

## Brazilian Utilities

### Brasilia trip notes: R\$17bn to the Treasury from higher tariffs/Cemig, Cteep disputes/Sabesp, Light

#### Equities

Latin America  
Utilities

**Lilyanna Yang, CFA**

Analyst

lilyanna.yang@ubs.com

+55-11-3513 6514

**Marcelo Sa**

Analyst

marcelo.sa@ubs.com

+55-11-3513 6518

**Vinicius Tsubone**

Analyst

vinicius.tsubone@ubs.com

+55-11-3513 6519

#### Federal Treasury seeks R\$10-17bn in signature bonus in 4Q15e

Highlights from recent meetings with the Brazilian Federal Govt., regulatory agency, sector experts: **1) New generation auction rules** ([click here for details](#)): the Treasury is counting on R\$10-17bn in signature bonus in 2015-16 with the auction of 3.2GWavg. (mostly belonging to CESP) that will be 70% destined to regulated customers at a pre-set R\$90-100/MWh tariff (as opposed to O&M-based R\$20-40/MWh) and 30% destined to the free market (at R\$250-150/MWh); **2) GSF dispute** ([click here for details](#)): ANEEL's proposal to mitigate hydro risks will seek tariff-neutrality to end-users. Gencos should expect no free lunch but rather a small snack, and not for all: the yet-to-be-disclosed final deal terms will likely be positive for levered Gencos with recently built projects and/or energy sold in the regulated market (as opposed to existing energy that is sold in free/spot markets); **3) CEMIG's genco concession contract dispute** ([click here for details](#)): one cannot rule out risks of CEMIG having to return to consumers some of the c.R\$3bn over-earned during the period the injunction was on - this poses downside risk to our DCF/SOTP-based R\$10/sh PT; **4) SABESP**: new supply projects are behind schedule but volumes/revenues can recover well should hydrology reverse to mean - however, the weather remains unpredictable; **5) CTEEP's sub-transmission dispute** ([click here for details](#)): dispute is unlikely to go on due to strong opposition from not only Transcos, but also from ONS and Discos - this would eliminate R\$4/sh downside risk to our DCF/SOTP-based R\$44/sh PT for CTEEP.

#### What's new this week: Cemig, Light, Tiete (upgrade), hydrology/demand, more

**Cemig**: FIP Redentor exercised its put option to sell on May 30<sup>th</sup>, 2016 its 19% stake in Light for c.R\$1.5bn; Cemig indicated it will not have to disburse as much: it will find a new partner or pay up to keep Redentor at Light (+/-). **Light**: granted a put option for BNDES to sell its 8.8% Renova stake for US\$14.83/unit (\$138m; using the same FX used in SunEdison deal) at a cost of CDI+2% p.a. - this will allow Light to still sell its 16% Renova stake to SUNE before Nov. 2015 for the agreed US\$14.83/unit (\$250m) - it is not yet clear whether SUNE would buy this BNDES stake at a later time (-); CEO plus Business Development/IR head (former CFO) will both stay for another 3 years (+); **AES Tiete**: upped GETI4 to Buy (was Neutral) with DCF-based R\$20/sh PT (was R\$18) for GETI3 and GETI4. **Brazil**: spot prices for this week remain high at R\$250 (were R\$279/MWh) as ONS expects Sep. demand to fall more steeply (at -3.9% YoY, was -2.9%) and SE/CW rainfall to be below the historical avg. at 89%.

#### 2015-17e valuation multiples - Please see our latest valuation sheets for details

Company	Local Ticker	UBS Rating	Price 4-Sep-15	Price Target	15e	P/E 16e	17e	EV/EBITDA 15e	16e	17e	Div Yield 15e	16e	17e
AES Tiete ON	GETI3	Buy	14.0	20.0	7.6	9.6	8.4	5.0	5.8	5.3	13.7%	11.1%	12.4%
AES Tiete PN	GETI4	Buy	14.4	20.0	7.6	9.9	8.7	5.1	5.9	5.4	13.3%	10.8%	12.0%
Cemig PN	CMIG4	Neutral	7.4	10.0	3.5	6.5	5.6	4.8	5.6	5.4	11.5%	7.7%	8.9%
CESP	CESP6	Buy	15.2	22.0	28.3	10.4	9.2	3.2	6.3	5.6	3.4%	9.8%	10.4%
Copasa	CSMG3	Neutral	8.7	12.0	25.4	4.5	2.2	5.0	4.3	3.2	1.5%	7.3%	14.8%
Copel PN	CPL6	Buy	29.8	38.0	8.3	4.7	4.3	6.9	4.6	4.4	6.3%	11.2%	12.2%
CPFL Energia	CPFE3	Neutral	15.1	22.0	19.0	11.8	10.3	8.0	7.2	6.6	5.0%	8.0%	9.2%
CPFL Renovaveis	CPFE3	-	13.0	-	n.m.	29.7	19.3	11.2	8.4	8.3	9.3%	1.4%	2.6%
Cteep	TRPL4	Neutral	36.0	44.0	12.5	10.2	10.2	4.1	3.7	3.6	4.1%	4.4%	4.7%
Eletrobras PNB	ELET6	-	8.4	-	n.m.	8.3	5.1	n.m.	16.7	11.3	20.4%	16.1%	16.1%
Eletropaulo	ELPL4	Sell	11.6	15.0	8.6	4.9	5.2	7.6	5.9	5.7	3.0%	5.3%	5.0%
Energias do Brasil	ENBR3	Neutral	11.3	14.0	8.5	10.7	8.3	7.4	5.1	4.7	7.6%	7.6%	7.6%
Equatorial	EQTL3	Sell	32.7	28.0	n.m.	19.4	13.3	16.1	10.4	8.7	0.5%	1.3%	1.9%
IEnova	IBNOVA	Neutral	72.5	85.0	26.2	24.6	21.6	12.0	10.3	9.0	2.9%	3.5%	3.8%
Light	LIGT3	Neutral	11.7	20.0	6.9	3.1	2.7	6.2	4.6	4.3	3.6%	16.0%	18.6%
Sabesp	SBSB3	Neutral	15.0	16.5	8.9	9.5	4.3	7.0	6.9	4.5	3.1%	3.0%	7.0%
TAESA	TAE11	-	17.6	-	7.1	7.0	7.6	7.3	7.4	7.8	9.9%	10.3%	10.6%
Tractebel Energia	TBLE3	Sell	32.0	32.0	23.3	10.5	9.1	10.0	6.2	5.6	4.3%	9.5%	11.0%

Source: UBS estimates

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Buy	FSR is > 6% above the MRA.	45%	36%
Neutral	FSR is between -6% and 6% of the MRA.	42%	32%
Sell	FSR is > 6% below the MRA.	13%	20%
Short-Term Rating	Definition	Coverage <sup>3</sup>	IB Services <sup>4</sup>
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 30 June 2015.

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.

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Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
<b>AES TIETE (ON)</b>	GETI3.SA	Buy	N/A	R\$14.00	04 Sep 2015
<b>AES TIETE (PN)</b>	GETI4.SA	Buy	N/A	R\$14.40	04 Sep 2015
<b>CEMIG<sup>16</sup></b>	CMIG4.SA	Neutral	N/A	R\$7.43	04 Sep 2015
<b>CTEEP</b>	TRPL4.SA	Neutral	N/A	R\$36.00	04 Sep 2015

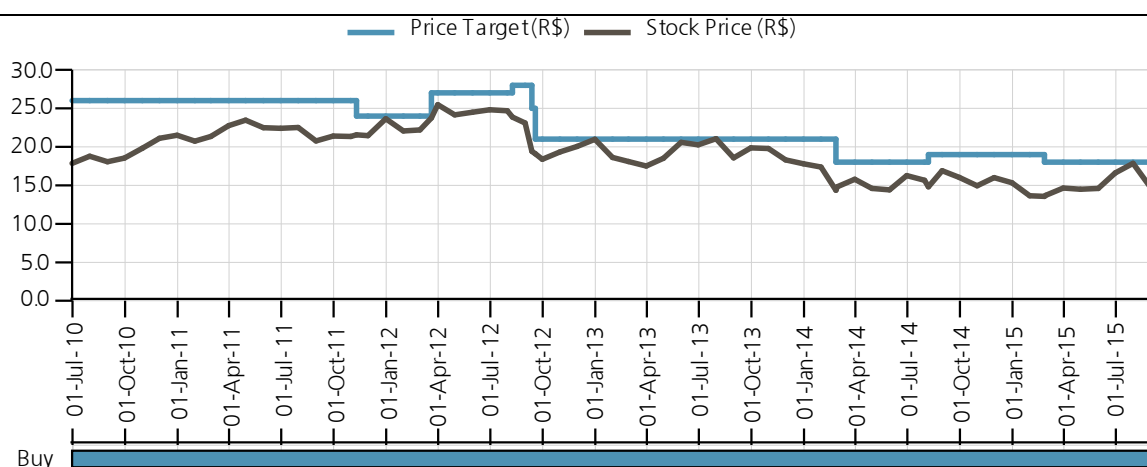
Source: UBS. All prices as of local market close.

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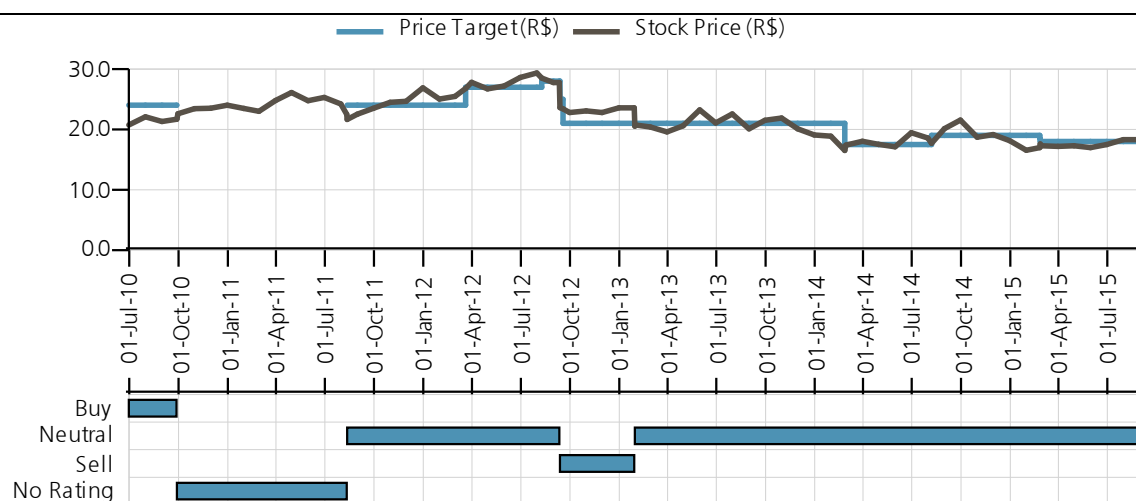
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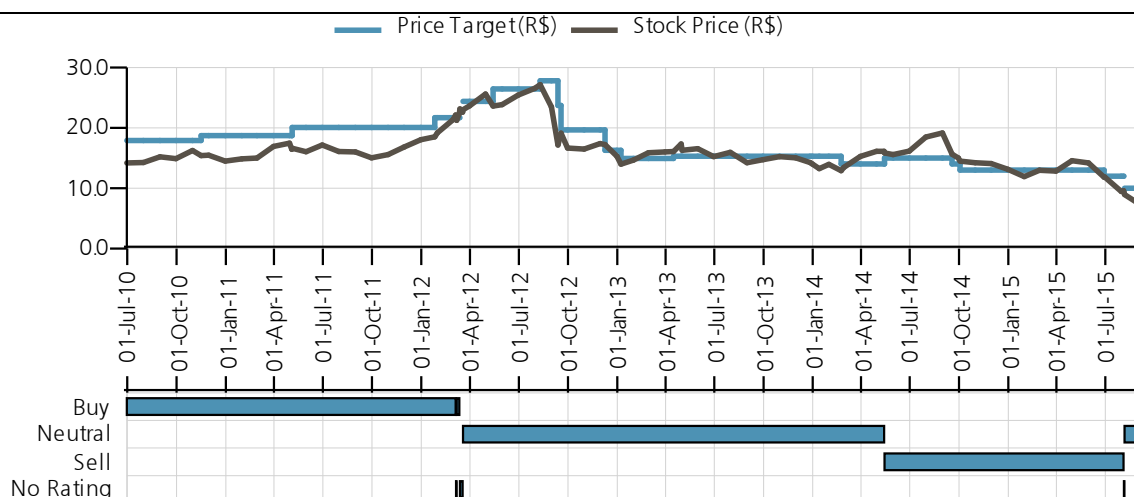
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### AES TIETE (PN) (R\$)



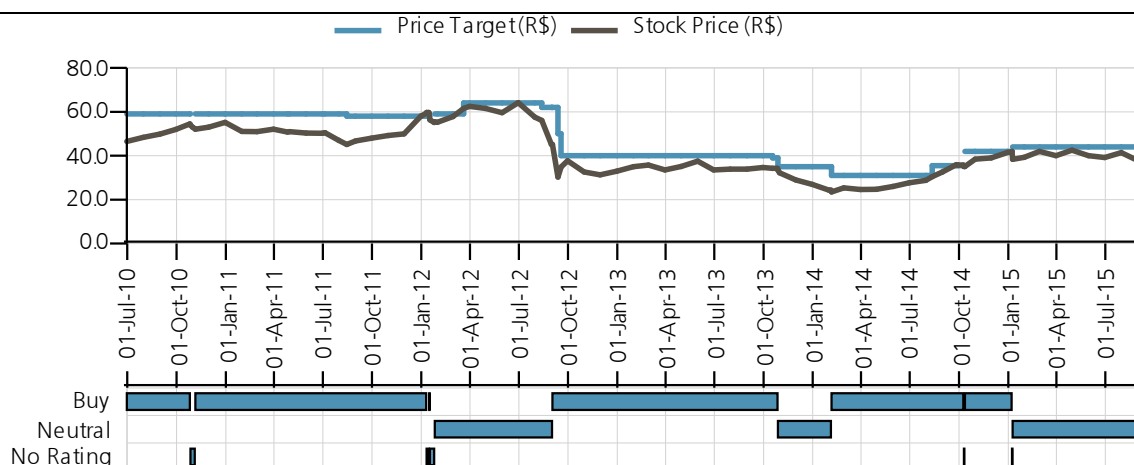
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## CEMIG (R\$)



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## CTEP (R\$)



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