

## RATING ACTION COMMENTARY

# Fitch Affirms NTS's National Long-Term Rating at 'AAA(bra)'; Outlook Stable

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Fitch Ratings - Rio de Janeiro - 20 Dec 2024: Fitch Ratings has affirmed Nova Transportadora do Sudeste S.A. - NTS's (NTS) National Long-Term Rating and unsecured debenture issuances at 'AAA(bra)'. The corporate Rating Outlook is Stable

NTS's rating reflects its solid business model in Brazil's natural gas transportation sector. It enjoys a monopoly condition supported by long-term contracts with no volumetric risk and guarantees that ensure revenue protection and high margins. The company benefits from robust FCF balances before dividend distributions. NTS maintains a robust liquidity profile and is expected to sustain moderate leverage, even after BRL8.6 billion distribution to shareholders in early 2024 through purchase of notes issued by its shareholders.

## KEY RATING DRIVERS

**Robust Business Profile:** NTS's business profile is strong and benefits from the monopolistic nature of its natural gas transportation activity. The company's entire installed capacity is contracted under a ship or pay regime, which protects it from fluctuations in the volume of gas actually transported. This supports high revenue predictability, as NTS is remunerated for the availability of its pipelines.

The company's installed capacity is mainly contracted by Petróleo Brasileiro S.A. (Petrobras; AAA(bra)/Stable) through five contracts whose tariffs are adjusted by the General Market Price Index (IGP-M). One of the contracts, representing about 30% of revenue, expires at the end of 2025, while the others expire in 2030 and 2031. Fitch's base case considers the renewal of these contracts, with a 30% reduction in revenue corresponding to each contract after expiration.

**Revenue Concentration Risk Mitigated:** The revenue concentration risk in Petrobras is mitigated by the very low possibility of gas supply discontinuity by the oil company to its customers. Petrobras' payments to NTS are guaranteed by a bank guarantee and receivables from a group of Petrobras' gas distributor customers, which must represent at least 120% of the monthly amount to be received by the transporter. The credit profile of these distributors is robust, mitigating the risk of receipt, as gas supply payments are a priority for them.

**Strong and Resilient CFFO:** Fitch expects NTS to maintain its position as a strong FCF generator before dividends, even after the end and expected re-contracting of current contracts. The rating base case considers EBITDA of BRL6.5 billion in 2024 and BRL6.8 billion in 2025, with a reduction to BRL6.2 billion in 2026, all with high margins of 91%-92%. The expected average annual cash flow from operations (CFFO) is BRL3.7 billion in 2024-2025, with investments and average annual dividends estimated at BRL256 million and BRL3.0 billion, respectively, and an average FCF of BRL370 million in the biennium.

**Neutral Transaction with Shareholders:** Part of the high volume of dividends should return to NTS with the payment by shareholders of the debt service on the BRL8.6 billion notes. The main source of these funds is be the dividends received, increasing the company's cash flow for debt repayment. The notes, issued by shareholders and acquired by NTS, and NTS's sixth debenture issuance, valued at BRL8.0 billion, were structured to match amortization schedules, principal percentages and interest payment periods.

**Moderate Financial Leverage:** NTS is expected to maintain a net debt/EBITDA ratio of 2.5x to 3.0x until 2028, decreasing from 2029 as the financial structure used to anticipate funds to shareholders begins to unwind. For leverage calculations, Fitch excluded the BRL8.6 billion in notes acquired by NTS from shareholders in cash and financial investments. As of the 12-month period ending Sept. 30, 2024, NTS's net debt/EBITDA ratio was 2.9x, compared to an average of 1.3x from 2021 to 2023, before the shareholder transfer.

**Favorable Diversification Strategy:** NTS is focused on diversifying its customer base and expanding its transportation infrastructure to serve new shippers. The southeast region, where NTS's infrastructure is located, is the most economically important in the country and accounts for about 50% of Brazil's gas demand, which requires its infrastructure, strengthening its business profile. The company's pipeline network is also important for transporting gas from Bolivia, the Santos and Campos basins, and the southeast's liquefied natural gas (LNG) terminals to other regions.

## DERIVATION SUMMARY

NTS's business profile, marked by robust and predictable cash flows, closely resembles that of Brazilian electric transmission companies rated by Fitch, such as Transmissora Aliança de Energia Elétrica S.A. (Taesa; AAA(bra)/Stable). These companies earn revenue based on network availability rather than the volume transported. Automatic inflation adjustments in long-term contracts are a common feature in both gas transportation and electric transmission businesses. Despite the recent increase, NTS's financial leverage will remain lower than Taesa's, which benefits from greater operational risk dilution due to more significant asset diversification.

NTS's still solid financial and business profile is also similar to that of Transportadora Associada de Gás S.A. (TAG; AAA(bra)/Stable), although it has slightly lower EBITDA margins. Both operate in the gas transportation sector in Brazil through long-term contracts without volumetric risk.

## KEY ASSUMPTIONS

Revenue based on contracted values and annual adjustments by IGP-M;

--Approximately 6% reduction in revenue in 2026 due to the end of one of the transportation contracts at the end of 2025, with re-contracting under new terms;

--Average annual investments of around BRL360 million from 2024 to 2026, including expansion projects;

--Average dividend distribution of BRL3.1 billion from 2024 to 2026.

## **RATING SENSITIVITIES**

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

--Substantial deterioration in Petrobras's credit profile resulting in a revision of its rating to the 'A(bra)' category;

--Weakening of the guarantee structure of Petrobras's customers that make deposits in NTS's collection account;

--Continuous net leverage above 3.5x;

--Regulatory or contractual changes that worsen the fundamentals of the gas transportation industry and/or NTS's business model.

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

--This is not applicable, as the rating is at the highest level of Fitch's national scale.

## **LIQUIDITY AND DEBT STRUCTURE**

The robustness and resilience of operational cash generation and the broad access to the debt and capital markets, limit NTS's risks of operating with moderate liquidity. On Sept. 30, 2024, NTS's cash and financial investments amounted to only BRL399 million after the payment of BRL2.0 billion in interim dividends versus short-term debt of BRL1.9 billion. The company's BRL1.750 billion debenture issuance by December 2024 and its operating cash flow generation should strengthen its liquidity position.

On the same date, total adjusted debt amounted to BRL19.3 billion, mainly composed of debentures (BRL15.5 billion), with no foreign exchange exposure. The company's debt substantially increased in the first quarter of 2024, mainly due to the sixth debenture issuance of BRL8.0 billion. The proceeds from this issuance were invested in an exclusive fund, which acquired BRL8.6 billion in notes issued by NTS's shareholders. The structured transaction provides for the use/retention of the dividend flow to shareholders as the main source of payment for the issuance.

## ISSUER PROFILE

NTS operates pipelines in São Paulo, Rio de Janeiro, and Minas Gerais. Its shareholders are Nova Infraestrutura Fundo de Investimento em Participações Multiestratégia, managed by Brookfield Asset Management, with 91.5% share, and Itaúsa S.A., with 8.5% share.

## 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.

## RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕		PRIOR ↕
Nova Transportadora do Sudeste S.A. - NTS	Natl LT	AAA(bra) Rating Outlook Stable	AAA(bra) Rating Outlook Stable
	Affirmed		
senior unsecured	Natl LT	AAA(bra) Affirmed	AAA(bra)

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## **APPLICABLE CRITERIA**

[Metodologia de Ratings em Escala Nacional \(pub. 22 Dec 2020\)](#)

[Metodologia de Ratings Corporativos \(pub. 06 Dec 2024\)](#)

## **APPLICABLE MODELS**

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

## **ADDITIONAL DISCLOSURES**

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Nova Transportadora do Sudeste S.A. - NTS

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