

RATING ACTION COMMENTARY

Fitch Affirms Alupar's Ratings

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Fitch Ratings - Rio de Janeiro - 10 Jan 2025: Fitch Ratings has affirmed Alupar Investimento S.A.'s and its subsidiary Alupar Chile Inversiones SpA's Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BB+' and 'BBB-', respectively. Alupar and its subsidiary Foz do Rio Claro Energia S.A.'s National Scale Ratings and outstanding local debentures were affirmed at 'AAA(bra)', and subsidiary Amazônia Empresa Transmissora de Energia S.A.'s (AETE) at 'AA+(bra)'. The Rating Outlooks for the corporate ratings are Stable.

Alupar's ratings reflect its low business risk relative to its diversified portfolio of power transmission assets in Brazil, with predictable revenues and high operating margins. Its generation activities help mitigate operational and regulatory risks. Fitch expects the group will maintain high financial flexibility and leverage consistent with its rating, despite negative FCF from high investments during 2026-2028.

Alupar's Foreign Currency IDR is constrained by Brazil's 'BB+' country ceiling, while Brazil's operating environment limits the Local Currency IDR. Alupar Chile's and Foz do Rio Claro's ratings mainly reflect Alupar's high legal incentives to support these companies, while the AETE's rating benefits from medium operational incentives.

KEY RATING DRIVERS

Predictable Revenues: Alupar's credit profile benefits from its energy transmission and generation operations mainly in Brazil, supported by a sizable and diversified asset base that dilutes operational and regulatory risks. Transmission concessions will not expire until 2030, while generation concessions extend to 2044, with expirations staggered over the subsequent years.

For transmission, concession revenue (Permitted Annual Revenues [PAR]) is generated from asset availability, free from demand risk and is annually adjusted for inflation. This segment represents 80% of the group's consolidated EBITDA. In generation, long-term contracts to sell a large part of the asset's assured energy and partial hydrological risk protection contribute to expected strong, predictable performance.

Leverage to Remain Adequate: Alupar's consolidated financial leverage is expected to align with its IDRs over the rating horizon, given the current pre-operational projects portfolio. Except in 2027, when investments peak, Alupar's adjusted net debt/EBITDA ratios should stay below 3.5x, reaching 3.2x in

2024 and 3.0x in 2025, according to Fitch's methodology. These adjusted net leverage ratios include guarantees for non-consolidated projects, treated as off-balance sheet debt, estimated at BRL375 million in 2024 and BRL640 million in 2025 from Transnorte Energia S.A. (TNE).

Growing Cash Generation: The operation of new assets and robust EBITDA margins (85%-90%) are expected to increase the group's consolidated cash generation. Using regulatory accounting, Fitch forecasts EBITDA of BRL2.9 billion for 2025 and BRL3.1 billion for 2026, with cash flow from operations (CFFO) reaching BRL1.9 billion annually, despite higher interest payments due to increased debt. Significant investments of BRL8.8 billion from 2025 to 2028 and dividends at 50% of regulatory net income should result in negative FCF from 2026 to 2028, averaging BRL1.1 billion annually. FCF is anticipated to remain positive in 2024 and 2025 at BRL818 million and BRL106 million, respectively.

Asset Recompositing is Positive: Fitch considers Alupar's new investments crucial for maintaining consolidated revenues. Of the BRL2.6 billion consolidated PAR for its operating assets in 2024/2025, BRL784 million (30%) is linked to concessions expiring from 2030 to 2032. Alupar's recent success in transmission auctions, including in Latin American, will add BRL1.1 billion in revenues once projects are complete. This is expected to occur gradually until the end of 2029. New projects will require significant additional debt, but the group's positive track record in developing and financing transmission projects mitigates construction risks.

Parent Strengthens Subsidiaries' Ratings: Using Fitch's "Parent and Subsidiary Linkage Criteria," Alupar Chile's IDRs and Foz do Rio Claro's National Scale Rating are equalized with Alupar's due to the high legal incentives to support both subsidiaries. AETE lacks legal or strategic incentives of support from Alupar, but medium operational incentives benefit its rating. Alupar does not guarantee AETE's debt or have cross-defaults, owning 32.06% of AETE, which, while not significant in consolidated revenues (around 1% of PAR), offers synergies with four other assets in the group. Fitch projects AETE's standalone net leverage will be a low 2.5x by the end of 2024.

DERIVATION SUMMARY

Alupar's financial profile is stronger than Latin American peers Interconexion Electrica S.A. E.S.P. and Consorcio Transmantaro S.A. in Colombia and Transelec S.A. in Chile, all rated BBB/Stable. These peers share low business risk profiles and predictable cash flows, typical of transmission companies in a regulated industry. The main difference in Alupar's IDRs is due to the location of its main revenue-generating assets. While peers operate in countries with higher IDRs, Alupar's ratings are negatively affected by Brazil's 'BB+' country ceiling.

Compared to Transmissora Alianca de Energia Eletrica S.A.'s (Taesa; Local and Foreign Currency IDRs BB+/Stable), also in Brazil, both companies benefit from a diversified transmission portfolio. However, Fitch expects higher leverage metrics for Taesa in the coming years due to strong investment plans, explaining the difference in the Local Currency IDR.

KEY ASSUMPTIONS

--PARs adjusted annually by inflation;

--Generation scaling factor of 0.89 in 2025 and 0.91 in 2026;

--Operating expenses adjusted by inflation;

--Distribution of dividends equivalent to 50% of net income (net income based on regulatory accounting standards);

--Consolidated investments of BRL8.8 billion during 2025-2028 period and absence of acquisitions and/or new investments out of the current portfolio.

RATING SENSITIVITIES

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

--A deterioration in Alupar's consolidated financial profile, with net adjusted leverage above 3.5x and EBITDA interest coverage below 2.5x, both on a sustainable basis, could lead to a downgrade of the Local Currency IDR;

--A weakening of Alupar's operating environment may result in a downgrade of the Local Currency IDR;

--A downgrade of Brazil's sovereign rating would result in a similar rating action on Alupar's Foreign Currency IDR;

--A two-notch downgrade of Alupar's Local Currency IDR may lead to a downgrade of the National Scale Rating;

--A lower incentive for Alupar to support Alupar Chile, Foz do Rio Claro and AETE may lead to a downgrade of their ratings;

--Net debt/EBITDA ratio above 5.0x at AETE level could result in a negative rating action on its ratings.

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

--Positive rating action for the company's Foreign Currency IDR depends on an upgrade on Brazil's sovereign rating;

--Positive rating action for the company's Local Currency IDR depends on improvements of Alupar's operating environment and EBITDA interest coverage above 4.5x;

--An upgrade is not applicable to the National Scale Rating as it is at the highest level;

--Higher incentive for Alupar to support AETE may lead to an upgrade on its rating.

LIQUIDITY AND DEBT STRUCTURE

The Alupar group is expected to maintain high liquidity position and broad access to banking and capital markets. As of September 2024, the group's cash position of BRL3.5 billion covered its short-term debt of BRL2.4 billion by 1.5x. Fitch anticipates that operating cash generation from new assets will adequately service debt. On Sept. 30, 2024, total consolidated adjusted debt was BRL12.3 billion, mainly from debentures issuances (BRL9.9 billion or 81%) and Banco Nacional de Desenvolvimento Economico e Social loans (BNDES; BRL542 million, or 5% of the total).

The holding company plans to use its significant cash reserves to meet project needs, maintaining a debt maturity schedule compatible with its cash flow expectations. As of Sept. 30, 2024, its cash position was BRL794 million (23% of the consolidated amount), slightly exceeding total debt of BRL683 million. This debt (Holding level) was fully paid in 4Q24, backed by a new BRL850 million debenture issuance in October 2024, maturing in 2034. Dividends, totaling BRL687 million received in the LTM ended Sept. 30, 2024, are the main funding source, with a total debt-to-received dividends ratio was 1.0x. Alupar aims to maintain the net debt-to-received dividends ratio below 1.0x over in following years.

ISSUER PROFILE

Alupar is a non-operational holding company active in the energy transmission and generation segments mainly in Brazil, with small operations in other Latin America countries. The company's shares are traded at B3 in Brazil.

SUMMARY OF FINANCIAL ADJUSTMENTS

Net revenues and EBITDA net of construction revenues and cost.

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

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 ↕
AETE - Amazonia Empresa Transmissora de Energia S.A.	Natl LT	AA+(bra) Rating Outlook Stable	AA+(bra) Rating Outlook Stable
	Affirmed		
senior unsecured	Natl LT	AA+(bra) Affirmed	AA+(bra)
Foz do Rio Claro Energia S.A.	Natl LT	AAA(bra) Rating Outlook Stable	AAA(bra) Rating Outlook Stable
	Affirmed		
senior unsecured	Natl LT	AAA(bra) Affirmed	AAA(bra)
Alupar Chile Inversiones SpA	LT IDR	BB+ Rating Outlook Stable	Affirmed
	LC LT IDR	BBB- Rating Outlook Stable	BBB- Rating Outlook Stable
	Affirmed		
Alupar Investimento S.A.	LT IDR	BB+ Rating Outlook Stable	Affirmed
	LC LT IDR	BBB- Rating Outlook Stable	BBB- Rating Outlook Stable
	Affirmed		
	Natl LT	AAA(bra) Rating Outlook Stable	AAA(bra) Rating Outlook Stable
	Affirmed		
senior unsecured	Natl LT	AAA(bra) Affirmed	AAA(bra)

[VIEW ADDITIONAL RATING DETAILS](#)

FITCH RATINGS ANALYSTS**Wellington Senter**

Director

Primary Rating Analyst

+55 21 4503 2606

wellington.senter@fitchratings.com

Fitch Ratings Brasil Ltda.

Av. Barão de Tefé, 27 – Sala 601 Saúde Rio de Janeiro, RJ 20220-460

Lucas Rios, CFA

Associate Director

Secondary Rating Analyst

+55 11 4504 2205

lucas.rios@fitchratings.com

Ricardo De Carvalho

Managing Director

Committee Chairperson

+55 21 4503 2627

ricardo.carvalho@fitchratings.com

MEDIA CONTACTS**Elizabeth Fogerty**

New York

+1 212 908 0526

elizabeth.fogerty@thefitchgroup.com

Additional information is available on www.fitchratings.com**PARTICIPATION STATUS**

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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 \(pub. 06 Dec 2024\) \(including rating assumption sensitivity\)](#)[Sector Navigators – Addendum to the Corporate Rating Criteria \(pub. 06 Dec 2024\)](#)

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

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Alupar Chile Inversiones SpA

EU Endorsed, UK Endorsed

Alupar Invermento S.A.

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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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