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Rating Action: Moody's assigns Ba1/Aaa.br ratings to Janauba's debentures; outlook stable

17 Feb 2020

Sao Paulo, February 17, 2020 -- Moody's América Latina Ltda., ("Moody's") has assigned a Ba1 global scale and Aaa.br national scale ratings to the second issuance of senior secured debentures by Janauba Transmissora de Energia Eletrica S.A. ("Janauba" or "the project"), in the amount of BRL575 million, due in 2044. The outlook is stable.

RATINGS RATIONALE

The Ba1/Aaa.br ratings are supported by Janauba's 30-year concession agreement to build and operate transmission assets providing for strong cash flows for the project in the operating phase. The ratings incorporate our expectation of a stable and predictable revenue stream dictated by the availability-based contractual structure combined with operations of low complexity, yielding to an average DSCRs of 1.74x, under Moody's base case, for the period in which the principal is amortized (2025-2044).

The ratings also consider the project finance structure, which includes the assignment of security over all the project's assets, along with other mechanisms for creditor protection, such as a cash retention trigger, limitations to the issuance of additional debt and step-in-rights in the event of a default. The ratings further reflect the very high diversification of the offtake base, the incentives for timely payment and the overall linkages to sovereign credit quality of the Government of Brazil (Ba2 stable) due to the highly regulated nature of the energy sector.

The project is in early stage of construction, having achieved 20% of physical completion through December 2019. The construction and ramp-up risks are largely mitigated by a guarantee provided by its parent company Transmissora Alianca de Energia Eletrica S.A. (TAESA, Ba1/Aaa.br stable) for the full and timely payment of the debentures until the project reaches financial completion. All the environmental licenses have been obtained and the rights-of-way processes are ongoing in line with initial expectations. The construction consortium includes several firms and suppliers of significant expertise, such as subsidiaries of ABB Ltd. (A2 negative), and Siemens Aktiengesellschaft (A1 stable) for the substation equipment, Alubar Metais e Cabos S.A. for the cables and Brametal S.A. for the towers.

For the operating phase, Moody's views the revenue profile as predictable and stable, as per the terms of Janauba's concession agreement, which establishes availability-based payments that are adjusted annually by inflation. The project is entitled to receive BRL174.6 million in revenues, as per the original contractual bid resulting from the transmission auction held in October 2016, which is equivalent to BRL194 million in current value. The project was awarded with a 13.06% discount over the maximum annual revenue established for the bid, which is considerably lower than average discounts observed in more recent auctions, that have reached 60%. As a result, the project's economics are very attractive relative to other transmission projects in Brazil.

The project operations and maintenance (O&M) activities will be performed by TAESA; however, an O&M contract has not yet been formalized. The established budget for operating and administrative expenses is of approximately BRL20,000 per kilometer, which is consistent with the average expenses in TAESA's portfolio of concessions. The exposure to potential increases in O&M expenses is reflected in Moody's cash flow sensitivities, but the very high EBITDA margin of 91% under our base case implies low sensitivity of DSCRs to operating expense increases.

The total investment, including soft costs, is estimated by the regulator ANEEL in approximately BRL960 million. Once in operation, the Janauba project is expected to generate annual revenues in the order of BRL220 million and EBITDA of more than BRL200 million. Financing sources include the second debentures (60%), the first debentures (23%), equity injection by TAESA (15%) and financial revenues accrued during construction phase (2%).

DEBT STUCTURE & SECURITY

Janauba's BRL575 million senior secured debentures (2nd issuance) were issued as infrastructure debentures pursuant to law 12,431, where the proceeds will be entirely used to support the capital investment requirements for the project's completion. The debt is fully amortizing in 25 years, maturing in December 2044. The amortization schedule has been customized with both interest and principal payments planned to occur on a biannual basis starting, respectively, in December 2022 and December 2025. The principal amount will be adjusted by inflation (IPC-A) and the interest has been defined at a fixed cost of 4.8295% per year.

The debt's amortization profile is significantly longer than most debentures in Brazil supported by the project's favorable economics. The designed amortization schedule provides for very little deleveraging over the first five years of the transaction, leading to very high DSCRs and allowing the company to distribute significant dividends. In Moody's base case, the project shows average DSCRs of 2.42x between 2022 and 2024, 1.67x between 2025 and 2035, and 1.82x between 2036 and 2044.

The security package includes the fiduciary alienation of all the issuer shares, along with the fiduciary assignment of the concession agreement including all the rights to its cash balances, future receivables and indemnification in the event of contract termination. The structure also encompasses an incurrence covenant test for dividend distributions, constraining pay-out at the minimum legal requirement of 25% of net earnings if the DSCR drops below 1.2x. New debt issues are limited in up to BRL200 million for investment purposes, which provides the sponsor some flexibility for the remaining capital requirements for project completion. On the other hand, there are no provisions for a debt service reserve account or a clear cash waterfall definition that are typically seen in robust project finance structures.

Debenture holders benefit from an unconditional and irrevocable guarantee provided by the parent company TAESA for the full and timely payment of the expected principal and interests on the debentures until the project is fully completed. The guarantee can be released only after the project's DSCR is above 1.2x, based on the audited annual report, the debt is in the amortization phase with at least two installments on the debentures' scheduled principal and interest payments, and the legal execution of all the guarantees to the debenture holders. As such, Moody's expectation is that the corporate guarantee will remain in place until at least 2026. Based on the terms of the guarantee, the debentures and the debt at TAESA cross-default.

OUTLOOK

The stable outlook reflects the structure that effectively provides for credit substitution for the credit profile of the guarantor until the project achieves completion.

FACTORS THAT COULD LEAT TO AN UPGRADE/DOWNGRADE

The global scale rating is linked to the credit quality of the sovereign, and positive rating action for Janauba is constrained to similar positive action for the Government of Brazil. The project's global scale rating can be downgraded upon a similar rating action on the sovereign. Aside from that, global scale and national scale ratings can be downgraded upon deterioration in the credit quality of the TAESA, as the guarantor until construction is completed. Upon project completion, negative rating pressure will build-up if the project faces a deterioration of the long term DSCRs to below 1.30x, driven by much higher than expected operating, maintenance and administrative expenses, for example.

ISSUER PROFILE

Januaba is a special purpose vehicle fully owned by TAESA which was created solely for the construction and subsequently the operation and maintenance of (i) the Pirapora 2 -- Januaba 3 500 kV 238 km transmission line; (ii) the Bom Jesus da Lapa II -- Janauba 3 500 kV 304 km transmission line; and (iii) the Janauba 3 500 kV substation. The project is also responsible for additional construction works on the Pirapora 2 and Bom Jesus da Lapa II substations in order to accommodate for the new transmission lines. The project spans through 18 municipalities in the Brazilian states of Minas Gerais and Bahia.

TAESA is a power transmission company operating and maintaining around 13,560 km of high voltage (230 to 525kV) transmission lines through 38 long-term concessions. Currently, the holding company comprises ten concessions (TSN, Novatrans, ETEO, GTESA, PATESA, Munirah, NTE, STE, ATE e ATE II), fully investes in nine (ATE III, Brasnorte, São Gotardo, Mariana, Miracema, Janaúba, Sant'Ana, SPT and SJT) and has equity participations in the other 19 (through ETAU, Aimorés, Paraguaçu, Ivaí, Transmineiras, and TBE), of which 31 are operating and seven are currently under construction. In addition, after the planned acquisitions, Taesa will likely expand its portfolio to 13,981 km of transmission lines through 41 concessions.

METHODOLOGY

The principal methodology used in these ratings was Generic Project Finance Methodology published in November 2019. Please see the Rating Methodologies page on www.moodys.com.br for a copy of this methodology.

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