

Rating Action: Moody's assigns Ba1/Aaa.br ratings to Janauba's debentures guaranteed by TAESA

22 Nov 2018

Sao Paulo, November 22, 2018 -- Moody's America Latina ("Moody's") assigned Ba1 and Aaa.br global and national scale ratings, respectively, to the BRL224.0 million backed senior unsecured first issuance of debentures of Janauba Transmissora de Energia Eletrica S.A. (Janauba), with final maturity in 2033. The full and timely payment of the debentures is unconditionally and irrevocably guaranteed by its parent company Transmissora Alianca de Energia Eletrica S.A. (TAESA, Ba1/Aaa.br stable). The outlook is stable.

RATINGS RATIONALE

The assigned ratings reflect the unconditional and irrevocable guarantee provided by TAESA on the full and timely payment of scheduled principal and interest on the debentures. According to the debentures indenture, in which TAESA is a party as guarantor, the guarantee is to be honored within two business days from the notice provided by the fiduciary agent of non-payment of scheduled principal and interest. The two-business day threshold is the same as the delay cure period for automatic acceleration upon non-payment of scheduled principal or interest. Based on the terms of the guarantee, the debentures and the debt at TAESA cross-default.

The credit view further reflects the very initial stage of construction of the project. Certain environmental licenses and permits remain under analysis by regulatory authorities and right-of-way processes are ongoing. As of the October 2018, the project had achieved physical completion of 6.23%. The construction schedule remains robust, with ultimate commercial operations date required for February 2022. The construction consortium includes several firms and suppliers of significant expertise, and includes subsidiaries of Elecnor S.A., ABB Ltd. (A2 stable), and Siemens Aktiengesellschaft (A1 stable).

Once in operations, the project is expected to generate annual revenues in the order of BRL220 million and EBITDA of more than BRL200 million. Debt service coverage ratios (DSCRs) on principal and interest on the debentures and on the loan provided by Banco do Nordeste do Brasil S.A. (BNB, Ba2 stable) are expected to be very strong, above 1.70x.

The ratings could be upgraded or downgraded upon a similar movement on the ratings of TAESA.

The principal methodology used in this rating was Rating Transactions Based on the Credit Substitution Approach: Letter of Credit-backed, Insured and Guaranteed Debts published in May 2017. Please see the Rating Methodologies page on www.moody.com.br for a copy of this methodology.

Januaba is a special purpose vehicle fully owned by TAESA which was created solely for the construction and subsequently the operation and maintenance of (i) the Pirapora 2 -- Janauba 3 500 kV 238 km transmission line; (ii) the Bom Jesus da Lapa II -- Janauba 3 500 kV 304 km transmission line; and (iii) the Janauba 3 500 kV substation. The project is also responsible for additional construction works on the Pirapora 2 and Bom Jesus da Lapa II substations in order to accommodate for the new transmission lines. The total investment, including soft costs, is estimated by the company as approximately BRL1.1 billion. Financing sources include the debentures (20%), the BNB loan (61%), equity injection by TAESA (15%) and financial revenues accrued during construction phase (4%). The project spans through the Brazilian states of Minas Gerais and Bahia.

Taesa is a power transmission company operating and maintaining around 12,135 km of high voltage (230 to 525kV) transmission lines through 35 concessions with an average life of 30-years. The company directly controls 10 concessions, and operates the remaining 25 concessions through equity participations in the companies TBE (through a 49.9% equity participation -- company holds 15 concessions), Brasnorte (39%), Etau (53%), Ate III (100%) and Sao Gotardo (100%); as well as in 8 other concessions still in construction phase, including the recent acquisition of Lot M (EDTE).

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