

Fitch Upgrades AES Tietê Eólica Debentures rating to ‘AA+(bra)’; Stable Outlook

Fitch Ratings - São Paulo, November 28, 2019:

Fitch Ratings today removed the Positive Outlook for ratings of the first and second series of the first debenture issue of AES Tietê Eólica S.A. and upgraded them to ‘AA+(bra)’, from ‘BBB+(bra)’, assigning a stable outlook, as follows:

-- 1st series, in the amount of BRL73.0 million, maturing in December 2025: National Long-Term Rating upgraded to ‘AA+(bra)’/Stable Outlook, from ‘BBB+(bra)’/Positive Outlook;

-- 2nd series, in the amount of BRL73.0 million, maturing in December 2025: National Long-Term Rating upgraded to ‘AA+(bra)’/Stable Outlook, from ‘BBB+(bra)’/Positive Outlook.

The rating upgrade reflects the prepayment of the loan taken from Brazil’s National Bank for Economic and Social Development (BNDES) and onlending banks, which corresponded to approximately 84% of the project debt (balance of BRL915.4 million in December 2018), the new structure of accounts and guarantees for debentures and the impact on the Debt Service Coverage Ratio (DSCR), which are now consistent with ‘AAA(bra)’ ratings.

However, the rating is limited until the financial completion of the project due to automatic early maturity clauses related to AES Tietê Energia (Long-Term National Rating ‘AA+(bra)’). After completion, the guarantee will be released and these clauses will no longer be in effect.

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
AES Tiete Eolica S.A.		
AES Tiete Eolica S.A./Debt/1 Natl LT	Natl LT AA+(bra) Upgrade	BBB+(bra)

KEY RATING DRIVERS

The ratings of the first issue of debentures of AES Tietê Eólica are based on energy sales agreements at fixed prices for 20 years in the regulated market with certified volume of P-50. There is exposure to annual and quadrennial financial compensations pegged to the Differences Settlement Price (PLD) for around 55% of the energy volume sold by the project. The debt structure includes a reserve account equivalent to 12 months of debt service. The DSCR profile of the project is very strong, with minimum of 3.1 times and average of 4.7 times in Fitch’s rating scenario.

Availability and Profile of Stabilized Costs: Operating Risk - Midrange

After reporting a history of costs and expenses higher than expected by Fitch during the initial years of operations, the project is expected to present a more stable and predictable profile in the coming years. The project is backed by the expertise of AES Tietê, which has a vast generation portfolio and whose management has improved the availability indices of energy complexes in the last two years, which are now close to 97.0%. Among the main operating costs is a ten-year Operation and Maintenance (O&M) agreement with General Electric do Brasil – Equipamentos e Serviços de Energia Ltda. (GE Brasil), which supplies the turbines. The terms establish a fixed cost per wind turbine rising through the duration of the agreement and minimum availability and guaranteed power curve of 97.0%.

Historically, power generation has ranged between P-50 and P-90: Revenue Risk – Volume: Midrange:

AES Tietê Eólica's wind farms have a high capacity factor and are located in the interior region of Bahia, where winds are characterized by low turbulence, as well as few gusts and changes in direction. According to estimates by independent certification agencies, the ratio between P-50 and P-90 for one year is lower than 16.0%. The wind farms that sold energy at the New Energy Auction (LEN) faced problems with restrictions on the flow of power generation, generating below the P-90 certification. After this restriction was resolved, the projects have been generating in line with the farms that sold at the 2010 Reserve Energy Auction (LER). In order to mitigate additional uncertainties inherent to pre-operational studies, Fitch incorporates an additional 6% cut for LEN 2011 wind farms and 2% for LER 2010 wind farms, and also incorporates the expected apportionment of electric losses in the basic power grid of 2.5%, not considered in the certifications.

Exposure to PLD: Revenue Risk – Price: Midrange:

All of AES Tietê Eólica's revenues come from 20-year power purchase agreements (PPA) at fixed prices and adjusted annually for inflation. These agreements measure the volume of energy to be generated in annual and quadrennial periods, mitigating the exposure to deficits during years with lower generation than contracted. PPAs were signed with volume certified at P-50 which, assuming this energy is delivered, generates fixed revenues over quadrennial periods. This translates into greater uncertainty regarding performance and cash flow volatility, given that the need to replenish the reserve due to generation deficits is greater than in wind projects with minimum generation volumes of P-90. In all, 45% of the contractual obligation was sold in LER, whose counterparty is the Electricity Trading Chamber (CCEE), and 55% was sold in LEN A-3/2011 through a pool of 23 distributors. As for LEN, in case of energy deficit, the reimbursements are priced at the highest between the PLD and PPA price. Fitch considers the counterparty risk as systemic in both PPAs.

Adequate Debt Structure: Debt Structure – Strong: (changed from 'Midrange')

The debentures are senior, fully amortizable, and became the project's only debt after the prepayment of the BNDES loan. The account structure is well defined and includes a reserve account of three months for O&M and twelve months for debentures, which justifies this change. Until financial completion, there are automatic early maturity clauses with the guarantor, which limits the rating.

Financial Summary:

In Fitch's rating scenario, after the prepayment of the loans taken from BNDES and onlending agents, the DSCR profile is solid: average of 4.7 times and minimum of 3.1 times.

Peer Group:

AES Tietê Eólica has the highest DSCRs in Fitch's portfolio, considering its reduced leverage after the prepayment of the loan taken from BNDES and onlending agents. The closest peers are Complexo Morrinhos Energias Renováveis S.A. (Morrinhos, National Long-Term Rating of the second issue of debentures 'AAA(bra)'/Stable, average DSCR of 1.47 times in the rating scenario), Serras Holding S.A. (Serras, National Long-Term Rating of the first issue of debentures 'AAA(bra)'/Stable, average DSCR of 1.46 times in the rating scenario) and Copacabana Geração de Energia e Participações S.A. (Serra da Babilônia, National Long-Term Rating of the second issue of debentures 'AAA(bra)'/Stable, average DSCR of 1.49 times in the rating scenario).

RATING SENSITIVITIES

Developments that may, individually or collectively, lead to positive rating action:

-- Achievement of financial completion or upgrade of AES Tietê Energia's rating on or before financial completion;

Developments that may, individually or collectively, lead to negative rating action:

-- Downgrade of AES Tietê Energia on or before financial completion.

KEY ASSUMPTIONS

The assumptions of Fitch's base and rating scenarios reflect the macroeconomic projections for IPCA and Interbank Deposit Certificate (CDI), updated according to the Global Economic Outlook report published by the agency on September 30, 2019, and historical power generation data for 2018 and 2019.

In the baseline scenario, the assumption for generation is based on P-50 plus discounts of 2.0% for LEN2010 projects and 6.0% for LEN2011 projects, relating to the study, and 2.5% related to losses in the basic power grid to the gravity center, following Fitch's methodology.

The same assumptions were used in the rating scenario, except for those of generation, for which a ten-year P-90 instead of P-50 was assumed.

In Fitch's baseline scenario, the minimum and average DSCRs are 3.74 times and 6.09 times, respectively. In the rating scenario, the minimum and average DSCRs are 3.10 times and 4.74 times.

ANALYSIS SUMMARY

After the prepayment of the project's debts to BNDES and onlending agents, AES Tietê Eólica negotiated changes in the project's account structure to readjust it in order to reduce leverage.

The special reserve account, established in the BNDES agreement and which should be totally filled by 2023, prior to dividend payments above the minimum of 25%, was excluded from the structure. However, the debentures reserve account, currently the project's only debt, rose to the equivalent of 12 months of debt service.

After AES Tietê Energia's acquisition of the project, the availability of wind turbines increased significantly, from 91% to 97%. The wind farms have been generating between P-50 and P-90 certifications since 2016. In August 2019, power generation in the last 12 months was 90% of the P-50 certification and 103% of the P-90 certification on average.

PUBLIC RATINGS WITH CREDIT TIES TO OTHER CLASSIFICATIONS

Until the project's financial completion, there are automatic early maturity clauses related to the project's guarantor, AES Tietê Energia (National Long-Term Rating 'AA+(bra)'/Stable Outlook).

CREDIT PROFILE SUMMARY

AES Tietê Eólica is a sub-holding company that owns 15 specific-purpose entities (SPE) authorized to operate through Resolutions issued by the Brazilian Electrical Energy Agency (Aneel). These were established as independent energy producers through the construction and operation of a wind power plant. The issuer is 100% controlled by AES Tietê Energia S.A. ('AA+(bra)'/Stable Outlook).

The wind farms, jointly designated Alto do Sertão II, are located in the interior region of Bahia, in the cities of Pindaí, Caetité, Guanambi and Igaporã, with total installed capacity of 386.1 MW.

The first issue of debentures, amounting to BRL146.0 million, in two series, will mature in December 2025. The principal and interest on the first and second series will be paid half-yearly, starting in June 2016 and December

2015, respectively.

REGULATORY INFORMATION:

This is a risk rating report prepared for the purpose of complying with article 16 of CVM Instruction 521/12.

The information used in this analysis was provided by AES Tietê.

Fitch takes all the necessary measures to make sure that the information used in rating the credit risk was sufficient and obtained from reliable sources, including, as applicable, third-party sources. However, Fitch does not perform audit services and cannot, in all cases, independently verify or confirm the information received.

History of Ratings:

Date on which the national scale rating was first issued: November 25, 2014. Date on which the national scale rating was last updated: June 6, 2019.

The risk rating was informed to the entity rated or related parties, and the rating assigned was not changed due to this communication.

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Further information is available at www.fitchratings.com and www.fitchratings.com/brasil

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Methodology Applied and Related Research:

-- Rating Criteria for Infrastructure and Project Finance (July 27, 2018);

Other Relevant Methodology:

-- Renewable Energy Project Rating Criteria (February 26, 2019).

Additional information is available at www.fitchratings.com

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Methodology Applied

Rating Criteria for Infrastructure and Project Finance (pub. 27 Jul 2018) Renewable Energy Project Rating Criteria (pub. 26 Feb 2019)

Additional disclosures

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