

RATING ACTION COMMENTARY

Fitch Rates Aegea's Proposed Issuance 'BB'

Tue 23 Sep, 2025 - 09:44 ET

Fitch Ratings - Rio de Janeiro - 23 Sep 2025: Fitch Ratings assigned 'BB' rating to Aegea Finance S.a.r.l's (Aegea Finance) proposed senior unsecured blue notes due 2036 of USD500 million , unconditionally and irrevocably guaranteed by Aegea Saneamento e Participacoes S.A.'s (Aegea; Foreign and Local Currency Issuer Default Ratings (IDRs) 'BB'/Outlook Stable). Proceeds will support debt refinancing, capex and general corporate purposes.

Aegea's ratings reflect its strong business position and diversified asset base in the Brazilian water and wastewater industry, with expectations for cash generation to increase and leverage to moderate as it continues to develop its subsidiaries. Fitch views the high debt at the holding level as manageable, considering the group's proved access to diversified funding sources and projected increase in dividends inflow.

Aegea should continue to generate negative FCF due to its relevant investment needs and high interest payments. The aggressive growth strategy is key credit consideration and may prevent the group to deleverage.

KEY RATING DRIVERS

Solid Business Position: Aegea is a relevant private company in the water and wastewater industry in Brazil. The company has a diverse portfolio of assets, which mitigates the operational, hydrological, political, and regulatory risks. Its credit profile benefits from predictable demand and ongoing increase of operational scale from recently incorporated activities. Aegea continues to be a key

industry consolidator, which strengthens its business profile. The company recently acquired urban waste treatment operations in Rio de Janeiro, which diversifies its service provision within a strong growth potential segment.

Moderate Leverage: Fitch's rating case projects continued efficiency gains for Aegea, particularly in recently acquired operations, and a gradual reduction in leverage to 3.5x in 2025 and 3.2x in 2027, from 3.9x at YE 2024, as measured by adjusted net debt/EBITDA. These projections do not factor in significant acquisitions over the rating horizon, despite the company's stated focus on inorganic growth. The ongoing development of Companhia Riograndense de Saneamento (Corsan) and the nonconsolidated subsidiary Águas do Rio (AdR) will be crucial for deleveraging.

Debt Concentration at the Holding Level: Fitch considers Aegea's elevated holding-level indebtedness as manageable, supported by the expectation of rising dividends from operating subsidiaries. As of June 30, 2025, holding company debt totaled BRL15.2 billion. Fitch's base case anticipates annual dividend receipts of approximately BRL700 million in 2025, increasing substantially to around BRL3.0 billion in 2026, providing the holding company with enhanced deleveraging capacity.

Manageable Negative FCF: Fitch forecasts consolidated EBITDA of BRL8.3 billion (66% margin) in 2025, rising to BRL11.6 billion (65% margin) in 2027, positioning Aegea among the most profitable local peers. Projections assume tariff adjustments aligned with inflation and robust organic growth. Fitch expects total billed volumes to rise at an average of 15% annually for 2025-2027. Consolidated cash flow from operations (CFFO) should reach BRL4.4 billion in 2025 and BRL6.4 billion in 2027, resulting in an average negative FCF of BRL3.7 billion over the period, reflecting average annual investments of BRL5.9 billion and average dividend payments of around BRL2.6 billion per year.

PEER ANALYSIS

Aegea's Local Currency IDR is positioned one notch below Companhia de Saneamento Basico do Estado de Sao Paulo (Sabesp; BB+/Stable), which has lower leverage and more predictable cash generation due to its more mature operations. In contrast, Aegea has a more geographically diversified portfolio of concessions, which reduces operational and regulatory risk.

Both Aegea and Sabesp have strong EBITDA margins. Sabesp, as the country's largest water and wastewater utility, benefits from economies of scale and has improved efficiency after its recent privatization. Transmissora Alianca de Energia Eletrica S.A. (BB+/Stable),

a power transmission company, has a better credit profile than Aegea due to its more predictable cash flow, strong financial profile, and lower regulatory risk.

Aegea's activity in Brazil is influenced by the country's operating environment, which is subject to volatile macroeconomic conditions. This mostly explains the difference in ratings compared to Wessex Water Limited (WWL; BBB-/Negative), a holding company with water operations in England that benefits from better operating environment.

KEY ASSUMPTIONS

--Annual average total volume billed growth of 15% in 2025-2027;

--Tariff increases in line with Fitch's inflation estimates added by already approved real tariff increase for certain subsidiaries;

--Average annual capex of BRL5.8 billion in 2025-2027;

--Average annual dividend distributions of BRL4.0 billion in 2025-2027;

--Annual dividends upstreamed from to Aegea of around BRL700 million in 2025 and BRL3.0 billion in 2026;

--No new acquisition.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Unexpected material additional cash contributions from the holding company to subsidiaries;

--Deterioration of the liquidity profile on a consolidated and standalone basis or weaker financial flexibility;

--Consolidated adjusted net debt-to-EBITDA ratio sustainably above 4.0x;

--Sustainable EBITDA interest coverage below 2.5x.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Consolidated adjusted net debt-to-EBITDA ratio sustainably below 3.0x and maintenance of adequate liquidity profile.

LIQUIDITY AND DEBT STRUCTURE

Aegea benefits from demonstrated debt market access locally and internationally, which provides support for significant planned investments and necessary injections at subsidiaries and sustains adequate liquidity profile. The feature is key for its financial flexibility as company needs to continuously fund its negative FCF generation and manage its debt refinancing needs.

By the end of June 2025, Aegea's total adjusted debt was BRL34.1 billion, on a consolidated basis. The debt mainly comprised of the outstanding bonds (BRL7.3 billion, adjusted by hedged derivatives) and debentures (BRL16.4 billion). Fitch considered 100% of the Aegea group's BRL1.3 billion outstanding issued preferred shares as debt, according to the agency's criteria. The group's liquidity profile was robust, with cash and equivalents at BRL7.7 billion, which strongly compares with BRL3.2 billion of short-term debt.

ISSUER PROFILE

Aegea operates water and wastewater concessions across 865 municipalities in 15 Brazilian states through long-term contractual agreements. The company is majority-owned by Equipav Group (52.8%), with additional ownership held by GIC, a Singaporean sovereign fund (34.3%), and Itausa S.A. (12.9%).

DATE OF RELEVANT COMMITTEE

01-Aug-2025

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

[Click here](#) to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕
Aegea Finance S.a r.l.	
senior unsecured	LT BB New Rating

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)

[Corporate Hybrids Treatment and Notching Criteria \(pub. 08 Apr 2025\)](#)

[Parent and Subsidiary Linkage Rating Criteria \(pub. 27 Jun 2025\)](#)

[Corporate Rating Criteria \(pub. 27 Jun 2025\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.2.0 ([08 Apr 2025](#), [27 Jun 2025](#))

ADDITIONAL DISCLOSURES

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Aegea Finance S.a r.l.

EU Endorsed, UK Endorsed

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