FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Energisa and Subsidiaries' Ratings

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Fitch Ratings - Rio de Janeiro - 12 May 2025: Fitch Ratings has affirmed Energisa S.A.'s Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BB+', and Long-Term National Scale Rating and senior unsecured debenture issuances at 'AAA(bra)'. Additionally, Fitch has affirmed the ratings of Energisa's 11 rated subsidiaries. The Rating Outlook is Stable. A full list of ratings follows at the end of this commentary.

Energisa group's credit profile benefits from its profitable and diversified portfolio of concessions in the Brazilian power sector. The group is expected to maintain strong operational cash generation and ample financial flexibility, supporting its anticipated negative FCF and debt rollover, while keeping leverage metrics at moderate levels. The equalization of Energisa and its subsidiaries' ratings mainly reflects the holding company's high legal incentives to provide support if needed.

KEY RATING DRIVERS

Strong Business Profile: Energisa's credit profile benefits from a diversified portfolio of concessions, mainly in the energy distribution segment, which dilutes operational and regulatory risks. The group has concessions in four regions of Brazil, through nine distributors. Concessionaires can pass on non-manageable costs to consumer tariffs, though there is some exposure to demand volatility and periodic tariff review processes.

Energy distribution should remain the group's most important business, accounting for over 80% of EBITDA by 2028, even with its increased presence in the transmission segment. Fitch does not anticipate major issues with the expiration of three of Energisa's concessions in 2027. These include Energisa Mato Grosso (EMT), Energisa Mato Grosso do Sul (EMS) and Energisa Sergipe (ESE), which jointly represented 49% of the group's energy distributed in 2024. Fitch believes renewals for an additional 30-year period is very likely.

Business Diversification Benefits Ratings: Energisa owns 10 transmission lines in the operational phase, with Permitted Annual Revenue (RAP) of BRL703 million (2024/2025 cycle), adjusted annually for inflation, without exposure to demand risk. Assets in this segment reduce the group's business risk and increase revenue predictability. There are also three transmission lines under construction, which will generate an additional RAP of BRL219 million by 2030. This segment should represent around 8% of consolidated EBITDA from 2025 to 2028.

The gas distribution segment also benefits Energisa's business profile by increasing diversification through a sector with a moderate risk profile and strong growth prospects. However, this segment should remain a small business within the group and represents less than 5% of consolidated EBITDA.

Positive Operating Performance: Energisa's ratings benefit from the efficient operational performance of its distributors, with a history of consumption growth exceeding the national average. In the LTM ended March 2025, the group's billed volume increased 5.0%, compared to the national average of 4.2%. The group's combined EBITDA in this segment should reach BRL7.4 billion in 2025 and BRL7.7 billion in 2026, from BR6.7 billion in 2024, compared with regulatory EBITDA of BRL4.2 billion.

Manageable Negative FCF: Fitch forecasts Energisa's consolidated FCF to remain negative in the coming years, considering the group's significant investment plan of BRL17.8 billion from 2025 to 2027 and a pay-out ratio of dividends corresponding to 50% of net income. For 2025, consolidated EBITDA and cash flow from operations (CFFO) should reach BRL8.6 billion and BRL4.3 billion, respectively, with negative FCF of BRL2.9 billion after investments of BRL5.6 billion and dividend distribution of BRL1.6 billion. Consolidated FCF should remain negative at around BRL3.3 billion in 2026 and BRL2.2 billion in 2027.

Moderate Leverage: Energisa Group should maintain the adjusted net debt/EBITDA ratio, according to Fitch's methodology, at the range of 3.0x-3.5x from 2025 to 2027, despite the expected negative FCF. Efficiency gains and positive tariff readjustment in the distribution concessions and greater contribution of new operating assets in other segments should support the maintenance of moderate credit metrics. Energisa group's adjusted net leverage should reach 3.4x in 2025 and 3.5x in 2026. Adjusted gross leverage and net leverage ratios were 4.6x and 3.4x, respectively, in 2024, and 5.1x and 3.9x in the LTM ended in March 2025.

Subsidiaries' Ratings Equalized: Fitch equalizes the IDRs of Energisa Paraiba, Energisa Sergipe and Energisa Minas Rio and the National Scale ratings of the 11 rated subsidiaries with Energisa's ratings. This mainly reflects the high legal incentives that the holding company would have to support them in a stress scenario. Energisa consolidates the subsidiaries and guarantees a significant portion of their debts. In addition, there are cross-default clauses in some of the group's debt instruments. Fitch also views the subsidiaries as Energisa's core business and are centrally managed.

PEER ANALYSIS

Energisa's financial profile is more aggressive than Latin America peers, such as Enel Americas S.A. (BBB+/Stable), Enel Chile S.A. (BBB+/Stable), Empresas Publicas de Medellin E.S.P. (EPM; BB+/Negative), and Grupo Energia Bogota S.A. E.S.P. (GEB; BBB/Negative). Energisa's IDRs also reflect its geographic concentration in Brazil, compared with other its peers operating in higher rated countries in the region, such as Chile (A-/Stable) and Colombia (BB+/Negative).

Compared with other Brazilian power companies with operations predominantly in the distribution segment, Energisa operates in concession areas with economic growth above the national average and with a strong agribusiness activity. Energisa's business profile is worse than Companhia Energetica de Minas Gerais (Cemig;

BB/Stable), which has a higher business diversification with more presence in the energy generation segment.

Nevertheless, Cemig faces uncertainty related to the renewal of its two largest hydroelectric plants concessions, which expire in 2027 and account for about 50% of the group commercial capacity, or around 15% of consolidated EBITDA, justifying a rating one-notch lower than Energisa. Different from the distribution segment, concessions on the generation segment typically return to the Federal government after their expiration.

KEY ASSUMPTIONS

-- Average growth in energy consumption in Energisa's concession areas of 1.7% from 2025 to 2028;

-- Dividend distributions equivalent to 50% of net income;

-- Average annual investments of BRL5.6 billion from 2025 to 2028;

-- Transmission lines concluded according to the company's schedule;

-- No asset sales or new acquisitions.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

-- Total debt/EBITDA above 4.0x on a recurring basis;

-- Net debt/EBITDA above 3.5x on a recurring basis;

-- Deterioration in the liquidity profile at the holding or the consolidated level;

-- New projects or acquisitions involving significant amounts of debt;

-- A downgrade of the sovereign rating would trigger a downgrade of the FC IDRs.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

-- An upgrade on the Local Currency IDRs will depend on the group's ability to bring net leverage to about 2.5x and lengthen its debt maturity profile;

-- An upgrade on the Foreign Currency IDRs will depend on an upgrade of the Local Currency IDRs and a positive rating action for the sovereign.

LIQUIDITY AND DEBT STRUCTURE

Energisa has proven access to different funding sources, which is a key credit factor. The group improved its liquidity profile, lengthening the average debt mature to 6.1 years as of March 2025 from 3.8 years in December 2023. At the same date, cash position of BRL8.6 billion also adequately covers by 1.3x the short-term debt of BRL6.4 billion. This profile benefits the group to address the refinancing needs and to finance its expected negative FCF.

The group had total adjusted debt of BRL36.7 billion by the end of March 2025. It was mainly composed of debentures (BRL21.2 billion) and debt related to Resolution 4,131 (BRL6.7 billion). Fitch's methodology considers 50% of the balance of BRL2.7 billion in preferred shares issued by the subholdings Energisa Participações Minoritárias S.A. and Energisa Participações Nordeste S.A. as debt.

The holding company benefits from receiving dividends from its operating subsidiaries, which totaled BRL1.8 billion in the LTM ended in March 2025. Fitch considers an annual average of BRL1.3 billion in dividends to be received from 2025 to 2028. The holding held BRL1.7 billion in cash and equivalents, compared to short-term debt of BRL898 million.

ISSUER PROFILE

Energisa S.A. is a non-operating holding company in the electric energy sector, mainly through nine energy distribution concessionaires serving 8.8 million customers - the fifth largest in Brazil. The group also operates in the energy transmission and generation and natural gas distribution.

SUMMARY OF FINANCIAL ADJUSTMENTS

Net revenues and EBITDA net of construction revenues and cost.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Energisa Acre - Distribuidora de Energia S.A.	Natl LT	AAA(bra)	Affirmed	AAA(bra)
senior unsecured	Natl LT	AAA(bra)	Affirmed	AAA(bra)
Energisa Mato Grosso - Distribuidora de Energia S.A.	Natl LT	AAA(bra)	Affirmed	AAA(bra)
senior unsecured	Natl LT	AAA(bra)	Affirmed	AAA(bra)
Energisa S.A.	LT IDR	BB+	Affirmed	BB+
	LC LT IDR	BB+	Affirmed	BB+
	Natl LT	AAA(bra)	Affirmed	AAA(bra)
senior unsecured	Natl LT	AAA(bra)	Affirmed	AAA(bra)
Energisa Sergipe - Distribuidora de Energia S/A	LT IDR	BB+	Affirmed	BB+
	LC LT IDR	BB+	Affirmed	BB+

PREVIOUS Page 1 of 4 10 rows NEXT

VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

National Scale Rating Criteria (pub. 22 Dec 2020)

Parent and Subsidiary Linkage Rating Criteria (pub. 16 Jun 2023)

Corporate Rating Criteria (pub. 06 Dec 2024) (including rating assumption sensitivity)

Corporate Hybrids Treatment and Notching Criteria (pub. 08 Apr 2025)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.2.0 (06 Dec 2024, 08 Apr 2025)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Energisa Minas Rio - Distribuidora de Energia S.A.	EU Endorsed, UK Endorsed
Energisa Paraiba - Distribuidora de Energia S/A	EU Endorsed, UK Endorsed
Energisa S.A.	EU Endorsed, UK Endorsed
Energisa Sergipe - Distribuidora de Energia S/A	EU Endorsed, UK Endorsed

DISCLAIMER & DISCLOSURES

SOLICITATION STATUS

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ENDORSEMENT POLICY

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