

Research Update:

Aegea Saneamento e Participacoes S.A. Downgraded To 'B' From 'B+' On Higher-Than-Expected Leverage; Outlook Negative

April 20, 2026

Rating Action Overview

- Brazil-based sanitation company Aegea Saneamento e Participações S.A. repeatedly delayed the release of its 2025 financial statements, and upon release, subsequent material adjustments and restatements notably weakened our adjusted EBITDA and key credit metrics.
- We now project Aegea will remain highly leveraged through at least 2026 and 2027 and believe sustained EBITDA growth is critical to improve covenant headroom.
- On April 20, 2026, S&P Global Ratings lowered its issuer credit rating on Aegea to 'B' from 'B+' and removed it from CreditWatch with negative implications where we placed in on April 1, 2026. We also lowered the issue rating on Aegea's bonds to 'B-' from 'B+' and revised the recovery rating to '5' from '3', indicating recovery prospects of around 15%.
- The negative outlook reflects our view that a further downgrade is possible if the company faces restricted access to debt markets due to rising funding costs, which could hinder its growth strategy and projected EBITDA increase. This would prevent headroom on covenants improving to above 10% by December 2026, signaling an increased risk of a liquidity event should a covenant breach occur.

Rating Action Rationale

Aegea's revised operational and financial figures are much weaker, which will keep leverage high for longer than we previously expected. The downgrade of Aegea reflects the impact of accounting revisions on the group's revenue, EBITDA, and leverage, significantly increasing pressure on its financial covenants. Aegea reported several accounting adjustments to better align revenue recognition with the cash flow of its assets, affecting areas like water service revenue recognition (now only recognized upon payment) and the accounting methodology for construction revenue in public-private partnership (PPP) contracts.

These revisions, along with changes to expected credit loss calculations and the capitalization of interest related to concession payments, have led to revised figures that affect our projections.

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We now forecast a net debt-to-EBITDA ratio around 6.0x in 2026 and 2027, funds from operations (FFO) to debt between 7% and 8%, and interest coverage below 2.0x, from the 6.9x, 6.6%, and 1.9x reported in 2025, respectively. The revised forecasts have weakened our view of Aegea's financial risk.

Covenants will remain pressured through 2026, which could increase liquidity risk if EBITDA does not improve consistently. The company has a maximum net debt-to-EBITDA covenant of 4.0x. Its net debt to EBITDA was 3.78x at year-end 2025, and we think this ratio is under pressure, prompting us to view the company's liquidity position as weaker. Our view reflects the risk of debt acceleration given Aegea's substantial financial debt maturities, which totaled Brazilian real (R\$) 55.6 billion as of December 2025.

Management anticipates leverage will improve only in the second half of 2026, driven by increased revenue and EBITDA contributions from recently acquired and upgraded concessions. A potential breach of the 4x covenant threshold could trigger debt acceleration for most debt lines at the annual December 2026 measurement, but also measurements on a quarterly basis, for a total debt amount of close to R\$3.7 billion (syndicated loan). We expect the headroom for the March and June 2026 measurements will be under pressure.

The company doesn't expect to breach covenants, but if it occurs, we believe the company would likely seek waivers or prepay debt should first and second-quarter 2026 measurements indicate a potential breach, with more cushion on its syndicated liability due to fewer credit holders. Furthermore, if the covenant cushion falls below 10% close to the December 2026 measurement, we anticipate additional rating pressure.

Our debt and EBITDA calculations differ significantly from those reported by the company. We adjust all reported figures from the company's reporting ecosystem, incorporate preferred shares as debt, and exclude noncash items, such as construction revenue and cost, from EBITDA. Our key debt adjustments include:

- Leases: R\$2.21 billion
- Debt at subsidiary Parsan: R\$3.2 billion
- Águas do Rio PNA shares: R\$1.41 billion
- Derivatives: R\$261 million
- Other (tax installments, acquisitions, etc.): R\$2.04 billion
- Cash and cash equivalents: R\$11.06 billion, which we net from the reported debt. We do not consider a portion of this (R\$1.2 billion) in our liquidity analysis, given that it relates to long-term investments

Our key EBITDA adjustments include:

- Construction revenue: Decrease of R\$9.8 billion
- Construction costs: Increase of R\$7.9 billion
- Other (sales of fixed assets and tax credits): R\$591 million

Aegea anticipates substantial capital expenditure (capex) requirements in 2026, necessitating continued debt issuance despite a higher cost of funding. We will monitor the company's access to debt markets and its covenant compliance, as EBITDA growth from these investments is critical to maintaining covenant thresholds. While some capex flexibility exists--with potential for

postponement without regulatory constraints--a sustained reduction in capex would necessitate a revision of the company's growth strategy.

We forecast a significant free operating cash flow deficit, exceeding R\$5 billion annually in the next two to three years, which will continue to pressure the company's financial metrics and funding needs. Aegea has experienced rapid growth, fueled by bank and capital markets funding. Revenue has increased significantly to R\$16.4 billion in 2025 from R\$3.8 billion in 2021, primarily through the acquisition of new concessions and improvements in existing network efficiencies.

This expansion has been largely debt-financed, with financial liabilities rising to R\$55.6 billion from R\$16.4 billion during this period. This debt financing has been complemented by equity injections, including investments from stakeholders Itaúsa and GIC since 2021, and a R\$1.2 billion capitalization in 2026, as well as preferred share issuances.

Governance remains a key rating consideration. The release of delayed financial statements avoided early maturity triggers on approximately R\$1.1 billion in debentures. Meanwhile, the independent auditor identified deficiencies in internal controls. This reinforces our view of risks related to the company's management and governance, specifically regarding internal controls and information disclosure, and negatively impacts our assessment of Aegea's credit quality.

Reduced estimated subsidiary values have weakened recovery prospects at the holding company level in a default scenario, exposing significant subordination risk. Our revised EBITDA estimates have lowered the value of the subsidiaries and the expected recovery amount after debt repayment at their respective levels in a hypothetical default. Consequently, we lowered our rating on debt at the holding level by one notch more than the issuer credit rating, reflecting our assessment of this significant subordination risk.

Outlook

The negative outlook reflects our view that a further downgrade is possible if the company faces restricted access to debt markets due to rising funding costs, which could hinder its growth strategy and projected EBITDA increase. This could prevent covenant headroom from improving to above 10% by the December 2026 measurement date, when the majority of debts have the 4x debt to EBITDA threshold, signaling an increased risk of a liquidity event should a covenant breach occur.

Downside scenario

A negative rating action could occur in the next six to 12 months if liquidity risks increase. This could occur if the company uses available cash to pay debts that could breach covenant triggers in the first quarter of 2026, and this results in much higher funding needs, amid the higher cost of debt and elevated interest rates in Brazil.

Upside scenario

We could revise the outlook to stable if covenant breach risks ease in the next six to 12 months, while improving EBITDA also increases covenant headroom by the end of 2026.

Company Description

Aegea is a nonoperating holding company based in São Paulo that helps operate and manage water and sewage systems for residential, commercial, industrial, and public sector clients, and

manages 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 across 15 states and more than 890 cities. The company's diversified portfolio includes more than 370 concessions and PPPs, with an average concession term of 31 years, weighted by revenue. Aegea serves more than 39 million consumers, representing a 37% market share in the sanitation sector.

Aegea is controlled by Equipav Saneamento S.A. (with a 52.11% stake), followed by Singapore sovereign wealth fund GIC (34.62%) and Itaúsa S.A. (13.27%). In its most recent statements, the company had adjusted net revenue of R\$16.4 billion and EBITDA of R\$7.84 billion in 2025.

Our Base-Case Scenario

Assumptions

- Revenue growing 13%-14% over the next few years, mainly due to the expansion of sewage and water coverage in the concessions of Águas do Rio, Corsan, and Manaus; recent acquisitions; and tariff adjustments in line with inflation
- Average inflation in Brazil of 4.5% in 2026, 3.9% in 2027, 3.6% in 2028, and 3.3% from 2029 onward. (See "[Economic Outlook Emerging Markets Q2 2026: Inflation Risks Reemerge](#)," March 25, 2026)
- EBITDA margins of 55%-60% over the next few years, given the substantial investments, expanding coverage networks (especially sewage in Corsan and Manaus), and decreasing water losses in block concessions in the city of Rio de Janeiro
- Average basic interest rate in Brazil of 14.13% this year, 11.0% in 2027, 10.50% in 2028, and 9.50% from 2029 onward, affecting the company's interest expenses, as more than 60% of its debt is linked to benchmark interest rates
- Capex between R\$8 billion and R\$9 billion over the next few years
- Negative working capital of R\$1.5 billion to R\$2 billion annually, as the company is executing its growth strategy and launching new operations
- Dividend payment of approximately R\$1.9 billion this year and 80% of the previous year's net profit starting next year

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	Dec-31-2029
(Mil. BRL)	2022a	2023a	2024a	2025a	2026e	2027f	2028f	2029f
Revenue	8,322	11,991	14,341	16,411	18,550	21,200	24,138	27,472
Gross profit	5,693	8,722	10,100	11,994	14,482	16,809	19,430	22,433
EBITDA (reported)	3,647	6,205	8,355	10,310	9,993	12,283	14,502	17,075
Plus: Operating lease adjustment (OLA) rent	--	--	--	--	--	--	--	--
Plus/(less): Other	220	622	(845)	(2,468)	184	209	232	256
EBITDA	3,867	6,826	7,510	7,842	10,177	12,492	14,734	17,331

Aegea Saneamento e Participacoes S.A. Downgraded To 'B' From 'B+' On Higher-Than-Expected Leverage; Outlook Negative
AEGEA Saneamento e Participacoes S.A.--Forecast summary

Less: Cash interest paid	(1,998)	(2,606)	(2,552)	(4,194)	(7,771)	(7,325)	(7,597)	(8,276)
Less: Cash taxes paid	(352)	(407)	(637)	(1,193)	--	(517)	(825)	(1,204)
Plus/(less): Other	295	294	482	734	--	--	--	--
Funds from operations (FFO)	1,812	4,107	4,803	3,189	2,407	4,650	6,312	7,851
EBIT	3,328	6,037	6,778	6,878	7,940	9,556	11,061	13,248
Interest expense	1,155	1,845	3,665	5,253	7,766	7,320	7,592	8,272
Cash flow from operations (CFO)	2	1,012	3,072	1,457	1,808	3,732	5,063	6,652
Capital expenditure (capex)	2,097	3,916	7,385	8,014	7,971	8,880	10,550	9,815
Free operating cash flow (FOCF)	(2,095)	(2,904)	(4,313)	(6,557)	(6,163)	(5,147)	(5,487)	(3,163)
Dividends	549	790	1,444	2,874	1,894	1,992	2,563	2,764
Share repurchases (reported)	--	--	--	75	471	471	471	--
Discretionary cash flow (DCF)	(2,643)	(3,694)	(5,757)	(9,505)	(8,528)	(7,611)	(8,522)	(5,927)
Debt (reported)	17,783	26,390	40,046	55,583	63,051	67,368	75,788	84,904
Plus: Lease liabilities debt	--	--	1,294	2,213	2,312	2,402	2,489	2,571
Plus: Pension and other postretirement debt	--	--	--	--	--	--	--	--
Less: Accessible cash and liquid Investments	(2,142)	(5,810)	(7,611)	(11,059)	(10,306)	(6,028)	(5,047)	(7,293)
Plus/(less): Other	3,674	7,965	4,494	6,889	6,895	6,529	6,028	5,999
Debt	19,316	28,545	38,222	53,626	61,951	70,271	79,258	86,180
Equity	12,437	17,741	11,796	9,332	8,425	7,636	7,209	7,561
FOCF (adjusted for lease capex)	(2,095)	(2,904)	(4,313)	(6,557)	(6,035)	(5,001)	(5,328)	(2,992)
Interest expense (reported)	1,155	1,845	3,665	5,253	7,766	7,320	7,592	8,272
Capex (reported)	2,097	3,916	7,385	8,014	7,971	8,880	10,550	9,815
Cash and short-term investments (reported)	2,142	5,810	6,714	9,858	9,105	4,827	3,846	6,092
Adjusted ratios								
Debt/EBITDA (x)	5.0	4.2	5.1	6.8	6.1	5.6	5.4	5.0
FFO/debt (%)	9.4	14.4	12.6	5.9	3.9	6.6	8.0	9.1
FFO cash interest coverage (x)	1.9	2.6	2.9	1.8	1.3	1.6	1.8	1.9
EBITDA interest coverage (x)	3.3	3.7	2.0	1.5	1.3	1.7	1.9	2.1
CFO/debt (%)	0.0	3.5	8.0	2.7	2.9	5.3	6.4	7.7
FOCF/debt (%)	(10.8)	(10.2)	(11.3)	(12.2)	(9.9)	(7.3)	(6.9)	(3.7)
DCF/debt (%)	(13.7)	(12.9)	(15.1)	(17.7)	(13.8)	(10.8)	(10.8)	(6.9)
Lease capex-adjusted FOCF/debt (%)	(10.8)	(10.2)	(11.3)	(12.2)	(9.7)	(7.1)	(6.7)	(3.5)
Annual revenue growth (%)	120.4	44.1	19.6	14.4	13.0	14.3	13.9	13.8
Gross margin (%)	68.4	72.7	70.4	73.1	78.1	79.3	80.5	81.7
EBITDA margin (%)	46.5	56.9	52.4	47.8	54.9	58.9	61.0	63.1
Return on capital (%)	11.4	15.5	14.1	12.2	11.9	12.9	13.5	14.7
Return on total assets (%)	9.7	13.0	11.3	9.6	9.6	10.9	11.9	13.0
EBITDA/cash interest (x)	1.9	2.6	2.9	1.9	1.3	1.7	1.9	2.1
EBIT interest coverage (x)	2.9	3.3	1.8	1.3	1.0	1.3	1.5	1.6
Debt/debt and equity (%)	60.8	61.7	76.4	85.2	88.0	90.2	91.7	91.9
Debt fixed-charge coverage (x)	3.3	3.7	2.0	1.5	0.8	1.1	1.5	1.5

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

Debt/debt and undepreciated equity (%)	60.8	61.7	76.4	85.2	88.0	90.2	91.7	91.9
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All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. R\$--Brazilian real.

Liquidity

Although we expect sources of cash to exceed uses by more than 20% in the next 12 months from Dec. 31, 2025; we now view Aegea's liquidity as less than adequate.

Accounting revisions have pressured the net debt-to-EBITDA covenant, which closed 2025 at 3.78x. Aegea needs to comply with a quarterly covenant of up to 4.0x for a limited amount of debt, and annually for most debt. We think it has limited headroom on this covenant.

While we do not forecast immediate difficulties regarding the availability of resources to meet obligations in the next 12 months, we think covenant compliance and continuous access to debt markets are risks.

Principal liquidity sources	Principal liquidity uses
<ul style="list-style-type: none"> • Cash and cash equivalents of R\$9.8 billion • Issuances during the first quarter of 2026 totaling R\$4.9 billion • Share issuances totaling R\$1.2 billion • FFO of R\$3.5 billion in 2026 	<ul style="list-style-type: none"> • Short-term debt maturities of R\$4.6 billion as of Dec. 31, 2025 • Working capital requirements of R\$1.5 billion in 2026 • Capex of R\$5.6 billion in 2026 • Dividend payment of about R\$1.9 billion in 2026

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 for which a breach may result in early, though not automatic, debt maturity.

Compliance is tested quarterly for a \$750 million syndicated loan and annually for all other debt.

Accounting revisions have pressured headroom on the net debt-to-EBITDA covenant: Aegea posted net debt to EBITDA of 3.78x in 2025. We expect headroom to remain pressured in 2026, with less than 10% cushion.

Environmental, Social, And Governance

Governance factors are a negative consideration in our analysis of Aegea's credit quality. The delay in publishing the company's financial statements, along with two restatements, increased uncertainty surrounding how reliable and consistent its financial reporting is. We think the delays, along with a complex reporting structure, past involvement in wrongdoings, and more pressured covenants and subsequent liquidity risks, could weigh on the company's ability to manage risk controls. These developments negatively affect our assessment of management and governance, particularly regarding transparency and reporting practices and internal controls.

Environmental and social factors are also a negative consideration. Social risks stem from high crime rates in areas served by Águas do Rio, potentially limiting access and increasing delays.

Issue Ratings--Recovery Analysis

Key analytical factors

Following accounting restatements for 2024 and 2025, and a revised weaker forecast for 2026, the recovery rating on Aegea Finance's notes is '5' (15%) from '3' (65%). Consequently, we now rate the senior unsecured notes 'B-'. We previously rated [Aegea Finance's](#) \$750 million senior unsecured notes due January 2036 at the same level as our issuer credit rating on Aegea.

The '5' recovery rating on Aegea's senior unsecured notes reflects the recovery prospects of approximately 15% for Aegea's unsecured creditors in a hypothetical default scenario. On a pro forma basis, considering the debt issued during the first quarter of 2026, we estimate that the company's consolidated capital structure consists of R\$63 billion in gross debt, of which approximately R\$39 billion is at the subsidiary level, and the remaining is at the holding level, financing vehicles, or 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 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 emergence EBITDA in the year of default would be approximately R\$8.17 billion. This amount, combined with a multiple of 5.5x applied to EBITDA, results in a total gross enterprise value (EV) of R\$44.94 billion.

Simulated default assumptions

- Year of default: 2029
- Emergency EBITDA: R\$8.17 billion
- EBITDA multiple: 5.5x
- Jurisdiction: Brazil

Simplified waterfall

- Net EV after administrative costs of 5%: R\$42 billion
- Subsidiaries' debt: R\$39 billion
- Aegea's senior unsecured debt: R\$24 billion
- Expected recovery for Aegea's senior unsecured debt: 5 (15%).

Rating Component Scores

Component	
Foreign currency issuer credit rating	B/Negative/--
Local currency issuer credit rating	B/Negative/--
Business risk	
Country risk	Moderately high risk
Industry risk	Very low risk
Competitive position	Fair
Financial risk	
Cash flow/leverage	Highly leveraged
Anchor	b

Modifiers

Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Less than adequate
Management and governance	Negative
Comparable rating analysis	Positive
Stand-alone credit profile	b

Related Criteria

- [Criteria | Corporates | General: Recovery Rating Criteria For Corporate Issuers](#), March 31, 2026
- [Criteria | Corporates | General: Sector-Specific Corporate Methodology](#), July 7, 2025
- [Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities](#), Jan. 7, 2024
- [Criteria | Corporates | General: Corporate Methodology](#), 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
- [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

Related Research

- [Research Update: Aegea Saneamento Ratings Lowered To 'B+' And Placed On CreditWatch Negative On Delayed Financial Statements](#), April 1, 2026

Ratings List

Ratings List

Downgraded; Outlook Action

	To	From
<u>AEGEA Saneamento e Participacoes S.A.</u>		
Issuer Credit Rating	B/Negative/--	B+/Watch Neg/--

Downgraded; Outlook Action; Recovery Ratings Revised

	To	From
<u>Aegea Finance S.a.r.l.</u>		
Senior Unsecured	B-	B+/Watch Neg
Recovery Rating	5(15%)	3(65%)

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