FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Cemig's IDRs at 'BB'; Outlook Stable

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Fitch Ratings - Rio de Janeiro - 25 Aug 2026: Fitch Ratings has affirmed the Local Currency (LC) and Foreign Currency (FC) Issuer Default Ratings (IDRs) for Companhia Energetica de Minas Gerais' (Cemig) and its subsidiaries Cemig Distribuicao S.A.'s (Cemig D) and Cemig Geracao e Transmissao S.A.'s (Cemig GT) at 'BB'. Fitch has also affirmed the companies' National Scale Ratings at 'AAA(bra)'. The Rating Outlook is Stable.

The ratings for Cemig and its subsidiaries reflect its diversified asset base and robust operating cash flow generation. Fitch expects the group's ambitious capex plan to result in negative FCF over the next few years and to increase leverage, which should remain commensurate with the rating level. The group's leverage is likely to peak in 2026, while its proven funding access should support capex execution and debt refinancing. Fitch equalizes the ratings of Cemig, Cemig GT and Cemig D, mainly due to the strong legal links among the companies.

KEY RATING DRIVERS

Strong Business Profile: The Cemig group's ratings benefit from its diversified and robust asset base and its operations across different segments of the power sector, which reduce operating and regulatory risks. The group is one of Brazil's largest integrated electric utility, distributing electricity to 9.6 million customers and operating 4.8GW of generation installed capacity and 5,066 km of transmission lines. Cemig's distribution segment should represent about 60% of consolidated EBITDA in 2026-2027, with generation and transmission roughly at 30% and natural gas distribution at about 10%.

Investment Plan Pressures FCF: Fitch expects Cemig to report negative FCF from 2026 to 2028 as it executes its aggressive BRL20.4 billion investment plan over the three-year period. Investments are mainly focused on strengthening Cemig D's asset base, which should be incorporated into the next tariff review in 2028. Fitch calculates consolidated FCF will be negative BRL4.0 billion in 2026 and negative BRL2.5 billion in 2027, assuming dividend payout of 50% of net income. Fitch forecasts consolidated EBITDA of BRL7.4 billion in 2026 and BRL9.0 billion in 2027, as well as average cash flow from operations (CFO) of BRL6.5 billion, pressured by high interest rates in Brazil.

Adequate Leverage: Fitch expects Cemig's consolidated adjusted gross and net leverage to rise and peak in 2026, driven by its robust capex program partially financed with debt. Despite this increase, Fitch anticipates leverage will remain supportive for the 'BB' IDR. The base case scenario considers adjusted debt-to-EBITDA ratio at 3.7x and adjusted net debt-to-EBITDA ratio at 3.2x in 2026, with 3.1x and 2.9x, respectively, in 2027, and metrics below 3.0x and 2.5x in 2028. In the last 12 months ended on June 2026, adjusted gross leverage and adjusted net leverage were 3.3x and 2.9x, respectively.

Solid Distribution Performance: Cemig D has sustained its strong operating performance despite lower distributed energy volumes driven by rapid growth in distributed generation in Minas Gerais. Fitch's rating case includes flat volumes in 2026 and a modest recovery in distributed volumes over the next few years, with annual growth of 0.8% in 2027 and 1.0% in 2028. EBITDA is projected at BRL4.7 billion in 2026, slightly above regulatory levels and mainly benefited by lower personal expenses, with BRL5.2 billion in 2027. Cash generation should boost to BRL5.8 billion in 2028 after the tariff review process.

Favorable Generation and Transmission: Cemig GT's performance and highly predictable revenue benefits Cemig's consolidated credit profile. In generation, Cemig GT is fully contracted through 2028 at an average price of BRL247/MWh, while transmission revenue is linked to asset availability rather than transported volumes. Fitch projects an average annual EBITDA of around BRL2.5 billion in 2026-2027. Fitch's base case also factors in the expiration of three generation concessions in 2027, representing 51% of Cemig GT's commercial capacity, with the full cash flow impact reflected in 2028.

Parent Does Not Constrain Ratings: Fitch assesses Cemig on a standalone basis relative to its controlling shareholder, the state of Minas Gerais (not rated). While the shareholder relationship remains relevant under Fitch's GRE and PSL criteria, Cemig's ratings are not currently constrained because the company's legal and operational separation supports differentiation from the controlling shareholder. Cemig's porous legal ring-fencing and access and control limit the state's ability to access its cash resources.

Subsidiaries' Ratings Equalized: Under Fitch's Parent and Subsidiary Linkage Criteria, Fitch equalizes the ratings of Cemig, Cemig D, and Cemig GT. This reflects the holding company's strong legal and strategic incentive to support the subsidiaries in a stress scenario, including Cemig's consolidation of the subsidiaries, guarantees on a significant portion of their debt, and cross-default provisions across most debt instruments. Debt financial covenants are measured on a consolidated basis, with centralized strategy and cash management. Fitch also views the subsidiaries as core to Cemig's business profile.

PEER ANALYSIS

Compared with Brazilian peers in the power sector, Cemig's Local Currency IDR is weaker than that of CPFL Energia S.A. (CPFL Energia; BBB/Stable), Engie Brasil Energia S.A. (Engie Brasil; BBB/Stable) and Transmissora Alianca de Energia Eletrica S.A. (Taesa; BB+/Stable). CPFL Energia's and Engie Brasil's IDRs benefit from their controlling shareholders' strategic and operational incentives to support them. Their IDRs are based on a combination of their SCPs plus a two-notch uplift for CPFL Energia and a one-notch uplift for Engie Brasil.

Cemig faces higher business risk due to the concentration of its distribution segment within one concession area. CPFL Energia is the largest group in Brazil in energy distribution, serving 10.9 million clients through four different concessionaires, compared to 9.6 million of Cemig. Engie Brasil is the second-largest player in the generation segment in Brazil, with an installed capacity of 12.8GW, compared with Cemig's 4.5GW. Taesa operates in the highly predictable transmission segment, with 16,600km of transmission lines across the country, compared to Cemig's 5,060km. Additionally, Cemig's financial profile presents more negative FCF trends.

FITCH’S KEY RATING-CASE ASSUMPTIONS

-- Average annual growth of 1.4% in Cemig D's distributed energy volumes in its concession area from 2026 to 2028;

-- Cemig D's non-manageable costs fully passed through tariffs;

-- Cemig GT's average sales price of BRL238/MWh from 2026 to 2027, with annual energy sales of 4.3 GWh per year;

-- Concession expiration of Hydro Plants Sa Carvalho, Emborcacao, and Nova Ponte in August 2026, May 2027 and August 2027, respectively;

-- Average annual consolidated capex of BRL6.6 billion from 2026 to 2028;

-- Dividend payout of 50% of net income;

-- Debt raised at a cost of IPCA+7.35% per year or CDI+0.73% per year;

-- Average annual CDI of 14.0% in 2026, 12.13% in 2027 and 10.63% in 2028.

CORPORATE RATING TOOL INPUTS AND SCORES

Fitch scored the issuer as follows, using our Corporate Rating Tool (CRT) to produce the Standalone Credit Profile (SCP):

Business and financial profile factors (assessment, relative importance): management ('bbb-', Lower), sector characteristics ('bbb-', Moderate), market and competitive positioning ('bb+', Moderate), diversification and asset quality ('bbb-', Moderate), company operational characteristics ('bbb-', Moderate), profitability ('bb-', Higher), financial structure ('bbb+', Moderate), and financial flexibility ('bb', Moderate).

The quantitative financial subfactors are based on custom CRT financial period parameters: 10% weight for the historical year 2025, 30% for the forecast year 2026, 30% for the forecast year 2027 and 30% for the forecast year 2028.

The operating environment assessment of 'bb' has no impact.

The SCP is 'bb'.

To derive the Long-Term IDR:

Fitch made no adjustments to the SCP, resulting in an IDR of 'BB'.

RATING SENSITIVITIES

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

-- Consolidated gross and net adjusted leverage higher than 4.5x and 4.0x on a sustained basis;

-- EBITDA interest coverage below 4.0x on a sustained basis;

-- (Cash+CFFO)/Short-term debt below 1.25x on a sustained basis;

-- Significant operational issues in its main subsidiaries, Cemig D and Cemig GT.

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

-- Neutral to positive FCF;

-- Consolidated gross and net adjusted leverage below 3.5x and 3.0x on a sustained basis;

-- EBITDA interest coverage above 5.0x on a sustained basis.

LIQUIDITY AND DEBT STRUCTURE

Fitch expects Cemig Group to retain broad access to funding to meet its capex and refinancing needs. The new debentures raised in 2026 also extended its debt maturity profile, lengthening the average tenor to 6.7 years in June 2026 from 6.0 years one year ago, with BRL1.0 billion coming due by 2026. As of June 30, 2026, consolidated cash and equivalents totaled BRL3.1 billion compared with short-term debt of BRL1.5 billion.

New initiatives to raise additional BRL3.75 billion in debentures during the third quarter of 2026 will further strengthen the group's liquidity position to support the negative FCF in the coming years. At end-June 2026, Cemig group's total adjusted debt was BRL25.5 billion, including BRL21.9 billion of debentures and BRL3.2 billion of off-balance-sheet debt. The holding company had no debt.

ISSUER PROFILE

Cemig is the holding company of one of Brazil's largest power groups. It operates in distribution through Cemig D and in generation and transmission mainly through Cemig GT. Cemig is controlled by the state of Minas Gerais.

SUMMARY OF FINANCIAL ADJUSTMENTS

Revenues and EBITDA do not incorporate construction revenues and construction costs.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Sector Forecasts Monitor 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.

CLIMATE VULNERABILITY SIGNALS

Fitch uses Climate Vulnerability Signals (Climate.VS) as a screening tool to identify sectors and Fitch-rated issuers that are potentially most exposed to climate-related risks. If Fitch identifies an entity as higher risk (i.e. its Climate.VS in 2035 is 50 or higher), the entity receives additional analysis and consideration in rating reviews. Climate.VS range from 0 (lowest risk) to 100 (highest risk). For more information on Climate.VS, see Fitch's Corporate Rating Criteria. For more detailed, specific information on how Fitch perceives climate-related transition risks, see Climate Vulnerability Signals for Non-Financial Corporate Sectors.

The results of our Climate.VS screener did not indicate an elevated risk for Companhia Energetica de Minas Gerais.

ESG CONSIDERATIONS

Companhia Energetica de Minas Gerais (CEMIG) has an ESG Relevance Score of '4' for Governance Structure due to the political risk from its controlling shareholder, which has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING TYPE	RATING	RATING ACTION	PRIOR

Cemig Geracao e Transmissao S.A.	LT IDR	BB Rating Outlook Stable	Affirmed	BB Rating Outlook Stable
	LC LT IDR	BB Rating Outlook Stable	Affirmed	BB Rating Outlook Stable
	Natl LT	AAA(bra) Rating Outlook Stable	Affirmed	AAA(bra) Rating Outlook Stable
senior unsecured	Natl LT	AAA(bra)	Affirmed	AAA(bra)
Cemig Distribuicao S.A.	LT IDR	BB Rating Outlook Stable	Affirmed	BB Rating Outlook Stable
	LC LT IDR	BB Rating Outlook Stable	Affirmed	BB Rating Outlook Stable
	Natl LT	AAA(bra) Rating Outlook Stable	Affirmed	AAA(bra) Rating Outlook Stable
senior unsecured	Natl LT	AAA(bra)	Affirmed	AAA(bra)
Companhia Energetica de Minas Gerais (CEMIG)	LT IDR	BB Rating Outlook Stable	Affirmed	BB Rating Outlook Stable
	LC LT IDR	BB Rating Outlook Stable	Affirmed	BB Rating Outlook Stable

	Natl LT	AAA(bra) Rating Outlook Stable	Affirmed	AAA(bra) Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

National Scale Rating Criteria (pub. 22 Dec 2020)

Parent and Subsidiary Linkage Rating Criteria (pub. 27 Jun 2025)

Government-Related Entities Rating Criteria (pub. 18 Jul 2025)

Corporate Rating Criteria (pub. 09 Jan 2026) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 09 Jan 2026)

APPLICABLE MODELS

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.2.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Cemig Distribuicao S.A.	EU Endorsed, UK Endorsed
Cemig Geracao e Transmissao S.A.	EU Endorsed, UK Endorsed
Companhia Energetica de Minas Gerais (CEMIG)	EU Endorsed, UK Endorsed

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch's website.

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