Debt	Equity	Revenue	EBITDA	EBIT	Interest expense	Funds from Operations	Operating cash flow	Dividends	Capital expenditure
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Reconciliation Of Neoenergia S.A. Reported Amounts With S&P Global Adjusted Amounts (Mil. R\$)

	Shareholder					S&PGR			Capital
	Debt	Equity	Revenue	EBITDA	Operating income	adjusted EBITDA	Operating cash flow	Dividends	expenditure
	44,860	30,076	35,387	10,499	9,976	6,990	1,632	1,378	8,903

Liquidity

We assess Neoenergia's liquidity as adequate because we expect its sources of cash to exceed uses by more than 1.1x in the next 12 months, even if EBITDA were to fall 10%. Neoenergia has meaningful debt maturities in 2024 and 2025, of about R\$9.0 billion and R\$9.2 billion, respectively, in addition to its capex of about R\$19 billion in the next two years. We believe the group's cash position and expected cash generation, in addition to about R\$4.3 billion in committed facilities, are enough to cover its debt maturities and to finance part of its investments in 2024. However, we expect the group to continue refinancing its debt while funding part of its investments with additional debt. We believe that Neoenergia has flexibility to postpone dividend payments and investments in case of stressful conditions. Although we don't incorporate further sales of assets in our liquidity analysis, we recognize they could strengthen liquidity in case the group sells additional non-core assets. In addition, in our view, the group has a good standing in capital markets and a solid relationship with banks, as seen in broad access to funding from development agencies.

Principal liquidity sources

- Cash and cash equivalents of R\$7.5 billion as of Dec. 31, 2023.
- Committed credit lines of about R\$4.3 billion available to finance investments.
- Expected cash flows of R\$6.0 billion – R\$6.5 billion in 2024.
- Proceeds from new loans and issuances completed in the first quarter of 2024 of about R\$2.1 billion.

Principal liquidity uses

- Short-term debt of about R\$9.0 billion in 2024.
- Maintenance investments of about R\$5.9 billion in 2024.
- Working capital requirements of about R\$1.5 billion in 2024, including intra-year working capital needs.
- Minimum dividend distributions of about R\$900 million in 2024.

Covenant Analysis

Requirements

Neoenergia and its subsidiaries are subject to the following financial covenants, measured either quarterly, semiannually, or annually:

- Net debt to EBITDA of up to 4.0x; and
- EBITDA to interest of at least 2.0x.

The calculation of covenants differs from our methodology, as variations in the concession's financial assets are considered as part of discos' EBITDA. In addition, at the consolidated level, the covenant calculation doesn't adjust for the effects of IFRS 15 in the transmission segment, while we remove construction margins in the pre-operating period. Also, our adjusted metrics

include debt adjustments related to pension liabilities and financial guarantees provided to equity affiliates, while the covenant calculation doesn't include them.

Compliance expectations

We expect Neoenergia to comply with the required financial covenants under its bank loans and debentures in the next couple of years with a cushion of at least 15%.

Environmental, Social, And Governance

ESG factors have an overall neutral influence on our credit rating analysis of Neoenergia. The group operates mainly distribution and transmission networks (roughly 85% of the group's EBITDA) and mostly in the northeastern region of Brazil, with 20% of its client base belonging to the low-income slice of the population. In line with other integrated energy groups in Brazil, such as CPFL Energia and Companhia Energetica de Minas Gerais – CEMIG, we consider that Neoenergia is well positioned for energy transition. Roughly 83% of its installed capacity is renewable (excluding Neoenergia's 10% stake in Belo Monte, given that it intends to sell this asset). Neoenergia has a stake in Termope, a gas-powered thermoelectric plant, but our ESG assessment isn't affected: Termope represents a small share of the group's total installed capacity, it uses a relatively clean fossil fuel (natural gas), and serves as energy reserve to support Brazil's energy matrix, which is skewed towards hydro. In addition, in line with Neoenergia's asset-rotation strategy, the group is evaluating the sale of Termope, which also is in line with Neoenergia's and its parent's energy transition strategy.

Group Influence

We consider operations in Brazil to be important to Iberdrola's strategy of expanding regulated activities (electricity distribution and transmission) in high-growth markets, as well as in the renewable segment. Neoenergia represents roughly 15% of the parent's consolidated EBITDA, and this is likely to remain the case. In addition, we expect Neoenergia to continue operating as a stand-alone entity and not rely on the parent's direct financial support. We believe Neoenergia Coelba, Neoenergia Pernambuco, Neoenergia Cosern, Neoenergia Elektro, and Neoenergia Brasilia are the group's most important subsidiaries as they're electricity discos generating 75%-80% of Neoenergia's cash flow. Even though these subsidiaries are operated on a stand-alone basis due to regulatory purposes, we consider that Neoenergia adopts an integrated financial strategy toward all of its subsidiaries.

Rating Above The Sovereign

Neoenergia--through its subsidiaries in the electric power distribution, transmission, and generation segments--operates in a heavily regulated industry. It's regulated at the federal level through ANEEL. We believe that in a sovereign stress scenario, the government could interfere in the electric utility sector, given its ability to determine the guidelines for the segment. Therefore, we believe that default of Brazil would provide incentives for the government to intervene in the sector's companies, including Neoenergia, which could hamper its ability to repay debt. At this point, considering the upgrade of Brazil to 'BB/Stable/B' on Dec. 21, 2023, at the same level as Neoenergia's SACP, the rating on the group is not capped. Nevertheless, if there were any negative rating action on the sovereign, our ratings on Neoenergia and on its subsidiaries would move in tandem.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of Dec. 31, 2023, Neoenergia's gross debt totaled R\$45.9 billion, consisting of debentures (42%) and bank loans (58%) from several financial institutions, including development banks. Out of the total amount, roughly 10% of debt is at the holding level and the remaining 90% is at the subsidiaries' level. We rate several of Neoenergia's and its subsidiaries' debt instruments on the national scale (please see the table below).

Debt-Level Ratings

Issue	Amount	Maturity	Rating
Neoenergia S.A.			
6th debentures issuance	R\$1.3 billion	Jun-33	brAA+
Companhia de Eletricidade do Estado da Bahia (Neoenergia Coelba)			
12th debentures issuance	R\$700 million	Apr-26	brAAA
13th debentures issuance	R\$800 million	Oct-31	brAAA
1st commercial notes issuance	R\$800 million	Dec-28	brAAA
14th debentures issuance	R\$1.2 billion	Apr-32	brAAA
2nd commercial notes issuance	R\$500 million	Jul-29	brAAA
16th debentures issuance	R\$1.2 billion	Sep-30	brAAA
17th debentures issuance	R\$ 1.5 billion	Nov-33	brAAA
Companhia Energetica de Pernambuco (Neoenergia Pernambuco)			
10th debentures issuance	R\$500 million	Apr-26	brAAA
11th debentures issuance	R\$500 million	Oct-31	brAAA
1st commercial notes issuance	R\$500 million	Dec-28	brAAA
12th debentures issuance	R\$1.2 billion	Apr-32	brAAA
2nd commercial notes issuance	R\$450 million	Jul-29	brAAA
13th debentures issuance	R\$ 1.2 billion	Nov-33	brAAA
14th debentures issuance	R\$500 million	Mar-29	brAAA
Companhia Energetica do Rio Grande do Norte (Neoenergia Cosern)			
7th debentures issuance	R\$370 million	Oct-24	brAAA
1st commercial notes issuance	R\$500 million	Dec-28	brAAA
10th debentures issuance	R\$800 million	Jul-29	brAAA
11th debentures issuance	R\$500 million	Jun-28	brAAA
12nd debentures issuance	R\$650 million	Mar-34	brAAA
Elektro Redes S.A. (Neoenergia Elektro)			
7th debentures issuance	R\$1.3 billion	May-25	brAAA
9th debentures issuance	R\$700 million	May-28	brAAA
10th debentures issuance	R\$650 million	Oct-31	brAAA
11th debentures issuance	R\$500 million	Jul-29	brAAA
16th debentures issuance	R\$200 million	Mar-29	brAAA
Neoenergia Distribuição Brasília S.A.			
5th debentures issuance	R\$300 million	Jul-29	brAAA
6th debentures issuance	R\$200 million	Mar-29	brAAA
Calango 6 Energia Renovavel S.A.			
1st debentures issuance	R\$43.5 million	Jun-28	brAA+

Neoenergia S.A. And Subsidiaries

Itapebi Geracao de Energia S.A.

6th debentures issuance	R\$150 million	Mar-29	brAA+
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Lagoa 1 Energia Renovavel S.A.

1st debentures issuance	R\$46.2 million	Mar-29	brAA+
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NC Energia S.A.

1st debentures issuance	R\$31.6 million	Dec-25	brAA+
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Analytical conclusions

The 'brAAA' issue-level ratings on issuances by Neoenergia Coelba, Neoenergia Pernambuco, Neoenergia Cosern, Neoenergia Elektro, and Neoenergia Brasilia are the same as issuer credit ratings on the same entities, because they're the group's main operating companies and they finance themselves mostly through unsecured debt at their level. The 'brAA+' issue-level rating on Neoenergia's debt is one notch lower than the issuer credit rating because about 90% of the consolidated debt is at the operating subsidiaries' level, indicating a structural subordination of the holding's obligations. Finally, the 'brAA+' issue-level ratings on issuances by Calango 6, Lagoa 1, NC Energia, and Itapebi reflect the reliance on Neoenergia's guarantees (credit substitution). We treat these debt instruments as the group's obligation; therefore, they are subordinated to other obligations.

Rating Component Scores

Foreign currency issuer credit rating	BB/Stable/--
Local currency issuer credit rating	BB/Stable/--
Business risk	Satisfactory
Country risk	Moderately High
Industry risk	Low
Competitive position	Satisfactory
Financial risk	Aggressive
Cash flow/leverage	Aggressive
Anchor	bb
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	bb

Related Criteria

- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021

Neoenergia S.A. And Subsidiaries

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

Ratings Detail (as of March 27, 2024)*

Neoenergia S.A.

Issuer Credit Rating BB/Stable/--
Brazil National Scale brAAA/Stable/brA-1+

Issuer Credit Ratings History

20-Dec-2023 BB/Stable/--
15-Jun-2023 BB-/Positive/--
07-Apr-2020 BB-/Stable/--
12-Dec-2019 BB-/Positive/--
11-Jul-2018 *Brazil National Scale* brAAA/Stable/brA-1+
12-Jan-2018 brAA-/Stable/brA-1+
16-Aug-2017 brAA-/Negative/brA-1+

Related Entities

Companhia de Eletricidade do Estado da Bahia

Issuer Credit Rating BB/Stable/--
Brazil National Scale brAAA/Stable/--
Senior Unsecured
Brazil National Scale brAAA

Companhia Energetica de Pernambuco (CELPE)

Issuer Credit Rating BB/Stable/--

Neoenergia S.A. And Subsidiaries

Ratings Detail (as of March 27, 2024)*

Issuer Credit Rating	brAAA/Stable/--
Senior Unsecured	
<i>Brazil National Scale</i>	brAAA
Companhia Energetica do Rio Grande do Norte	
Issuer Credit Rating	BB/Stable/--
Senior Unsecured	
<i>Brazil National Scale</i>	brAAA/Stable/--
Senior Unsecured	
<i>Brazil National Scale</i>	brAAA
Elektro Redes S.A.	
Issuer Credit Rating	
<i>Brazil National Scale</i>	brAAA/Stable/--
Senior Unsecured	
<i>Brazil National Scale</i>	brAAA
Neoenergia Distribuicao Brasilia S.A.	
Issuer Credit Rating	
<i>Brazil National Scale</i>	brAAA/Stable/--
Senior Unsecured	
<i>Brazil National Scale</i>	brAAA

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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