MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns a Ba2 rating to AEGEA's proposed up to USD 500 million Notes; outlook negative

21 Apr 2022

New York, April 21, 2022 -- Moody's Investors Service ("Moody's") assigned a Ba2 rating to the up to USD500 million senior unsecured Notes due 2029 to be issued by Aegea Finance S.à r.l. ("Aegea Finance") and guaranteed by AEGEA Saneamento e Participacoes S.A. ("AEGEA" or "the company"). At the same time, Moody's affirmed Aegea Finance's Ba2 senior unsecured rating as well as AEGEA's Ba1 Corporate Family Rating (CFR). The outlook remains negative for all ratings.

The assigned rating is based on preliminary documentation received by Moody's as of the rating assignment date. Moody's does not expect changes to the documentation reviewed over this period nor does it anticipate changes in the main conditions that the notes will carry. Should issuance conditions and/or final documentation of the notes deviate from the original ones submitted and reviewed by the rating agency, Moody's will assess the impact that these differences may have on the ratings and act accordingly.

Assignments:

..Issuer: Aegea Finance S.a r.l.

....Gtd Senior Unsecured Notes, Assigned Ba2

Outlook Actions:

..Issuer: Aegea Finance S.a r.l.

....Outlook, Remains Negative

..Issuer: AEGEA Saneamento e Participacoes S.A

....Outlook, Remains Negative

Affirmations:

..Issuer: Aegea Finance S.a r.l.

....Gtd Senior Unsecured Notes, Affirmed Ba2

..Issuer: AEGEA Saneamento e Participacoes S.A

.... Corporate Family Rating, Affirmed Ba1

RATINGS RATIONALE

The proposed up to USD500 million Notes are senior unsecured, with a fully unconditional guarantee from AEGEA, pari-passu to the outstanding and future unsecured debt of AEGEA. The proposed issuance has a similar structure to that of the company's senior unsecured notes due in 2024, which will be redeem with the proceeds from the offering (approximately $400 million outstanding) with the remaining amount used for general corporate purposes, likely funding capital expenditures of existing projects. The transaction structure encompasses a financial covenant test, where AEGEA' consolidated Net Debt to EBITDA ratio has to be below 3.5x for the company to incur in additional debt, except for certain permitted indebtedness.

The Ba2 rating assigned for the USD500 million Notes stand one notch lower than AEGEA's CFR because of structural subordination considerations since AEGEA does not hold any operations and is strictly a vehicle for controlling stakes on the operating subsidiaries. AEGEA largely depends on the regular payment of dividends up streamed by its operating subsidiaries to meet its obligations, equity investment commitments and potential cash requirements related to its guarantees. Following the successful issuance of the proposed notes and redeem of the 2024 notes, Moody's anticipates debt at the holding company level will represent around 30% of total debt.

The Ba1 CFR reflects the stable consolidated credit profile of AEGEA´s business, derived from the company's solid market position and relatively strong pricing power. The company benefits from very limited competition of the operating subsidiaries in their service areas. Also, incorporated in the rating is Moody's view of the geographic diverse operations, resulting in lower exposure to water scarcity problems shown by overall lower volume fluctuations and consolidated stable cash flows in times of unfavorable rainfalls. AEGEA´s tariff mechanism and contractual framework are overall transparent and predictable with annual automatic tariff adjustments for inflation. In addition, its diversified debt profile combined with shareholders support evidenced by continuous equity injections further sustain the rating.

The rating is balanced by AEGEA's aggressive capital spending plan amid continued growth in the Brazil's sanitation sector, leading to a prolonged deterioration of leverage metrics. Particularly, as related to the acquisition of Aguas do Rio ("AdR" ex CEDAE), which initiated operations last November. Moody's acknowledges that Aguas do Rio is performing ahead of the management's initial financial and operational forecast. Still, our projected consolidated net debt-to-EBITDA ratio, including 100% of AdR, remains in the range of 4.0x-4.5x until at least 2023, before gradually improving to below 3.5x. Additionally, AEGEA can be required to extend extraordinary support to non-consolidated businesses, through certain off-balance equity support agreements, which could add further pressure on leverage metrics. The Government of Brazil´s rating (Ba2 stable) is also a rating constraint, given the domestic nature of the company's operations.

The negative outlook reflects the still high execution risk to improve operating performance and implement its capital spending plan in the new concessions, and at the same reduce leverage to maintain credit metrics in line with the current rating category. In 2021, Moody's calculates the company's FFO interest coverage was at 1.9x while the adjusted debt/capitalization ratio was at 53%. For the next 12-18 months, Moody's anticipates coverage to remain around 1.8x and the leverage at 60%.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

A rating upgrade is unlikely at this time. But rating stabilization could be triggered by more visibility into the deleveraging of new concessions. Quantitatively, upward rating pressure would arise if adjusted FFO interest coverage stays above 3.0x and debt/capitalization stays below 75% on a sustained basis, however such pressure is somewhat limited to the sovereign credit quality.

On the other hand, lower than anticipated financial support from the shareholders, higher capital spending or operating costs combined with deterioration in the liquidity profile, could exert downward pressure on AEGEA's ratings. AEGEA has cross-default clauses within the group and operates through a centralized cash management system. In light of that, ratings could be revised downwards if there are material delays or cost overruns in its capital investment program that hurt its revenue or lead to non-compliance with contractual targets. Our perception of deteriorated stability and transparency of the regulatory regime, or a deterioration in the credit quality of the sovereign, could also exert downward pressure on the ratings. Quantitatively, the ratings could be downgraded if the adjusted FFO interest coverage ratio stays below 2.0x and debt/capitalization remains above 75% on a sustained basis.

Moody's perception of reduced financial flexibility of the operating subsidiaries to support debt service at the holding company level, or a material increase in the proportion of debt outstanding at the holding level in proportion of total debt combined with sustained lower cash availability to service its debt could also imply further notching down of the Notes due to structural considerations.

COMPANY PROFILE

AEGEA is one of the largest private water and sewage players in Brazil, with 49% market share of the private sector. The company is present in 154 municipalities in 13 states, through 43 concessions, 6 public-private-partnerships (PPPs) and 1 sub-concession, with 29 years of average remaining concession period. In December 2021, the company serviced 7.3 million active households (including Aguas do Rio). In 2021, AEGEA reported net revenue of BRL2.9 billion and EBITDA of BRL1.8 billion. FFO interest coverage was 1.9x in the year and Debt to Capitalization 53%, as per Moody's standard adjustments.

AEGEA's shareholders are Equipav (52.8% stake), the Government of Singapore Investment Corporation (GIC, 34.3% stake) and Itausa S.A. (Itaúsa, not rated, 12.9% stake).

The principal methodology used in these ratings was Regulated Water Utilities published in June 2018 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1121971 .

Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1288235 .

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the EU and is endorsed by Moody's Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that issued the credit rating is available on www.moodys.com.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on www.moodys.com.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Aneliza Crnugelj
Asst Vice President - Analyst
Infrastructure Finance Group
JOURNALISTS: 0 800 891 2518
Client Service: 1 212 553 1653

Cristiane Spercel
Senior Vice President/Manager
Infrastructure Finance Group
JOURNALISTS: 0 800 891 2518
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.