

UBS Investment Research

First Read: Transmissao Paulista

No Special Dividends in the Short Term. Recurring Dividends Unchanged

■ Eurobonds to refinance ISA's existing debt

ISA Brasil announced today that it is issuing a \$550 million Eurobond to refinance the debt raised in Transmissão Paulista acquisition. According to ISA's management, this should solve its short-term cash needs, reducing the need for an extraordinary dividend from TRPL, which we have been advocating lately.

■ Marginally negative but no change in fundamentals

We view this issuance as marginally negative for TRPL shares as it removes a potential short-term trigger for the stock, but does not change our fundamental view on the company. Since ISA Brasil is a pure holding company whose only asset is TRPL, it should still need TRPL dividends to service this debt in the future.

■ Expectations of high recurring dividends unchanged

We continue to believe it is cheaper for ISA Brasil to raise debt through TRPL (BNDES low cost, long-term financing) than raising money in the foreign market (no tax shield). Additionally, TRPL is very unleveraged (net cash of R\$226 million) and we believe the best way to reach its optimal capital structure is raising debt and paying dividends.

■ Valuation: Buy 2 Reiterated

Excluding lay-off expenses, our recurring dividend yield for TRPL is around 8-9%. We reiterate our Buy 2 rating and PT of R\$37, based on a DCF model with Ke of 11% in US dollar terms. At current prices, implied total return potential is 30%.

Highlights (R\$m)	12/04	12/05	12/06E	12/07E	12/08E
Revenues	1,098	1,205	1,282	1,269	1,437
EBIT (UBS)	416	459	497	365	680
Net income (UBS)	349	468	423	197	316
EPS (UBS, R\$)	2.34	3.14	2.83	1.32	2.12
Net DPS (UBS, R\$)	0.50	1.60	0.47	1.25	2.01

Profitability & Valuation	5-yr hist. av.	12/05	12/06E	12/07E	12/08E
EBIT margin %	-	38.1	38.8	28.7	47.3
ROIC (EBIT) %	-	13.4	13.4	8.6	14.9
EV/EBITDA x	-	4.9	6.8	8.5	5.7
PE (UBS) x	-	6.6	10.4	22.4	13.9
Net dividend yield %	-	7.7	1.6	4.3	6.8

Source: Company accounts, Thomson Financial, UBS estimates. UBS adjusted EPS is stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of R\$29.44 on 10 Jan 2007 19:37 EST

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Global Equity Research

Americas

Electric Utilities

Rating **Buy 2***
Unchanged

Price target **R\$37.00/US\$17.02**
Unchanged

Price **R\$29.44/US\$13.71**

RIC: TRPL4.SA BBG: TRPL4 BZ

11 January 2007

Trading data (local/US\$)

52-wk. range	R\$30.48-18.00/US\$14.20-7.84
Market cap.	R\$4.64bn/US\$2.16bn
Shares o/s	86.7m (COM)
Free float	34%
Avg. daily volume ('000)	209
Avg. daily value (R\$m)	5.8

Balance sheet data 12/06E

Shareholders' equity	R\$4.20bn
P/BV (UBS)	1.0x
Net cash (debt)	R\$0.14bn

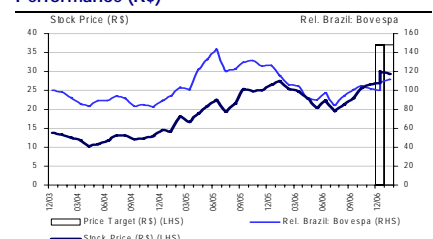
Forecast returns

Forecast price appreciation	+25.7%
Forecast dividend yield	4.3%
Forecast stock return	+30.0%
Market return assumption	18.3%
Forecast excess return	+11.7%

EPS (UBS, R\$)

	12/06E		12/05 Actual
	UBS	Cons.	
Q1	0.55	-	0.56
Q2	0.75	-	0.85
Q3	1.13	-	0.84
Q4E	0.40	-	0.89
12/06E	2.83	-	
12/07E	1.32	-	

Performance (R\$)



Source: UBS

www.ubs.com/investmentresearch

This report has been prepared by
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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 2

*Exception to core rating bands; See Page 3

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■ Cia. de Transmissao de Energia Paulista

Transmissão Paulista (CTEEP) is the largest private-owned transmission company in Brazil, operating 11,780 km of transmission lines and 102 substations, totaling 38,500 MVA of capacity. The company operates under an extremely low-risk environment, in which revenues are fixed (adjusted annually by IGP-M) and determined by the regulator (Aneel), based on its existing infrastructure, regardless of the actually energy volume transmitted by the company.

■ Statement of Risk

On the operating front, we highlight execution risk, since we expect large operating improvements during the next two years. If ISA is not able to implement the necessary cost-cutting measures, the company could miss our estimates. Given its regulated nature, the electricity sector is subjected to political or legal interferences. Therefore, the federal government could implement changes or apply more severe rules to the tariff revision process that could negatively affect companies' cash flow. Finally, an abrupt change in FX rate should negatively affect foreign investors, as companies' tariffs are basically adjusted by inflation annually.

■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

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UBS Investment Research: Global Equity Ratings Definitions and Allocations

UBS rating	Definition	UBS rating	Definition	Rating category	Coverage ¹	IB services ²
Buy 1	FSR is > 6% above the MRA, higher degree of predictability	Buy 2	FSR is > 6% above the MRA, lower degree of predictability	Buy	44%	36%
Neutral 1	FSR is between -6% and 6% of the MRA, higher degree of predictability	Neutral 2	FSR is between -6% and 6% of the MRA, lower degree of predictability	Hold/Neutral	43%	36%
Reduce 1	FSR is > 6% below the MRA, higher degree of predictability	Reduce 2	FSR is > 6% below the MRA, lower degree of predictability	Sell	13%	26%

1: Percentage of companies under coverage globally within this rating category.

2: Percentage of companies within this rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Ratings allocations are as of 31 December 2006.

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).

Predictability Level The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities.

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.

EXCEPTIONS AND SPECIAL CASES

US Closed-End Fund ratings and definitions are: Buy: Higher stability of principal and higher stability of dividends; Neutral: Potential loss of principal, stability of dividend; Reduce: High potential for loss of principal and dividend risk.

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Reduce: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Companies Mentioned or Company Disclosure table in the relevant research piece.

Companies mentioned

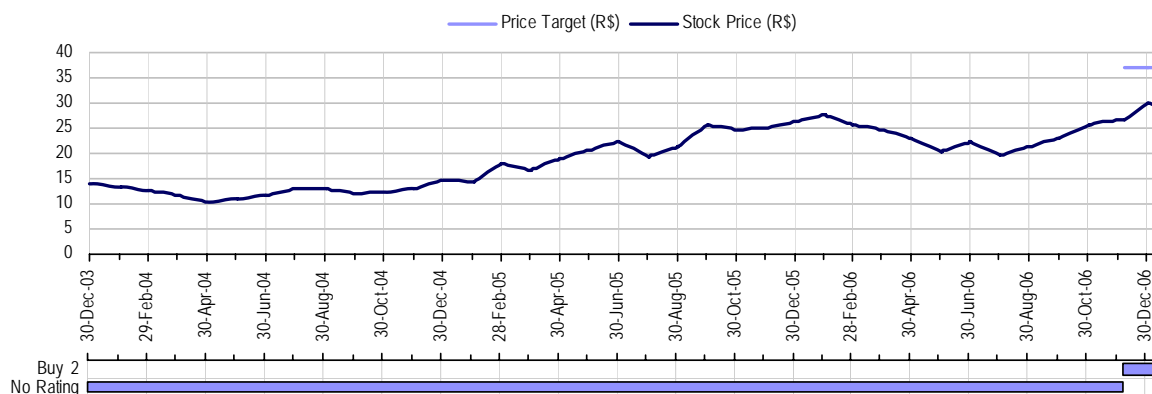
Company Name	Reuters	Rating	Price	Price date/time
Transmissao Paulista ^{13,20}	TRPL4.SA	Buy 2 (CBE)	R\$29.44	10 Jan 2007 19:37 EST

Source: UBS. EST: Eastern standard time.

13. UBS AG, its affiliates or subsidiaries beneficially owned 1% or more of a class of this company's common equity securities as of last month's end (or the prior month's end if this report is dated less than 10 days after the most recent month's end).
20. Because UBS believes this security presents significantly higher-than-normal risk, its rating is deemed Buy if the FSR exceeds the MRA by 10% (compared with 6% under the normal rating system).

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

Cia. de Transmissao de Energia Paulista (R\$)



Source: UBS; as of 10 January 2007.

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