

# MOODY'S

## RATINGS

### **Rating Action: Moody's Ratings affirms Transportadora Associada de Gas' Ba1 rating, outlook positive**

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03 Oct 2024

New York, October 03, 2024 -- Moody's Ratings (Moody's) has today affirmed the Corporate Family Rating (CFR) assigned to Transportadora Associada de Gas S.A. (TAG) at Ba1. The outlook remains positive.

Today's rating action follows our decision to upgrade the rating of the Government of Brazil to Ba1 from Ba2 maintaining a positive outlook on October 1, 2024; as well as our decision to change the outlook on the Ba1 rating assigned to Petroleo Brasileiro S.A. – PETROBRAS (Petrobras) to positive from stable on October 2, 2024. For additional information on these actions, please refer to sovereign press release: <https://ratings.moodys.com/ratings-news/429722>; and to Petrobras' press release: <https://ratings.moodys.com/ratings-news/429840>.

#### RATINGS RATIONALE

The affirmation of TAG's Ba1 rating reflects its leading position in Brazil's gas transportation, its modest leverage and robust margins supported by stable and predictable cash flows arising from its long-term, availability-based tariff contracts. This business profile coupled with a moderate leverage have produced FFO/debt around 33% and interest coverage ratio ( $[\text{FFO} + \text{interest}]/\text{interest}$ ) around 3.7x, which compare favorably with its regional and global peers.

The dynamic nature of Brazil's regulatory framework for gas transportation and re-contracting volume needs starting in 2026 present a certain degree of uncertainty. In addition, the company operates its liquidity efficiently and returns excess cash to its shareholders as dividends, turning debt repayment reliant on period cash generation and allowing for little shocks. However, these risks are somewhat buffered by the strong and recurring cash generation, as well as the strong profile of the shareholders.

Overall, TAG's strong credit quality suggests the potential for a higher rating, but we consider its rating to be currently constrained by the direct and indirect credit linkages

to Petroleo Brasileiro S.A. - PETROBRAS (Ba1 positive), as the primary shipper. Despite a robust solid operating track record and robust financial performance, Petrobras' credit profile is currently constrained by the company's exposure to potential policy shifts and risk of government influence in the company's business decisions. The strength of the guarantees embedded in contractual framework for its Gas Transportation Agreements (GTAs) partially mitigate counterparty risks. Sovereign links are also present given the company's local revenue generation and regulated business nature, therefore exposed to governmental interference.

The positive outlook on TAG's rating is aligned with that of Petrobras' Corporate Family Rating and reflects the likelihood that TAG' rating will be upgraded if Petrobras is upgraded.

## FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING

An upgrade of Petrobras' rating would result in an upgrade of TAG's rating. A rating upgrade would also factor in the company's ability to re-contract volumes expiring in 2025 at prices that are in line with or better than our rating assumptions, while maintaining FFO/net debt above 18% and interest coverage ratio above 4.0x.

A rating downgrade would result from a deterioration in PETROBRAS' credit quality, unfavorable changes in the contractual guarantees, or adverse shifts in Brazil's regulatory environment. Weaker shareholder support, illustrated by higher-than-expected dividend distributions or declining liquidity, would also increase negative rating pressure. We would consider downgrading the rating if TAG's FFO/debt remains below 15% and interest coverage ratio ( $(\text{FFO} + \text{interest})/\text{interest}$ ) stays below 3.7x, both on a sustained basis.

The principal methodology used in this rating was Natural Gas Pipelines published in April 2024 and available at <https://ratings.moodys.com/rmc-documents/420000>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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Vincent Olivier C. Detilleux  
Asst Vice President - Analyst  
Project & Infra Finance Group  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653

Cristiane Spercel  
Associate Managing Director  
Project & Infra Finance Group  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653

Releasing Office:  
Moody's Investors Service, Inc.  
250 Greenwich Street  
New York, NY 10007  
U.S.A.  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653

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