

# MOODY'S

## RATINGS

### Rating Action: Moody's Ratings upgrades CEMIG's rating to Ba1, outlook stable

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03 Oct 2024

New York, October 03, 2024 -- Moody's Ratings (Moody's) has today upgraded Companhia Energetica de Minas Gerais – CEMIG's (CEMIG) Corporate Family Rating (CFR) to Ba1 from Ba2 and its Baseline Credit Assessment (BCA) to ba1 from ba2. Concomitantly, we have upgraded the global scale issuer ratings of Cemig Distribuicao S.A. (CEMIG D) and Cemig Geracao e Transmissao S.A. (CEMIG GT) to Ba1 from Ba2 and their BCAs to ba1 and ba2, respectively. The outlook on all ratings was changed to stable from positive.

Today's rating action follows our decision to upgrade the rating of the Government of Brazil to Ba1 from Ba2 maintaining a positive outlook on October 1, 2024; as well as our decision to upgrade the rating of the State of Minas Gerais to B1 from B2 with the outlook changed to stable from positive on October 2, 2024. For additional information on these actions, please refer to sovereign press release:

<https://ratings.moodys.com/ratings-news/429722>; and to the regional and local governments press release: <https://ratings.moodys.com/ratings-news/429853>.

The full list of affected ratings is provided towards end of this press release.

#### RATINGS RATIONALE

The rating actions speak to the credit linkages between CEMIG group, the Brazil sovereign and the State of Minas Gerais, as its controlling entity. 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.

The ba1 BCAs considers CEMIG's extensive and diverse electricity operations in Brazil and its strong credit metrics despite the country's high interest rates and inflationary pressures in recent year. Our expectation is that its consolidated leverage metrics will remain solid over the next three years, with CFO pre-working capital to debt and the interest coverage ratio staying above 30% and 4.0x respectively, comparing favorably with regional peers.

CEMIG's Ba1 Corporate Family Rating results from the application of our Joint Default Analysis (JDA) framework for government-related issuers, which considers the following input factors: a BCA of ba1 as measure of CEMIG standalone credit worthiness; the B1 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. We acknowledge that 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 ratings are constrained by that of the sovereign (Government of Brazil Ba1 positive), given its local revenue base and regulated business profile, among other considerations. Nonetheless, an upgrade of Brazil's rating would not immediately reflect in an upgrade of CEMIG, given its governance structure that cannot be completely de-linked from the current stresses facing the State of Minas Gerais. Although the company's credit profile is much stronger than that of its controlling shareholder, we view CEMIG's credit quality is limited at three notches above the State of Minas Gerais' B1 issuer rating.

The stable outlook is aligned with that of the State of Minas Gerais (B1 stable), which carries a stable outlook. The stable outlook also takes into consideration that CEMIG will maintain a strong credit profile and adequate liquidity over the next 12-18 months, as enhanced by the recent asset sales, addressing its refinancing needs in advance of their maturities.

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

A ratings upgrade would be considered upon an upgrade of both the State of Minas Gerais' Issuer Rating, and that of the Government of Brazil. A ratings upgrade would be contingent on CEMIG maintaining strong credit metrics and an adequate debt maturity profile.

A downgrade on the ratings could develop upon increases in liquidity risks or refinancing delays. A downgrade would be considered if the company's credit metrics deteriorate such that the consolidated CFO pre-WC/debt falling below 16% or interest coverage falling below 3.0x, for a sustainable period. In addition, negative changes in the operating environment for Brazilian electricity companies, due to higher political interference or unfavorable regulatory changes, could prompt a downgrade.

#### LIST OF AFFECTED RATINGS

..Issuer: Companhia Energetica de Minas Gerais – CEMIG

Upgrades:

... LT Corporate Family Rating, Upgraded to Ba1 from Ba2

... Baseline Credit Assessment, Upgraded to ba1 from ba2

Outlook Actions:

...Outlook, Changed To Stable From Positive

..Issuer: Cemig Distribuicao S.A.

Upgrades:

... LT Issuer Rating, Upgraded to Ba1 from Ba2

... Baseline Credit Assessment, Upgraded to ba1 from ba2

Outlook Actions:

...Outlook, Changed To Stable From Positive

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

Upgrades:

... LT Issuer Rating, Upgraded to Ba1 from Ba2

... Baseline Credit Assessment, Upgraded to ba1 from ba2

Outlook Actions:

...Outlook, Changed To Stable From Positive

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 August 2024 and available at <https://ratings.moodys.com/rmc-documents/426183>, 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.

REGULATORY DISCLOSURES

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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