

S&P Global Ratings

Press Release

Eneva's 'brAAA' rating placed under negative CreditWatch with the financing expectation for the acquisition of CELSEPAR

June 3, 2022

Summary of Rating Action

- On May 31, 2022, Eneva S.A. ("Eneva" or Company) signed an agreement to acquire the totality of Centrais Elétricas do Sergipe Participações S.A. (CELSEPAR) share capital for R\$ 6.1 billion. Eneva will also consolidate CELSEPAR's net debt of R\$ 4.1 billion.
- This acquisition has the potential to solidify Eneva's competitive position as CELSEPAR will represent about one third of the Company's cash generation. At the same, it may give Eneva higher leverage if the acquisition ends up being mainly funded with debts.
- As a result of this deal, on June 3, 2022, S&P Global Ratings placed its 'brAAA' rating (according to the Brazilian Nationwide Scale) granted to Eneva and its issues of senior unsecured debentures on the CreditWatch list, resulting in negative implications,
- As such list reflects the uncertainties on the market about the composition of the financing mix (equity and debt) that will be used to acquire CELSEPAR and risk of breach to any of its current restrictive contractual clauses (covenants).
- For the moment, we are waiting for a solution to the CreditWatch list. We are confident we will be able to do so as soon as we have more details on the group's capital structure, including how the acquisition will be funded, as well as its impact on the liquidity and potential request for waiver to the current Eneva's debenture lenders.

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Basis of Rating Action

Eneva's credit rating metrics may deteriorate considering the financing mix composition. The amount to be paid for CELSEPAR — R\$ 6.1 billion — will be disbursed by Eneva the moment the transaction is settled, which we estimate to occur on the last quarter of 2022. The transaction settlement still requires the execution of conditions precedent, including the approval from CADE (Council for Economic Administration and Defense) and consent from CELSEPAR's creditors concerning the change of control clause. The acquisition financing composition involving debt and equity is yet to be defined. We understand Eneva would have a higher leverage with an EBITDA/Net Debt index over 5x and internal cash generation (FFO - funds from operations) over debt below 12% in case the financing occurs mainly using new debts and with the consolidation of CELSEPAR's net debt of R\$ 4.1 billion.

The acquisition may also pressure Eneva's liquidity position. Covenants related to the Company's debentures limit the EBITDA/Net Debt index in the consolidated level to 4.5x. Depending on the resulting capital structure, we understand Eneva will require a waiver from its creditors.

Although the acquisition of CELSEPAR is positive to Eneva's business, our analysis is neutral. CELSEPAR operates the Porto de Sergipe I UTE, a gas-fired power plant with an installed capacity of 1.593 MW located in the

state of Sergipe with energy sales agreements in the regulated market until 2044. Based on CELSEPAR's predictable cash generation (R\$ 1.9 billion in annual fixed revenues restated by IPCA) and the potential for variable revenues, we understand Eneva's acquisition of CELSEPAR could strengthen the Company's business profile in case it is settled. Our analysis is already contemplating the potential benefits from the group's growth in more profitable business segments.

CreditWatch

The CreditWatch list reflects the uncertainties on Eneva's capital structure after the completion of the acquisition of CELSEPAR, leading to a potential deterioration of its credit rating metrics and liquidity position as well as the current debenture creditors' need to obtain a waiver. We are currently looking for a solution to the CreditWatch list. We are confident we will be able to do so as soon as we have more details on how the acquisition will be funded, considering the equity and debt mix to be used.

We could lower Eneva's credit ratings if the metrics or its liquidity position deteriorate, with an EBITDA/Net Debt index over 5x or FFO over debt consistently lower than 12%. A downgrade would also be achieved if Eneva adopted an aggressive strategy of growth mostly funded by debt.

We could also remove the negative ratings from the CreditWatch list and restate them if the group's debt after the completion of the issue results in metrics stronger than the one we estimate while Eneva obtains waivers from its creditors as a result of a potential breach to the covenant.

Some terms used in this report, especially certain adjectives used to explain how we understand some factors pertaining to the ratings, have specific meanings provided by our Criteria, which is why they should be read along with it. Check the Rating Criteria on www.standardandpoors.com.br for further information. Detailed information available to RatingsDirect subscribers on the website www.capitaliq.com Every rating impacted by this rating action is made available on the S&P Global Ratings website (www.standardandpoors.com), which can be accessed by everyone. Use the search box on the upper left column of the website.

Criteria and Related Articles

Criteria

- [Environmental, social and governance principles in credit ratings, October 10, 2021.](#)
- [General Criteria: Group rating methodology, July 1, 2019.](#)
- [Criteria | Corporations | General: Corporate Methodology: Indexes and Adjustments, April 1, 2019.](#)
- [Credit ratings methodology for nationwide and regional scales, June 25, 2018.](#)
- [Recovery ratings criterion for corporate issuers assessed on a speculative level, December 7, 2016.](#)
- [Methodology and Assumptions: Liquidity Descriptors For Global Corporate Issuers, December 16, 2014.](#)
- [Main Credit Factors for the Unregulated Energy and Gas Industry, March 28, 2014.](#)
- [General Criterion: Methodology and Assumptions for the Country Risk Assessment, November 19, 2013.](#)
- [Corporate Rating Methodology \(October 19, 2013\).](#)
- [Ratings Above Sovereign - Corporate and Government Ratings: Methodology and Assumptions, November 19, 2013.](#)
- [Methodology: Industry Risk, November 19, 2013.](#)
- [Methodology: Credit factors related to administration and governance for corporate entities, November 13, 2012.](#)
- [Credit Ratings Principles, February 16, 2011.](#)

Articles

- [S&P Global Ratings Definitions](#)
- [Eneva S.A.'s 'brAAA' ratings reasserted with the proposal to acquire Focus Energia: steady outlook, December 21, 2021](#)

ISSUER	ATTRIBUTION DATE OF THE INITIAL RATING	DATE OF ACTION PRIOR TO RATING
ENEVA S.A. <i>Credit Ratings of the Issuer</i>		
Brazilian Nationwide Scale	April 22, 2019	December 21, 2021

European Endorsement Status

The credit ratings in a global scale were endorsed in Europe according to the regulations applicable to the Credit Rating Agencies (CRA). Note: Said endorsements are attributed to the US Government Finance whenever requested. Check the endorsement status per credit rating on the website spglobal.com/ratings and search for the rated entity.

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Other services provided by the issuer

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- [Monitoring Policy](#)

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