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Research Update:

Aegea Saneamento e Participacoes S.A. And Its Proposed Notes Rated 'BB-'; Outlook Negative

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Rating Action Overview

- Aegea Saneamento e Participações S.A. (Aegea) is Brazil's largest private sanitation company, with over 39 million clients, operating concessions and public-private partnerships (PPPs) in 15 states. Through acquisitions, the company has increased its scale, but also its leverage.
- The company is proposing to issue 10-year senior unsecured blue notes through its financing vehicle Aegea Finance S.à. r.l. (not rated). The notes will be unconditionally and irrevocable guaranteed by Aegea. Part of the proceeds will used to finance a partial tender offer for its existing notes due 2029, and the remainder to finance eligible investments under the notes' framework.
- On Sept. 23, 2025, S&P Global Ratings assigned its 'BB-' issuer credit rating to Aegea, its 'BB-' issue rating and '3' recovery rating to Aegea Finance's proposed notes.
- The negative outlook reflects the company's pressured credit metrics particularly in 2025, given its aggressive growth and Brazil's high interest rates.

Rating Action Rationale

Appetite for growth amid high-interest rates hinders free operating cash flow (FOCF) and increases leverage. Aegea has increased its debt to sustain growth and investments. In 2024, the company expanded its portfolio through new concessions and secured full financing to address Águas do Rio's financial obligations and fund its capital expenditure (capex) in the next few years. Águas do Rio's acquisition was completed in November 2021, and was Aegea's largest acquisition in the past few years, with R$15.4 billion in concession fees and required investment of about R$24 billion throughout the concession's term. The company also won the auction to operate a sewage PPP in the state of Paraná and the water and sewage concession in the state of Piauí for R$1 billion. In 2025, Aegea started operating several previously awarded concessions, won the concession to operate water and sewage in the state of Pará for R$1.8 billion in concession fees, and announced the acquisition of the solid waste operations of Ciclus Rio for R$1.1 billion. To support expansions and operating improvements, we project investment of approximately R$24 billion between 2025 and 2027, leading to FOCF shortfall of almost R$5 billion in 2025 and more than R$3 billion in 2026.

To support this robust growth, the company issued approximately R$9.5 billion in debt in the first half of 2025. As a result, we expect pressured credit metrics this year, with funds from operations (FFO) to debt of 5%-10% and debt to EBITDA around 4.5x, considering Brazil's basic interest rates at 15%. We expect these metrics to be 10%-15% and 4.0x, respectively, starting in 2026, given increasing cash flow and improving operating performance of its concessions, especially Corsan, Águas do Rio, and Manaus, which are ramping up and should represent close to 80% of the company's EBITDA in 2025.

The negative outlook on the rating reflects the company's increasing leverage and large interest burden, combined with an appetite for growth, stemming from a large number of auctions in the coming quarters and increasing investment for the operating improvement of the recently won concessions. We may downgrade Aegea if it maintains an aggressive acquisitive strategy with no rise in cash flow due to the delayed ramp-up of assets, preventing deleveraging.

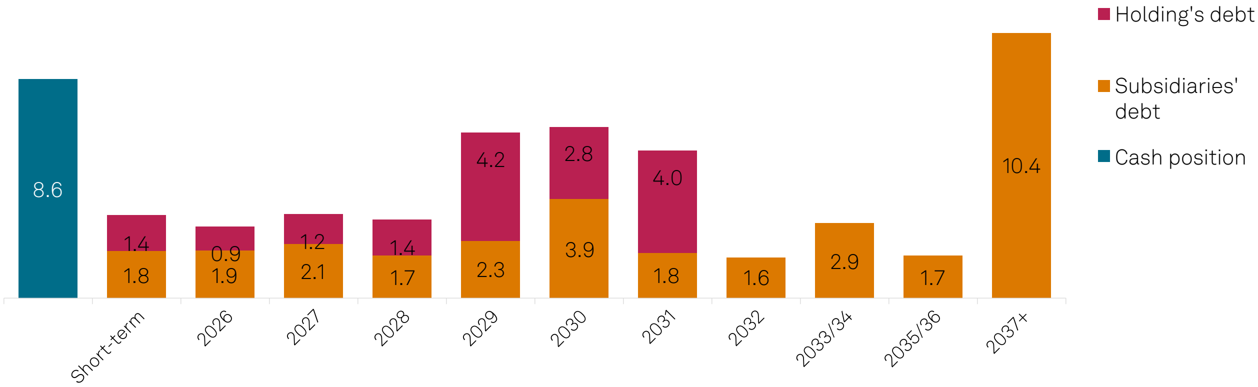
Aegea's portfolio has expanded at a remarkable pace and improved its operating efficiency. Considering all recent acquisitions, Aegea's portfolio has an average concession life of more than 30 years. The sanitation sector in Brazil benefits from stable cash generation, resilient billed volumes, inflation-adjusted rates, and the favorable regulatory framework. The latter, amended five years ago, has been predictable, while no interventions have occurred under it, thereby fostering investments in the sector.

Aegea's significant investment is helping margins to rise. For instance, Corsan reported EBITDA margin of 66% in the first half of 2025, up from 49% in the same period of 2024, mainly driven by the expansion of the sewage network and lower expenses, following the floods in Rio Grande do Sul last year. However, the company still faces operating and commercial challenges in blocks 1 and 4 of Águas do Rio, particularly regarding high water loss rates.

In parallel to the proposed notes, Aegea has launched an optional tender offer for its existing notes. Part of the proceeds of Aegea Finance's senior unsecured notes will be used to repurchase up to $250 million of its 6.75% notes due 2029 to extend its debt maturity profile, as the proposed notes mature in January 2036. The remaining proceeds will be used to fund eligible investments under the notes' framework, labeled as blue. Aegea will fully and unconditionally guarantee the notes. Therefore, the rating on the proposed notes reflects the parent's credit quality and our view that unsecured creditors would benefit from a significant recovery under a hypothetical default scenario, with recovery rounded to 65%. This is part of the company's broader liability management efforts to reduce debt cost and debt concentration particularly between 2028 and 2030. In addition, Aegea is in the process of issuing its 23rd local debentures for R$3.2 billion due 2032, which will be used to finance the voluntary tender offer for the three debentures maturing between 2028 and 2029.

Debt Maturity Profile

In R$ billion - as of June 30, 2025



Source: S&P Global Ratings.

We analyze Aegea on a consolidated basis. We incorporate the figures for Águas do Rio 1 SPE S.A. and Águas do Rio 4 SPE S.A. (collectively, Águas do Rio) and concessions acquired by Aegea in April 2021, because of an integrated financial and operational management of those assets, in Aegea's financial figures. Additionally, we adjust our credit metrics to include Parsan's debt, which was used to finance the acquisition of Corsan. We view the Equity Support Agreement between Aegea and Parsan as having characteristics of corporate guarantees. Moreover, as Aegea consolidates Corsan's numbers, we incorporate both its debt and financial performance into our adjusted metrics. As a result, we start our analysis from reported gross debt of about R$48 billion as of June 30, 2025. As debt adjustments, we consider the company's lease agreements of about R$2.3 billion, R$1.5 billion in fees related to older acquisitions, and about R$6 billion of preferred stocks provided by minority shareholders. We also deduct its cash position, as we believe it is available to pay down debt, reaching the net debt of about R$56 billion by the end of 2025. The recent restatement of Aegea's financial statements, due to revised accounting treatment for unrealized profits on related party transactions, does not impact our metrics as these adjustments pertain to non-cash items.

Outlook

The negative outlook reflects Aegea's strained credit metrics in 2025, stemming from its aggressive growth trajectory in the form of acquisitions and increasing investment in its recently acquired concessions, amid Brazil's high interest rates, which consume cash flows through higher debt servicing.

Downside scenario

We may downgrade Aegea in the next 18 months if its credit metrics deviate from our base-case scenario, which assumes FFO to debt above 10% and FFO cash interest coverage closer to 2.0x in 2026. This could occur if the company acquires new concessions primarily financed through debt, or if investment exceeds our projections, while investment fails to bolster cash flow due to a delayed ramp-up of assets and/or because of a more aggressive dividend payout. In addition, persistently high interest rates could increase refinancing costs or hinder the financing of Aegea's substantial investment, potentially creating liquidity pressures.

Upside scenario

We could revise the outlook stable if the recent concessions bolster the financial performance, resulting in cash flow exceeding our base-case scenario, which the company would use to reduce debt. This, coupled with declining interest rates, would also accelerate the company's deleveraging, resulting in FFO to debt consistently higher than 12% and FFO cash interest coverage above 2.0x.

Company Description

Aegea is a nonoperating holding company based in São Paulo, engaged in the operation and management of water and sewage systems for residential, commercial, industrial, and public-sector clients, as well as of solid waste assets. It is the largest private company in the Brazilian sanitation sector in terms of customer base. The company provides services including water collection, treatment, and distribution, as well as sewage collection and treatment through concessions and PPPs. Currently, Aegea operates in 15 states and 865 cities. The company's diversified portfolio consists of more than 370 concessions and PPPs, with an average concession term of 30 years, weighted by revenue. Aegea serves approximately 39 million consumers, holding a 37% market share in the sanitation sector. Aegea is controlled by Grupo Equipav (with a 52.8% stake), the Singapore Sovereign Wealth Fund (GIC; 34.3%), and Itaúsa holding (12.9%).

Our Base-Case Scenario

Assumptions

- Revenue growth of 25% in 2025, 9% in 2026, and more than 10% in 2027, primarily because of the expansion of sewage and water coverage in the concessions of Águas do Rio, Corsan, Manaus, and the recent acquisitions in Teresina and Pará, and rate adjustments in line with inflation.
- Average inflation in Brazil of 5.1% in 2025, 4.5% in 2026, and 3.5% in 2027. Our macroeconomic assumptions are aligned with the article "Economic Outlook Emerging Markets Q3 2025: Tariffs' Direct Impact Is Modest So Far, But Indirect Effect Will Feed Through," published June 24, 2025.
- Growth in billed water volume of approximately 5% in 2025, 4% in 2026, and 8% in 2027, and growth in sewage volume of 16% in 2025 and 2026, and 20% in 2027, mainly due to coverage increases in Corsan, Manaus, and Águas do Rio 4.
- EBITDA margins of 55%-60% in 2025, 60%-65% in 2026, and above 65% in 2027, given substantial investment, thereby expanding coverage networks, especially sewage in Corsan and Manaus, and reducing water losses in the concessions of blocks in the city of Rio de Janeiro.
- An average basic interest rate in Brazil of 14.8% in 2025, 13.0% in 2026, and 9.5% in 2027, impacting the company's interest expenses, as more than 60% of its debt is linked to the benchmark interest rates.
- Capex of R$6.8 billion in 2025, R$7.9 billion in 2026, and R$10.0 billion in 2027.

- Acquisition-related payables totaling R$2.15 billion in 2025 (including Ciclus, although the deal is still subject to regulatory and debenture holders' approvals), R$645 million in 2026, and R$365 million in 2027.
- Repurchase of preferred shares of about R$1 billion annually in 2025-2027.
- Negative working capital in the R$1.5 billion - R$2 billion range annually, as the company executes its growth strategy and starts new operations.
- Dividend payments of about R$1.9 billion in 2025, and 80% of previous year’s net income starting in 2026.

Key metrics

AEGEA Saneamento e Participacoes S.A.--Forecast summary

Period ending	**Dec-31-2022**	**Dec-31-2023**	**Dec-31-2024**	**Dec-31-2025**	**Dec-31-2026**	**Dec-31-2027**	**Dec-31-2028**
(Mil. BRL)	2022a	2023a	2024a	2025e	2026f	2027f	2028f
Revenue	8,327	12,239	16,201	19,583	22,950	26,572	28,860
EBITDA	3,727	6,921	8,522	11,424	14,546	18,299	20,359
Less: Cash interest paid	(1,998)	(2,606)	(2,345)	(7,029)	(7,336)	(5,973)	(6,323)
Less: Cash taxes paid	(352)	(407)	(637)	(695)	(1,273)	(2,405)	(2,734)
Funds from operations (FFO)	1,377	3,907	5,540	3,700	5,916	9,889	11,260
EBIT	3,188	6,132	7,725	10,480	13,089	16,160	17,937
Interest expense	1,155	1,845	3,570	7,019	7,242	5,894	6,244
Cash flow from operations (CFO)	2	1,012	2,368	2,702	5,111	8,749	9,149
Capital expenditure (capex)	2,097	3,916	5,221	6,829	7,959	9,424	9,846
Free operating cash flow (FOCF)	(2,095)	(2,904)	(2,853)	(4,127)	(2,847)	(675)	(697)
Dividends	549	790	1,557	1,950	916	2,218	4,725
Discretionary cash flow (DCF)	(2,643)	(3,694)	(4,410)	(6,923)	(4,891)	(3,900)	(7,410)
Debt	19,316	28,545	39,551	55,098	58,948	61,831	67,239
Equity	12,437	17,741	15,271	14,703	15,954	18,954	19,318
FOCF (adjusted for lease capex)	(2,095)	(2,904)	(2,853)	(3,973)	(2,694)	(521)	(543)
Cash and short-term investments (reported)	2,142	5,810	6,719	7,551	3,820	3,130	3,000
Adjusted ratios							
Debt/EBITDA (x)	5.2	4.1	4.6	4.8	4.1	3.4	3.3
FFO/debt (%)	7.1	13.7	14.0	6.7	10.0	16.0	16.7
FFO cash interest coverage (x)	1.7	2.5	3.4	1.5	1.8	2.7	2.8
EBITDA interest coverage (x)	3.2	3.8	2.4	1.6	2.0	3.1	3.3
CFO/debt (%)	0.0	3.5	6.0	4.9	8.7	14.1	13.6
FOCF/debt (%)	(10.8)	(10.2)	(7.2)	(7.5)	(4.8)	(1.1)	(1.0)

DCF/debt (%)	(13.7)	(12.9)	(11.1)	(12.6)	(8.3)	(6.3)	(11.0)
Lease capex-adjusted FOCF/debt (%)	(10.8)	(10.2)	(7.2)	(7.2)	(4.6)	(0.8)	(0.8)
Annual revenue growth (%)	120.6	47.0	32.4	20.9	17.2	15.8	8.6
Gross margin (%)	66.7	71.1	79.9	70.8	75.8	79.9	81.5
EBITDA margin (%)	44.8	56.5	52.6	58.3	63.4	68.9	70.5
Return on capital (%)	10.9	15.7	15.3	16.8	18.1	20.8	21.4
Return on total assets (%)	9.3	13.2	12.2	14.0	16.2	18.8	19.1
EBITDA/cash interest (x)	1.9	2.7	3.6	1.6	2.0	3.1	3.2
EBIT interest coverage (x)	2.8	3.3	2.2	1.5	1.8	2.7	2.9
Debt/debt and equity (%)	60.8	61.7	72.1	78.9	78.7	76.5	77.7

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. R$--Brazilian real.

Liquidity

We assess Aegea's liquidity as adequate. We expect sources of cash to exceed uses by more than 20% in the next 12 months from June 30, 2025, and anticipate that sources will remain positive even if EBITDA decreases by 15% from our base-case scenario. We also expect the company to comply with its financial covenants with comfortable cushion. In the second quarter of 2025, Aegea reported a sizable cash position of R$8.6 billion, which is more than enough to cover its financial obligations. However, given substantial investment in the next few years, the company plans to tap financing in the next 12 months. In addition, the company has committed undisbursed credit lines of more than R$16 billion as of August 2025, which supports its investment and points to Aegea's solid relationship with banks and its access to capital markets. We will monitor the company's strategy and the terms and conditions of new loans and debt issuances.

Principal liquidity sources

- Pro forma cash and cash equivalents (short-term) totaling R$8.6 billion as of June 30, 2025.
- More than R$16 billion in committed credit facilities, of which R$6 billion should be disbursed in the next 12 months.
- FFO of R$5.9 billion for the next 12 months.

Principal liquidity uses

- Short-term debt maturities of R$3.25 billion as of June 30, 2025.
- Working capital requirements of R$1.7 billion.
- Capex of R$7.4 billion for the next 12 months.
- Acquisition-related payables of R$2.15 billion, related to the concessions of Aguas do Rio, Aguas do Pará, and the acquisition of Ciclus.
- Dividend payment of about R$1.9 billion in 2025.
- Preferred share repurchase of roughly R$1 billion in the next 12 months.

Covenants

Aegea is subject to a maximum net debt to EBITDA covenant of 4.0x across its financing agreements, including its proposed international notes. These are payment-acceleration covenants, whereby a breach may result in the early, though not automatic, maturity of the debt. Compliance is tested quarterly. The methodology for calculating the covenants differs from our adjusted credit metrics, as we consolidate Águas do Rio's figures and the financing for Corsan's acquisition, whereas the covenant calculations do not. In addition, we adjust R$6 billion in preferred shares as debt, which is also excluded from the covenant calculations. The debenture covenants also stipulate that Aegea's EBITDA calculation should include the pro forma EBITDA of the last 12 months from newly acquired entities in the consolidated financial metrics.

We expect Aegea to meet its commitments with the 30% cushion in 2025 and increasing to 30%-40% in 2026 and 2027. However, we believe that this cushion could be reduced depending on the pace of investments and Aegea's growth strategy in the coming years.

Environmental, Social, And Governance

Social factors are a negative consideration in our analysis of Aegea's credit quality. The company faces social risks due to high crime rate in concession areas operated by Águas do Rio, which should account for 30%-35% of the company's pro forma consolidated EBITDA in 2025. Difficulty accessing these areas could delay the operating recovery, potentially leading to cash flow deterioration due to high water losses and default rates in high-risk areas.

Environmental factors are also a negative aspect, given Corsan's significant contribution to the company's cash generation. Parts of the state of Rio Grande do Sul, where Corsan operates, are susceptible to floods, and in May 2024, the state was hit by severe flooding due to a rare combination of elevated temperatures, high humidity, and intense winds. Although the monetary impact was mitigated by the subsidiary's comfortable liquidity and stable cash generation, we will continue to monitor this risk, especially if such climatic events become more frequent.

Group Support

We analyze Aegea as part of Equipav Saneamento S.A.'s group, as the latter controls the company with a 70.7% of voting shares. Nevertheless, we believe there are protections in place to prevent interference in Aegea's operations. This is because its minority shareholders--Itausa and GIC, with 10% and 19% of voting shares, respectively--have veto rights per the shareholder agreement, which protects their interests without hindering Equipav's operational control. Key clauses include restrictions on asset transfers and the stipulation that Equipav's distress does not trigger Aegea's default, as there are no cross-default clauses, while Aegea must meet financial covenants for upstream dividends. Additionally, we believe Aegea is the main driver of the group's creditworthiness, as Equipav's consolidated figures differ from Aegea’s only by R$2 billion in debt at the holding level, which is serviced through dividends from Aegea.

Issue Ratings--Recovery Analysis

Key analytical factors

- Our recovery rating of '3' on Aegea's senior unsecured notes reflects the recovery prospects of approximately 65% for Aegea's unsecured creditors in a hypothetical default scenario. Thus, we align the issue rating with our 'BB-' issuer credit rating.
- Pro forma the notes issuance, tender offer, and other recently issued debt, we estimate the company's consolidated capital structure will consist of R$51.5 billion in gross debt, of which R$27 billion is at the subsidiaries' level and R$23 billion is either at the holding, financing vehicle, or is guaranteed by the holding.
- In our hypothetical default scenario, Aegea would be restructured rather than liquidated, due to the stable and predictable nature of its concession contracts for providing water and sewage services. Our hypothetical default scenario would occur amid a prolonged recession in Brazil and increasing operational challenges in higher-risk areas, including concessions like Águas do Rio, which are more exposed to social risks and water losses. Such factors would increase default rates in the company's concessions, reducing its cash flow and increasing its working capital needs.
- Our projected emergency EBITDA in the year of default would be approximately R$8.6 billion. This amount, combined with a multiple of 5.5x applied to EBITDA (in line with other companies in the sanitation sector), results in a total gross enterprise value (EV) of R$47.2 billion.

Simulated default assumptions

- Year of default: 2029
- Emergency EBITDA: R$8.6 billion
- EBITDA multiple: 5.5x
- Jurisdiction: Brazil

Simplified waterfall

- Net EV after administrative costs of 5%: R$45 billion
- Subsidiaries' debt: R$27 billion
- Aegea's senior unsecured debt: R$23 billion
- Expected recovery for Aegea's senior unsecured debt: 3 (65%).

Rating Component Scores

Rating Component Scores

Component	
Foreign currency issuer credit rating	BB-/Negative/--
Local currency issuer credit rating	BB-/Negative/--
Business risk	Fair
Country risk	Moderately High
Industry risk	Very Low
Competitive position	Fair
Financial risk	Aggressive
Cash flow/leverage	Aggressive
Anchor	bb-
Modifiers	
Diversification/portfolio effect	Neutral
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Adequate
Management and governance	Neutral
Comparable rating analysis	Neutral
Stand-alone credit profile	bb-

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, July 7, 2025
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings List	
New Rating	
AEGEA Saneamento e Participacoes S.A.	
Issuer Credit Rating	BB-/Negative/--
Aegea Finance S.a.r.l.	
Senior Unsecured	BB-
Recovery Rating	3(65%)