

Research Update:

Brazilian Electric Utility CEMIG Outlook Revised To Stable From Positive On Limited Near-Term Credit Metrics Improvement

August 5, 2026

Rating Action Overview

- Given Companhia Energetica de Minas Gerais' (CEMIG) sizable capital plan for 2026-2030, we expect deleveraging to occur only starting in 2028, beyond our outlook horizon, reflecting a substantial debt level needed amid persistently high interest expenses that strain cash flow.
- On Aug. 5, 2026, S&P Global Ratings revised the outlook on CEMIG and its operating subsidiaries, [Cemig Distribuicao S.A.](#) (CEMIG-D) and [Cemig Geracao e Transmissao S.A.](#) (CEMIG-GT), to stable from positive. We also affirmed our 'BB-' ratings on these entities.
- The stable outlook reflects our expectation of free operating cash flow (FOCF) shortfall in the next two years amid high interest expenses and shareholder returns. This will increase adjusted net debt to 3.5x and reduce funds from operations (FFO) to debt below 23%.

Rating Action Rationale

Slower-than-expected deleveraging and continued FOCF deficits underpin our outlook revision to stable. CEMIG's investment plan for 2026-2030 will total R\$43.7 billion, as part of the strategy to focus on operations in the state of Minas Gerais. For 2026, the company plans to invest R\$6.7 billion, about 80% of which (R\$5.3 billion) will be allocated to the distribution segment, but it will also invest R\$1.2 billion in its generation and transmission segments, and R\$250 million mostly in its gas segment.

We believe that CEMIG will finance these investments with a combination of its own cash and new debt. We forecast nominal debt to increase to R\$25 billion in 2026 and to R\$29 billion - R\$30 billion in 2027 from R\$19 billion in 2025, given the projected increase in capital expenditure (capex) to R\$6.7 billion in 2026 and R\$6.8 billion in 2027. This will result in a FOCF deficit of about R\$2.2 billion in 2026 and R\$1.6 billion in 2027, compared with a shortfall of R\$1.6 billion in 2025. As a result, this will prevent CEMIG from reducing debt before 2028, when CEMIG-D's five-year tariff review will be implemented, recognizing investments of the past cycle in the regulatory asset base and boosting EBITDA in this segment.

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Our previous positive outlook reflected a possible upgrade if CEMIG deleveraged substantially. However, the pace remains overall in line with our base-case forecast. As a result and given our expectations of a steeper deleveraging starting in 2028, we revised the outlook to stable. Furthermore, the FOCF deficit amid sizable dividends of R\$2.4 billion in 2026 and R\$1.6 billion in 2027, will limit the company's ability to reduce debt.

CEMIG has alternatives to the renewal of its expiring hydro concessions. Despite Agência Nacional de Energia Elétrica's (ANEEL) recent recommendation to renew the company's concessions for its hydro assets, we don't incorporate this factor in our base-case scenario, because the Ministry of Mines and Energy has yet to approve it. CEMIG's concessions for the Emborcação, Nova Ponte, and Sá Carvalho hydro plants, totaling 1.8 gigawatts (GW; more than half of its installed capacity) will expire between 2026 and 2027, with the Sá Carvalho concession expiring in August 2026. If CEMIG renews the concessions for all three through the quota regime, we expect an additional EBITDA of R\$400 million per year, which could further improve cash flow and overall credit metrics. Nevertheless, in such a scenario, we expect CEMIG to continue purchasing 40% - 50% of its energy needs. This is because under the quota regime, the concessionaire can't sell its energy in the free market. In this sense, we expect CEMIG to remain dependent on acquiring energy in the spot market, and subject to spot-price volatility.

On the other hand, according to the Law 15,269/2025, there is the possibility of CEMIG renewing the concessions upon the payment of renewal fees. In this scenario, we believe the company would finance the fees with additional debt, further straining its credit metrics, delaying further the expected deleveraging.

Excluding cash flow from the hydro assets as their concessions are expiring soon, we forecast net revenue of R\$37 billion - R\$38 billion and EBITDA of R\$7.9 billion - R\$8.9 billion during 2026 and 2027. We believe that both figures will improve to above R\$40 billion and R\$10 billion, respectively, starting in 2028, as we incorporate above-inflation tariff review for CEMIG-D. We currently expect adjusted leverage to increase to 3.5x in 2026 and 2027 from 2.4x in 2024 and 3.2x in 2025, while FFO to debt will drop below 23% in 2026-2027 from 29.9% in 2024 and 22% in 2025, amid negative FOCF.

CEMIG remains exposed to volatility in the power trading segment. The short position of 500 MW-600 MW could still weigh on the company's cash flow, as was the case in 2025 and the first quarter of 2026, during which CEMIG's accumulated EBITDA loss was about R\$400 million, partly because of price variation between the southeast and northeast subsystems. The loss reflects the financial impact of having to procure energy at higher spot prices in one region to meet contractual obligations in another region, in which prices were lower, a dynamic that could occur if regional prices continue to diverge due to differences in hydrological conditions. For instance, El Nino could further pressure results by reducing hydroelectric generation. This could increase the company's exposure to the spot market and higher energy purchase costs, worsening global scaling factor (GSF) performance, and heighten volatility in the trading segment.

Our rating on CEMIG continues to incorporate political risks stemming from its government control. Although the state of Minas Gerais hasn't interfered in CEMIG's operations in the past few years in a way that would erode its credit metrics or reduce the company's financial flexibility, our management and governance assessment captures political risks that stem from the company's control by the state, which owns 50.97% of CEMIG's voting shares and 17.04% of total shares.

We continue to consider that CEMIG is exposed to political influence arising from the state's ownership stake, particularly ahead of the government transition following the election. Changes in the administration could alter the company's strategic decision regarding investments, liability

management initiatives, and/or dividend distribution policies. A departure from the current financial discipline could lead to higher leverage, reduced liquidity buffers, or less predictable financial policies, weakening the company's credit quality and rating trajectory. On the other hand, the company has financial covenants to honor on its debt obligations, reducing the risk of increasing leverage beyond the covenants' thresholds.

Outlook

The stable outlook reflects our expectation of a limited near-term credit metrics improvement and FOCF shortfalls in the next two years, given CEMIG's sizable investment plan amid persistently high interest expenses and shareholder returns. In this context, we expect adjusted net debt to increase to 3.5x in 2026 and 2027, FFO to debt to drop below 23%, and the FOCF shortfall to reach R\$2.2 billion in 2026 and R\$1.7 billion in 2027.

Downside scenario

We could lower our ratings on CEMIG and its subsidiaries if the company takes longer than expected to improve its credit metrics. In such a scenario, we would see adjusted net debt to EBITDA above 4.5x, FFO to debt below 13%, and prolonged FOCF deficits. This could happen if adverse hydrological conditions over the next few years hike energy costs, which could further erode CEMIG's cash flow amid elevated capex. Furthermore, if the company were unable to mitigate the risk related to its energy imbalance across various submarkets in the power trading segment, its losses would widen.

Furthermore, increased dividend distributions could weaken metrics and liquidity, either due to refinancing difficulties or a limited covenant headroom.

Upside scenario

A positive rating action could occur in the next 12-24 months if CEMIG's credit metrics strengthen thanks to increased cash flow from its investments, supported by remunerative tariff adjustments and concession renewals, which could reduce volatility in the generation and distribution segments. In this scenario, we would expect debt to EBITDA below 3.5x, FFO to debt exceeding 23%, and positive FOCF. We could also upgrade the company if we do not consider any potential interference of the state of Minas Gerais.

Company Description

CEMIG is one of the largest utility groups in Brazil. It operates across three segments: electricity and gas distribution (approximately 70% of projected EBITDA for 2026), generation and energy trading (20%), and transmission (10%). The company serves roughly 9.6 million clients in Minas Gerais, one of Brazil's most densely populated states. Additionally, CEMIG has an installed generation capacity of 4.8 GW and benefits from R\$1.2 billion in permitted annual revenue from its 5,066 kilometers of fully owned power transmission lines. CEMIG also holds a 21.68% stake in Transmissora Aliança de Energia Elétrica S.A. (TAESA; not rated), a power transmission company based in Brazil. CEMIG is controlled by the state of Minas Gerais, which holds 50.97% of the voting shares and 17.04% of the total shares.

Our Base-Case Scenario

Assumptions

- Brazil's GDP to grow 1.8% in 2026, 1.7% in 2027, and 2.2% in 2028. Nevertheless, CEMIG's energy consumption at its distribution business to decline by 0.8% in 2026 and grow slightly below the GDP growth rate in subsequent years as a result of captive clients' migration to the distributed generation segment and free market.
- The regulatory rate adjustment of 6.5% in 2026 for CEMIG-D. For 2027, we assume the rate to grow in line with inflation of 4.7%. For 2028, the rate growth of 7.1%, which includes the expected rate adjustment.
- Average cost of energy in the distribution business at around R\$345 per megawatt hour (MWh) in 2026 and to increase in line with inflation starting in 2027.
- Favorable hydrological conditions in 2026 as a result of a recovery in the reservoir capacity earlier this year.
- GSF, which determines the company's level of energy delivery, of roughly 85% starting in 2026.
- Average energy sale price at R\$160 per MWh in 2026, R\$170 in 2027, and around R\$180 in 2028, considering the existing contracts.
- Average energy purchase costs in the generation business of R\$110 per MWh in 2026, and around R\$95 in 2027 and 2028.
- Permitted annual revenue of CEMIG's transmission lines of about R\$1.5 billion in the 2025-2026 cycle and to increase in line with inflation starting in 2026 thanks to new projects and the modernization of transmission lines.
- Net revenue in the transmission segment of about R\$1.2 billion in 2026, and R\$1.3 billion in 2027 and 2028.
- Gas distribution at Gasmig at 1 million cubic meters in 2026 and increasing in line with GDP growth starting in 2027, with an average price of R\$2.0 - R\$2.3 per cubic meter.
- Capex of about R\$6.7 billion in 2026, R\$6.8 billion in 2027, and decreasing to R\$5.7 billion in 2028.
- Average interest rate at 14.1% in 2026, 13.3% in 2027, and 11.3% in 2028.
- Although the company plans additional minority stake divestments, we don't incorporate them, given the uncertain timing.
- Dividends from affiliates of R\$200 million - R\$300 million in 2026-2028 and R\$300 million - R\$400 million in 2029-2030.
- Dividend payment of R\$2.4 billion in 2026, R\$1.5 billion in 2027, and R\$1.6 billion in 2028, representing a payout of 50% of the previous year's net income.
- Our adjusted debt figures include pension-related liabilities of about R\$1.8 billion and financial guarantees provided to Belo Monte, CEMIG's equity affiliate, of R\$3.1 billion.

Key metrics

Companhia Energetica de Minas Gerais - CEMIG--Forecast summary

Period ending	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027	Dec-31-2028	Dec-31-2029
(Mil. BRL)	2022a	2023a	2024a	2025a	2026e	2027f	2028f	2029f
Revenue	28,392	30,089	33,601	36,093	37,041	38,418	40,017	42,500

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Companhia Energetica de Minas Gerais - CEMIG--Forecast summary

Gross profit	8,372	10,267	11,623	12,412	12,535	13,812	15,061	16,352
EBITDA (reported)	6,864	8,496	11,254	8,284	7,375	8,409	9,388	10,318
Plus: Operating lease adjustment (OLA) rent	--	--	--	--	--	--	--	--
Plus/(less): Other	(1,869)	(2,256)	(3,755)	(987)	529	576	600	636
EBITDA	4,995	6,240	7,499	7,296	7,904	8,985	9,988	10,954
Less: Cash interest paid	(1,014)	(1,031)	(962)	(1,395)	(1,729)	(2,331)	(2,291)	(2,185)
Less: Cash taxes paid	(704)	(601)	(1,136)	(736)	(543)	(641)	(877)	(1,036)
Plus/(less): Other	--	--	--	--	--	--	--	--
Funds from operations (FFO)	3,277	4,608	5,401	5,166	5,632	6,012	6,820	7,733
EBIT	4,380	5,193	6,354	6,066	6,486	7,495	8,341	9,119
Interest expense	1,642	1,782	1,589	1,605	1,918	2,586	2,542	2,425
Cash flow from operations (CFO)	6,613	6,644	5,497	4,827	4,532	5,133	5,932	6,900
Capital expenditure (capex)	3,405	4,942	5,358	6,464	6,725	6,811	5,708	5,246
Free operating cash flow (FOCF)	3,208	1,702	138	(1,637)	(2,193)	(1,678)	225	1,654
Dividends	2,094	1,823	4,294	3,968	2,450	1,581	1,675	2,025
Share repurchases (reported)	--	--	--	--	--	--	--	--
Discretionary cash flow (DCF)	1,114	(121)	(4,156)	(5,605)	(4,643)	(3,258)	(1,450)	(372)
Debt (reported)	10,579	9,831	12,279	19,465	25,398	28,937	30,084	30,950
Plus: Lease liabilities debt	355	433	429	417	437	455	472	487
Plus: Pension and other postretirement debt	--	--	--	--	--	--	--	--
Less: Accessible cash and liquid investments	(3,185)	(2,311)	(2,256)	(2,661)	(3,384)	(3,082)	(2,250)	(2,250)
Plus/(less): Other	9,959	8,389	7,594	6,313	4,976	4,976	4,976	4,976
Debt	17,708	16,341	18,046	23,534	27,427	31,286	33,282	34,163
Equity	21,783	24,655	27,383	28,582	29,293	31,062	33,438	36,227
FOCF (adjusted for lease capex)	3,208	1,702	138	(1,637)	(2,187)	(1,669)	236	1,667
Interest expense (reported)	1,016	1,191	1,104	1,605	1,918	2,586	2,542	2,425
Capex (reported)	3,405	4,942	5,358	6,464	6,725	6,811	5,708	5,246
Cash and short-term investments (reported)	3,185	2,311	2,256	2,661	3,384	3,082	2,250	2,250
Adjusted ratios								
Debt/EBITDA (x)	3.5	2.6	2.4	3.2	3.5	3.5	3.3	3.1
FFO/debt (%)	18.5	28.2	29.9	22.0	20.5	19.2	20.5	22.6
FFO cash interest coverage (x)	4.2	5.5	6.6	4.7	4.3	3.6	4.0	4.5
EBITDA interest coverage (x)	3.0	3.5	4.7	4.5	4.1	3.5	3.9	4.5
CFO/debt (%)	37.3	40.7	30.5	20.5	16.5	16.4	17.8	20.2
FOCF/debt (%)	18.1	10.4	0.8	(7.0)	(8.0)	(5.4)	0.7	4.8
DCF/debt (%)	6.3	(0.7)	(23.0)	(23.8)	(16.9)	(10.4)	(4.4)	(1.1)
Lease capex-adjusted FOCF/debt (%)	18.1	10.4	0.8	(7.0)	(8.0)	(5.3)	0.7	4.9
Annual revenue growth (%)	(2.9)	6.0	11.7	7.4	2.6	3.7	4.2	6.2
Gross margin (%)	29.5	34.1	34.6	34.4	33.8	36.0	37.6	38.5
EBITDA margin (%)	17.6	20.7	22.3	20.2	21.3	23.4	25.0	25.8
Return on capital (%)	11.2	12.9	14.7	12.4	11.9	12.6	12.9	13.3

Companhia Energetica de Minas Gerais - CEMIG--Forecast summary

Return on total assets (%)	8.3	9.6	11.1	9.6	9.2	9.8	10.3	10.7
EBITDA/cash interest (x)	4.9	6.1	7.8	5.2	4.6	3.9	4.4	5.0
EBIT interest coverage (x)	2.7	2.9	4.0	3.8	3.4	2.9	3.3	3.8
Debt/debt and equity (%)	44.8	39.9	39.7	45.2	48.4	50.2	49.9	48.5
Debt fixed-charge coverage (x)	3.0	3.5	4.7	4.5	1.7	2.2	3.9	4.5
Debt/debt and undepreciated equity (%)	44.8	39.9	39.7	45.2	48.4	50.2	49.9	48.5

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. R\$--Brazilian real.

Liquidity

We assess CEMIG's liquidity as adequate. For the 12 months after March 31, 2026, we expect that cash sources will exceed cash use by more than 10%. The company maintains a solid cash position, which combined with its disciplined approach to debt refinancing, reinforces our view that management continues to effectively manage liabilities, as it has demonstrated in the past.

Furthermore, improved operational and financial performance has widened CEMIG's access to capital markets, enabling it to extend debt maturities while maintaining stable debt costs. This enhances the company's financial flexibility to support its sizable investment plan while allowing for consistent shareholder returns, consistent with its dividend distribution policy of 50% of previous years' net income.

Principal liquidity sources	Principal liquidity uses
- Cash and cash equivalents of R\$1.8 billion as of March 31, 2026 - Expected cash FFO of around R\$5.3 billion in the next 12 months after March 31, 2026 - Asset sales of R\$20 million - New debt of R\$7.6 billion after March	- Short-term debt maturities of about R\$3.1 billion as of March 31, 2026 - Total capex, including maintenance and expansion, of about R\$5.7 billion in the next 12 months after March 2026 - Working capital outflows of about R\$620 million in the next 12 months - Dividend payment of R\$2.2 billion in the next 12 months, assuming a 50% dividend payout

Covenants

CEMIG has recurring and debt acceleration financial covenants that are measured semiannually:

- CEMIG-GT: Consolidated maximum net debt to EBITDA at 3.5x from 2025 until December 2029 and 4.0x afterward
- CEMIG-D: Consolidated maximum net debt to EBITDA at 3.5x from 2025 until June 2029 and 4.0x afterward
- CEMIG: Consolidated maximum net debt to EBITDA at 3.0x from 2025 until June 2026, 3.5x from July 2026 until December 2029, and 4.0x afterward

We expect the company to comply with the required thresholds for the next three years, albeit with a narrow cushion of 15%-20% because of the increase in debt to finance capex.

Environmental, Social, And Governance

Governance factors are a negative consideration in our credit rating analysis of CEMIG, due to its efforts to enhance risk management. In 2016, the state of Minas Gerais drained cash from the company through dividends, which resulted in financing challenges for CEMIG. Therefore, since 2019, there haven't been state intervention. Currently, we believe the risk of government interference is limited, as CEMIG's debt agreements restrict upstreaming dividends to the state, thereby limiting the state's access to the company's cash flow. However, the remaining debt instruments subject to these restrictions are set to mature in 2027 and 2029. Furthermore, the Brazilian electricity sector operates under a federal regulatory framework, which provides protection against the state's interference in CEMIG's operations.

While we consider environmental and social factors to no impact on our ratings on CEMIG, extreme weather events could lead to extended power outages for customers, was the case in August 2023. However, the company enhanced its performance and quality indicators through substantial investments aimed at improving network resilience and redundancy.

Even though the generation segment's EBITDA contribution of 25%-30% (considering the energy trading), CEMIG needs to purchase part of its energy to honor its contracts in the free market. This poses some risks, as hydrological conditions can cause volatility in energy prices and elevate the company's operating costs, which could be exacerbated if the concession renewals do not occur.

Rating Component Scores

Component	
Foreign currency issuer credit rating	BB-/Stable/--
Local currency issuer credit rating	BB-/Stable/--
Business risk	Satisfactory
Country risk	Moderately high risk
Industry risk	Low risk
Competitive position	Satisfactory
Financial risk	Aggressive
Cash flow/leverage	Aggressive
Anchor	bb

Modifiers

Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Adequate
Management and governance	Moderately negative
Comparable rating analysis	Neutral
Stand-alone credit profile	bb-

Related Criteria

- [Criteria | Corporates | General: Sector-Specific Corporate Methodology](#), July 7, 2025
- [Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities](#), Jan. 7, 2024
- [Criteria | Corporates | General: Corporate Methodology](#), Jan. 7, 2024
- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021
- [General Criteria: Group Rating Methodology](#), July 1, 2019
- [Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments](#), April 1, 2019
- [General Criteria: Rating Government-Related Entities: Methodology And Assumptions](#), March 25, 2015
- [Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#), Dec. 16, 2014
- [General Criteria: Methodology: Industry Risk](#), Nov. 19, 2013
- [General Criteria: Country Risk Assessment Methodology And Assumptions](#), Nov. 19, 2013
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011

Ratings List

Ratings List		
Ratings Affirmed; Outlook Action		
	To	From
Companhia Energetica de Minas Gerais - CEMIG		
Cemig Distribuicao S.A.		
Cemig Geracao e Transmissao S.A.		
Issuer Credit Rating	BB-/Stable/--	BB-/Positive/--

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