MOODY'S

Rating_Action: Moody's downgrades Light's ratings to B3; places the ratings under review for further downgrade

03Feb2023

New York, February 03, 2023 -- Moody's Investors Service ("Moody's") today downgraded the corporate family rating (CFR) of Light S.A. (Light) and the issuer ratings and Backed Senior Unsecured ratings of its operating subsidiaries Light Serviços de Eletricidade S.A. (Light SESA) and Light Energia S.A.(Light Energia) to B3 from Ba3. All ratings were placed under review for further downgrade.

Downgrades:

..Issuer: Light S.A.

.... Corporate Family Rating, Downgraded to B3 from Ba3; Placed Under Review for further Downgrade

..Issuer: Light Servicos De Eletricidade S.A.

.... Issuer Rating, Downgraded to B3 from Ba3; Placed Under Review for further Downgrade

....Backed Senior Unsecured Regular Bond/Debenture, Downgraded to B3 from Ba3; Placed Under Review for further Downgrade

..Issuer: Light Energia S.A.

.... Issuer Rating, Downgraded to B3 from Ba3; Placed Under Review for further Downgrade

....Backed Senior Unsecured Regular Bond/Debenture, Downgraded to B3 from Ba3; Placed Under Review for further Downgrade

Outlook Actions:

..Issuer: Light S.A.

....Outlook, Changed To Rating Under Review From Stable

..Issuer: Light Servicos De Eletricidade S.A.

....Outlook, Changed To Rating Under Review From Stable

..Issuer: Light Energia S.A.

....Outlook, Changed To Rating Under Review From Stable

RATINGS RATIONALE

The downgrade of Light's ratings to B3 reflects the lack of visibility into the company's financing strategy to address upcoming debt maturities, amid tighter credit market conditions and higher funding costs. The review for further downgrade follows Light's announcement to the market On January 31, 2023, that it had hired Laplace Financas consulting firm to explore possible financial strategies in order to improve its capital structure. In face of the unclear design of the company's financial strategy, Moody's deems the safeguard of debtholders interest at a risk level that is no longer consistent with a Ba3 rating.

Governance factors are highly relevant to this rating action, and speak to the fact that Light is redefining its financial strategy amid higher refinancing risks, which entail a higher probability of debt renegotiation at unfavorable terms to its creditors. Over the past few years, the company has also experienced above average management turnover, blurring the predictability and stability of its projections and delaying the execution risks of its business strategy. As a consequence of the heightened governance risks incorporated into Light's ratings, Moody's updated the governance issuer profile score to highly negative (G-4) from moderately negative (G-3), reflecting changes in the following factors: financial strategy and risk management to highly negative (4) from neutral-to-low (2), and management credibility and track record to very negative (4) from moderately negative (3).

Light's liquidity position to support its debt service payments, capital expenditure and working capital needs is tight for the year 2023. The cash and cash equivalents of R$4 billion reported as of September 30, 2022, along with unencumbered receivables provide the company some flexibility for eventual delays in the completion of its financing strategy. Nonetheless, the amount of debt maturing through mid-2024 will entail higher funding needs, at a time when the local capital markets are experiencing high volatility and low investor risk appetite, in face of the uncertainty on the terms and conditions for the renewal of Light SESA's Rio de Janeiro concession ending in June 2026.

During the review process, Moody's will consider eventual changes in Light's financial policy and other initiatives to sustain an adequate liquidity and improve its debt maturity profile, amid the looming refinancing risks.

The next steps to the renewal of Light SESA's concession contract, ending in June 2026, is also a key credit consideration for the review process, because higher visibility into the economic terms and conditions of the concession would support an improvement in investor confidence with a long term view on the company's future cash flows to sustainably cover operating, investment and debt service needs.

The B3 ratings continue to recognize the overall supportive regulatory framework for electric utilities in Brazil, as illustrated by the consistent annual tariff adjustments for Light SESA, including some consideration for the social and economic specificities of its concession area and compensation mechanisms in the event of contract termination, although not fully insulated from political interference and material delays. The rating also considers a gradual improvement in the company's operating performance driven by its ongoing business turnaround initiatives.

The ratings assigned to Light SESA and Light Energia are in line with the ratings assigned to its parent company, due to the corporate guarantee provided by Light and the cross-default clauses embedded in the debt issued within the group. Because of these financial and structural linkages, Light SESA and Light Energia's credit profile are best assessed through Light's consolidated profile, as the holding company of the group.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Ratings downgrade could result from the perception of a weakening liquidity buffer to withstand Light's upcoming debt obligations, such that its consolidated cash balance is not enough to cover the debt payments over the next 18 months or the Free Cash Flow becomes negative.

Ratings could be further downgraded if the company announces a debt restructuring plan that entails losses for its outstanding senior unsecured debtholders or with Moody's perception that the Light SESA's Rio de Janeiro concession will not be renewed. Alternatively, the outlook could return to stable with higher visibility into Light's financial plans to improve its debt amortization profile at reasonable costs, along with a clearer view on the progress towards Light SESA's concession renewal.

RATINGS OUTLOOK

The rating is currently rating under review. During the review, Moody's will focus on the company's liquidity position, on the company's definition of its financial policy and on the evolution of the negotiations of the renewal of Light SESA's concession of Rio de Janeiro.

COMPANY PROFILE

Headquartered in Rio de Janeiro - Brazil, Light is an integrated utility company with activities in generation, distribution and commercialization of electricity. Light SESA and Light Energia are wholly owned subsidiaries of Light. In the LTM ended in September 2022, Light reported consolidated net debt of BRL8.5 billion, according to Moody's standard adjustments.

The principal methodology used in rating Light S.A., and Light Servicos De Eletricidade S.A. was Regulated Electric and Gas Utilities published in June 2017 and available at https://ratings.moodys.com/api/rmc-documents/68547. The principal methodology used in rating Light Energia S.A.was Unregulated Utilities and Unregulated Power Companies published in May 2017 and available at https://ratings.moodys.com/api/rmc-documents/75129. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the issuer/

deal page for the respective issuer on https://ratings.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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