MOODY'S
INVESTORS SERVICE

CREDIT OPINION
30 September 2020

Update

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RATINGS

Light S.A.

Domicile	Rio de Janeiro, Rio de Janeiro, Brazil
Long Term Rating	Ba3
Type	LT Corporate Family Ratings - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Light S.A.

Update to credit analysis

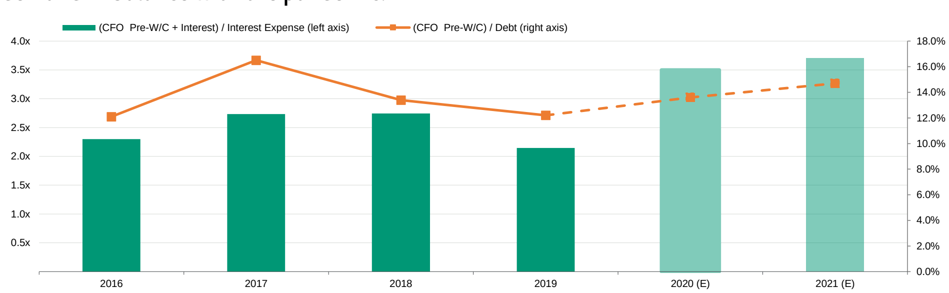
Summary

Light S.A.'s (Light, Ba3/A2.br stable) is a pure holding company with no direct debt. As such, its corporate family rating (CFR) is assigned on a consolidated basis and reflects the credit quality of its two main subsidiaries, Light Servicos De Eletricidade S.A. (Light SESA, Ba3/A2.br stable) and Light Energia S.A. (Light Energia, Ba3/A2.br stable).

Light's CFR incorporates (1) a supportive regulatory framework that has been providing consistent tariff adjustments and additional tolerance in consideration of the social and economic specificities of its concession area; (2) our expectation of improvement in the company's credit metrics driven by its ongoing business turnaround initiatives, and (3) an adequate liquidity profile supported by recent debt issuances of BRL1.5 billion, along with a total of BRL1.3 billion of cash advances to be provided by the regulatory account "Conta Covid" created by the government to ensure financial stability on the sector, which mitigates most of the demand imbalance caused the coronavirus pandemic.

The company's credit profile is constrained by (1) the high level of energy losses in its distribution segment, which remains well above the regulatory requirements constraining the cash flow conversion rate; (2) the high unemployment rate and energy thefts in its concession area challenging the recovery of consumption growth; and (3) the settlement of GSF liabilities related to suspended hydrology costs, that weights negatively on the company's free cash flow generation with the repayment of approximately BRL727 million in the near term.

Exhibit 1
Lower interest rates and regulatory support will sustain credit metrics recovery despite the demand imbalance with the pandemic.



Source: Moody's Financial Metrics™ and Moody's Investors Service projections for 2020 and 2021

Credit strengths

- » Supportive regulatory framework for electric utilities in Brazil
- » Improving operating performance following revised business strategy
- » Diversified capital structure and manageable debt maturity profile

Credit challenges

- » Difficult socioeconomic profile of the concession area
- » Energy loss rates persistently above the regulatory targets
- » Large capital spending requirement until the next tariff review cycle in 2022
- » Settlement of GSF liabilities will weight negatively on free cash flow generation through 2021

Rating outlook

The stable outlook reflects our expectation that Light's credit metrics will improve on the back of the company's committed to its ongoing business turnaround plan, which includes an active liability management strategy and improvement of operational performance.

Factors that could lead to an upgrade

A rating upgrade could be considered should Light demonstrate a sustained improvement in its operating performance and reduce its leverage. A rating upgrade would also require a comfortable liquidity profile ahead of the company's working capital needs and debt maturities in the short term. Quantitatively, the ratings could be upgraded if:

- » CFO pre-WC/debt exceeds 18%, and
- » CFO pre-WC interest coverage reaches 4.0x, on a sustained basis

Factors that could lead to a downgrade

A rating downgrade could result from Light's failure to improve its operating performance and cash flow, or reduce outstanding debt. The perception of weakening liquidity could also strain Light's ratings. Quantitatively, the ratings could be downgraded if:

- » CFO pre-WC/debt falls below 15%, or
- » CFO pre-WC interest coverage remains below 3.0x, for a prolonged period

Key indicators

Exhibit 2

Light S.A

Key Indicators

	2016	2017	2018	2019	LTM 2Q20	2020 (E)	2021 (E)
(CFO pre-WC + Interest) / Interest	2.3x	2.7x	2.7x	2.1x	2.1x	3.6x	3.9x
(CFO pre-WC) / Debt	12.1%	16.5%	13.4%	12.2%	11.5%	14.6%	16.7%
(CFO pre- WC – Dividends) / Debt	11.4%	16.5%	13.1%	11.7%	11.1%	10.6%	16.2%
Debt / Capitalization	67.8%	68.4%	74.3%	57.5%	57.0%	51.2%	48.2%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations
Source: Moody's Financial Metrics™

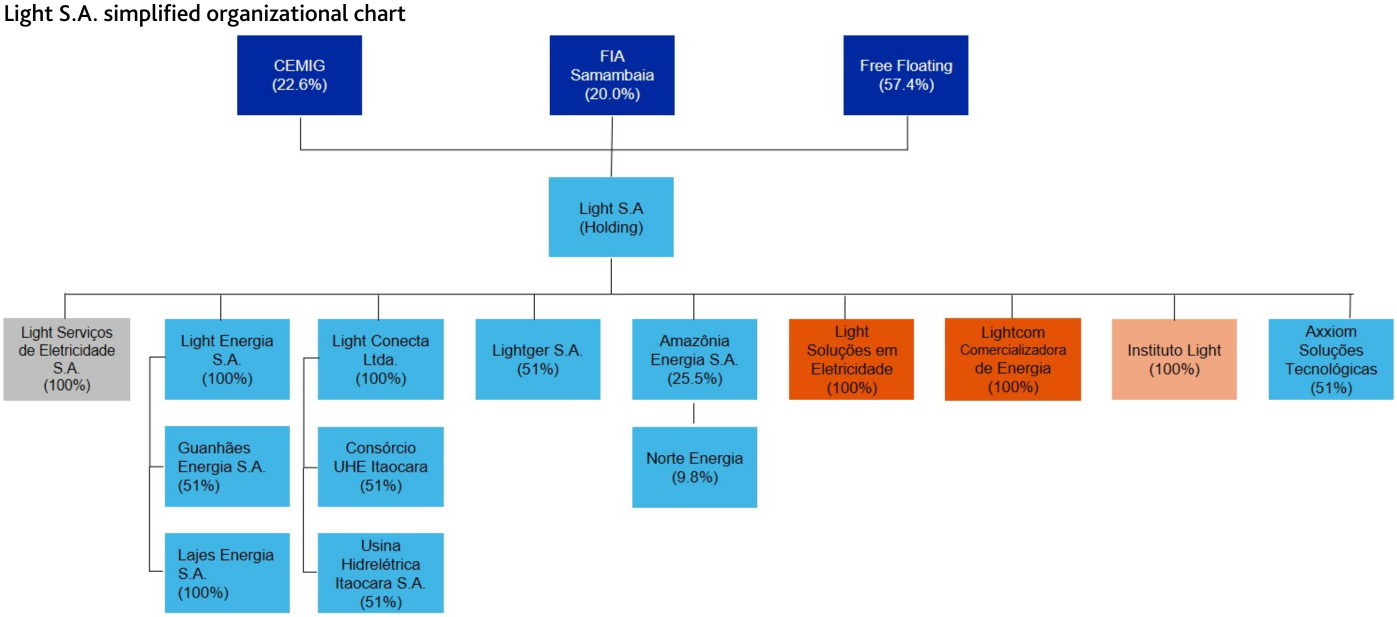
Profile

Headquartered in Rio de Janeiro, Brazil, Light is a holding company with activities in generation, distribution and commercialization of electricity. The majority of the company's capital is distributed in the hands of several domestic and international shareholders. The company's major individual shareholder is Companhia Energetica de Minas Gerais - CEMIG (CEMIG, Ba3/A1.br positive), with a stake of 22.6% in Light's equity capital. In the 12 months that ended June 2020, Light reported BRL12.1 billion in consolidated net revenue (excluding construction revenue) and BRL1.6 billion in EBITDA.

Electricity distribution is the company's largest segment, which accounted for around 84% of its consolidated EBITDA for the 12 months ended June 2020. The company's distribution business is operated by its wholly owned subsidiary, Light SESA, through a 30-year concession granted by the Brazilian Federal Government (Ba2 stable) expiring in July 2026. Light SESA is the third-largest distribution company in Brazil in terms of supply revenue and the fifth largest in terms of distributed energy. The company serves about 4.4 million consumers through 31 municipalities in the state of Rio de Janeiro, including the Municipality of Rio de Janeiro (Ba3/A1.br stable), or the equivalent of 64% of the electricity consumed by the state.

Light's second-largest segment is hydro generation, which, through its direct subsidiary Light Energia, represented 28% of Light's consolidated EBITDA for the 12 months that ended June 2020. Light Energia operates five hydroelectric power plants (HPPs) and one small hydroelectric power plant, with 873 megawatts (MW) of combined installed capacity, pursuant to a 30-year concession that ends in June 2026. The company also has direct full control of Lajes Energia S.A. and a 51% stake in Guanhaes Energia S.A. The third business segment involves energy commercialization in the unregulated electricity market through LightCom. In October 2019, as part of the company's strategy to reduce its exposure to non-strategic assets and interests, Light signed an agreement to sell 17.17% of its shares in Renova.

Exhibit 3
Light S.A. simplified organizational chart



As of June 2020.
Source: Company

Detailed credit considerations

Energy consumption impacted by the unprecedented effects of the pandemic

During the first half of this year, Light experienced 12.5% lower electricity demand in its service area, primarily because of the pandemic, but also due to relatively lower average temperature in the summer as compared with the same period in 2019. The sharp decline in demand led the utility to an over contracted energy position of 110% that is 5% higher than the coverage embedded in the regulated tariffs. The rigid structure of its power purchase agreements (PPAs) contributed to a margin squeeze, as reflected in a consolidated BRL350 million EBITDA loss in the first half of this year. Additionally, collection challenges put pressure on delinquency rates negatively impacting the cash conversion rate.

The business environment is improving gradually, following the easing of social-distancing measures during the second half of this year. Overall we expect electricity consumption to decrease less than 6% in 2020 as compared to 2019 levels, and provide more visible signs of recovery next year with demand growth that is potentially over 4%.

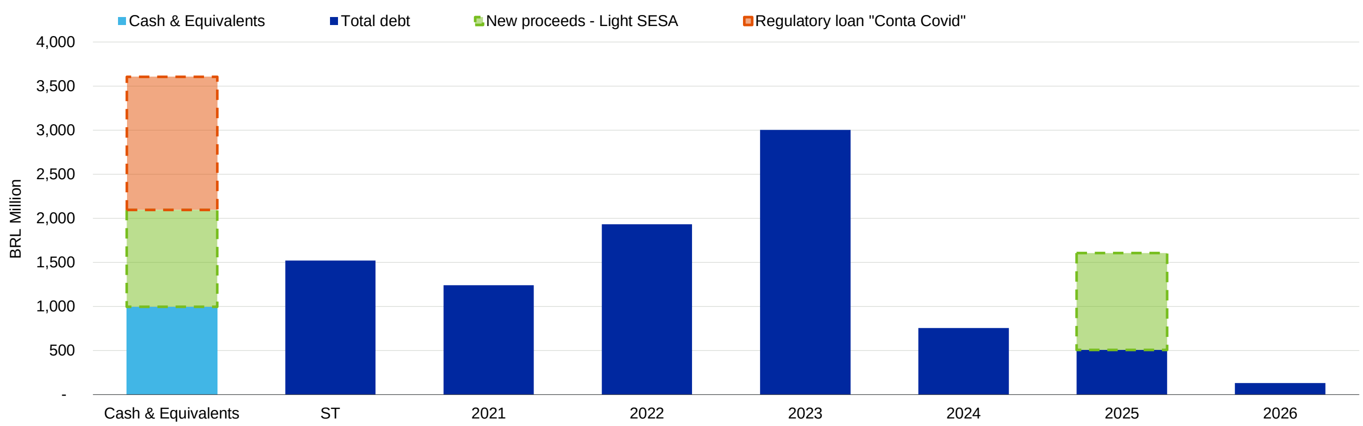
Cash management and timely regulatory support mitigated the liquidity risks

In order to alleviate the liquidity stress at the distribution business, Light obtained an extraordinary regulatory approval to transfer a BRL500 million of cash availabilities at Light Energia to Light SESA as an intercompany loan in April 2020. Additional regulatory support was provided through syndicated sector loans to the Chamber of Electricity Commerce (CCEE), also known as “Conta-Covid”, that are financing a total of BRL1.3 billion in cash advances to the company through December. Those advances will be amortized only gradually through tariff increases over a five-year period starting in 2021.

The utility also issued BRL1.5 billion in debentures since April to reinforce its liquidity position ahead of working capital and investment needs. Meanwhile, Light's shareholders agreed to defer about BRL315 million in dividends as a measure to improve cash retention amid the volatile market conditions. As a result we view Light's liquidity position as currently adequate to support is operations and service debt over the next 12 to 18 months.

Exhibit 4

Light's pro forma debt amortization schedule



Source: Company and Moody's Investors Service

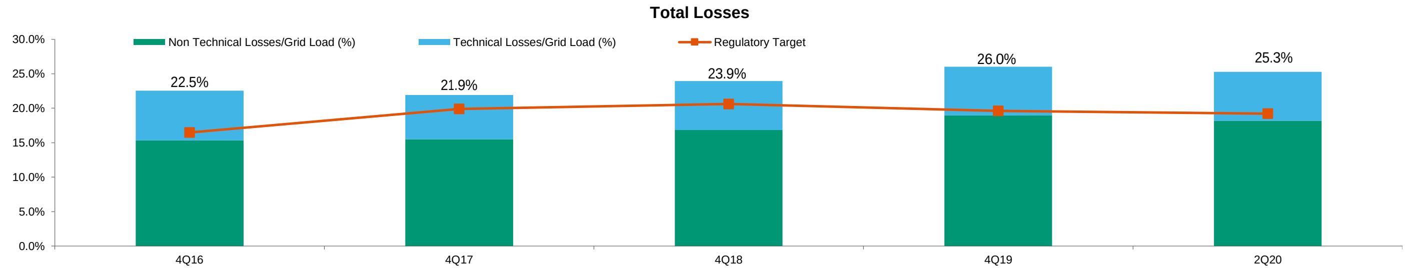
Weak socioeconomic profile of the concession area constrain improvements

Light has been allocating significant efforts to reduce the endemically high loss rates in its concession area. Since early 2016, the company has changed its strategy by intensifying inspections and focusing primarily on medium-to-high-income areas as opposed to poorer areas plagued with violence. Those inspections have allowed a portion of the energy back into the network, equivalent to 269 gigawatt-hours in the 12 months that ended June 2020.

In July 2019, the company announced a restructuring in the commercial department with the election of a new officer to increase the efficiency of commercial processes, improve customer service and collection. After a slow start, the revamped commercial policies are starting to show some signs of improvement. Total losses for customers retracted to 25.5% in the last twelve months ended June 2020, from 26% in December 2019 (Exhibit 3). Nonetheless it remains well above the regulatory target of 19.2%, reflecting the resistance to behavioral changes from delinquent consumers.

Reduce energy losses remains the company's main operating challenge in the years to come. We consider that material improvements over the next 18 months will be particularly challenging, given the weak socioeconomic conditions of its service area, with a high unemployment rate and elevated electricity thefts.

Exhibit 5
Energy losses remain an important challenges



Source: Company

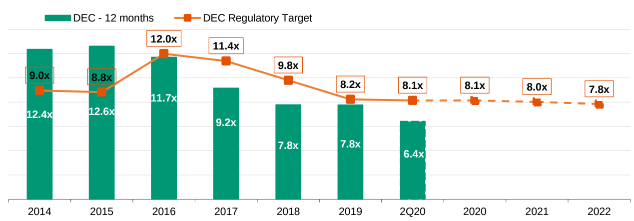
Reasonable regulatory framework balances consumers and utility's needs

Recent regulatory decisions aimed at mitigating the impact of high energy costs and the economic recession indicate a supportive regulatory framework for Brazilian distribution companies. For example, amid the coronavirus pandemic, the government and regulators approved around BRL3.3 billion in financial support for the sector through the release of funds and sectoral subsidies for low-income consumers. The decree that established the terms of a new syndicated loan to be contracted by the Chamber of Commerce of Electricity (CCEE), known as "Conta-Covid", is also an important development to ensure financial stability and mitigate liquidity risks in the sector. In addition, the implementation of Mechanism of Compensation of Remains and Deficits (MCSD) auctions and the establishment of insurance products that mitigate hydro risk for regulated PPAs are also measures implemented by the regulator in the previous years to support companies financial stability in the sector

In March 2017, Light's SESA received the anticipation of its fourth tariff review process and amendment to its concession agreement, which concluded with a favorable tariff structure. Through the revision, ANEEL granted Light SESA the ability to recognize in its tariffs higher technical and nontechnical losses, acknowledging the concessionaire is in economically and socially challenged areas, and incorporated the company's past investments into the regulated asset base, including those related to the 2016 Olympic Games. The next tariff reset will be completed in March 2022. With the more favorable tariff structure following the periodic review in 2017 also came more stringent regulatory requirements, which Light's distribution subsidiary, Light SESA, has to comply with in the coming years.

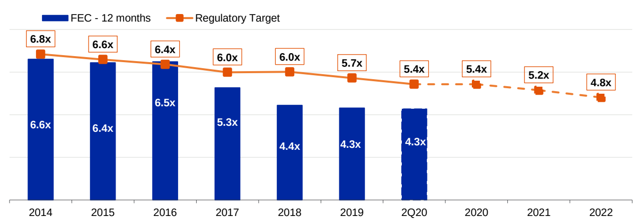
Light has been improving the quality of its service indicators, measured by the frequency and duration of interruptions (see Exhibits 6 and 7). But, the target to further improve those quality indicators through 2022 will require continued capital spending on Light distribution network and operating management over the next few years.

Exhibit 6
Duration of Interruptions Index (DEC)
In hours



Sources: Company and ANEEL

Exhibit 7
Frequency of Interruptions Index (FEC)
In number of occurrences



Sources: Company and ANEEL

Light Energia's cash flow to strengthen over time benefiting the group with diversification

Over the past years, the hydropower generation business, through Light Energia, has been a relatively steady contributor to the group's consolidated cash flow, accounting for around 23% of consolidated CFO pre-WC, on average, over 2015-19. In the 12 months that ended June 2020, Light Energia's CFO pre-WC was BRL289 million, or 27% of Light's consolidated CFO pre-WC, partially compensating the weaker cash generation on the distribution business. We expect the diversification benefits provided by the generation segment to continue to support Light's consolidated cash flows led by improved hydrologic conditions and the success of its energy commercialization strategy.

Light Energia's revenues are supported by medium term unregulated PPA's with free customers. The company has not adhered to the law #13,203/2015, which established the terms on the renegotiation of the hydrological risks in 2015 and the acquisition of risk insurance policies. To mitigate hydrology risks the company maintains a portion of uncontracted energy in the range of 20%-30% and executes seasonal trading strategies. The ratings base case assumes expiring contracts are recontracted at 15% lower than historical energy prices, given the current excess capacity and industry development costs are consistently declining, particularly for renewables.

Light Energia is exposed to some counterparty risks, which are mitigated through the use of financial guarantees and take-or-pay provisions. Early-termination options usually entail onerous conditions that deter counterparties from exercising them all the time. Following the easing of social-distancing measures, we don't expect Light's free customers to push to exit contracts or exercise force-majeure claims to reduce their own penalties. Negotiated solutions will likely prevail rather than legal disputes, but they will not insulate from eventual delinquencies.

Credit metrics will improve, but capex and contingencies will weight on free cash flow

We expect improvement in Light's consolidated credit metrics, so that the ratio of cash flow before working capital changes (CFO pre-WC) to debt and interest coverage ratios recover and remain consistently above 15% and 3.5x, respectively, over the next 12 to 18 months, up from 11.5% and 2.1x in the last twelve months ended June 2020. Such improvement will be possible with the company's committed to its ongoing business turnaround plan, which includes liability management strategies in order to improve Light's debt profile and reduce financial costs. On September 28, 2020, Light's shareholders have approved the issuance of up to 85 million new shares. Proceeds from a new capital increase would provide further flexibility to the company's capital structure.

However, the pace of deleveraging remains limited by consolidated capital spending of approximately BRL1.1 billion per year for network expansion and to improve quality standards in the distribution business, along other investments. Other sources of near term pressure to the cash flow include the GSF bill that was finally approved in August 2020, where some hydro generation companies with settle unpaid bills with suppliers that have been under dispute in recent years arising especially from unfavorable hydrology conditions and thermal dispatch out of merit. Details on the payment conditions are still pending a regulatory definition, but we estimate that Light Energia will have to disburse approximately BRL727 million in 2021, which will be entitled to economic compensation with a contract amendment for the concession extension of its hydro generation assets.

Liquidity profile

As of June 2020, Light reported BRL995 million in cash and equivalents, compared with BRL1,562 million in short-term debt maturities. In July and August 2020, the company raised BRL500 million and BRL600 million, respectively, of senior unsecured debentures through its subsidiary Light SESA. Following recent transactions aimed at mitigating possible liquidity risks caused by the pandemic and supporting the company's investments, we consider Light's liquidity profile adequate.

As per Light's debt indentures, the company is required to maintain total net debt/EBITDA of less than 3.75x on a consolidated basis, except for the eighth issuance of debentures of Light SESA and the third issuance of debentures of Light Energia, whose net debt/EBITDA covenant of 3.75x decreased to 3.50x in March 2019. As of June 2020, Light reported net debt/EBITDA of 3.07x.

Environmental, social and governance considerations

We consider the coronavirus pandemic a social risk because of the significant implications for public health and safety. These considerations are important to Light as the company provides an essential service that is subject to political interference, as well as the contingency of operations to protect its own workforce of 4,745 employees as of 2Q20.

Regulated utilities generally have significant experience in handling progressively more stringent environmental regulations and have a strong ability to recover the related costs under a well-defined regulatory framework. However, increasing utility tariffs to mitigate environmental risks or meet air pollutant standards could be politically sensitive in some cases. The increase could encourage distributed generation or could lower the sales volume over time because of energy efficiency and conservation. Regulated electric utilities and power generation companies in Brazil are also subject to weather-related and pattern of rainfall factors, because the energy matrix is predominantly based on hydropower sources. All this could lead to a shift in market fundamentals or the regulatory paradigm, creating additional risks for regulated utilities, especially those dependent on volumetric charges to cover fixed expenses. Light's generation business derives renewable sources through five hydro plants and a small hydro plant with a total installed capacity of 873 MW.

Light's governance has improved over the last few years. The company's CEO was replaced in May 2019, along with other management executives who were strategic to the execution of the company's business strategy. In July 2019, CEMIG sold a portion of its ownership interest in Light pursuant to a secondary offer, reducing its direct and indirect holdings to 22.6% from 49.9%. In turn, Light became a corporation with more than 70% of its equity capital in free float. We expect governance to improve, benefiting from a more independent representation on Light's board of directors and a larger shareholder base insulated from political pressure. Light's renewed corporate governance following changes in the compensation structure that are more closely aligned with the company's results, should also contribute to a gradual improvement in operating performance.

Since 2005, Light has been listed on the Novo Mercado segment of the Brazilian Stock Exchange (B3). According to its listing rules, at least 20% of the company's board members need to be independent. Light's board currently has eight members, six of whom are independent. Out of the non-independent members, one is appointed by CEMIG.

As of June 2020, Light has started to publicly report environmental, social and governance (ESG) indicators related to its business, strengthening its commitment to sustainability and providing more clarity to its investors. The company is part of the ISE B3 portfolio since 2007, which comprises listed companies with best corporate sustainability practices in the country.

Structural consideration

Light's Ba3/A2.br CFR reflects its consolidated debt structure, which essentially consists of senior unsecured obligations, either debentures or loans with domestic banks. The senior unsecured issuer ratings of Light SESA and Light Energia are at the same level as the ratings of the parent. This reflects the high degree of financial links between Light SESA, Light Energia and other subsidiaries within the Light group because of the cross-default provisions embedded in its debt documents. Additionally, the restrictions on debt represented by debt maintenance financial covenants present at the debt arrangements of each operating subsidiaries are based on Light's consolidated debt, which reinforce our view that the probability of default is broadly equivalent within the Light group.

Rating methodology and scorecard factors

The principal methodology used in rating Light is our Regulated Electric and Gas Utilities methodology, published on June 23, 2017. Light's rating grid model indicates an outcome of Ba1 based on its historical metrics for the 12 months that ended June 2020 and on our 12-18-months forward view. Nonetheless the rating is two notches below the grid to reflect Light's evolving capital structure and execution challenges.

Exhibit 8
Rating factors
Light S.A.

Regulated Electric and Gas Utilities Industry [1][2]	Current LTM 6/30/2020		Moody's 12-18 Month Forward View As of 9/23/2020 [3]	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	Ba	Ba	Ba	Ba
b) Consistency and Predictability of Regulation	Ba	Ba	Ba	Ba
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Ba	Ba	Ba	Ba
b) Sufficiency of Rates and Returns	Ba	Ba	Ba	Ba
Factor 3 : Diversification (10%)				
a) Market Position	Ba	Ba	Ba	Ba
b) Generation and Fuel Diversity	Ba	Ba	Ba	Ba
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	2.6x	Ba	2.7x - 3.2x	Ba
b) CFO pre-WC / Debt (3 Year Avg)	13.2%	Baa	13% - 15%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	13.0%	Baa	11% - 13%	Baa
d) Debt / Capitalization (3 Year Avg)	67.4%	B	57% - 62%	Ba
Rating:				
Scorecard-Indicated Outcome Before Notching Adjustment		Ba1		Ba1
HoldCo Structural Subordination Notching				
a) Scorecard-Indicated Outcome		Ba1		Ba1
b) Actual Rating Assigned				Ba3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 6/30/2020(L); Source: Moody's Financial Metrics™
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Investors Service

Ratings

Exhibit 9

Category	Moody's Rating
LIGHT S.A.	
Outlook	Stable
Corporate Family Rating -Dom Curr	Ba3
NSR Corporate Family Rating	A2.br
LIGHT SERVICOS DE ELETRICIDADE S.A.	
Outlook	Stable
Issuer Rating -Dom Curr	Ba3
Bkd Senior Unsecured	Ba3
NSR LT Issuer Rating	A2.br
LIGHT ENERGIA S.A.	
Outlook	Stable
Issuer Rating -Dom Curr	Ba3
Bkd Senior Unsecured	Ba3
NSR LT Issuer Rating	A2.br

Source: Moody's Investors Service

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