Brazilian Utilities

July 7, 2026
Utilities

Market Dispatch – June 2026

El Niño Taking a Toll in ST Prices, while MT/LT Prices Remain Intact

In this edition of our monthly Market Dispatch, we bring updates on the climate maps for the next months and recap what has been a negative month for short-term power prices (MoM decline of 8% for Jun'26 and 33% for Jul'26). Jun was marked by a sharp correction in ST prices. Following the trends of May, June showed some volatility in the ST and stickiness in the LT, reflecting the uncertain outlook that the consolidation of a Super El Niño brings. So far, the two clear consequences are: i) rainfall in the South (downward pressure to ST prices) and ii) potential heat waves and volatility in wind output (upward pressure in prices for 3Q/4Q26). In that sense, we have once again run our "mark-to-model" analysis that continues to point to some downside to our EBITDA estimates for AXIA in the 26-30e period, that is being offset on a valuation standpoint given the increasingly higher LT prices (measured by Dcide). We also highlight that: i) modulation has increased substantially YoY (positively for hydro and wind and negatively for solar) and ii) the R$62/MWh submarket spread observed in 2Q25 has reduced to R$43/MWh in 2Q26.

Rainfall in June exceeded expectations in the Southeast, a clear consequence of the consolidation of a *Super El Niño*. During June, forward power prices exhibited a short-term volatile dynamic, as hydro relief observed especially in the South and Southeast system contributed to reservoirs recovery and a downward revision in short-term prices. At the same time, weather forecasts increasingly point to the further development of *El Niño* conditions over the coming months, which could increase heat-wave risks, providing support for power prices in the 2H26. The outlook for power prices in 2027 are still too early to call as the rainy season will be the main driver and there is still increased uncertainty on what to expect.

Conclusion on the CVaR debate in early June. The CMSE's decision on June 10 to keep the CVaR parameter unchanged at (15,40) removed a key source of regulatory uncertainty and provided a bullish support to the long end of the forward power price curve, reflecting market expectations for a more conservative operating policy.

Curtailment remained relevant in June, and modulation increased YoY. Our tracker indicates that curtailment for names like CPFE, CPLE and ALUP were near 27%, while other names remained around 15% in June. Aggregating these figures for our 2Q26 preview, we note that ALUP, CPLE and CPFE were the most impacted under our coverage, remaining close to 25%, while other companies remained around 20%. Additionally, our modulation tracker points to an increase YoY of the modulation effects in the 2Q26.

We also analyze what would be a mark-to-market avg. 26-30e EBITDA for AXIA, EGIE, AURE, CPLE and CMIG, as well as simulate the real implied IRR using the BBCE and Dcide estimates into our models. We conclude that our models are broadly consistent with current market expectations, as we only see a significant real IRR upside impact in Auren, with a potential revision from 12.2% to 13.5% with recent power prices revision, followed by Engie (from 8.4% to 8.9%) and Axia (from 12.4% to 12.7%). The real implied IRRs for other companies under the same exercise would remain stable, with 13.1% for CPLE and 14.5% for CMIG.

Raul Cavendish
Utilities
raul.cavendish@xpi.com.br

Bruno Vidal
Utilities
bruno.vidal@xpi.com.br

Ana Clara Ribeiro
Utilities
ana.iribeiro@xpi.com.br

Power Market Summary and Outlook

June Power Market Recap

A Quick Recap on What Were The Market Movers for the Month

During June, **forward prices showed downward pressures in the front end** (figure 01), **driven by a combination of hydrology, milder temperatures, and lower energy demand.** The main drivers were:

I. **Improved hydrology in the South and Southeast pressured prices downward.** Better hydro conditions especially in the Southeast region (figure 02) led to a recovery of reservoirs and contributed to short-term price declines in the market;

II. **Average temperatures remained below seasonal pattern (...).** June recorded cooler-than-expected temperature anomalies concentrated in the South and Southeast regions (figure 03), following the passage of an unusually strong cold air mass;

III. **(...) leading to a softer-than-expected energy demand and further weighing on ST power prices.** Power demand came in below the ONS' monthly forecast for June, undershooting the expectations outlined in the PMO (figure 04);

IV. ***El Niño* is a reality.** As we enter 2H26, weather forecasts already reflect increased hydro expectations for the next months in the S/SE/MW, while higher temperatures and stronger demand reinforce the upward bias in forward prices.

Figure 01: BBCE's Forward Power Prices Curve

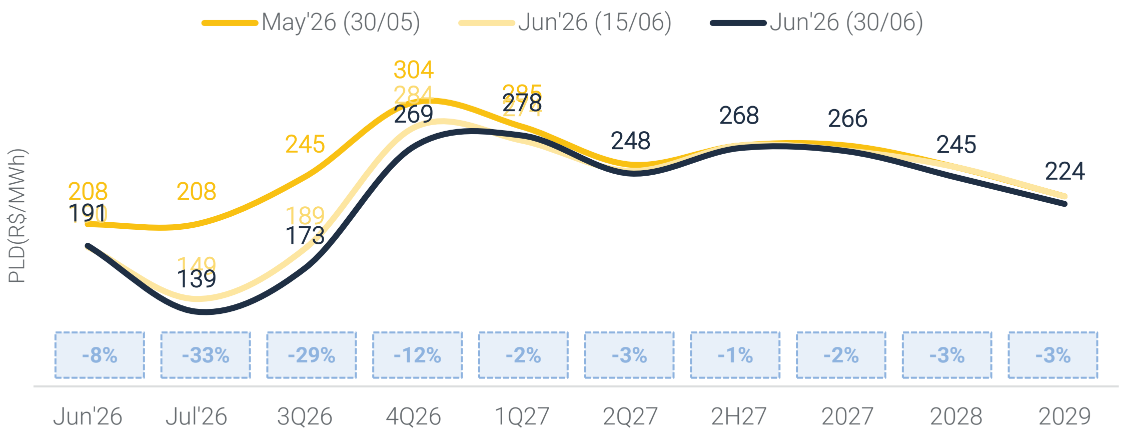


Figure 02: Higher rainfall in the SE in Jun'26

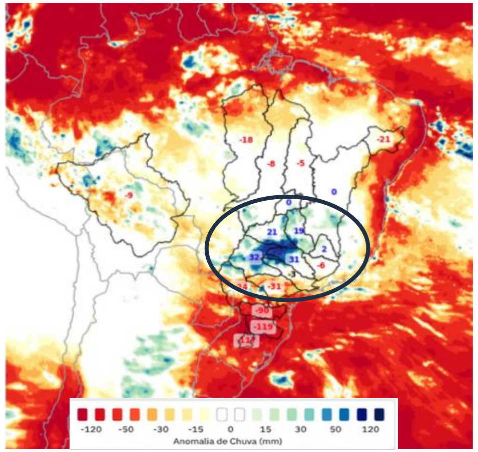


Figure 03: Lower temperatures in the S/SE

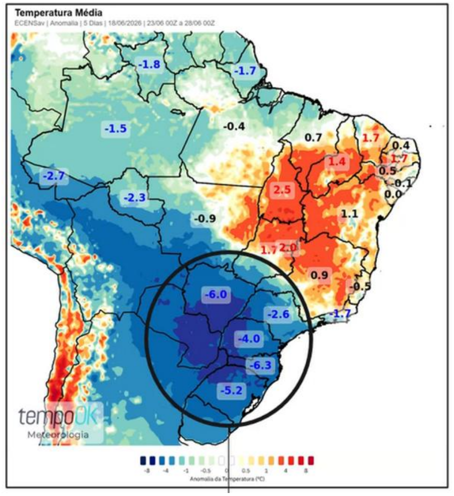


Figure 04: Softer than expected energy demand for Jun'26

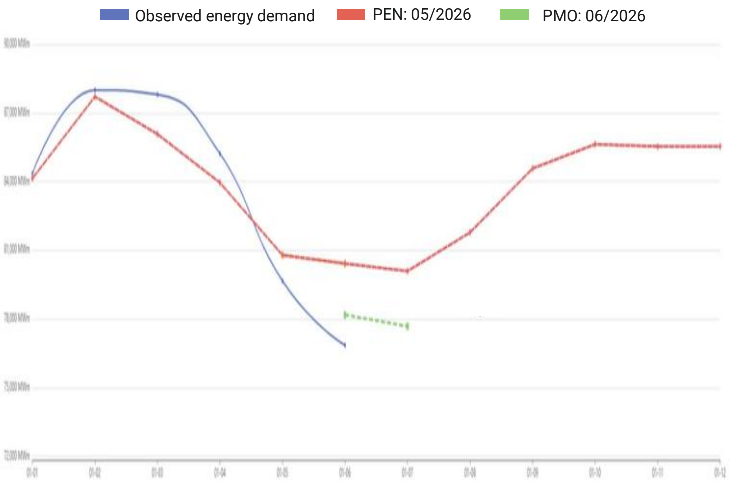
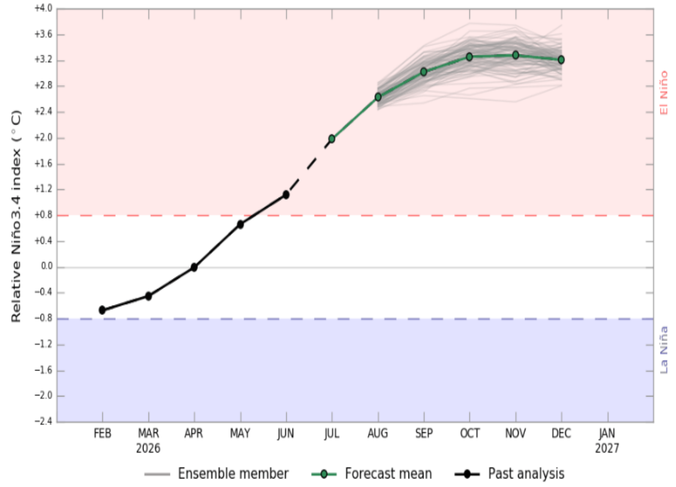


Figure 05: Relative Niño index (increased probability of *El Niño* until Jun'26)



Source: ONS, CCEE, EPE, BBCE, BoM, Clima Tempo and XP Research

What Do the Maps Tell Us?

El Niño Signals Strengthening into the Second Half of the Year

Hydrological **forecasts for Jul'26 indicate once again a mixed rainfall pattern.** Overall, maps point to a constructive setup for SE/MW during the month, while the N/NE remains neutral-to-dry signals:

I. **1st week of Jul'26,** forecasts point to **a mixed pattern,** with **strong rainfall over the Southeast/South**, while dry conditions appear in parts of the North and Northeast (Figure 06);

II. **2nd week of Jul'26,** models indicate rainfall conditions similar to the previous week, with **rainfall concentrated in the South/Southeast and in some parts of the MW,** while we see **some dry signs over N/NE** (Figure 07);

III. **3rd week of Jul'26,** shows the **same trend of the second week**, with highlights of wetness in the South/Southeast and dryness in parts of the coastal Northeast and in parts of the North (Figure 08);

IV. **4th week of Jul'26,** we see conditions similar to the previous weeks, with **wet conditions over most of the country** while **dryness** persist in some **parts of the North and Northeast** (Figure 09);

Looking ahead to the following months, despite recognizing that uncertainty is higher, we observe that:

I. **Aug'26** models now point to **above-average rainfall across most of Brazil**, with positive anomalies concentrated in the SE/MW , while the **North** already show signs of **dryness** (Figure 10);

II. **Sep'26** forecasts indicate an **intensification of this pattern in central/southern Brazil**, while dryness deepens over the North and the NE coast (Figure 11);

III. **Oct'26 dryness patterns intensify over the MW, while** persistent **wet anomalies across SE/ and South**, (Figure 12).

IV. **Nov'26** forecasts point to a marked **deterioration in the North and MW** with severe dry anomalies across the Amazon, **while SE and South retain a wetter pattern** (Figure 13).

Figure 06: Jul'26 (First week)

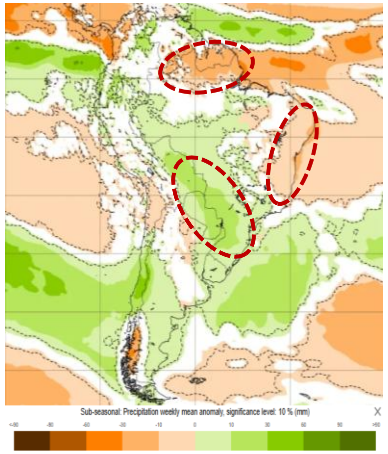


Figure 07: Jul'26 (Second week)

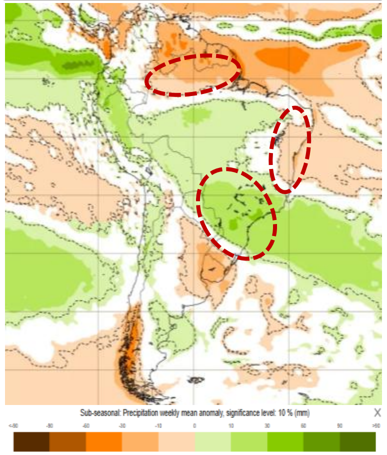


Figure 08: Jul'26 (Third week)

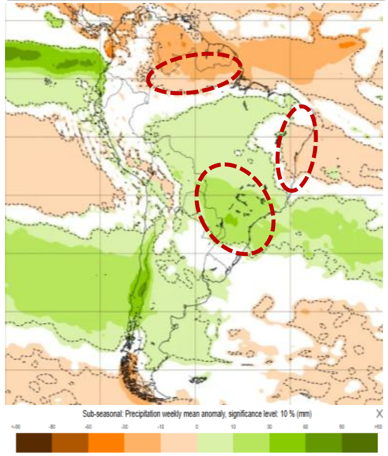


Figure 09: Jul'26 (Fourth week)

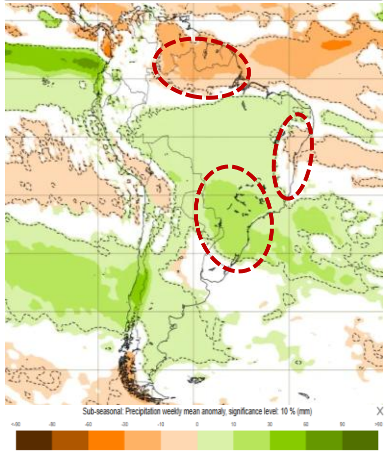


Figure 10: Aug'26

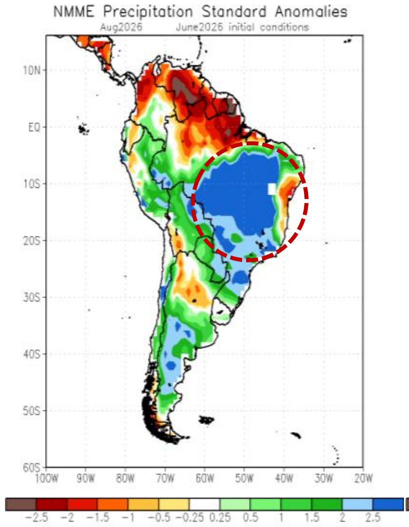


Figure 11: Sep'26

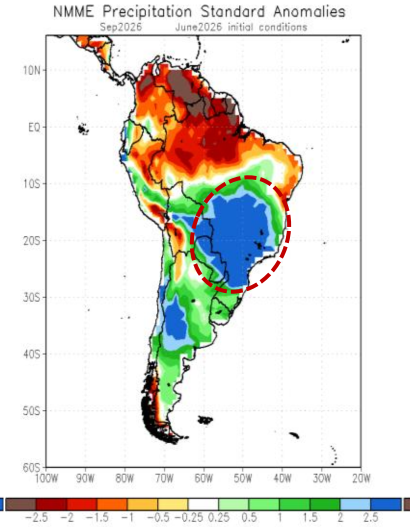


Figure 12: Oct'26

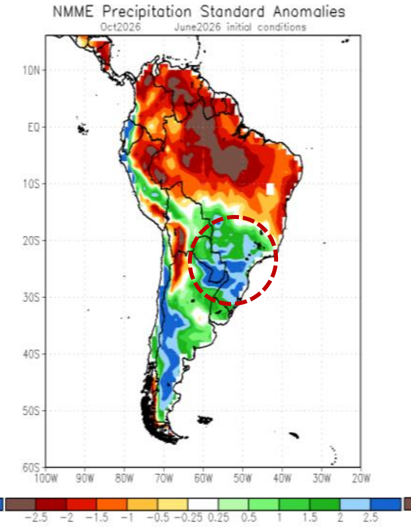
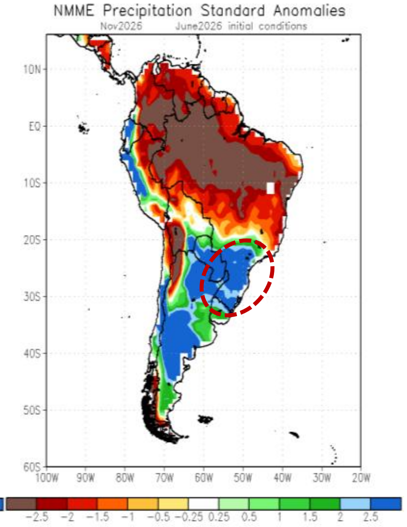


Figure 13: Nov'26



Synchronizing the Views of Equity Investors and Power Traders

Flowing Weather Forecasts into Actionable Ideas

After a relevant upward re-pricing of the power prices curve, we have now seen some downward revisions as rainfalls have improved at the margin and demand has softened. After our recent update on GenCos (read here), our new power price curve reflects high expectations for 26e and more in line with the curve during 27-29e. Since then, what we have seen has been a decompression of tight operating standards in the ST (some downward revision in projected load, higher rainfall/reservoirs and renewable output somewhat stable) and some stickiness in forward periods as peak demand growth forecasts remains high. Alternatively, submarket spreads should have reduced pressure on a YoY basis. As modulation spreads should also play an increasing role in forecasting results for GenCos, we have also started to track this KPI which you can see in the next session.

"Marking-to-model" current power prices: An interesting exercise we have been doing for the last couple of months is what would be the implied valuation of GenCos we cover under current market prices. We now see AURE trading at an IRR 130bps above our official model if we were to adopt market prices, followed by EGIE (+50bps) and AXIA (+30bps), whereas the other names we cover would most likely be unchanged. The real implied IRRs for the GenCos would be 12.7% for AXIA, 13.5% for AURE, 13.1% for CPLE, 8.9% for EGIE and 14.5% for CMIG.

For long-term energy prices, we are assuming R$220/MWh after tax, which is ~R$20/MWh below the level projected by DCIDE.

Figure 14: BBCE vs. XPe (for the LT we compare with DCIDE in real terms)

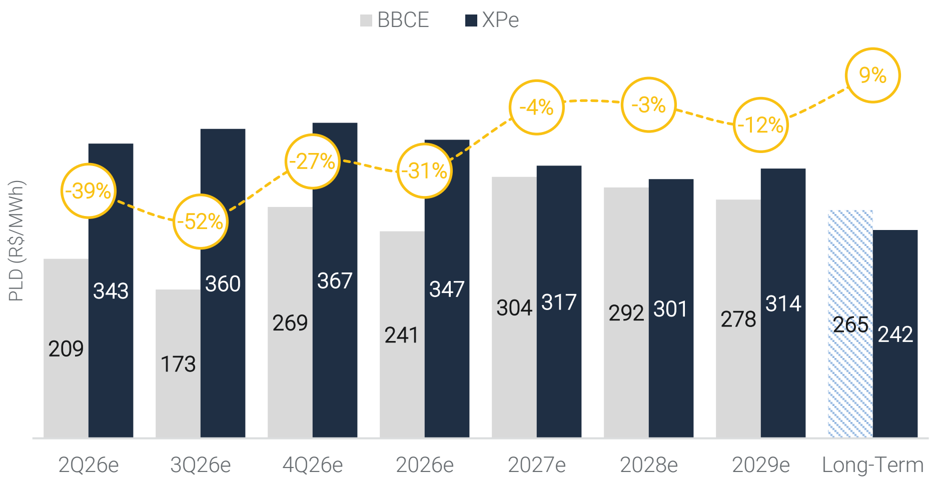


Figure 15: GenCos Uncontracted Energy Balance

	2026	2027	2028	2029	2030
AXIA*	19%	35%	40%	n.a.	n.a.
EGIE	3%	4%	12%	28%	31%
AURE**	-5%	-3%	-2%	11%	19%
CPLE**	-2%	7%	16%	43%	43%
CMIG	0%	-2%	-7%	20%	29%
EQTL**	-5%	-4%	-4%	n.a.	n.a.
Average	2%	6%	9%	25%	31%

*Considering the average of the range disclosed; **Considering 80% of GSF, and 15%/25% of wind/solar curtailment.

Figure 16: Modulation Effect per Source

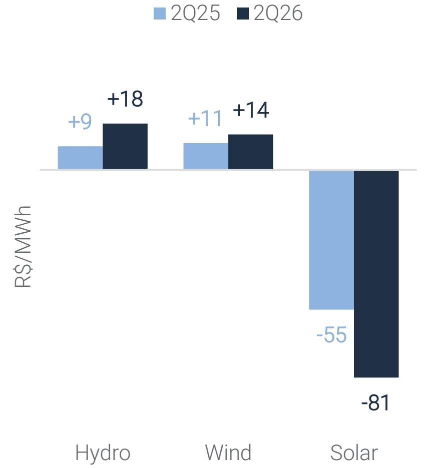


Figure 17: Average PLD per Submarket

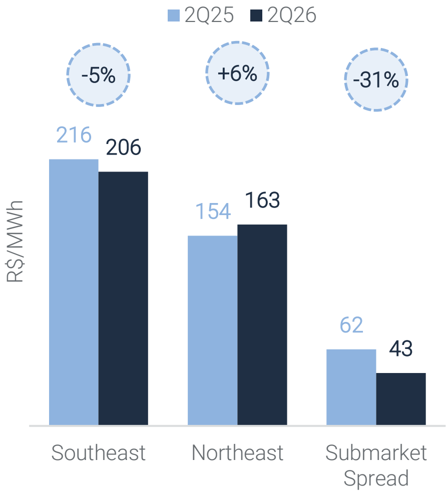
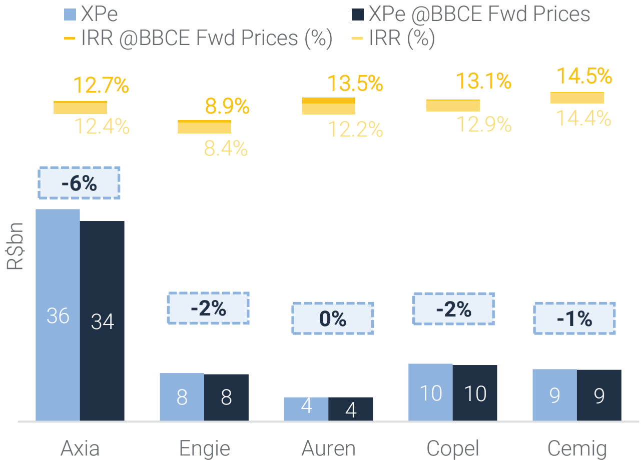


Figure 18: EBITDA (avg. 2026-30) & IRR @ New BBCE (XPe)



Curtailment & Modulation Trackers

Curtailment Tracker

Past Trends and Future Signals

Figure 19: Monthly **Wind Curtailment** in Brazil by Modality (as % of total generation)

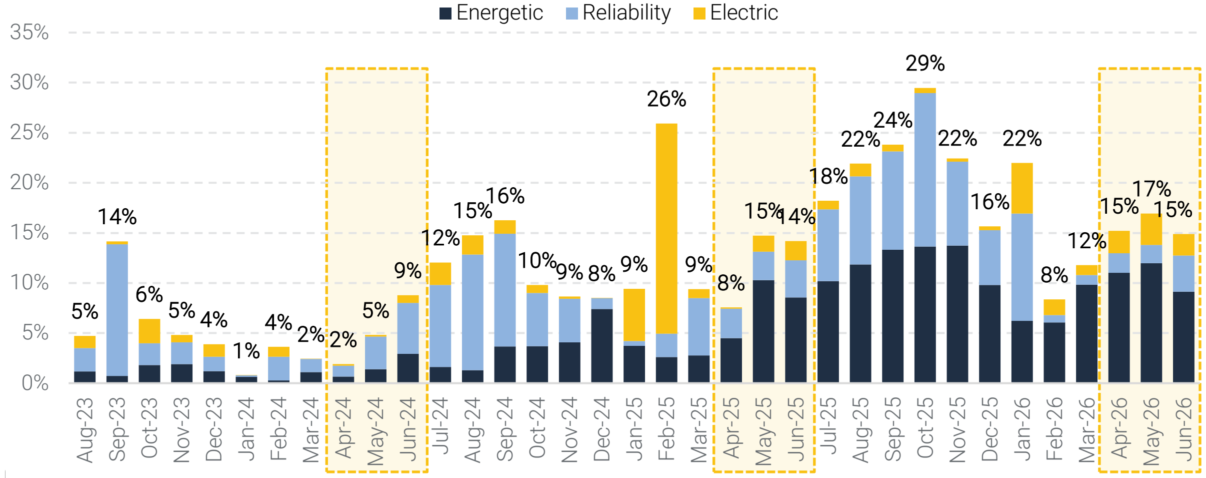


Figure 20: Monthly **Solar Curtailment** in Brazil by Modality (as % of total generation)

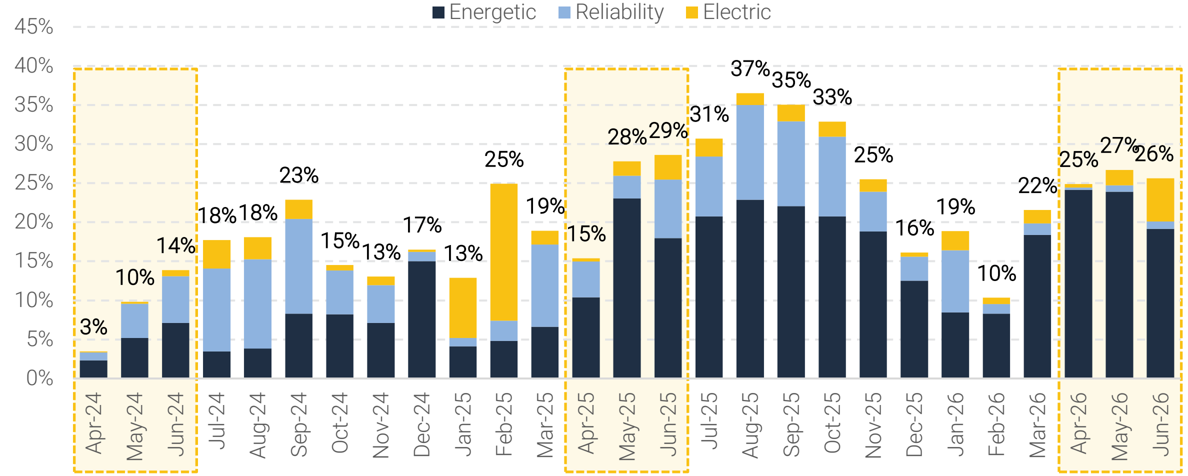


Figure 21: Total Portfolio Curtailment per Company in Jun'26

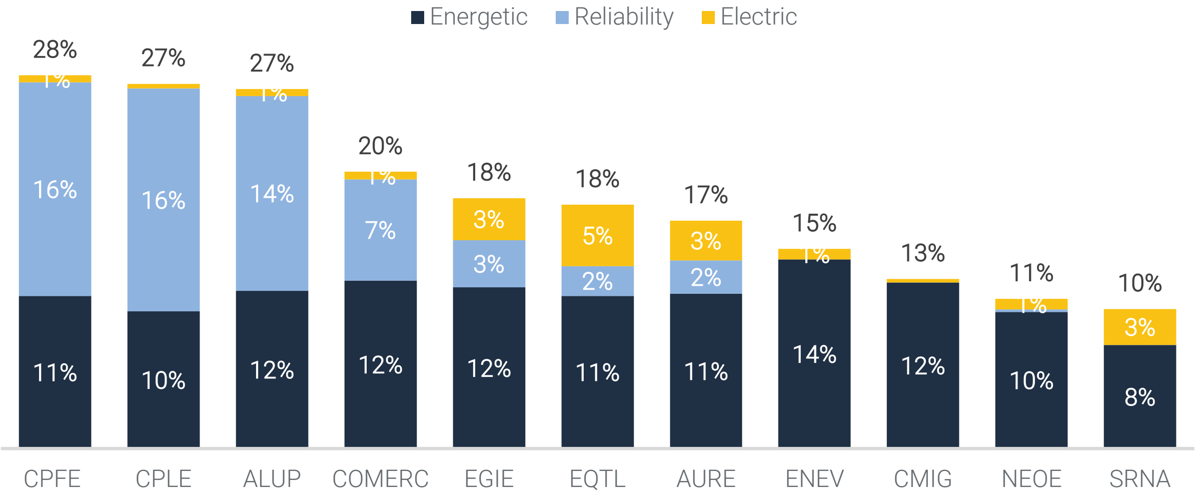
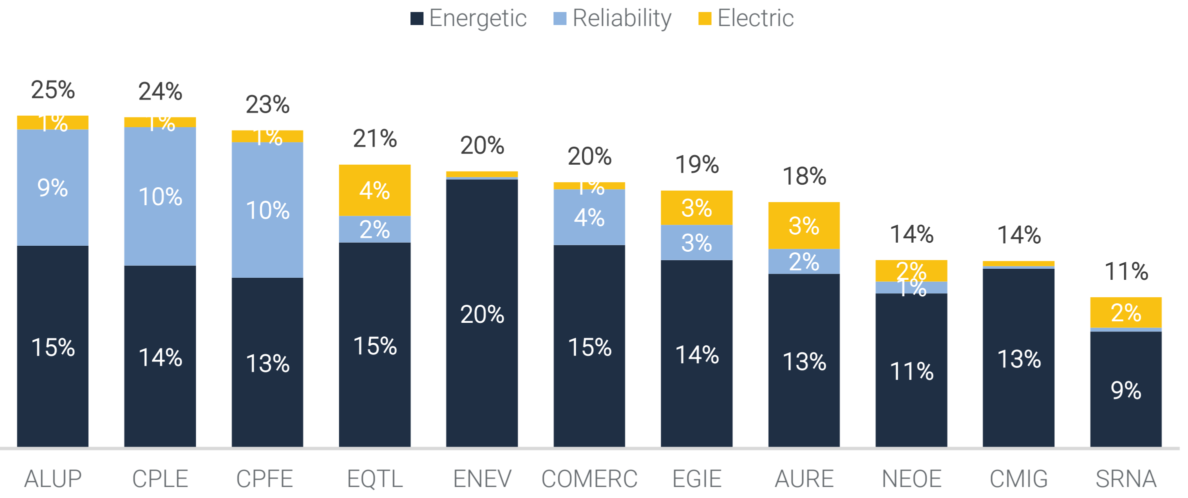


Figure 22: Total Portfolio Curtailment per Company in 2Q26



Source: ONS, and XP Research

Modulation Tracker

Past Trends and Future Signals

Figure 23: **Hydro** Modulation Effect per Submarket (R$/MWh)

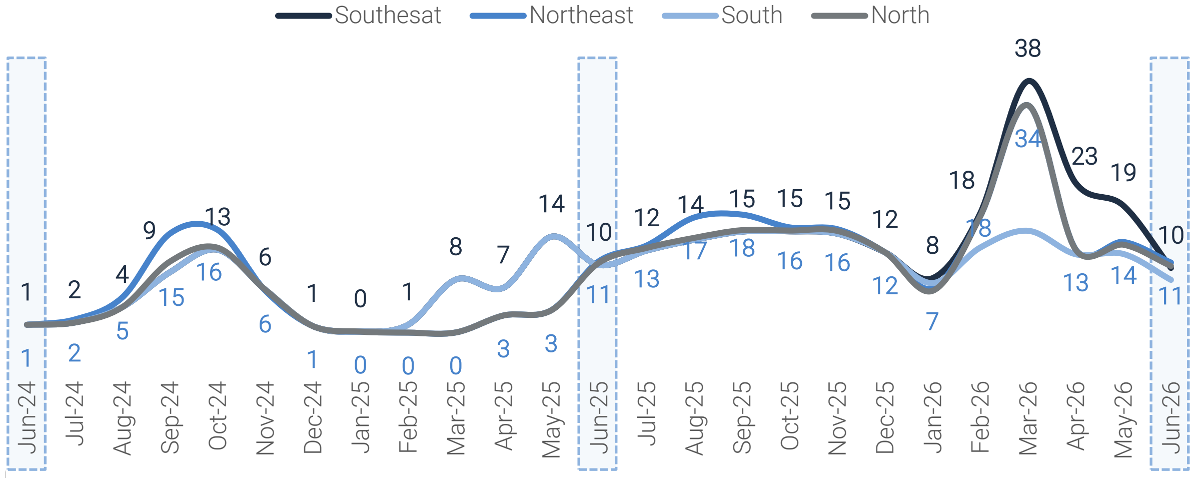


Figure 24: **Wind** Modulation Effect per Submarket (R$/MWh)

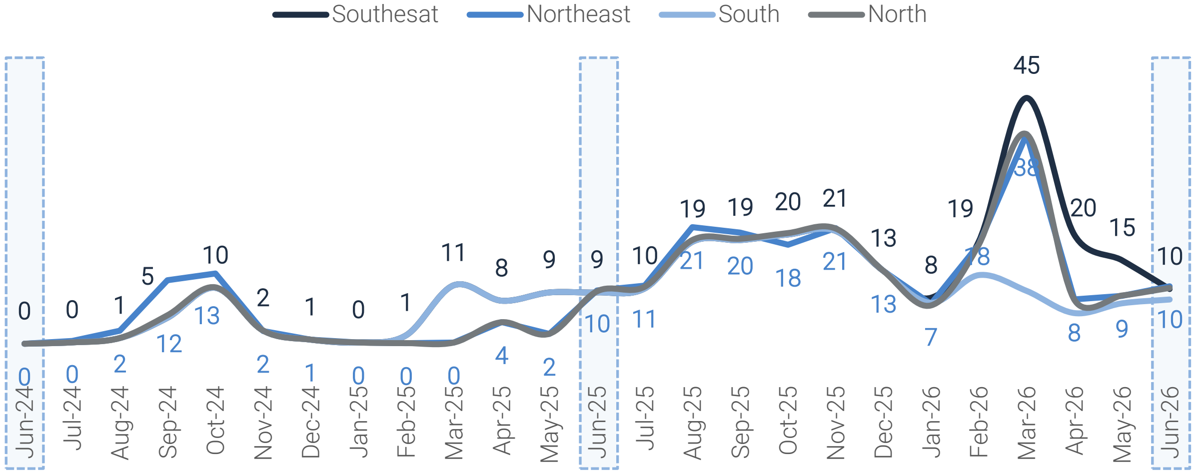


Figure 25: **Solar** Modulation Effect per Submarket (R$/MWh)

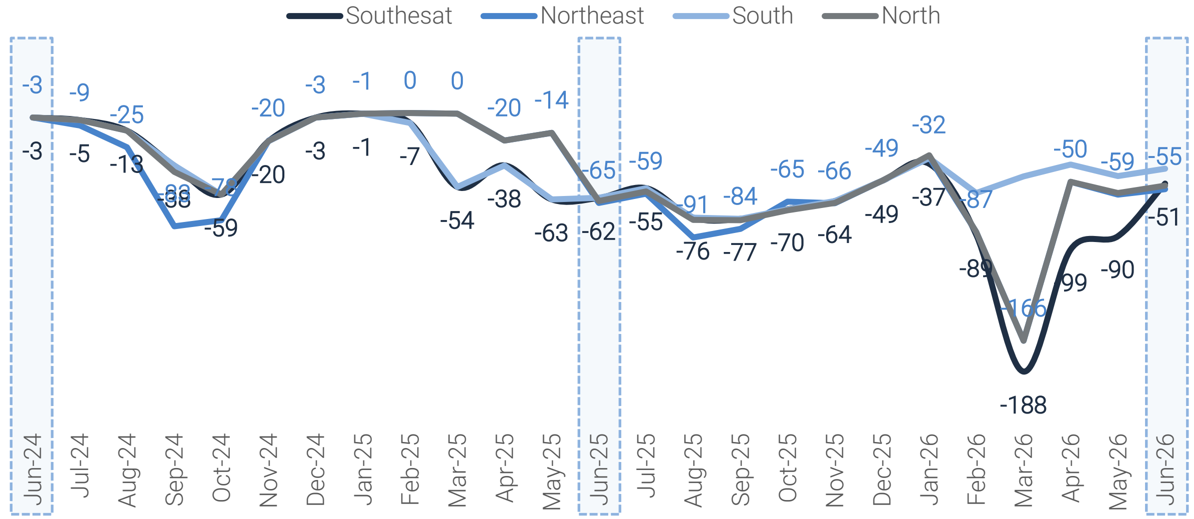
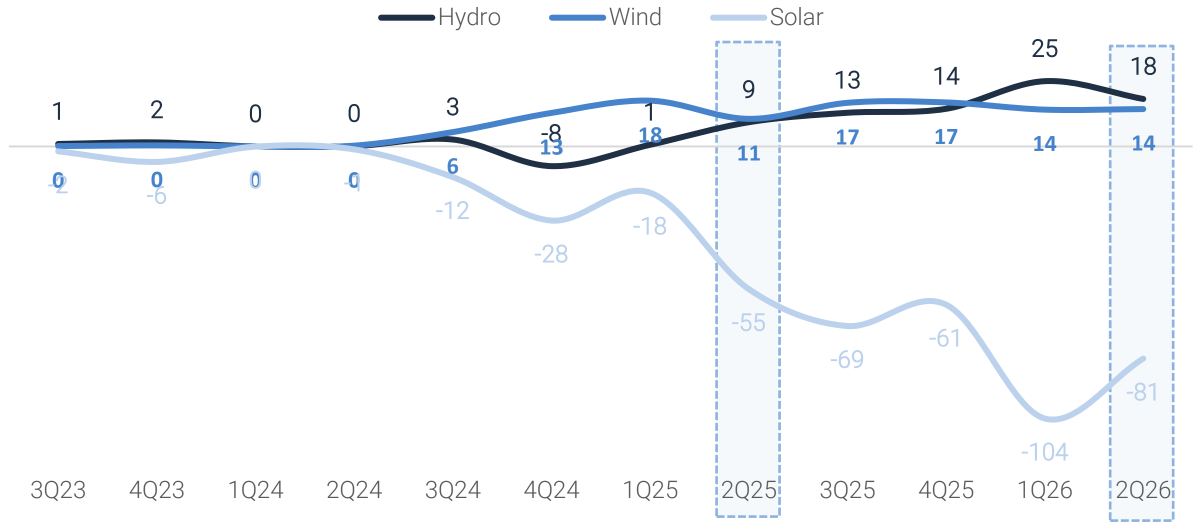


Figure 26: Modulation Effect in the **Southeast** Submarket per Source (R$/MWh)



Source: ONS, and XP Research

Valuation Summary

Valuation Summary

Figure 27: Valuation Table (XPe)

Companies	Group**	Ticker	Rating	Share Price	Mkt Cap (R$mn)	ADTV (R$mn)	Target Price (YE26)	Total Return (%)	Real Implied IRR (%)	Duration	Ke, Real	Dividend Yield		EV/RAB	
												2026e	2027e	2026e	2027e
DisCos															
Equatorial	LT	EQTL3	Buy	39.1	49,014	350	58.8	50.3%	12.9%	11.1	9%	1.4%	2.1%	1.3x	1.2x
Energisa	LT	ENGI11	Buy	48.6	24,458	131	88.3	81.8%	16.6%	10.3	9%	4.3%	5.2%	1.5x	1.4x
Light	ST	LIGT3	Buy	3.0	4,823	10	5.5[1]	84.3%	20.6%	6.9	13%	0.0%	0.0%	0.8x	0.8x
Compass	LT	PASS3	Buy	24.9	17,800	35	36.7[1]	47.2%	13.1%	8.8	10%	5.7%	7.8%	1.2x	1.2x
Integrated															
CPFL	MR	CPFE3	Sell	45.4	52,358	93	51.3	12.8%	10.6%	9.3	9%	10.0%	6.7%	1.4x	1.3x
Cemig	MR	CMIG4	Neutral	10.9	31,279	192	14.6	33.5%	14.3%	9.0	10%	6.3%	6.1%	1.0x	1.0x
Copel	LT	CPLE3	Buy	14.9	44,474	361	19.9	33.3%	12.9%	8.6	9%	13.3%	9.6%	1.0x	0.9x
Axia	ST	AXIA3	Buy	53.4	152,265	589	63.3	18.6%	12.5%	6.6	9%	11.8%	13.1%		
TransCos															
Alupar	LT	ALUP11	Buy	32.7	10,779	30	36.2	10.8%	8.6%	11.4	8%	4.8%	5.7%		
Isa Energia	MR	ISAE4	Neutral	28.3	18,620	84	25.9	-8.5%	6.8%	9.3	8%	6.7%	5.3%		
Taesa	MR	TAEE11	Neutral	40.4	13,918	77	32.7	-19.2%	4.0%	6.0	8%	8.5%	11.4%		
GenCos															
Eneva	LT	ENEV3	Buy	25.7	49,722	254	30.3	18.2%	10.6%	6.9	9%	0.0%	1.0%		
Auren	MR	AURE3	Neutral	12.1	12,678	41	13.8	14.0%	12.4%	8.2	11%	0.0%	0.0%		
Engie	MR	EGIE3	Neutral	32.8	37,410	85	31.5	-3.9%	8.2%	7.3	9%	2.1%	5.7%		
Sanitation															
Copasa	ST	CSMG3	Buy	63.0	23,956	317	53.6	-15.0%	8.3%	9.2	10%	1.2%	1.1%	1.9x	1.7x
Sabesp	LT	SBSP3	Buy	29.5	100,715	505	38.3	29.8%	10.4%	11.2	9%	2.9%	4.3%	1.1x	1.0x
Sanepar	ST	SAPR11	Buy	36.2	10,935	70	45.9	26.8%	16.0%	6.9	12%	15.4%	6.8%	0.7x	0.7x
Waste Management															
Orizon	10x	ORVR3	Buy	76.9	12,005	56.2	97.5	26.8%	12.8%	8.3	10%	0.0%	0.0%		
Sector Avg.								**24.5%**	**11.8%**	**8.6**	**10%**	**5.2%**	**5.1%**	**1.2x**	**1.1x**

Source: XP Research; *Group segmentation by XP; Note: (1) Compass and Light figures on a YE27 basis.

Disclaimer

1. This report was prepared by XP Investimentos CCTVM S.A. ("XP Investimentos or XP") according to the requirements provided in CVM Resolution 20/2021 and aims to provide information that can help the investors make their own investment decisions, and does not constitute any kind of offer or purchase request and/or sale of any product. The information contained in this report is considered valid on the date of disclosure and has been obtained from public sources. XP Investimentos is not liable for any decisions made by the customer based on this report.
2. This report was prepared considering the product risk classification in order to generate allocation results for each investor profile.
3. All of the views expressed in this research report accurately reflect the research analyst's personal views regarding any and all of the subject securities or issuers. No part of analyst(s) compensation was, is or will be, directly or indirectly related to the specific recommendations or views expressed in this research report.
4. The signatory of this report declare that the recommendations reflect solely and exclusively their personal analyses and opinions, which have been produced independently, including in relation to XP Investimentos and which are subject to modifications without notice due to changes in market conditions, and that their remuneration are indirectly affected by revenue from business and financial transactions carried out by XP Investimentos.
5. The analyst responsible for the content of this report and the compliance with CVM Resolution 20/2021 is indicated above, and, in the event of an indication of another analyst in the report, the person responsible will be the first accredited analyst to be mentioned in Report.
6. XP Investimentos' analysts are obligated to comply with all the rules laid down in the APIMEC Brasil's conduct code for the securities analyst and XP Investimentos' analyst of securities conduct policy.
7. Customer service is carried out by XP Investimentos employees or by investments advisors who perform their activities through XP, in accordance with CVM Resolution 178/2023, which are registered in the national association of brokers and distributors of securities ("ANCORD"). The investments advisors may not provide consulting, administration or management of customer net worth, and must act as an intermediary and request prior authorization from the client for the realization of any operation in the capital market.
8. For the purpose of verifying the adequacy of the investor's profile to the investment services and products offered by XP Investimentos, we use the methodology of adequacy of products by portfolio, in accordance with the ANBIMA Rules and Procedures of Suitability No. 01 and the ANBIMA Code of Regulation for Distribution of Investment Products. This methodology consists of assigning a maximum risk score for each investor profile (conservative, moderate and aggressive), as well as a risk score for each of the products offered by XP Investimentos, so that all customers can have access to all products, provided that within the amounts and limits of the risk score defined for their profile. Before applying to the products and/or contracting the services subject to this material, it is important that you verify that your current risk score includes the application in the products and/or the contracting of the services in question, as well as whether there are limitations of volume, concentration and/or quantity for the desired application. You can consult this information directly at the time of transmission of your order or by consulting the overall risk of your wallet on the portfolio screen (Risk View).f your current risk score does not support the desired application/contract, or if there are limitations in relation to the amount and/or financial volume for said application/contracting, this means that, based on the current composition of your portfolio, this application/contract is not appropriate to your profile. If you have questions about the process of suiting the products offered by XP Investimentos to your investor profile, please refer to the FAQ. Market conditions, climate change and the macroeconomic scenario can affect investment performance.
9. The profitability of financial products may present variations and their price or value may increase or decrease in a short period of time. Past performance is not necessarily indicative of future results. Performance disclosed is not net of any applicable taxes. The information present in this material is based on simulations and the actual results may be significantly different.
10. This report is intended exclusively for to the XP Investimentos' network, including XP's investments advisors and XP's customers, and may also be released on XP's website. It is prohibited to reproduce or redistribute this report to any person, in whole or in part, whatever the purpose, without the prior express consent of XP Investimentos.
11. XP Investimentos' ombudsman has the mission to serve as a contact channel whenever customers who do not feel satisfied with the solutions given by the company to their problems. The contact can be made via telephone 0800 722 3710 if you are in Brazil or via ombudsman form if you are in other localities: ttps://institucional.xpi.com.br/ouvidoria.aspx/.
12. The cost of the transactions billing policies are defined in the operational cost tables which are made available on XP Investimentos website: www.xpi.com.br.
13. XP Investimentos is exempt from any liability for any damages, direct or indirect, that come from the use of this report or its contents.
14. Technical analysis and fundamental analysis follow different methodologies. Technical analysis is performed following concepts such as trends, support, resistance, candles, volume, and moving averages, amongst others. Fundamental analysis uses as information the results disseminated by the issuing companies and their projections. In this way, the opinions of fundamental analysts, who seek the best returns given the market conditions, the macroeconomic scenario and the specific events of the company and the sector, may differ from the opinions of technical analysts, which aim to Identify the most likely movements on asset prices, using "stops" limit possible losses.
15. Equity investments available are portion a company's capital that is traded on the market. Stock is a variable financial investment (i.e. an investment in which profitability is not pre-established and varies depending on market quotations). Investment in stock is a high-risk investment and past performance is not necessarily indicative of future results and no statement or warranty, expressed or implied, is made in this material in relation to future performance. Market conditions, macroeconomic scenario, company and sector specific events can affect investment performance and may even result in significant asset losses. The recommended duration for equity investments is medium-long term. There is no guarantee of investment return for customers' investments in stock.
16. Investment in options is the purchase or sale rights of a good shall be negotiated at a price fixed at a future date, and the purchaser of the negotiated duty should pay a premium to the seller as in a secure agreement. Operations with these derivatives are considered very high risk for presenting high risk and return relationships and some positions present the possibility of losses higher than the capital invested. The recommended duration for the investment is short-term and the customer's assets are not guaranteed in this type of product.
17. Investment in terms are contracts for the purchase or sale of a certain number of shares at a fixed price for settlement within a specified period. The term of the contract is freely chosen by the investors, complying with the minimum period of 16 days and a maximum of 999 days. The price will be the value of the added share of a portion corresponding to the interest-which are set freely on the market, depending on the term of the contract. Every transaction in the term requires a guarantee deposit. These guarantees are provided in two forms: coverage or margin.
18. Investments in futures markets are subject to significant loss of principal. a commodity is an object or price determinant of a future contract or other derivative instrument, which may substantiate an index, a fee, a movable value or a physical product. Commodities are considered high risk investments, which include the possibility of price fluctuation due to the use of financial leverage. The recommended duration for commodity investments is short-term and customers' assets are not guaranteed in this type of product. Market conditions and the macroeconomic scenario can affect the performance investments.
19. This institution is adhering ANBIMA Code of Regulation for Distribution of Investment Products.
20. XP Investments US, LLC, a broker-dealer registered with the U.S. Securities and Exchange Commission, has assumed responsibility for this research for purposes of U.S. law. All transactions arising from this research should be directed to XP Investments US, LLC, at +1 646-664-0525.
21. XP Investimentos (a) managed or co-managed a public offering of securities for the subject company in the past 12 months, or (b) received compensation for investment banking services from the subject company in the past 12 months; or (c) expects to receive or intends to seek compensation for investment banking services from the subject company in the next 3 months.