

JUNE 2, 2022

Fitch places Eneva's Rating under Negative Observation after the Acquisition

Fitch Ratings - Rio de Janeiro - June 2, 2022: Fitch Ratings has placed Eneva S.A. (Eneva) 'AAA(bra)' Long-Term National Rating under Negative Observation.

The rating action occurred after the company announced the execution of purchase and sale agreement for the entirety of shares belonging to Centrais Elétricas de Sergipe Participações S.A. (Celsepar) and Centrais Elétricas Barra dos Coqueiros S.A. (Cebarra). The shares, owned by a subsidiary of New Fortress Energy Inc. (NFE) jointly with Ebrasil Energia Ltda. (Ebrasil), were sold for R\$ 6.1 billion (base date: December 2021). The acquisition also involved the assumption of Centrais Elétricas de Sergipe S.A. (Celse), a Celsepar subsidiary, net debt of R\$ 4.1 billion. Celse operates the Porto de Sergipe I UTE, a thermal power plant with an installed capacity of 1.593 MW. The transaction is to be finished at the end of the second semester of 2022 and is subject to legal and regulatory approvals as well as the consent from Celse's creditors.

The Negative observation is a reflection of the potential deterioration Eneva's financial profile may suffer if the acquisition is mainly based on debt, with a potential downgrade of the company's rating by one level. However, Fitch acknowledges the benefits this operation may have to Eneva's business profile, resulting on a material gain of sale and a higher diversification of assets and revenues. The amounts involved are high and would result in a net leverage above its rating downgrade sensitivity in 3.5 times for a longer period. The funding for the acquisition by means of funds free of charge may result in the removal of the Negative Observation.

KEY RATING DRIVERS

Financial Leverage under Pressure: Based on the base scenario for the rating, the acquisition — which amount will be adjusted by Interbank Deposit Certificate (CDI) + 1% per year until it is concluded — will occur upon debt collection for payment of the shares. At the end of 2022, the net debt/EBITDA ratio would be 5.8x in a pro forma basis, even considering the total contribution to Celse's cash generation during the year, and then getting reduced to 4.8x in 2023 and to 4.3x in 2024. The calculation used pro forma EBITDAs in the amount of R\$ 3.6 billion (2022), R\$ 4.3 billion (2023) and R\$ 4.4 billion (2024), with an average of R\$ 1.3 billion coming from Celse, which has a fixed revenue of R\$ 1.9 billion. If the potential acquisition of Polo Bahia Terra, announced in May, also occurs in the amount of US\$ 540 million, then this index will go up to 5.1x in 2023 and then down to 4.3x in 2024.

Improvement on the Business Profile: The acquisition of Celse would increase Eneva's installed capacity for energy generation by 70% — from 2.3 GW to 3.9 GW. The transaction also involves leasing the storage and regasification infrastructure, with an idle capacity of about 70%, which may favor Eneva's cash generation in the future. The company has five thermal power plants operating using natural gas exploited by Eneva itself and two other plants operating with coal, all the seven operational. Eneva's investments may expand its installed capacity by 1.4 GW until 2026, including 670 MW for the Solar Futura I complex, which will make the company becoming part of the renewable energy sources market. Eneva has gas reserves proven to be sufficient to meet the needs of its plants for more than 15 years, at a level of dispatch of 50% in the plants, and has shown a replacement rate of reserves higher than the

consumption demand.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to a Positive Rating Action/Upgrade:

- - The funding for the acquisition of Celse by means of funds free of charge may result in the removal of the Negative Observation.

Factors that could, individually or collectively, lead to a Negative Rating Action/Downgrade:

- - Conclusion of the acquisition of Celse funded mainly by collection of debts, which may take more than six months;
- - Net debt/EBITDA ratio over 3.5 times on supporting bases, considering a volume of dispatch of 30%;
- - Material worsening of the liquidity profile.

KEY ASSUMPTIONS:

- - Fixed revenue from operating assets amounting to R\$ 2.2 billion (with a base date of December 2021, without considering Celse) in the long-term agreements adjusted by inflation;
- - Average dispatch of 45% in 2022 and of 30% from 2023 to 2025;
- - Investments of BRL 3.8 billion in 2022 and an average investment of BRL 1.0 billion from 2023 to 2025;
- - Conclusion of the acquisition of Celse's assets by the end of 2022;
- - Absence of distribution of dividends in 2022 and payments corresponding to 25% of the company's net revenue as of 2023.

SUMMARY OF THE ANALYSIS

Eneva's rating is the same as the one for the other two energy generation plans rated by Fitch: Engie Brasil Energia S.A. (Engie) and Aliança Geração de Energia S.A. (Aliança). All of them have a strong business profile, although Engie is the large-sized one and with a more diversified base of assets, with 8.5 GW of installed capacity in operation or under construction — Aliança has 1.3 GW, while Eneva has 5.3 GW, incorporating the acquisition of Celse. Disregarding this transaction, the financial profile of the three companies is strong, with proper liquidity and a financial leverage compatible with the expected for other companies in the industry. Eneva's constant need of investment in prospection and development to replace its natural gas reserves, demanding more investments than the ones made by the mentioned companies, is offset by its higher levels of fixed revenue.

LIQUIDITY AND DEBT STRUCTURE

Strong Liquidity Profile: Fitch understands Eneva has large access to financing sources to collect the funds required for the transaction while retaining a strong liquidity profile, besides an extended schedule for the debt maturity. The rollover of the seventh issuing of debentures (R\$ 1.5 billion) in February 2022 to be due May 2023 shall not represent a big challenge. This transaction worked as a bridge loan to pay the investments in the Futura I complex. In March 2022, Eneva had cash and financial investments amounting to R\$ 1.1 billion face a short-term debt of R\$ 481 million. The total debt (R\$ 9.9 billion) was mainly comprised by debentures (R\$ 7.7 billion).

ISSUER PROFILE

Eneva is an integrated energy company, acting in energy generation and gas extraction. At the end of March 2022, its installed capacity was 2.3 GW, and it can reach 5.3 GW after the acquisition of Celse and completion of the assets currently under construction. Eneva is the third highest thermoelectric generator in Brazil, with gas and coal plants, representing 7% of the installed capacity of this source in the country. The company is widely held stock is traded in B3's Novo Mercado.

REGULATORY INFORMATION:

This publication is a credit risk rating report, for the purposes of complying with article 16 of CVM Instruction No. 9/20.

The information used in this analysis was provided by Eneva.

Fitch takes all necessary measures to ensure that the information used in the credit risk rating is sufficient and originates from reliable sources, including, where appropriate, third-party sources. However, Fitch does not perform audit services and is unable to carry out independent verification or confirmation of the information received in all cases.

Ratings History:

Date on which the nationwide rating was first issued: April 22, 2019.

Date on which the nationwide rating was last updated: April 6, 2022.

The risk rating has been communicated to the assessed entities or related parties, and the rating assigned has not been changed as a result of this communication.

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For information on possible changes in the credit risk rating, see the item: Rating Sensitivities.

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Fitch Ratings was paid to determine each credit rating listed in this credit risk rating report by the rated debtor or issuer, by a related party other than the debtor or rated issuer, by the sponsor, underwriter, or the depositor of the instrument, security or bond under assessment.

Applied Methodology and Related Research:

-- Nationwide Rating Methodology (December 22, 2020);

-- Corporate Rating Methodology (October 15, 2021).

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Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Eneva S.A.	Natl LT AAA(bra) 	Rating Watch On	AAA(bra) 

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

Corporate Rating Criteria (pub.15 Oct 2021) (including rating assumption sensitivity)

Corporate Rating Methodology (pub.15 Oct 2021)

Nationwide Rating Methodology (pub.22 Dec 2020)

National Scale Rating Criteria (pub.22 Dec 2020)

Applicable Models

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.0.2 (1)

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Endorsement Status

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