

CEMIG

Negative partial ruling on Jaguará dispute; down to Sell on increased hydro generation shortfall

Down to Sell on performance; R\$15/sh PT (was R\$14) & new ests (see Table 1)

The stock was up 29% in R\$ in the past 3 months (vs. 13% for IBOV, 19% for the Ute sector), reflecting: i) improved outlook for the Oct. 2014 presidential elections – this could mean lower political/regulatory risks and favourable outcome in the MP579-related generation concession dispute; and, ii) c.600MWavg of energy that is sold at high R\$823/MWh spot prices (c.R\$4bn “windfall” revenues for 2014e) thanks to co's good commercialization strategy. Nevertheless, we are cautious on both fronts: i) outcome for the concession dispute is still highly uncertain; and, ii) rationing risks have risen and can mean lower demand at Discos/higher costs at Gencos. Our new 2014-15e EPS changed -18%/+33% on higher Genco purchases to cover for generation shortfall, offset by higher spot prices / Jaguará concession staying w/ Cemig for longer.

Jaguará dispute a key valuation driver: tied for now at 2x2 out of 10-11 judges

The federal STJ court started ruling on the merit of the case for the extension for free (or no) of 0.4GWavg Jaguará contract. This is a leading indicator of how much c.1.8GWavg in generation concession contracts expiring by 2017 are worth and explains c.R\$7 of the R\$8/sh difference between our Upside and Downside cases. After 2x2 votes, judge Mauro Campbell asked to review the process for unknown period of time; we do not expect a final STJ ruling soon. We also note that the losing party can still challenge the STJ decision in the supreme STF court for constitutional matters.

Oct. 2014 elections might make a big difference for Jaguará dispute and Cemig

If we assume the STJ ruling does not happen before Dec. and that the Bz Fed Govt loses, the ruling PT (Workers') party in our view would take the dispute to the STF. However, opposition candidates Aécio Neves (PSDB-MG, parent of CEMIG) or Campos (PSB-PE) would not, in our view, and both have gained ground as per recent election polls. A final ruling at the STF could take years, and hence it is key for Cemig to keep the current injunction that allows it to maintain Jaguará. Our price target assumes a 50% probability of Cemig winning.

Valuation: DCF/SOTP-based R\$15/sh PT; Upside-Downside cases are R\$19-11/sh

We believe looking into near-term multiples is misleading due to finite concessions.

Equities

Americas
Electric Utilities

12-month rating **Sell**
Prior: Neutral
12m price target **R\$15.00**
Prior: R\$14.00
Price **R\$16.93**
RIC: CMIG4.SA **BBG:** CMIG4 BZ

Trading data and key metrics

52-wk range	R\$17.87-12.52
Market cap.	R\$21.3bn/US\$9.60bn
Shares o/s	1,259m (PREF)
Free float	62%
Avg. daily volume ('000)	5,737
Avg. daily value (m)	R\$84.6
Common s/h equity (12/13E)	R\$12.6bn
P/BV (12/13E)	1.7x
Net debt / EBITDA (12/13E)	1.8x

EPS (UBS, diluted) (R\$)

	From	To	% ch	Cons.
12/13E	2.41	2.47	2.21	2.35
12/14E	2.90	2.38	-17.88	2.34
12/15E	1.37	1.82	32.80	1.71

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Highlights (R\$m)	12/10	12/11	12/12	12/13E	12/14E	12/15E	12/16E	12/17E
Revenues	13,847	15,749	14,137	14,627	18,214	15,567	16,012	16,809
EBIT (UBS)	3,647	4,304	2,609	3,395	4,723	3,641	3,528	3,615
Net earnings (UBS)	2,258	2,415	4,272	3,104	3,002	2,288	2,281	2,486
EPS (UBS, diluted) (R\$)	1.79	1.92	3.39	2.47	2.38	1.82	1.81	1.98
DPS (R\$)	1.67	1.70	3.59	1.32	1.19	0.91	0.91	0.99
Net (debt) / cash	(11,079)	(13,802)	(8,896)	(7,430)	(7,224)	(6,788)	(6,751)	(6,760)
Profitability/valuation	12/10	12/11	12/12	12/13E	12/14E	12/15E	12/16E	12/17E
EBIT margin %	26.3	27.3	18.5	23.2	25.9	23.4	22.0	21.5
ROIC (EBIT) %	16.0	16.5	11.9	21.0	28.2	20.9	19.6	19.4
EV/EBITDA (core) x	6.3	6.0	8.2	4.9	3.8	4.4	4.5	4.5
P/E (UBS, diluted) x	8.2	8.3	6.3	6.9	7.1	9.3	9.3	8.6
Equity FCF (UBS) yield %	(2.1)	0.8	9.9	5.4	11.6	13.1	11.2	11.4
Net dividend yield %	11.3	10.7	16.7	7.8	7.0	5.4	5.4	5.8

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of R\$16.93 on 14May2014 18:42 EDT

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Investment Thesis

Trading at low valuation multiples for 2014e but with much lower earnings and dividend visibility for 2015 and onwards (in both Generation and Distribution), we think the stock fairly prices-in quality management team with profit maximization mindset, but a more favourable than negative outcome for a) hydrology and rationing, wherein company is able to sell at high spot market prices without having to buy significant amount of energy at spot to cover for hydro generation shortfall; b) reasonable chance of an Aécio Neves win in the Oct. 2014 presidential elections and election of an Aécio Neves-supported candidate for the Minas Gerais gubernatorial elections; c) c.70% chance of company winning the extension for free of the controversial Generation concessions that have contracts expiring in 2013-17e (these correspond to 1.8GW avg. energy, coming from the São Simão, Jaguará and Miranda plants – SS/J/M) and were not renewed at the Sep 2012-issued MP579 terms; d) free extension of Cemig Distribution concession in 2016 and no bold changes to the tariff reset cycle that could happen as early as 2016e for the Distribution business; and, e) potential M&A upside.

Our DCF/SOTP-based R\$15/sh price target / fair value estimate for CEMIG is in between our R\$11/sh Downside Scenario (reversion of the SS/J/M genco concessions to the Bz Fed Govt in exchange of a small compensation for residual value) and our R\$19/sh Upside Scenario (extension for free of SS/J/M but with nil compensation), using c.9% cost of equity in real R\$ terms. Our base case assumes Dilma Rousseff re-election and power shortage in the medium term.

Key assumptions: a) we assume <50% likelihood that the Bz Fed Govt will renew the disputed 1.8GWavg CEMIG genco capacity for free (this scenario is equivalent to allowing the company to keep these assets with a R\$30/MWh selling energy price, as opposed to our estimated R\$110/MWh long-term market power prices) but with new compensation for residual value; b) R\$50/MWh regulated tariffs for another 3.9GWavg genco capacity upon concession expiration of their assets, post-2017; c) small opex savings at CEMIG Disco coming from co's R\$600m opex cost cutting plan, pocketed for a few years only (note that in April 2016 Cemig Disco's concession contract expires) and also small opex cut at CEMIG Genco, forced by either reversion of assets to the Bz Fed Govt upon concession expiration or a much lower revenue stream; d) nil compensation for extended concessions of generation assets but a R\$690m (R\$0.7/sh NPV) compensation for transmission assets built pre-2000 and renewed under MP579 deal terms. We also assume nil accretiveness from the recent acquisitions (done at c7-8.5% estimated ROE in real R\$) or from its Gas E&P business exposure. Regarding increased energy shortage risks, we assume a) spot market prices of R\$675-300MWh for 2014-15e; and, b) generation shortfall of 7.5-5% of Brazil's firm capacity.

Downside Scenario with R\$11/sh implied fair valuation

In this scenario, we assume that i) CEMIG will lose the SS/J/M generation concessions to the Bz Fed Govt, will receive a nominal, R\$1.3bn compensation for residual value, and that CEMIG will cut Genco costs so as to adjust to the new revenue scenario. This implies -R\$3/sh to our Base Case scenario; ii) deterioration in the macroeconomic and political scenario, reflected in 100bp higher required return rates. This implies -R\$1/sh to our fair value estimate. While we believe CEMIG deserves to be treated equally by the Bz Fed Govt. vs. other peers that got

a free, 20-yr contract extension for free for the first time, we are sceptical that this will indeed happen.

Upside Scenario with R\$19/sh implied fair valuation

Here we assume that CEMIG will be able to extend SS/M generation concessions for free and sell their energy at R\$110/MWh. Under this scenario, we note CEMIG's cash flows would not drop significantly and co. would still likely cut opex further. All in this would imply c.R\$3+1sh upside vs. our Base Case.

Revised Estimates

We adjusted our model to reflect higher power deficit risks coming from poor hydrology (for details please see our 04/18/14 Rationing Series note). This translated into i) higher Genco hydro generation shortfall, at c.7.5-5% of Cemig Genco's hydro firm capacity that has to be bought at expensive spot prices thru 2015e; ii) higher spot price assumptions of R\$675-300MWh for 2014-15YE, up from R\$500-250MWh previously. This means lower 2014e EPS as highlighted below. As a partial offset, we are now considering that Cemig is able to keep Jaguarua thru 2015YE and sell its energy at spot market prices. The latter explains why our EPS is up substantially in 2015e. For 2016+ we have assumed slightly higher power prices as underscored by improved free market contract prices obtained by genco peers as well as Cemig's thus-far successful commercialization strategy, plus lower costs.

Figure 1: Revised 2014-18e Estimates for CEMIG

In nominal R\$ millions, except for EPS which is in R\$.

NEW	2014e	2015e	2016e	2017e	2018e
Net Revenues	18,214	15,567	16,012	16,809	17,237
EBITDA	5,558	4,495	4,336	4,441	4,442
Net Income	3,002	2,288	2,281	2,486	2,491
EPS	2.38	1.82	1.81	1.98	1.98

OLD	2014e	2015e	2016e	2017e	2018e
Net Revenues	18,325	14,651	15,943	16,729	16,934
EBITDA	6,542	3,746	4,189	4,297	4,091
Net Income	3,655	1,723	2,080	2,303	2,181
EPS	2.90	1.37	1.65	1.83	1.73

CHANGE	2014e	2015e	2016e	2017e	2018e
Net Revenues	-0.6%	6.3%	0.4%	0.5%	1.8%
EBITDA	-15.0%	20.0%	3.5%	3.4%	8.6%
Net Income	-17.9%	32.8%	9.6%	8.0%	14.2%
EPS	-17.8%	32.7%	9.8%	7.9%	14.4%

Source: UBS estimates

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Income statement (R\$m)	12/10	12/11	12/12	12/13E	% ch	12/14E	% ch	12/15E	12/16E	12/17E
Revenues	13,847	15,749	14,137	14,627	3.5	18,214	24.5	15,567	16,012	16,809
Gross profit	7,033	7,975	6,288	6,915	10.0	8,106	17.2	7,175	7,279	7,583
EBITDA (UBS)	4,542	5,287	3,372	4,219	25.1	5,558	31.7	4,495	4,336	4,441
Depreciation & amortisation	(896)	(983)	(763)	(824)	7.9	(835)	1.4	(854)	(808)	(827)
EBIT (UBS)	3,647	4,304	2,609	3,395	30.1	4,723	39.1	3,641	3,528	3,615
Associates & investment income	0	(1)	865	967	11.8	557	-42.4	0	0	0
Other non-operating income	0	(1)	0	0	-	0	-	492	574	713
Net interest	(825)	(970)	1,630	(308)	-	(1,019)	-230.2	(919)	(942)	(927)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	2,822	3,332	5,104	4,054	-20.6	4,261	5.1	3,213	3,160	3,400
Tax	(564)	(918)	(833)	(950)	-14.1	(1,260)	-32.6	(925)	(879)	(914)
Profit after tax	2,258	2,415	4,272	3,104	-27.3	3,002	-3.3	2,288	2,281	2,486
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	0	0	0	0	-	0	-	0	0	0
Extraordinary items	0	0	0	0	-	0	-	0	0	0
Net earnings (local GAAP)	2,258	2,415	4,272	3,104	-27.3	3,002	-3.3	2,288	2,281	2,486
Net earnings (UBS)	2,258	2,415	4,272	3,104	-27.3	3,002	-3.3	2,288	2,281	2,486
Tax rate (%)	20.0	27.5	16.3	23.4	43.7	29.6	26.1	28.8	27.8	26.9
Per share (R\$)	12/10	12/11	12/12	12/13E	% ch	12/14E	% ch	12/15E	12/16E	12/17E
EPS (UBS, diluted)	1.79	1.92	3.39	2.47	-27.3	2.38	-3.3	1.82	1.81	1.98
EPS (local GAAP, diluted)	1.79	1.92	3.39	2.47	-27.3	2.38	-3.3	1.82	1.81	1.98
EPS (UBS, basic)	1.79	1.92	3.39	2.47	-27.3	2.38	-3.3	1.82	1.81	1.98
Net DPS (R\$)	1.67	1.70	3.59	1.32	-63.4	1.19	-9.3	0.91	0.91	0.99
Cash EPS (UBS, diluted) ¹	2.51	2.70	4.00	3.12	-22.0	3.05	-2.3	2.50	2.45	2.63
Book value per share	9.12	9.33	9.18	10.04	9.4	11.23	11.9	12.14	13.05	14.04
Average shares (diluted)	1,258.69	1,258.70	1,258.69	1,258.69	0.0	1,258.69	0.0	1,258.69	1,258.69	1,258.69
Balance sheet (R\$m)	12/10	12/11	12/12	12/13E	% ch	12/14E	% ch	12/15E	12/16E	12/17E
Cash and equivalents	3,302	3,221	4,998	3,135	-37.3	3,736	19.2	3,816	3,851	3,939
Other current assets	4,784	5,310	3,805	3,533	-7.1	4,282	21.2	3,859	3,931	4,061
Total current assets	8,086	8,532	8,804	6,669	-24.3	8,018	20.2	7,675	7,783	8,001
Net tangible fixed assets	13,032	13,923	7,983	7,821	-2.0	8,158	4.3	8,121	8,151	8,185
Net intangible fixed assets	0	0	0	0	0.0	0	0.0	0	0	0
Investments / other assets	12,438	14,903	15,783	15,324	-2.9	15,944	4.0	16,913	17,978	19,178
Total assets	33,556	37,358	32,570	29,814	-8.5	32,121	7.7	32,709	33,912	35,364
Trade payables & other ST liabilities	3,047	3,104	2,853	2,576	-9.7	2,859	11.0	2,642	2,667	2,728
Short term debt	3,356	9,065	9,945	3,345	-66.36	3,739	11.76	3,382	3,378	3,481
Total current liabilities	6,403	12,169	12,798	5,922	-53.7	6,597	11.4	6,024	6,046	6,209
Long term debt	11,024	7,958	3,950	7,220	82.8	7,221	0.0	7,223	7,224	7,218
Other long term liabilities	4,652	5,485	4,272	4,035	-5.6	4,163	3.2	4,179	4,218	4,270
Preferred shares	0	0	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	22,080	25,613	21,020	17,176	-18.3	17,981	4.7	17,426	17,488	17,697
Common s/h equity	11,476	11,745	11,550	12,638	9.4	14,139	11.9	15,283	16,424	17,667
Minority interests	0	0	0	0	-	0	-	0	0	0
Total liabilities & equity	33,556	37,358	32,570	29,814	-8.5	32,121	7.7	32,709	33,912	35,364
Cash flow (R\$m)	12/10	12/11	12/12	12/13E	% ch	12/14E	% ch	12/15E	12/16E	12/17E
Net income (before pref divs)	2,258	2,415	4,272	3,104	-27.3	3,002	-3.3	2,288	2,281	2,486
Depreciation & amortisation	896	983	763	824	7.9	835	1.4	854	808	827
Net change in working capital	73	(188)	1,507	(694)	-	(658)	5.1	32	(225)	(247)
Other operating	825	972	(2,495)	(659)	73.6	462	-	427	368	214
Operating cash flow	4,051	4,181	4,047	2,575	-36.4	3,641	41.4	3,602	3,232	3,281
Tangible capital expenditure	(4,444)	(4,017)	(1,366)	(1,427)	-4.4	(1,172)	17.8	(817)	(838)	(861)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	0	0	0	0	-	0	-	0	0	0
Other investing	0	0	0	0	-	0	-	0	0	0
Investing cash flow	(4,444)	(4,017)	(1,366)	(1,427)	-4.4	(1,172)	17.8	(817)	(838)	(861)
Equity dividends paid	(2,096)	(2,144)	(4,518)	(1,656)	63.4	(1,501)	9.3	(1,144)	(1,140)	(1,243)
Share issues / (buybacks)	268	0	853	0	-	0	-	0	0	0
Other financing	(173)	(186)	(225)	(79)	65.13	(63)	20.23	(62)	(62)	(59)
Change in debt & pref shares	2,085	2,680	(5,025)	(1,136)	77.40	287	-	160	169	162
Financing cash flow	84	349	(8,915)	(2,870)	67.8	(1,277)	55.5	(1,046)	(1,033)	(1,140)
Cash flow inc/(dec) in cash	(309)	513	(6,235)	(1,722)	72.4	1,192	-	1,739	1,360	1,280
FX / non cash items	(814)	(593)	8,012	(141)	-	(591)	-318.9	(1,658)	(1,325)	(1,192)
Balance sheet inc/(dec) in cash	(1,123)	(80)	1,777	(1,863)	-	601	-	80	35	88

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts. ¹Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

CEMIG (CMIG4.SA)

Valuation (x)	12/10	12/11	12/12	12/13E	12/14E	12/15E	12/16E	12/17E
P/E (local GAAP, diluted)	8.2	8.3	6.3	6.9	7.1	9.3	9.3	8.6
P/E (UBS, diluted)	8.2	8.3	6.3	6.9	7.1	9.3	9.3	8.6
P/CEPS	5.9	5.9	5.4	5.4	5.6	6.8	6.9	6.4
Equity FCF (UBS) yield %	(2.1)	0.8	9.9	5.4	11.6	13.1	11.2	11.4
Net dividend yield (%)	11.3	10.7	16.7	7.8	7.0	5.4	5.4	5.8
P/BV x	1.6	1.7	2.3	1.7	1.5	1.4	1.3	1.2
EV/revenues (core)	2.1	2.0	2.5	1.8	1.4	1.6	1.6	1.5
EV/EBITDA (core)	6.3	6.0	8.2	4.9	3.8	4.4	4.5	4.5
EV/EBIT (core)	7.8	7.4	13.7	7.8	5.4	6.9	7.1	7.0
EV/OpFCF (core)	6.9	6.5	9.0	5.3	4.1	4.8	4.9	4.9
EV/op. invested capital	1.3	1.2	1.6	1.6	1.5	1.4	1.4	1.4
Enterprise value (R\$m)	12/10	12/11	12/12	12/13E	12/14E	12/15E	12/16E	12/17E
Market cap.	18,616	20,058	27,101	21,309	21,309	21,309	21,309	21,309
Net debt (cash)	9,450	12,440	11,349	8,163	7,327	7,006	6,770	6,755
Buy out of minorities	0	0	0	0	0	0	0	0
Pension provisions/other	2,085	2,224	0	0	0	0	0	0
Total enterprise value	30,151	34,722	38,450	29,473	28,636	28,316	28,079	28,065
Non core assets	(1,534)	(2,999)	(2,623)	(2,820)	(3,359)	(3,133)	(2,977)	(2,772)
Core enterprise value	28,617	31,723	35,827	26,653	25,278	25,183	25,102	25,293
Growth (%)	12/10	12/11	12/12	12/13E	12/14E	12/15E	12/16E	12/17E
Revenue	13.9	13.7	-10.2	3.5	24.5	-14.5	2.9	5.0
EBITDA (UBS)	-1.0	16.4	-36.2	25.1	31.7	-19.1	-3.5	2.4
EBIT (UBS)	-1.2	18.0	-39.4	30.1	39.1	-22.9	-3.1	2.4
EPS (UBS, diluted)	5.8	6.9	76.9	-27.3	-3.3	-23.8	-0.3	9.0
Net DPS	125.1	2.3	110.7	-63.4	-9.3	-23.8	-0.3	9.0
Margins & Profitability (%)	12/10	12/11	12/12	12/13E	12/14E	12/15E	12/16E	12/17E
Gross profit margin	50.8	50.6	44.5	47.3	44.5	46.1	45.5	45.1
EBITDA margin	32.8	33.6	23.9	28.8	30.5	28.9	27.1	26.4
EBIT margin	26.3	27.3	18.5	23.2	25.9	23.4	22.0	21.5
Net earnings (UBS) margin	16.3	15.3	30.2	21.2	16.5	14.7	14.2	14.8
ROIC (EBIT)	16.0	16.5	11.9	21.0	28.2	20.9	19.6	19.4
ROIC post tax	12.8	12.0	9.6	14.5	18.6	14.9	14.2	14.2
ROE (UBS)	19.9	20.8	36.7	25.7	22.4	15.6	14.4	14.6
Capital structure & Coverage (x)	12/10	12/11	12/12	12/13E	12/14E	12/15E	12/16E	12/17E
Net debt / EBITDA	2.4	2.6	2.6	1.8	1.3	1.5	1.6	1.5
Net debt / total equity %	96.5	117.5	77.0	58.8	51.1	44.4	41.1	38.3
Net debt / (net debt + total equity) %	49.1	54.0	43.5	37.0	33.8	30.8	29.1	27.7
Net debt/EV	38.7	43.5	24.8	27.9	28.6	27.0	26.9	26.7
Capex / depreciation %	NM	NM	179.0	173.2	140.3	95.6	103.7	104.1
Capex / revenue %	NM	25.5	9.7	9.8	6.4	5.2	5.2	5.1
EBIT / net interest	4.4	4.4	NM	11.0	4.6	4.0	3.7	3.9
Dividend cover (UBS)	1.1	1.1	0.9	1.9	2.0	2.0	2.0	2.0
Div. payout ratio (UBS) %	92.8	88.8	105.8	53.3	50.0	50.0	50.0	50.0
Revenues by division (R\$m)	12/10	12/11	12/12	12/13E	12/14E	12/15E	12/16E	12/17E
Others	13,847	15,749	14,137	14,627	18,214	15,567	16,012	16,809
Total	13,847	15,749	14,137	14,627	18,214	15,567	16,012	16,809
EBIT (UBS) by division (R\$m)	12/10	12/11	12/12	12/13E	12/14E	12/15E	12/16E	12/17E
Others	3,647	4,304	2,609	3,395	4,723	3,641	3,528	3,615
Total	3,647	4,304	2,609	3,395	4,723	3,641	3,528	3,615

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Forecast returns

Forecast price appreciation	-11.4%/-21.3%
Forecast dividend yield	7.0%/6.3%
Forecast stock return	-4.4%/-
Market return assumption	14.6%/10.2%
Forecast excess return	-19.0%/-

Statement of Risk

The following are key risks to our rating and price target: 1) Rising energy deficit for Brazil may translate into rationing or demand rationalization measures that may harm co.'s revenues and increase costs; 2) October 2014 presidential and gubernatorial elections given recently increased regulatory risks and the state ownership with current market friendly parent; 3) Renewal or not of the controversial 1.8GWavg expiring concessions for São Simão, Jaguará and Miranda hydro plants; 4) acquisitions at subpar returns or that do not make strategic sense; 5) participation in Greenfield generation/transmission auctions at implied low ROEs; 6) reduction of controllable costs; 7) high cost of funding for new projects; 8) lower than R\$120MWh generation price for new contracts.

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UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	47%	33%
Neutral	FSR is between -6% and 6% of the MRA.	42%	34%
Sell	FSR is > 6% below the MRA.	11%	23%
UBS Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 31 March 2014.

1: Percentage of companies under coverage globally within the 12-month rating category. 2: Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3: Percentage of companies under coverage globally within the Short-Term rating category. 4: Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

KEY DEFINITIONS: **Forecast Stock Return (FSR)** is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months. **Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium). **Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation. **Short-Term Ratings** reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case. **Equity Price Targets** have an investment horizon of 12 months.

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UBS Brasil CCTVM S.A.: Lilyanna Yang, CFA; Carlos Herrera.

Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
CEMIG ¹⁶	CMIG4.SA	Neutral	N/A	R\$16.93	14 May 2014

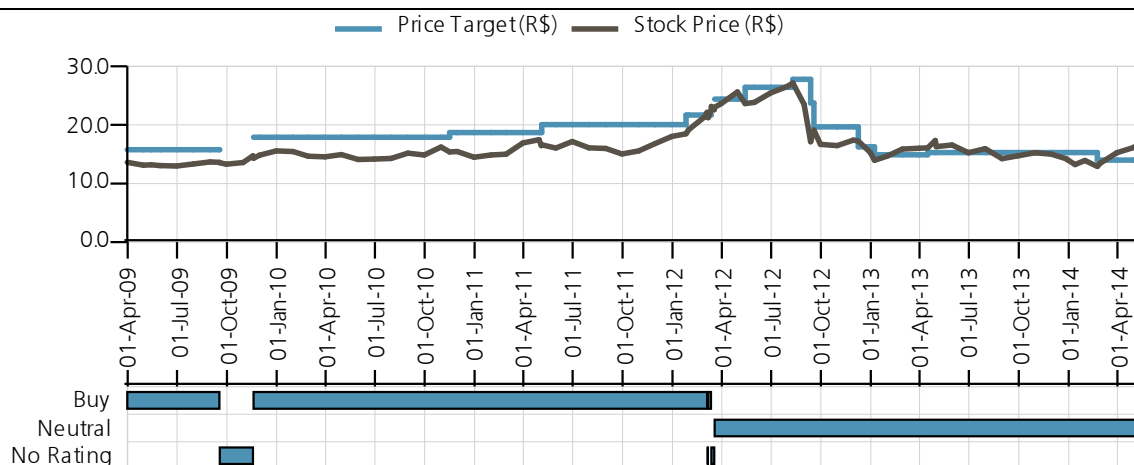
Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

16. UBS Securities LLC makes a market in the securities and/or ADRs of this company.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

CEMIG (R\$)



Source: UBS; as of 14 May 2014

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