

RATING ACTION COMMENTARY

Fitch Affirms Cemig's IDRs at 'BB'; National Scale Rating Upgraded to 'AAA(bra)'

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Fitch Ratings - Rio de Janeiro - 11 Oct 2024: Fitch Ratings has affirmed 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) Local Currency and Foreign Currency Issuer Default Ratings (IDRs) at 'BB'. Fitch has at the same time upgraded the National Scale Ratings for the three entities to 'AAA(bra)' from 'AA+(bra)'. The Rating Outlook is Stable.

Cemig's ratings reflect the group's solid and diversified asset base, with positive operating performance and robust operational cash generation in the Brazilian power sector. The upgrade of the national scale ratings reflects Fitch's view that Cemig has strengthened its credit profile within its 'BB' IDR level. The group benefited from stronger EBITDA coming from the power distribution segment and asset sales to improve liquidity to pay the Eurobonds maturing in December 2024 and to prepare its capital structure to support a high capex program.

The group's current low leverage metrics should peak only in 2027 and the proved ample access to funding supports capex and refinancing needs. Fitch equalizes Cemig and its subsidiaries' IDRs mainly due to strong legal ties.

KEY RATING DRIVERS

Robust Business Profile: Cemig group's IDRs benefit from its diversified and robust asset base and operation in different segments within the power sector, which dilute business and regulatory risks. The group is one of Brazil's largest integrated electric utilities, distributing electricity to 9.3 million users and operating 4.5GW of generation installed capacity and 5,060km of transmission lines. Cemig's distribution segment should represent 52% of consolidated EBITDA in 2024, with generation and transmission corresponding to 36% and natural gas distribution to 13%.

Positive Performance in Distribution: Cemig D has been able to drive strong performance despite an unfavorable trend in energy volumes distributed in its concession area - a lower growth of 2.4% compared to the national growth of 4.2% in 2023. Company's cash generation benefited from the tariff review concluded in May 2023, which increased regulatory EBITDA by 12% (+BRL349 million) to BRL3.2 billion.

Fitch's base case scenario incorporates punctual higher demand increase of 3.2% in 2024, benefited by strong temperature in the country during the 1H24 and modest average annual growth of 1.5% during 2025-2028 period. The company should generate EBITDA of BRL3.6 billion in 2024 and BRL3.9 billion in 2025, remaining above the regulatory level.

Favorable Generation Segment: Performance in generation and transmission segment at Cemig GT benefits its consolidated credit profile from the high revenues' predictability. In energy generation, Cemig GT is fully contracted until 2026 (average prices of BRL222/MWh) and in energy transmission revenues are based on asset availability rather than volume transported. Fitch projects average annual EBITDA of BRL2.4 billion in 2024-2026. Fitch's base case scenario already incorporates that two generation concessions representing 51% of its contracted energy will expire in 2027 and the group will lose some cash generation.

Prepared Capital Structure: Cemig's consolidated adjusted net leverage should moderately increase over the next four years, and peak at 3.8x in 2027, considering its robust capex plan that will partially be financed with debt. The ratio is expected to remain consistent with the IDR 'BB', benefited by the current conservative level of 1.4x in LTM ended in June 2024. Fitch forecasts adjusted net leverage to increase to 1.6x in 2024, 2.2x in 2025 and 3.2x in 2026, returning to 3.0x level and below from 2028 on.

Consolidated net leverage, excluding off-balance-sheet from guarantees to nonconsolidated investments, should remain below 3.5x during the investment cycle. Fitch's adjusted debt for Cemig includes guarantees of BRL3.3 billion to nonconsolidated companies in June 2024, and adjusted EBITDA includes dividends received that amounted BRL601 million in the LTM.

Capex Plan to Pressure FCF: Fitch estimates that Cemig will be consistently FCF negative in the next four years, as it executes its aggressive capex plan of BRL31.5 billion for 2025-2028 period, after BRL5.3 billion in 2024. The capex plan is mainly concentrated at Cemig D to reinforce its asset base, which will be incorporated in the next tariff review in 2028.

The base case scenario for the rating estimates negative consolidated FCFs of BRL3.8 billion in 2024 and BRL3.7 billion in 2025, incorporating a dividend payment of 50% of net income and the extraordinary dividends distribution of BRL1.4 billion in 2024. Fitch forecasts EBITDA around BRL7.0 billion in 2024 and 2025 and cash flow from operations (CFO) of BRL5.2 billion and BRL4.9 billion, respectively.

Ratings Equalization: As per as Fitch's *Parent and Subsidiary Linkage Rating Criteria*, Fitch equalizes the ratings of Cemig, Cemig D and Cemig GT. This mainly reflects the holding company's high legal incentives to support the subsidiaries in a stress scenario. Cemig consolidates the subsidiaries and guarantees a significant portion of their debt.

There are also cross-default clauses in the majority of the group's debt instruments. Debt financial covenants are measured on a consolidated basis, with centralized strategy and cash management. Fitch

also views the subsidiaries as the core business of Cemig. Cemig's ratings are not capped by the credit profile of its controlling shareholder, the State of Minas Gerais.

DERIVATION SUMMARY

Compared with Brazilian peers in the power sector, Cemig's credit profile is weaker than Engie Brasil S.A. (Engie Brasil) and Transmissora Alianca de Energia Eletrica S.A. (Taesa), companies rated with Local Currency IDRs 'BBB-' and 'BB+', respectively. Cemig presents higher business risk coming from its distribution segment and typically worse operational performance as a state-owned company.

Taesa operates in the highly predictable transmission segment (14,400km of transmission lines across the country, compared with 5,060km for Cemig), while Engie Brasil is the second largest player in the generation segment (installed capacity of 9.1GW, compared with 4.5GW for Cemig). Cemig's financial profile also presents more negative FCF and expected higher leverage than the two peers.

KEY ASSUMPTIONS

--Cemig D's energy distribution increase in its concession area of 3.2% in 2024 and average annual growth of 1.5% in 2025-2027;

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

--Cemig GT's average sales price of BRL223/MWh in 2024-2025, with annual energy sales of 5.0GWh per year;

--Average annual consolidated capex of BRL7.8 billion during 2024-2027;

--Dividend payout of 50% of net income.

RATING SENSITIVITIES

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

--Neutral to positive FCF;

--Consolidated net adjusted leverage below 3.0x on a sustainable basis;

--EBITDA interest coverage above 4.5x on a sustainable basis.

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

--Consolidated net adjusted leverage higher than 4.0x on a sustainable basis;

--EBITDA interest coverage below 3.0x on a sustainable basis;

--Short-term debt exceeds cash;

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

--Loss or costly renewal of generation concessions, depending on the financial structure.

LIQUIDITY AND DEBT STRUCTURE

Sound Liquidity: Cemig group should continue with broad access to financing sources and gradually reduce its debt maturity concentration. The group should lengthen its debt schedule profile, which currently presents average tenure of 3.4 years with BRL7.4 billion maturing until 2026. Consolidated cash and equivalents were BRL2.9 billion at June 30, 2024, compared with short-term debt of BRL4.2 billion - mainly concentrated in the USD381 million (BRL2.1 billion) of Cemig GT Eurobond due in December 2024.

Liquidity strengthened in 3Q24, benefiting from Cemig D's debenture issuance of BRL2.5 billion due after 2030. Cash inflow from a BRL2.7 billion asset sale, concluded in August 2024, at Cemig GT level, also reinforced the group's liquidity. Cemig group's total adjusted debt at June 30, 2024 was BRL14.5 billion, including off-balance-sheet debt of BRL3.3 billion, debentures of BRL9.5 billion and Cemig GT's Eurobonds of BRL2.1 billion.

ISSUER PROFILE

Cemig holds one of the largest integrated power utility groups in Brazil. The group operates in the distribution segment through Cemig D, in generation and transmission mainly through Cemig GT and in natural gas distribution through Gasmig. Cemig is controlled by 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 Macro and Sector Forecasts 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.

ESG CONSIDERATIONS

Companhia Energetica de Minas Gerais (CEMIG) has an ESG Relevance Score of '4' for Governance Structure due to the inherent governance risks that arise with a dominant state shareholder, which has a negative impact on the credit profile, and is relevant to the rating[s] 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 ↕			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		AA+(bra) Rating Outlook Stable
	Upgrade			
senior unsecured	LT	BB	Affirmed	BB
senior unsecured	Natl LT	AAA(bra)	Upgrade	AA+(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		AA+(bra) Rating Outlook Stable
	Upgrade			
senior unsecured	Natl LT	AAA(bra)	Upgrade	AA+(bra)

Companhia Energetica de
Minas Gerais (CEMIG)

LT IDR

BB Rating Outlook Stable

Affirmed

BB Rating
Outlook Stable

[VIEW ADDITIONAL RATING DETAILS](#)**FITCH RATINGS ANALYSTS****Wellington Senter**

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APPLICABLE CRITERIA[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)[Parent and Subsidiary Linkage Rating Criteria \(pub. 16 Jun 2023\)](#)

[Corporate Rating Criteria \(pub. 03 Nov 2023\) \(including rating assumption sensitivity\)](#)

[Sector Navigators – Addendum to the Corporate Rating Criteria \(pub. 21 Jun 2024\)](#)

[Government-Related Entities Rating Criteria \(pub. 09 Jul 2024\)](#)

APPLICABLE MODELS

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

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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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