

**NON-RATING ACTION COMMENTARY**

Acquisition of Gemini is Neutral for Energisa's IDRs

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Fitch Ratings-Rio de Janeiro-22 February 2022: Fitch Ratings views the acquisition of Gemini Energy S.A. (Gemini) as neutral to the credit quality of Energisa S.A. (Energisa) and its rated subsidiaries. Energisa's Long-Term Foreign Currency (FC) and Local Currency (LC) Issuer Default Ratings (IDRs) are 'BB' and 'BB+', respectively, and the National Scale Rating is 'AAA(bra)'. The Rating Outlook for the Local Currency IDR and for the National Scale Rating is Stable, while for the Foreign Currency IDR is Negative.

The acquisition will strengthen Energisa's business model by increasing its business diversification and scale in the power transmission segment. The financial impact is reduced as the disbursement for the acquisition and incorporation of Gemini's debt should lead to a 0.3x increase in the net leverage initially expected by Fitch for 2022. This ratio should remain compatible with the current IDRs, but close to the 3.5x considered as a limit. The new base case scenario for the ratings considers net leverage of 3.3x in 2022 and 3.2x in 2023, compared with the previous expectation of 3.0x for both years.

Announced on Feb. 17, 2022, the signing of a binding agreement comprises the acquisition of 100% of Gemini's shares, held by Power Fundo de Investimento em Participações Infraestrutura and Perfin Apollo 14 Fundo de Investimento em Participações Infraestrutura. The enterprise value of BRL2.6 billion will comprise a disbursement of BRL823 million for equity and net debt of BRL1.7 billion. Gemini's debt has a project finance structure, with a long-term maturity schedule. Closing of the transaction and disbursement are expected to take place in the second quarter of 2022, following regulatory and creditor approvals.

Gemini's main assets are three transmission lines, all in the operational phase, with two in the North region and one in the State of São Paulo. The assets will materially add to Energisa's portfolio in this segment. The group's assets will reach 3,212 km of extension and allowed annual revenue (RAP) of BRL676 million, with the new assets representing 45% in extension (1,451 km) and 54% in RAP (BRL363 million). Fitch estimates that Gemini will contribute with around BRL290 million of EBITDA in 2022 and between BRL300 million to BRL325 million on average in 2023 and 2024. The magnitude of the acquisition is reduced compared to consolidated EBITDA estimated at BRL5.6 billion in 2022 and on average in the following two years.

The disbursement for the acquisition will represent a manageable liquidity effort and a moderate increase in net debt for Energisa. At the end of September 2021, the group had a cash position of BRL4.4 billion and short-term debt of BRL4.3 billion, with the expectation that Energisa should raise additional debt to finance the acquisition. Consolidated net debt was BRL16.0 billion, and should increase by 16% with the incorporation of Gemini's debt and the disbursement of the acquisition – to around BRL19 billion.

Fitch understands that Energisa has proven financial flexibility to fund the acquisition. After September 2021, the group strengthened its liquidity profile by raising BRL2.2 billion through debenture issuances, with BRL1.0 billion at the holding company and the rest in operating subsidiaries, with terms of five years or more.

Energisa's credit profile benefits from a diversified portfolio of concessions in the energy distribution segment, which dilute its operational and regulatory risks. The group has concessions in four regions of Brazil, through 11 distributors. The equalization of the ratings of Energisa and its subsidiaries stems from the strong legal, operational and strategic ties between them.

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