

MOODY'S

RATINGS

Rating Action: Moody's Ratings changes CEMIG's outlook to positive and affirms Ba2 rating

03 May 2024

New York, May 03, 2024 -- Moody's Ratings (Moody's) has today changed to positive from stable the outlook of Companhia Energetica de Minas Gerais - CEMIG (CEMIG) and its subsidiaries, Cemig Distribuicao S.A. (CEMIG D) and Cemig Geracao e Transmissao S.A. (CEMIG GT). Simultaneously, we have affirmed the Ba2 CFR, ba2 Baseline Credit Assessment (BCA) ratings for CEMIG and Ba2 long term issuer rating and ba2 BCAs for its subsidiaries.

These rating actions follow Moody's change in outlook on the Ba2 rating of the Government of Brazil to positive from stable, on 1 May 2024. For more details on the rationale for the sovereign outlook change, please refer to the press release: <https://ratings.moodys.com/ratings-news/420047>.

RATINGS RATIONALE

RATIONALE FOR POSITIVE OUTLOOK

The ratings' outlook change to positive from stable aligns with the outlook change on the rating of the Government of Brazil (Ba2 positive). This alignment implies that an improvement in the sovereign rating may lead to a rating of CEMIG and its subsidiaries' ratings. CEMIG's robust credit profile is currently constrained by that of the sovereign given its local revenue base and regulated business profile, among other considerations. Moody's views on the limit to the issuers' ratings in relation to the sovereign rating is in line with Moody's Methodology "Assessing the Impact of Sovereign Credit Quality on Other Ratings" published on June 20, 2019, and available on <https://ratings.moodys.com/rmc-documents/60258>.

RATIONALE FOR RATING AFFIRMATION

CEMIG's Ba2 Corporate Family Rating results from the application of Moody's Joint Default Analysis (JDA) framework for government-related issuers, which considers the following input factors: a BCA of ba2 as measure of CEMIG standalone credit worthiness; the B2 rating of the State of Minas Gerais as CEMIG's controlling

shareholder and support provider; our estimate of moderate implied government support in the case of financial distress; and a high default dependence between CEMIG and the State of Minas Gerais. Moody's acknowledges the much weaker credit quality of the State of Minas Gerais constrains the company's ability to receive timely financial support, if needed. Nonetheless, we assume that some form of extraordinary support from the state or indirectly from the central government would be forthcoming in a stress scenario given the essential nature of its regulated services.

CEMIG's BCA of ba2 is based on its consolidated business and financial profile, encompassing a large scale and diverse electricity operations that sustain strong credit metrics, despite the still high interest rates and inflationary challenges in Brazil. The ratings' base case considers that consolidated leverage metrics will remain robust for the next three years, with the cash flow from operations (CFO) pre-working capital (WC)/debt and interest coverage ratios staying above 30% and 4.0x, respectively. The analysis also considers the credit linkages with its controlling shareholder, the State of Minas Gerais (B2, positive), and with the Government of Brazil (Ba2 positive), given the highly regulated nature of its businesses, the exposure to local revenue and the reliance on domestic funding sources.

Constraining CEMIG's credit profile are: (i) the large off-balance-sheet contingent obligations of BRL3.3 billion related to non-controlled subsidiaries; (ii) the renewal risk of key hydro power concessions expiring in 2026 and 2027; and, (iii) and the large capital expenditure program in excess of BRL5 billion per year, which will limit the pace of leverage reduction.

CEMIG currently liquidity profile is good. In December 2023, CEMIG reported a consolidated cash position of BRL2.3 billion, compared with BRL2.6 billion in debt maturities in 2024. Additionally, CEMIG has recently raised BRL2 billion via local debentures issuance of CEMIG D and announced that it will divest its stake in Aliança Energia S.A. for expected proceeds of approximately BRL2.8 billion. Aliança divestment is pending regulatory approval and fulfillment of the precedent conditions. The proceeds from these transactions along with the cash balance outstanding are sufficient to cover the company's obligations for the upcoming 12-18 months.

CEMIG D and CEMIG GT Issuer Ratings and BCAs mirror the rating for the parent's consolidated credit profile, because of corporate guarantees and cross-default clauses in their debt instruments outstanding.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade on the ratings will develop if the Government of Brazil is upgraded. A ratings upgrade will also consider if CEMIG's CFO pre-WC/debt remains above 20% and interest coverage surpasses 3.5x for a consistent period.

Conversely, a downgrade could occur if there are increased liquidity or refinancing risks, such as delays in addressing 2024 debt maturities or a significant leverage increase. If CEMIG's consolidated CFO pre-WC/debt falls below 13% and interest coverage stays under 2.5x consistently, a downgrade could be considered. Negative changes in the operating environment for Brazilian electricity companies, due to political interference or unfavorable regulatory changes, could also prompt a downgrade.

Based in Belo Horizonte, Minas Gerais, CEMIG is a top Brazilian utility company with operations in electricity distribution, generation, and transmission. It boasts a 5.5 GW installed capacity and 7,960 km of transmission lines nationwide, including approximately 2,960 km from its subsidiary, Taesa. The State of Minas Gerais holds a controlling stake with 50.97% of the voting capital, followed by FIA Dinâmica (32.12%) and BNDESPAR (11.14%), with other minority shareholders owning the remaining 5.77%. As of December 2023, CEMIG reported Moody's-adjusted net revenue of BRL36.8 billion and EBITDA of BRL9.9 billion.

LIST OF AFFECTED RATINGS

..Issuer: Companhia Energetica de Minas Gerais - CEMIG

Affirmations:

... LT Corporate Family Rating, Affirmed Ba2

... Baseline Credit Assessment, Affirmed ba2

Outlook Actions:.

...Outlook, Changed To Positive From Stable

..Issuer: Cemig Distribuicao S.A.

Affirmations:

... LT Issuer Rating, Affirmed Ba2

... Baseline Credit Assessment, Affirmed ba2

Outlook Actions:.

...Outlook, Changed To Positive From Stable

..Issuer: Cemig Geracao e Transmissao S.A.

Affirmations:

... LT Issuer Rating, Affirmed Ba2

... Baseline Credit Assessment, Affirmed ba2

Outlook Actions:.

...Outlook, Changed To Positive From Stable

The principal methodologies used in rating Companhia Energetica de Minas Gerais – CEMIG and Cemig Distribuicao S.A. were Regulated Electric and Gas Utilities published in June 2017 and available at <https://ratings.moodys.com/rmc-documents/68547>, and Government-Related Issuers Methodology published in January 2024 and available at <https://ratings.moodys.com/rmc-documents/406502>. The principal methodologies used in rating Cemig Geracao e Transmissao S.A. were Unregulated Utilities and Unregulated Power Companies published in December 2023 and available at <https://ratings.moodys.com/rmc-documents/412151>, and Government-Related Issuers Methodology published in January 2024 and available at <https://ratings.moodys.com/rmc-documents/406502>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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