ISA Energia (ISAE4) | Yes, There Will Be Dividends - Don't Worry!

July 31, 2025

Company (ISAE4 BZ Equity)

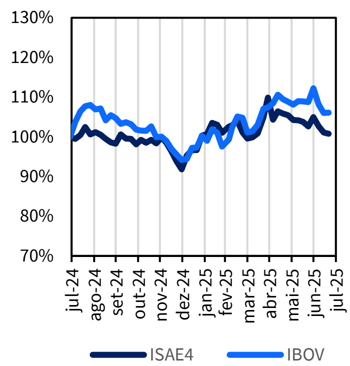
Recomendation: Buy

Price Target 12M:
R$ 27,3

Stock Price:
R$ 22,4

Upside (Downside):
+21,8%

Performance:



Conclusion

We maintain our **BUY recommendation** for ISAE4. Although the quarter was impacted by a one-off effect from ANEEL's decision on the RBSE (R$275 million), we believe the company delivered as expected: it advanced in the development of its projects and investments (with a predictable impact on leverage), delivered excellent performance on controllable costs, and renewed its ANEEL-approved investment backlog (R$5.7 billion to be executed through 2029). We do not believe the ongoing waiver discussions regarding BNDES debt will affect the company's current dividend policy (more on this below). We continue to see this as one of the main points of attention for the company in managing its growth and investment strategy. ISAE4 is currently trading at an implied real IRR of **11.5%**, versus ~7% for the NTN-B 2050.

Earnings Breakdown

ISA Energia Brasil reported net revenue of R$1.03 billion in 2Q25, down -7.5% y/y. The main drivers of this performance were: (i) reversal of the Adjustment Portion (PA) related to the financial component of the RBSE (–R$275.1 million, non-cash), (ii) reduction in the economic component of the RBSE following the 2023 tariff review (RTP), (iii) positive effect from the incorporation of RAP from large-scale energized projects over the last 12 months, (iv) RAP adjustment based on IPCA inflation (+3.9%), and (v) recognition of a positive PA related to the correction of the Concessão Paulista RTP (+R$166.3 million).

On the first point, it's worth noting that we had previously published a report on this matter ("ISAE4 & ELET3 | RBSE: The End of a Long Dispute – Negative but Marginal Impact!"), in which we anticipated a revenue impact of around R$300 million. This negative (non-cash, accounting) effect was fully booked in the quarter. As we noted in our report, the dispute arose because companies argued that ANEEL's chosen payment method undervalued their compensation due to the use of a **post-paid model**, meaning present value-adjusted figures would be paid over time (through 2028). Despite the criticism, ANEEL upheld its original payment methodology.

Not all is bad. **Excluding RBSE**, net revenue **grew +44.9% y/y**, supported by the consolidation of the new RAP and the start of operations of projects such as **Minuano (RAP of R$53 million)** and **Água Vermelha (R$8.5 million)**.

On the cost side, **controllable PMSO expenses totaled –R$184.7 million**, down -2.8% y/y. Key highlights: (i) **Personnel expenses**: R$102 million (+0.7% y/y), reflecting collective bargaining agreements, higher healthcare costs, and greater capitalization of technical hours; (ii) **Material and services expenses**: R$7.1 million and R$52 million, down -8.4% and -3.0% y/y respectively, mainly due to lower spending on fuel and legal services; (iii) **Private pension liabilities**: sharp decline of -82.8% (non-cash), due to actuarial updates reflecting a higher discount rate (NTN-B). During the period, the 12-month IPCA through June reached +5.35%, making ISA's ability to keep costs under control particularly impressive.

As a result, **Regulatory EBITDA came in at R$789.5 million**, down -11.4% y/y, with an EBITDA margin of **76.8%**. As stated earlier, we believe the y/y decline is much more attributable to the **non-recurring R$275 million revenue impact** than to any deterioration in recurring performance. Without that non-recurring item, EBITDA could have reached **around R$1 billion**, beating even our internal estimates.

Financial result came in at –R$351.7 million, worsening +46.5% y/y, due to: (i) gross debt increasing +6.3% q/q, following new issuances in 1Q25 (18th debenture issuance and BNDES disbursement), (ii) higher volume of debt indexed to the IPCA (+56% y/y), with inflation at +1.3% in the quarter, (iii) increased financial tax burdens (IOF, PIS/COFINS), and (iv) higher monetary variation and interest expenses (+50.8% y/y). The company also recognized a **one-off financial income of R$28.2 million** related to deferred IR/CSLL tax credits, which helped offset some of the pressure. **Regulatory Net Income was R$255.6 million (–39.9% y/y)**, with an effective tax rate of **13% vs 22.9% in 2Q24**.

The company invested R$1.1 billion in 2Q25, a strong +72.2% y/y increase. This was mainly driven by greenfield capex, including: Piraquê (R$538 million) and Riacho Grande (R$77.1 million). Additionally, R$379 million were allocated to Reinforcements & Improvements (R&M), including the replacement of 426 assets (transformers, circuit breakers, disconnect switches, etc.) — fully aligned with the company's long-term asset resilience strategy. The ANEEL-approved investment backlog for R&M stands at R$5.7 billion through 2029 — a major competitive advantage compared to peers like ALUP and TAEE, given the high returns offered by this segment.

On the balance sheet side, **net debt reached R$12.8 billion**, up +25.4% from 4Q24. This increase stems from 1Q25 funding activities, partially offset by the maturity of the 7th debenture issuance. Average cost of debt rose to **13.3% p.a.** (vs. 11.83% in 4Q24), due to increases in both CDI and IPCA.
Leverage, measured by **Net Debt / EBITDA**, reached **3.4x**, above the BNDES covenant of 3.0x. The company has already initiated discussions to secure a waiver.
It's worth noting that despite concerns about BNDES covenants, transmission companies typically operate with **leverage between 4.0x and 4.5x** (e.g., TAESA), given their inflation-protected, long-term contracted revenues.
Finally, we view the company's rising debt levels as **expected and manageable**, and **do not expect any impact on dividend distributions**. In 1H25, the company posted negative free cash flow (Operating CF – Capex – Debt service) of **~R$1 billion** — which we consider normal, given the scale of its ongoing project investments.

YouTube Tip!
We recommend watching our podcast with the company's CEO (Rui Chammas) and CFO (Silvia Wada), recorded during 2Q25.
For insight on **dividend policy**, watch starting at **minute 22:12**, where we ask about payout expectations (75% of Regulatory Net Income).
Spoiler: The dividend rhythm will not change.

Link (Portuguese Only) | https://www.youtube.com/watch?v=eFPS93TGYYI

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