

April 6, 2022

Fitch Rates Eneva at "AAA(bra)" with Stable Outlook

Fitch Ratings - Rio de Janeiro - April 6, 2022: Fitch Ratings today upgraded Eneva's (Eneva S.A.) National Long-Term Credit Rating from "AA+(bra)" to "AAA(bra)". This new rating provides a Stable Outlook.

The rating is based on the constant improvement of Eneva's business profile, supported by a higher diversification of assets and energy generation sources, increase of fixed revenues, efficiency to replace gas reserves even in face of scenarios with a high level of dispatch, and lesser construction risks. There is also the expectation that the company will keep increasing its scale and generation of operational cash for the next years. The Azulão-Jaguatirica and Parnaíba V thermoelectric generation projects as well as the Futura I solar power complex shall start operating still in 2022. All these factors will reduce Eneva's levels of gross indebtedness by providing a positive free cash flow (FCFs) as of 2023.

The classification considered Eneva's favorable business model and its prominent position in the thermoelectric generation segment in Brazil, with long-term contracts for the sale of a significant portion of its energy and internal supply of natural gas, its main raw material. The analysis also considers the pertaining capital intensity of Eneva's businesses and that the company will start undergoing a strong cycle of investments in 2022 and 2023, keeping its net leverage level below 4.0 times at the peak of the investments in 2022, and lower than 3.0 times as of 2023. Eneva should preserve its strong liquidity position and high financial flexibility, which act as an important credit protection.

KEY RATING DRIVERS

Favorable Business Profile: Eneva benefits from its relevant and synergistic asset base, composed mainly of four thermoelectric power plants (TTPs) using natural gas and two using coal - all of them operational. The company has 2.3 GW of thermoelectric installed capacity and has been investing to expand it to 2.7 GW by the end of 2022 and to 3.1 GW until 2026 through three other assets still being developed. With the Futura I solar power complex (670 MW of installed capacity, to become operational by the last quarter of this year), the company will also start working with renewable sources, diversifying its generation sources. Eneva has gas reserves proven to be sufficient to meet the needs of its TTPs 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.

Expectation of Significant Dispatch: Eneva benefits from unfavorable hydrological scenarios (e.g., 2021) as the National Electric System Operator (ONS) dispatches thermal generation sources with more intensity. The variable revenue from the dispatches surpasses the actual costs with production, leading to a positive variable margin and profiting more with the higher volume of extracted natural gas. The base scenario of the rating considers the aggregate dispatch of 45% in 2022 and of 40% from 2023 to 2025, including the coal power plants, after a high dispatch of about 72% in 2021. The higher need of gas for the TTPs' production also increases the profits of Eneva's exploration business.

Strong Cash Generation: Eneva benefits from its contracts in the regulated market, which will gradually expire as of December 2026. They represented BRL 2.2 billion in fixed revenue in 2021. In 2022, with Jaguatirica II becoming operational and due to the adjustment for the inflation, the fixed revenue for the year increased to BRL 2.9 billion. The other investments in TTPs will increase it even more to about BRL 700 million as the contracts for Parnaíba V and Parnaíba VI begin, respectively, in 2024 and 2025, as well as those for Parnaíba IV and Azulão as of 2026, traded in capacity auctions. The company is also favored by a variable portion of revenue and tariff adjustment parameters with the same characteristics as input purchase contracts, eliminating the mismatch between tariffs and cost. In case of zero dispatch, it is expected an EBITDA over BRL 1.2 billion. The base scenario of the rating considers the EBITDA of BRL 2.4 billion in 2022 and BRL 3 billion in 2023.

Positive FCF as of 2022: Eneva's FCF is expected to be negative in BRL 2.3 billion in 2022 after an investment of BRL 3.5 billion, which is comprised by BRL 2 billion for the construction of the Futura I solar power complex, BRL 630 million for the development of the TTPs, and BRL 593 million in the gas exploration segment. The negative FCF for 2022 will be funded by credit facilities amounting to BRL 1.4 billion and already contracted to be disbursed, BRL 1.5 million from the seventh issuance of debentures in the first quarter of 2022 and due in 2023, and potential new long-term fundraising in net amounts up to BRL 1.5 billion. After the investment peak in 2022, the FCF must stay at BRL 771 million in 2023 even with the distribution of dividends.

Fast Capital Structure Adequacy: Eneva may face oscillations in the financial leverage as its generation of operational cash is connected to a non-manageable dispatch level. In the base scenario of the rating, the net debt/EBITDA index expected for 2022 is 3.8 times, decreasing to 2.8 times in 2023 and then to lower than 2.5 times as of 2024. As of the end of 2021, the net debt/EBITDA and net debt/funds from operations ratios were respectively 3 times and 3.3 times, benefitting from the intense dispatch from the TTPs that year.

Potential Acquisition is Manageable: According to Fitch's preliminary analysis, the potential acquisition of Polo Bahia-Terra should not put pressure on Eneva's rating. Despite the low visibility concerning the oil and gas sales contracts, the operation value and the transaction financing for the moment, if successful, the acquisition would only be settled by the end of 2023, when it is expected that the net financial leverage will be under 3 times.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- - The National Long-Term Credit Rating cannot be higher, as it is already at the top of the national rating scale.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- - Net debt/EBITDA ratio over 3.5 times on supporting bases, considering a volume of dispatch of 40%;
- - Relevant acquisitions mostly financed by debt;
- - Material worsening of the liquidity profile.

KEY ASSUMPTIONS:

- - Fixed revenue of operational assets in BRL 2.2 million (considering December 2021) in the long-term contracts, adjusted for the inflation;
- - Average dispatch of 45% in 2022 and of 40% from 2023 to 2025;

- - Investments of BRL 3.5 billion in 2022 and an average investment of BRL 1.0 billion from 2023 to 2025;
- - Absence of acquisitions and/or new investments in addition to those under development;
- - No distribution of dividends in 2022, 25% distribution 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 3.7 GW.

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. Fitch expects that Eneva and its peers will maintain financial indicators compatible with the rating.

LIQUIDITY AND DEBT STRUCTURE

Strong Liquidity Profile: Fitch understands that Eneva will remain with a strong liquidity profile for the next years as the company shows a strong cash position, a debt maturity schedule without short-term concentration and wide access to long-term financing sources. In February 2022, the company concluded its seventh issuance of debentures, amounting to BRL 1.5 billion and due to May 2023, to fund the investments in Futura I. Fitch understands that Eneva will not face any difficulties to refinance this obligation, which is why the refinancing will be considered for the base scenario still in 2022.

Eneva has historically present a strong liquidity. By the end of 2021, the company had a liquidity of BRL 1.7 million and a debt of BRL 746 million due until 2023. On the same period, the balance owed amounted to BRL 6 billion in debentures, representing about 78% of the total debt (BRL 7.7 billion).

ISSUER PROFILE

Eneva is an integrated energy company, acting in energy generation and gas extraction. At the end of March 2022, the installed capacity was 2.3 GW and is expected to reach 3.7 GW until 2026. 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 recently acquired a solar power generation project. Its 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:

Eneva

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

Date on which the nationwide rating was last updated: April 9, 2021.

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.

The ratings assigned by Fitch are reviewed at least annually.

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

Additional information is available from '<https://www.fitchratings.com/> 'and' www.fitchratings.com/brasil .'

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) 	Upgrade	AA+(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 \(pub.15 Oct 2021\)](#)

[National Scale 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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