S&P Global Ratings

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Tear Sheet:

Neoenergia S.A.

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This report does not constitute a rating action.

Neoenergia S.A. is concluding its heavy investment cycle in transmission projects awarded in previous auctions. As a result, S&P Global Ratings expects the company to lower investments to Brazilian real (R$)7 billion-R$7.5 billion in 2026, from R$9.2 billion in 2025, with a focus on distribution network expansion and modernization and enhancement of quality indicators, in line with stricter quality targets under new distribution concession contracts.

We still expect negative free operating cash flow (FOCF) at about R$4 billion in 2025, but improving to only slightly negative in 2026 and positive by around R$900 million in 2027. This should support a gradual reduction in leverage, with net debt to EBITDA improving to around 4.0x in 2026 and 2027, from 4.7x in 2025, and funds from operations (FFO) to debt reaching 12%-17%, assuming inflation-aligned tariff adjustments and easing interest rates.

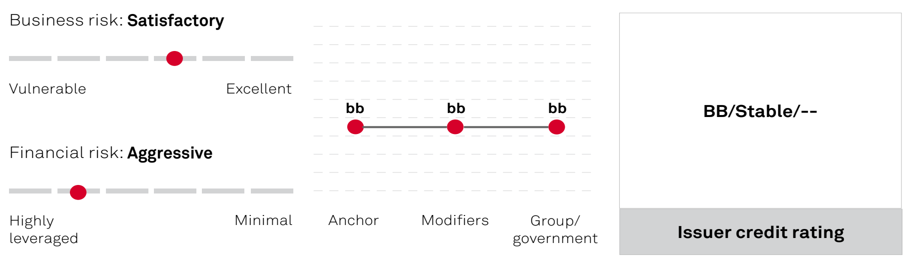
We also incorporate the recently announced sale of the 261 megawatts Dardanelos hydropower plant for an enterprise value of R$2.23 billion, plus monetary adjustments. The asset generated approximately R$235 million in EBITDA and held R$130 million in net cash in 2024. In our view, the transaction aligns with Neoenergia's strategy of rotating noncore assets to optimize its portfolio and support its investments.

Transmission lines acceleration and tariff adjustments support the company's operating results. Despite a 1% drop in billed demand in the first nine months of 2025, Neoenergia's EBITDA continued to grow. Adjusting for energy injected by distributed generation (GD), underlying demand would have increased by 1.5%. Although GD reduces volume captured in the distributor's revenues, related costs are subsequently incorporated into tariffs during the next rate review, helping preserve financial balance. Tariff increases of about 12% for Neoenergia Elektro and Neoenergia Brasília, as well as operational expenses increasing below inflation, also supported performance. In addition, the contribution from transmission assets has increased in 2025.

For 2026, we forecast higher operating cash flow, driven by organic growth in the distribution business, additional transmission revenue for a full year of operation, and tariff adjustments roughly in line with inflation. As a result, we expect EBITDA margins to increase from 28.2% in 2024 to about 29% in 2025 and 30%-31% in the next few years, while additional cash generation will support part of the group's investment needs.

The company has made progress on distribution concession renewals. In line with our base case, Neoenergia Pernambuco recently extended its contract for an additional 30 years. Other subsidiaries with contracts expiring between 2027 and 2028, for which we assume contract extension--Neoenergia Coelba, Neoenergia Cosern, and Neoenergia Elektro--have also submitted renewal requests and meet the key regulatory criteria. For instance, on Nov. 18, 2025, the regulator recommended the renewal of Neoenergia Elektro to the granting authority, the Ministry of Mines and Energy. The renewals won't require upfront payment of grant fees, providing financial flexibility to distribution companies to execute their investment plans, considering the new contracts' more rigorous service quality requirements. We expect the new contracts to be signed in the next few months.

Ratings Score Snapshot



Recent Research

[Neoenergia S.A. 'BB' Ratings Affirmed On Iberdrola's Plan To Increase Ownership; Outlook Remains Stable], Sept. 15, 2025

[Smooth Renewals Will Support Brazilian Power Distributors' Credit Quality], April 7, 2025

[Neoenergia S.A. and Subsidiaries], March 25, 2025

Company Description

Neoenergia is a Brazil-based integrated energy group with a strong presence in electricity distribution. For the 12 months ended Sept. 30, 2025, the company reported adjusted revenue of R$38.7 billion and EBITDA of R$10.9 billion. Its operations are diversified across electricity distribution (approximately 75%-80% of EBITDA), power generation (10%), and transmission (10%), serving 16.9 million clients through five distribution companies. Neoenergia's installed generation capacity totals 4,167 megawatts (MW), with a mix of hydro (46%), wind (37%), thermal (13%), and solar (4%) plants, including a 10% stake (1,123 MW) in the Belo Monte hydro plant.

In the transmission segment, Neoenergia holds interests in about 5,700 kilometers of operational transmission lines and 17 substations, contributing a proportional permitted annual revenue (RAP) of about R$1.1 billion as of September 2025. By the end of 2025, the company should finalize the five-year investment cycle in transmission lines generating additional R$600 million in RAP.

Following the acquisition of Previ's 30.3% stake, Iberdrola now holds an 83.8% equity interest in Neoenergia, and announced an optional tender offer for the remaining 16.2% free floating. Iberdrola is Spain's second-largest power generator and distributor and a global leader in renewable energy. The group also has international operations through Scottish Power in the U.K., Iberdrola Renovables in Latin America, and Avangrid in the U.S.

Despite Iberdrola's higher stake in Neoenergia, we expect the latter to continue operating independently, funding its investments through domestic markets and maintaining its own liquidity sources. Nevertheless, the company will likely continue to benefit from Iberdrola's strategic oversight, disciplined governance, and broad banking relationships in Europe.

Outlook

The stable outlook reflects our expectation that, following the completion of investments in transmission lines in 2025, Neoenergia will reduce annual capital expenditure to approximately R$7 billion-R$7.5 billion in 2026 from R$9.2 billion in 2025. This, along with new transmission lines' revenue and a declining interest burden, will help reduce leverage. We forecast debt to EBITDA to reach 4.7x in 2025 and improve to 4.0x-4.5x in 2026 and 2027, while FFO to debt strengthens toward 12%-16%.

Our stable outlooks on the subsidiaries--Neoenergia Coelba, Neoenergia Pernambuco, and Neoenergia Cosern--are aligned with Neoenergia's since these entities operate within the distribution business, which accounts for 75%-80% of Neoenergia's overall cash flow.

Downside scenario

We could downgrade Neoenergia within the next 12 months if we were to take a similar rating action on Brazil (BB/Stable/B). Alternatively, we could lower the ratings on Neoenergia if the company demonstrates a sustained deterioration in credit metrics, specifically with FFO to debt falling below 9% and debt to EBITDA exceeding 5.5x. Such a decline could stem from adverse hydrological conditions that increase working capital needs because of higher energy costs, unexpected high investments, a large debt-financed acquisition, or a more aggressive dividend policy. Under this stressed scenario, the downgrade would happen if Iberdrola exhibited reduced incentives to support its Brazilian operations.

The ratings on the subsidiaries will move in tandem with those on Neoenergia in case of a negative rating action.

Upside scenario

Currently, the sovereign rating on Brazil caps the rating on Neoenergia. Therefore, we would raise the rating on the group if we upgrade the sovereign, assuming the current group support from Iberdrola continues, or if there are indications that Iberdrola's increased ownership results in greater operational and financial integration with the parent company, leading to stronger financial support, such as through intercompany loans, cross default provisions, or debt guarantees. In our view, this could also reflect a strategic plan involving higher investments in Brazil.

On a stand-alone basis, if Neoenergia improves its adjusted debt to EBITDA below 3.5x and FFO to debt above 23% on a consistent basis, we could revise the stand-alone credit profile (SACP) to 'bb+'. Under this scenario, we would also expect the group to generate positive FOCF, enabling it to finance investments with its own cash, rather than issuing additional debt.

An upgrade of Neoenergia would result in a similar action on its subsidiaries.

Key Metrics

Neoenergia S.A.--Forecast summary

Period ending	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027	Dec-31-2028
(Mil. BRL)	2021a	2022a	2023a	2024a	2025e	2026f	2027f	2028f
Revenue	33,756	32,458	35,387	36,677	38,648	41,177	43,340	45,584
Gross profit	11,565	14,499	15,575	15,649	16,836	18,651	19,532	20,641
EBITDA (reported)	10,338	11,582	11,112	12,794	11,280	12,619	13,219	14,076
Plus: Operating lease adjustment (OLA) rent	--	--	--	--	--	--	--	--
Plus/(less): Other	(3,291)	(1,885)	(613)	(2,455)	114	120	125	130
EBITDA	7,047	9,697	10,499	10,339	11,394	12,739	13,345	14,206
Less: Cash interest paid	(1,265)	(2,675)	(3,044)	(3,359)	(5,417)	(5,158)	(4,876)	(4,189)
Less: Cash taxes paid	(574)	(60)	(465)	(355)	(529)	(687)	(787)	(952)
Plus/(less): Other	--	--	847	883	770	890	1,039	1,118
Funds from operations (FFO)	5,208	6,962	7,837	7,508	6,218	7,784	8,720	10,183
EBIT	4,827	8,239	9,976	7,956	11,059	11,024	11,557	12,211
Interest expense	2,627	4,071	4,398	4,791	5,415	5,156	4,874	4,186
Cash flow from operations (CFO)	132	4,620	1,632	3,242	5,120	7,419	8,242	9,721
Capital expenditure (capex)	9,369	9,892	8,903	9,811	9,163	7,532	7,358	7,356
Free operating cash flow (FOCF)	(9,237)	(5,272)	(7,271)	(6,569)	(4,042)	(113)	883	2,365
Dividends	708	1,036	1,378	979	921	1,128	1,145	1,312
Share repurchases (reported)	--	(326)	39	157	--	--	--	--
Discretionary cash flow (DCF)	(9,945)	(5,982)	(8,688)	(7,705)	(4,963)	(1,240)	(262)	1,053
Debt (reported)	38,623	43,503	45,883	52,600	56,208	57,452	57,985	58,157
Plus: Lease liabilities debt	146	206	210	243	276	314	357	406
Plus: Pension and other postretirement debt	--	--	--	--	--	--	--	--
Less: Accessible cash and liquid Investments	(5,617)	(6,901)	(7,522)	(7,826)	(7,577)	(10,034)	(10,349)	(11,623)
Plus/(less): Other	3,274	5,433	6,289	3,884	4,099	4,036	4,036	4,036
Debt	36,426	42,241	44,860	48,901	53,006	51,767	52,029	50,975
Equity	24,238	26,937	30,076	32,747	34,542	37,308	41,411	46,444

Neoenergia S.A.--Forecast summary

FOCF (adjusted for lease capex)	(9,237)	(5,272)	(7,271)	(6,569)	(4,042)	(113)	883	2,365
Interest expense (reported)	2,627	4,071	4,398	4,791	5,491	5,299	4,998	4,281
Capex (reported)	7,635	7,354	5,619	5,837	9,163	7,532	7,358	7,356
Cash and short-term investments (reported)	5,617	6,901	7,522	7,826	7,577	10,227	10,543	11,816
Adjusted ratios								
Debt/EBITDA (x)	5.2	4.4	4.3	4.7	4.7	4.1	3.9	3.6
FFO/debt (%)	14.3	16.5	17.5	15.4	11.7	15.0	16.8	20.0
FFO cash interest coverage (x)	5.1	3.6	3.6	3.2	2.1	2.5	2.8	3.4
EBITDA interest coverage (x)	2.7	2.4	2.4	2.2	2.1	2.5	2.7	3.4
CFO/debt (%)	0.4	10.9	3.6	6.6	9.7	14.3	15.8	19.1
FOCF/debt (%)	(25.4)	(12.5)	(16.2)	(13.4)	(7.6)	(0.2)	1.7	4.6
DCF/debt (%)	(27.3)	(14.2)	(19.4)	(15.8)	(9.4)	(2.4)	(0.5)	2.1
Lease capex-adjusted FOCF/debt (%)	(25.4)	(12.5)	(16.2)	(13.4)	(7.6)	(0.2)	1.7	4.6
Annual revenue growth (%)	28.2	(3.8)	9.0	3.6	5.4	6.5	5.3	5.2
Gross margin (%)	34.3	44.7	44.0	42.7	43.6	45.3	45.1	45.3
EBITDA margin (%)	20.9	29.9	29.7	28.2	29.5	30.9	30.8	31.2
Return on capital (%)	9.1	12.7	13.8	10.2	13.1	12.5	12.7	12.8
Return on total assets (%)	6.3	9.3	10.4	7.6	10.4	10.5	10.5	10.6
EBITDA/cash interest (x)	5.6	3.6	3.4	3.1	2.1	2.5	2.7	3.4
EBIT interest coverage (x)	1.8	2.0	2.3	1.7	2.0	2.1	2.4	2.9
Debt/debt and equity (%)	60.0	61.1	59.9	59.9	60.5	58.1	55.7	52.3
Debt fixed-charge coverage (x)	2.7	2.4	2.4	2.2	0.9	1.1	1.1	1.2
Debt/debt and undepreciated equity (%)	60.0	61.1	59.9	59.9	60.5	58.1	55.7	52.3

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. R$--Brazilian real.

Financial Summary

Neoenergia S.A.--Financial Summary

Period ending	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024
Reporting period	2019a	2020a	2021a	2022a	2023a	2024a
Display currency (mil.)	R$	R$	R$	R$	R$	R$

Neoenergia S.A.--Financial Summary

Revenues	23,525	26,331	33,756	32,458	35,387	36,677
EBITDA	4,810	6,664	7,047	9,697	10,499	10,339
Funds from operations (FFO)	3,215	5,160	5,208	6,962	7,837	7,508
Interest expense	1,330	1,484	2,627	4,071	4,398	4,791
Cash interest paid	1,270	948	1,265	2,675	3,044	3,359
Operating cash flow (OCF)	3,410	3,543	132	4,620	1,632	3,242
Capital expenditure	4,309	6,337	9,369	9,892	8,903	9,811
Free operating cash flow (FOCF)	(899)	(2,794)	(9,237)	(5,272)	(7,271)	(6,569)
Discretionary cash flow (DCF)	(1,596)	(3,261)	(9,945)	(5,982)	(8,688)	(7,705)
Cash and short-term investments	4,066	5,076	5,617	6,901	7,522	7,826
Gross available cash	4,066	5,076	5,617	6,901	7,522	7,826
Debt	18,141	24,303	36,426	42,241	44,860	48,901
Common equity	19,259	21,509	24,238	26,937	30,076	32,747
Adjusted ratios						
EBITDA margin (%)	20.4	25.3	20.9	29.9	29.7	28.2
Return on capital (%)	10.2	12.3	9.1	12.7	13.8	10.2
EBITDA interest coverage (x)	3.6	4.5	2.7	2.4	2.4	2.2
FFO cash interest coverage (x)	3.5	6.4	5.1	3.6	3.6	3.2
Debt/EBITDA (x)	3.8	3.6	5.2	4.4	4.3	4.7
FFO/debt (%)	17.7	21.2	14.3	16.5	17.5	15.4
OCF/debt (%)	18.8	14.6	0.4	10.9	3.6	6.6
FOCF/debt (%)	(5.0)	(11.5)	(25.4)	(12.5)	(16.2)	(13.4)
DCF/debt (%)	(8.8)	(13.4)	(27.3)	(14.2)	(19.4)	(15.8)

Environmental, Social, And Governance

Environmental, social, and governance factors have an overall neutral influence on our credit rating analysis of Neoenergia. The group operates mainly distribution and transmission networks (roughly 85%-90% of EBITDA), which contribute to stable and predictable cash generation.

Consistent with other integrated Brazilian energy groups, such as Companhia Energetica de Minas Gerais (CEMIG), we view Neoenergia as favorably positioned for energy transition, with roughly 87% of its installed capacity coming from renewable sources. While Neoenergia holds a stake in Termopernambuco, a natural gas-fired thermoelectric plant, this does not materially impact our ESG assessment. Termopernambuco represents a limited (13%) portion of the group's total installed capacity and operates natural gas--a relatively cleaner fossil fuel compares to diesel or carbon--and provides essential energy reserve capacity to support Brazil's hydro-dependent energy matrix.

In addition, Neoenergia recently announced R$350 million investments in photovoltaic panels and a battery storage system to lower dependence on fossil-fuel generation in Fernando de Noronha archipelago, in the state of Pernambuco.

Finally, we think social risks associated with potential service quality issues are mitigated by Neoenergia's consistently strong service quality metrics--specifically, the duration and frequency of service interruptions, which have remained below regulatory thresholds across all five of its distribution companies.

Rating Component Scores	
Foreign currency issuer credit rating	**BB/Stable/--**
Local currency issuer credit rating	**BB/Stable/--**
Business risk	**Satisfactory**
Country risk	Moderately High
Industry risk	Low
Competitive position	Satisfactory
Financial risk	**Aggressive**
Cash flow/leverage	Aggressive
Anchor	**bb**
Modifiers	
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**bb**
Group status of Neoenergia to Iberdrola	**Strategically Important**
Group status of Neoenergia's discos within the group	**Core**

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, July 7 2025
- Criteria | Corporates | General: Corporate Methodology, Jan. 7 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10 2021
- General Criteria: Group Rating Methodology, July 1 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1 2019
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19 2013
- General Criteria: Methodology: Industry Risk, Nov. 19 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16 2011