

Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP)

Fitch Ratings affirmed Companhia de Saneamento Basico do Estado de Sao Paulo's (SABESP) Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BB' and its National Long-Term Rating at 'AA(bra)'. The Outlook on the Long-Term Foreign Currency IDR was revised to Negative on May 7, 2020, while the Outlook on the Local Currency IDR and National Long-Term Rating remains Stable.

The rating reflects Fitch's view that SABESP will be able to sustain robust cash flow from operations (CFFO) and strong financial flexibility to manage its significant debt maturities during coming quarters, despite the coronavirus pandemic. The company is expected to keep EBITDA margins in the 40%-45% range, above the average of its industry peers, and to maintain low to moderate leverage.

SABESP's IDRs also incorporate its low business risk, with its near-monopolistic position as a provider of an essential utility within its concession area, as well as its economies of scale as the largest basic sanitation company in the Americas by number of customers.

Fitch views SABESP's expected negative FCF due to its significant capex plans and material FX debt exposure as limiting rating factors. The assessment also reflects SABESP's still-developing regulatory environment, the intrinsic hydrological risk of its business and the political risk associated with its position as a state-owned company subject to potential changes in management and strategy after each state of Sao Paulo election.

Per Fitch's *Government-Related Entities Rating Criteria*, Fitch assesses SABESP on a standalone basis. This approach is supported by Fitch's perception of a reduced incentive for SABESP's major shareholder to provide support if needed, given minimal financial implications for the state of Sao Paulo if SABESP defaults, and limited evidence of a record or expectations for the state to provide support.

SABESP's activities are independent from its major shareholder, both financially and operationally. Fitch also believes a default would have only moderate sociopolitical implications for the state, despite the assessment as strong of its status, ownership and control by the state.

The Negative Outlook for the Foreign Currency IDR follows Brazil's Sovereign Outlook revision to Negative from Stable. The Stable Outlook for the Local Currency IDR and National Long-Term Rating reflects Fitch's expectations that the water/wastewater industry will maintain solid fundamentals. SABESP is likely to experience limited change in volumes billed and a manageably higher delinquency rate due to the coronavirus pandemic, sustaining its strong credit metrics.

Key Rating Drivers

Reduced Business Risk: SABESP's credit profile benefits from resilient demand, even amid distressed economic environments, which should mitigate the coronavirus pandemic's negative effect on its operations. The projected moderately lower volume billed to commercial and industrial clients will be offset by marginal growth from residential consumers, resulting in stable volumes in 2020.

Fitch assumes volume billed will grow 4.3% in 2021. An expected decline in the average tariff, given lower tariffs for residential customers, should be partially offset by annual tariff

Rating

Rating Type	Rating	Outlook	Last Rating Action
Long-Term Local Currency IDR	BB	Stable	Affirmed May 7, 2020
Long-Term IDR	BB	Negative	Affirmed May 7, 2020

[Click here for full list of ratings](#)

Applicable Criteria

[Corporate Rating Criteria - Effective from 27 March 2020 to 1 May 2020 \(March 2020\)](#)
[Government-Related Entities Rating Criteria \(November 2019\)](#)
[National Scale Ratings Criteria \(July 2018\)](#)

Related Research

[Fitch Revises Several Brazilian Corporate Rating Outlooks to Negative \(May 2020\)](#)
[Fitch Affirms SABESP's IDRs at 'BB'; Outlook Stable \(April 2020\)](#)

Analysts

Gustavo Mueller
 +55 21 4503-2632
gustavo.mueller@fitchratings.com

Mauro Storino
 +55 21 4503-2625
mauro.storino@fitchratings.com

increases in line with inflation. SABESP's activity in the state of Sao Paulo, which has the country's largest GDP and population, is viewed as positive.

Capex Pressures FCF: Fitch considers SABESP's forecast that FCF will be pressured in the coming years as negative to the rating. The base case scenario estimates annual average negative FCF of BRL566 million for the next three years. The projected negative BRL700 million in 2020 incorporates BRL3.2 billion in capex and dividend distributions of BRL800 million.

Positively, SABESP counts on sound estimated annual CFFO averaging BRL3.9 billion during 2020–2022 to alleviate pressure on FCF. Fitch estimates CFFO in 2020 at BRL3.3 billion, reflecting a lower average tariff and higher working capital, given estimates of increased delinquency.

Strong EBITDA Margins: SABESP's large scale of operations is a pillar for the company to achieve EBITDA margins above Brazilian state-owned peers. Fitch believes EBITDA margins will remain strong, despite an expected moderate decline to 41% in 2020 from 45% in 2019.

Fitch estimates SABESP's 2020 EBITDA at BRL5.6 billion, increasing to BRL6.5 billion in 2021, given an expected rapid recovery to regular patterns after the end of pandemic-related restrictions on mobility. Tariff increases of 2.5% in 2020 and 3.5% in 2021 are projected to moderate effects on EBITDA.

Low Leverage: Fitch estimates SABESP's net leverage will remain below 2.5x over the next three years — including 2.3x in 2020, which is low for the industry and for its IDRs — supported by strong EBITDA through the cycle, despite higher capex. Net debt/EBITDA was 1.8x at YE 2019.

Negatively, the company carries risks from its high percentage of foreign-currency debt, given its strategy of accessing international funding. The company may face cash flow effects due to strong FX depreciation during periods of significant foreign currency debt maturities, including in 2020.

Potential Regulatory Changes: Fitch incorporates no major impact on SABESP's operations and cash flow in the event of regulatory changes. Discussions about regulatory guidelines for national water/wastewater should facilitate greater participation by private companies and enhance the industry's investment capacity. Private participants account for around 6% of the industry's market share. Fitch believes private growth should occur mainly at the expense of highly inefficient state-owned companies or local municipality operators, which is not the case for SABESP.

Financial Summary

(BRL 000, as of Dec. 31)	2018	2019	2020F	2021F
Net Revenue	12,482,424	13,679,788	13,718,284	14,909,517
Operating EBITDAR	5,762,686	6,130,716	5,644,791	6,524,549
Operating EBITDAR Margin (%)	46.2	44.8	41.1	43.8
Cash Flow from Operations	3,664,587	3,649,166	3,313,966	4,009,742
Total Adjusted Net Debt/Operating EBITDAR (x)	1.8	1.8	2.3	2.1

F – Forecast.

Source: Fitch Ratings, Fitch Solutions,

Rating Derivation Relative to Peers

SABESP's mature operations and its position as the largest water/wastewater utility in Brazil benefit its business profile in terms of economies of scale and capital structure, including when compared with Aegea Saneamento e Participacoes S.A. (BB/Negative), which has moderate leverage that reflects its growth strategy. Aegea's credit profile benefits from its diversified concessions within Brazil, while SABESP operates exclusively in the state of Sao Paulo, which concentrates operational and regulatory risks. SABESP also carries meaningful FX debt exposure and political risk, given it is state-owned. SABESP and Aegea have similar and strong EBITDA margins.

Compared with power-transmission companies Transmissora Alianca de Energia Eletrica S.A. (BB/Negative) and Alupar Investimento S.A. (BB/Negative), SABESP has less predictable CFFO, higher regulatory risk and greater FX exposure. Both power transmission companies have Local Currency IDRs of 'BBB-/Negative' due to those factors.

Navigator Peer Comparison

Regulatory risks are significant for water/wastewater utilities companies in Brazil, given the developing regulatory environment. Nevertheless, the track record of tariff increases has sustained the economic and financial viability of most concession agreements, particularly for SABESP, which partially mitigates this concern. The proven financial flexibility of SABESP and Aegea is key to support their refinancing needs and capex. The high importance of financial flexibility reflects the strong reliance of SABESP and its peers to fund their capital intensive operations and constantly refinance debt obligations.

Issuer	Business profile						Financial profile				
	IDR/Outlook	Operating Environment	Management and Corporate Governance	Regulatory Risk	Commodity Price and Market Risk	Market	Asset Base and Operations	Profitability	Financial Structure	Financial Flexibility	
Aegea Saneamento e Participacoes S.A.	BB/Neg	bb-	bb+	bb+	bb+	bbb	bb+	bb	bb	bb	
Agua y Saneamientos Argentinos S.A.	CCC/RWOff	b+	b-	ccc	b-	bb+	bb-	ccc	ccc	cc	
Companhia de Gas de Sao Paulo	BB/Neg	bb-	a-	bb+	bb+	bbb-	bbb-	bb+	a	a-	
Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP)	BB/Neg	bb-	bb+	bbb-	bb+	bbb	bb+	bb+	bbb+	bbb-	
Energisa S.A.	BB/Neg	bb-	bb+	bb+	bb+	bbb-	bbb-	bb	bb	bb+	

Source: Fitch Ratings.

Importance: Higher (Red), Moderate (Blue), Lower (Light Blue)

Name	IDR/Outlook	Business profile						Financial profile				
		Operating Environment	Management and Corporate Governance	Regulatory Risk	Commodity Price and Market Risk	Market	Asset Base and Operations	Profitability	Financial Structure	Financial Flexibility		
Aegea Saneamento e Participacoes S.A.	BB/Neg	-1.0	1.0	1.0	1.0	3.0	1.0	0.0	0.0	0.0		
Agua y Saneamientos Argentinos S.A.	CCC/RWOff	4.0	2.0	0.0	2.0	7.0	5.0	0.0	0.0	-2.0		
Companhia de Gas de Sao Paulo	BB/Neg	-1.0	5.0	1.0	1.0	2.0	2.0	1.0	6.0	5.0		
Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP)	BB/Neg	10.0	12.0	13.0	12.0	14.0	12.0	12.0	15.0	13.0		
Energisa S.A.	BB/Neg	10.0	12.0	12.0	12.0	13.0	13.0	11.0	11.0	12.0		

Source: Fitch Ratings.

Legend: Red = Worse positioned than IDR, Blue = In line with IDR, Light Blue = Better positioned than IDR

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

- Sustainable positive FCF generation;
- Lower debt FX exposure.

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

- EBITDA margins below 33%;
- Net leverage sustained above 3.5x;
- Fitch's perception of increased political risk;
- Lower financial flexibility.

Liquidity and Debt Structure

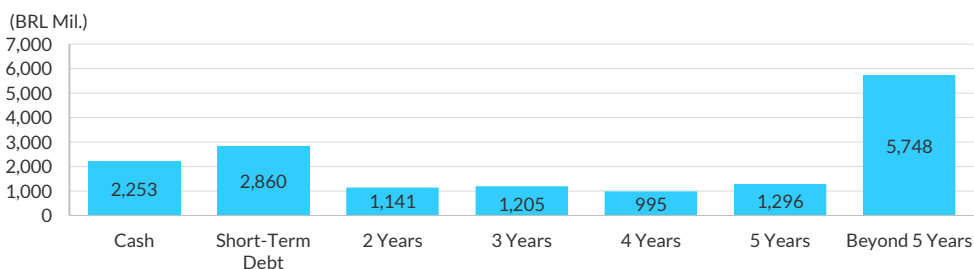
Strong Financial Flexibility: SABESP's robust cash position and proven financial flexibility will be crucial for the company to manage expected negative FCF and high level of debt maturities in 2020. The company's available free receivables — estimated at around BRL600 million monthly, or approximately 65% of total receivables — add to its capacity to raise capital.

SABESP's cash and equivalents of BRL2.3 billion at YE 2019 covered short-term debt of BRL2.9 billion by only 0.8x, and this debt has increased to around BRL3.5 billion due to recent sharp FX depreciation. Its significant short-term debt includes USD350 million bonds that mature in December 2020. The company issued BRL1.5 billion in local debentures in April 2020 and expects to disburse around BRL1.0 billion in funding during 2020, which has been approved to support capex.

SABESP's total debt of BRL13.2 billion at YE 2019 consisted mainly of multilateral agency loans of BRL5.8 billion; BRL3.6 billion in debenture issuances; and BRL1.4 billion of bonds. Of total debt, BRL6.4 billion, or 48%, was linked with FX rates without any hedge protection. Only BRL2.6 billion of total debt at YE 2019 was secured by future flow of receivables linked with Banco Nacional de Desenvolvimento Economico e Social (BNDES) and Caixa Economica Federal loans, which do not pressure unsecured rated issuances.

Liquidity and Debt Maturity Schedule

(As of Dec. 31, 2019)



Source: Fitch Ratings, Fitch Solutions, Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP).

ESG Considerations

The highest level of Environmental, Social and Governance (ESG) credit relevance, if present, is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Liquidity and Debt Maturity Scenario with No Refinancing

Liquidity Analysis

(BRL 000)	2020F	2021F	2022F	2023F
Available Liquidity				
Beginning Cash Balance	2,253,210	313,058	243,638	344,447
Rating Case FCF After Acquisitions and Divestitures	919,691	1,071,484	1,305,435	1,710,765
Total Available Liquidity (A)	3,172,901	1,384,542	1,549,073	2,055,212
Liquidity Uses				
Debt Maturities	(2,859,843)	(1,140,904)	(1,204,626)	(995,287)
Total Liquidity Uses (B)	(2,859,843)	(1,140,904)	(1,204,626)	(995,287)
Liquidity Calculation				
Ending Cash Balance (A+B)	313,058	243,638	344,447	1,059,925
Revolver Availability	0	0	0	0
Ending Liquidity	313,058	243,638	344,447	1,059,925
Liquidity Score (x)	1.1	1.2	1.3	2.1

F - Forecast.

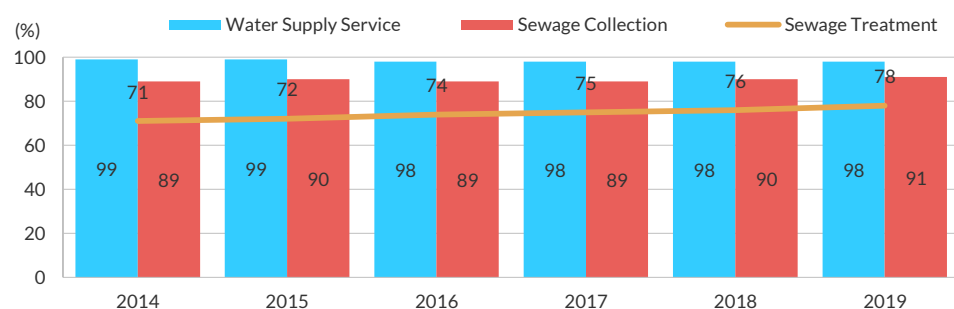
Source: Fitch Ratings, Fitch Solutions, Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP).

Scheduled Debt Maturities

(BRL 000)	12/31/19
2020	(2,859,843)
2021	(1,140,904)
2022	(1,204,626)
2023	(995,287)
2024	(1,295,766)
Thereafter	(5,748,283)
Total	(13,244,709)

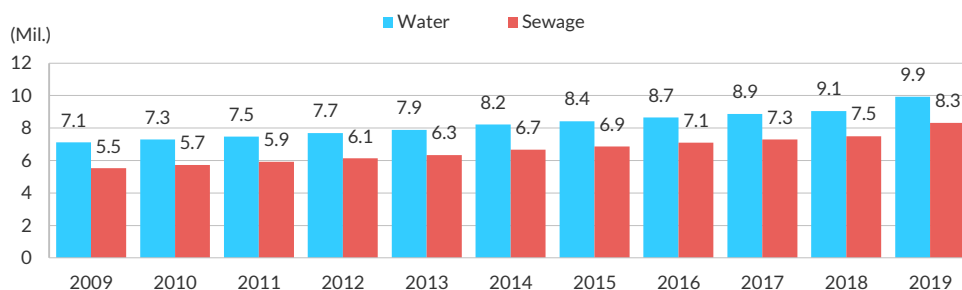
Source: Fitch Ratings, Fitch Solutions, Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP).

Evolution of Cover Ratios



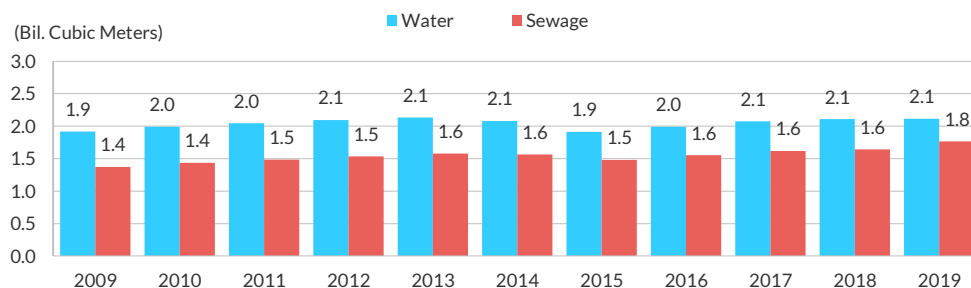
Source: Fitch Ratings, Fitch Solutions, Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP).

Number of Connections



Source: Fitch Ratings, Fitch Solutions, Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP).

Volume of Water and Sewage Billed



Source: Fitch Ratings, Fitch Solutions, Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP).

Key Assumptions

Fitch's Key Assumptions Within Our Rating Case for the Issuer

- Stable volumes billed in 2020 and total annual average growth of 3.2% in the next three years, supported by expected population and connection growth and stable consumption per connection;
- Annual tariff increases of 2.5% in July 2020, as approved by the regulator, and 3.5% in the coming years, in accordance with Fitch's expected inflation rate and adjusted by a efficiency factor of 0.69%;
- Average annual capex of BRL3.8 billion in 2020–2022;
- Average annual capex of BRL3.8 billion in 2020–2022;
- Dividends of BRL800 million in 2020 and a payout ratio of 27.9% of net profits thereafter.

Financial Data

(BRL 000, as of Dec. 31)	Historical			Forecast		
	2017	2018	-2019	2020	2021	2022
Summary Income Statement						
Net Revenue	11,457,356	12,482,424	13,679,788	13,718,284	14,909,517	15,721,284
Revenue Growth (%)	10.5	8.9	9.6	0.3	10.0	10.0
Operating EBITDAR	5,257,805	5,762,686	6,130,716	5,644,791	6,524,549	6,930,718
Operating EBITDAR Margin (%)	45.9	46.2	44.8	41.1	43.8	44.1
Operating EBIT	3,955,908	4,370,145	4,350,622	3,684,235	4,451,323	4,745,569
Operating EBIT Margin (%)	34.5	35.0	31.8	26.9	29.9	30.2
Gross Interest Expense	(408,880)	(503,835)	(496,788)	(852,887)	(922,293)	(945,356)
Pretax Income (Including Associate Income/Loss)	3,503,614	3,912,319	4,677,942	2,921,476	3,609,449	3,873,599
Summary Balance Sheet						
Readily Available Cash and Equivalents	2,283,047	3,029,191	2,253,210	2,010,483	1,834,646	1,762,555
Total Debt with Equity Credit	12,141,166	13,195,167	13,244,709	15,184,866	15,558,248	15,953,622
Total Adjusted Debt with Equity Credit	12,141,166	13,195,167	13,244,709	15,184,866	15,558,248	15,953,622
Net Debt	9,858,119	10,165,976	10,991,499	13,174,383	13,723,601	14,191,067
Summary Cash Flow Statement						
Operating EBITDA	5,257,805	5,762,686	6,130,716	5,644,791	6,524,549	6,930,718
Cash Interest Paid	(676,087)	(732,048)	(737,326)	(852,887)	(922,293)	(945,356)
Cash Tax	(932,110)	(888,077)	(1,222,747)	(993,302)	(1,227,213)	(1,317,024)
Dividends Received Less Dividends Paid to Minorities (Inflow/(Out)flow)	0	0	0	0	0	0
Other Items Before FFO	(129,304)	(249,544)	(95,044)	(160,000)	(160,000)	(160,000)
Funds Flow from Operations	3,520,304	3,893,017	4,075,599	3,728,731	4,295,462	4,581,724
FFO Margin (%)	30.7	31.2	29.8	27.2	28.8	29.1
Change in Working Capital	(250,180)	(228,430)	(426,433)	(414,764)	(285,721)	(264,545)
Cash Flow from Operations (Fitch Defined)	3,270,124	3,664,587	3,649,166	3,313,966	4,009,742	4,317,178
Total Non-Operating/Nonrecurring Cash Flow	0	0	0	—	—	—
Capex	(1,976,700)	(2,183,204)	(3,273,406)	—	—	—
Common Dividends	(765,933)	(653,393)	(739,996)	—	—	—
FCF	527,491	827,990	(364,236)	—	—	—
Net Acquisitions and Divestitures	0	8,131	0	—	—	—
Other Investing and Financing Cash Flow Items	(39,679)	(45,782)	(56,935)	(1,483,000)	0	0
Net Debt Proceeds	(90,986)	(44,195)	(354,810)	1,940,157	373,382	395,374
Net Equity Proceeds	0	0	0	0	0	0
Total Change in Cash	396,826	746,144	(775,981)	(242,727)	(175,837)	(72,092)
Calculations for Forecast Publication						
Capex, Dividends, Acquisitions and Other Items Before FCF	(2,742,633)	(2,828,466)	(4,013,402)	(4,013,850)	(4,558,961)	(4,784,644)
Coverage Ratios (x)						
FFO Interest Coverage	5.9	6.1	6.3	4.6	4.9	5.1
FFO Fixed-Charge Coverage	5.9	6.1	6.3	4.6	4.9	5.1
Operating EBITDAR/Interest Paid + Rents	7.8	7.9	8.3	6.6	7.1	7.3
Operating EBITDA/Interest Paid	7.8	7.9	8.3	6.6	7.1	7.3
Leverage Ratios (x)						
Total Adjusted Debt/Operating EBITDAR	2.3	2.3	2.2	2.7	2.4	2.3
Total Adjusted Net Debt/Operating EBITDAR	1.9	1.8	1.8	2.3	2.1	2.0
Total Debt with Equity Credit/Operating EBITDA	2.3	2.3	2.2	2.7	2.4	2.3

Financial Data

(BRL 000, as of Dec. 31)	Historical			Forecast		
	2017	2018	-2019	2020	2021	2022
FFO Adjusted Leverage	3.0	3.0	2.8	3.3	2.9	2.8
FFO Adjusted Net Leverage	2.5	2.3	2.4	2.8	2.6	2.5
FFO Leverage	3.0	3.0	2.8	3.3	2.9	2.8
FFO Net Leverage	2.5	2.3	2.4	2.8	2.6	2.5
Additional Metrics (%)						
CFO-Capex/Total Debt with Equity Credit	10.7	11.2	2.8	0.7	(0.1)	1.2
CFO-Capex/Total Net Debt with Equity Credit	13.1	14.6	3.4	0.8	(0.1)	1.4

Source: Fitch Ratings, Fitch Solutions.

How to Interpret the Forecast Presented

The forecast presented is based on Fitch Ratings' internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch Ratings to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch Ratings' rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch Ratings' forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch Ratings' own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch Ratings' own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch Ratings may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch Ratings' own internal deliberations, where Fitch Ratings, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch Ratings may update the forecast in future reports but assumes no responsibility to do so. Original financial statement data for historical periods is processed by Fitch Solutions on behalf of Fitch Ratings. Key financial adjustments and all financial forecasts credited to Fitch Ratings are generated by rating agency staff.

Ratings Navigator

SABESP



Corporates Ratings Navigator Latin America Utilities

Factor Levels	Sector Risk Profile	Operating Environment	Business Profile					Financial Profile			Issuer Default Rating	
			Management and Corporate Governance	Regulatory Risk	Commodity Price and Market Risk	Market	Asset Base and Operations	Profitability	Financial Structure	Financial Flexibility		
aaa											AAA	
aa+											AA+	
aa											AA	
aa-											AA-	
a+											A+	
a											A	
a-											A-	
bbb+											BBB+	
bbb											BBB	
bbb-											BBB-	
bb+											BB+	
bb											BB	Negative
bb-											BB-	
b+											B+	
b											B	
b-											B-	
ccc+											CCC+	
ccc											CCC	
ccc-											CCC-	
cc											CC	
c											C	
d or rd											D or RD	

Operating Environment

bb	Economic Environment	b	Weak combination of countries w here economic value is created and w here assets are located.
bb-	Financial Access	bbb	Average combination of issuer specific funding characteristics and of the strength of the relevant local financial market.
	Systemic Governance	bb	Systemic governance (eg rule of law , corruption; government effectiveness) of the issuer's country of incorporation consistent w ith 'bb'.
b-			
ccc+			

Regulatory Risk

bbb+	Independence	bb	Moderate government Interference in utility regulations.
bbb	Balance	bbb	Regulatory framework is moderately biased toward the needs of end users at the expense of sector participants.
bbb-	Transparency	bbb	The tariff-setting procedure is transparent and includes the participation of industry players.
bb+	Recourse of Law	bb	Procedures to appeal rulings are lengthy; appeals could be untested; companies can comment on regulations.
bb	Timeliness of Cost Recovery	bbb	Moderate lag to recover capital and operating costs.

Market

a-	Consumption Growth Trend	bbb	Customer and usage growth in line w ith industry averages.
bbb+	Customer Mx	a	Well diversified customer mix.
bbb	Geographic Location	bb	High sensitivity to extreme weather or disaster disruptions.
bbb-	Supply Demand Dynamics	bbb	Moderately favorable outlook for prices and rates.
bb+			

Profitability

bbb	Volatility of Profitability	bbb	Stability and predictability of profits in line w ith utility peers.
bbb-	Free Cash Flow	bb	Structurally negative FCF across the investment cycle.
bb+			
bb			
bb-			

Financial Flexibility

bbb+	Financial Discipline	bbb	Less conservative policy but generally applied consistently.
bbb	Liquidity (Cash+CFO)/S-T Debt		Very comfortable liquidity. Well-spread maturity schedule of debt. Diversified sources of funding.
bbb-	FFO Interest Coverage		5.0x
bb+	FX Exposure	b	Large FX exposure. No significant/ineffective hedging in place.
bb			

How to Read This Page: The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

Management and Corporate Governance

bbb	Management Strategy	bb	Strategy generally coherent but some evidence of weak implementation.
bbb-	Governance Structure	bb	Board effectiveness questionable w ith few independent directors. "Key man" risk from dominant CEO or shareholder.
bb+	Group Structure	aa	Transparent group structure.
bb	Financial Transparency	bbb	Good quality reporting w ithout significant failing. Consistent w ith the average of listed companies in major exchanges.
bb-			

Commodity Price and Market Risk

bbb	Price and Volume Risk	bbb	Moderate exposure to price risk. Long-term contracts provide high revenue visibility and most costs variations are passed through.
bbb-	Counterparty Risk	bb	Weighted average credit quality of actual and potential offtakers is in line w ith 'BB' rating.
bb+			
bb			
bb-			

Asset Base and Operations

bbb	Asset Diversity		n.a.
bbb-	Reliability of Operations and Cost Position	bbb	Reliability and cost of operations at par w ith industry averages w ith moderate operating losses.
bb+	Exposure to Environmental Regulations	bb	Significant exposure to environmental regulations.
bb	Capital and Technological Intensity of Capex	bb	Reinvestment concentrated in capital-intensive or unproven technologies.
bb-			

Financial Structure

a	FFO Leverage		3.5x
a-	FFO Net Leverage		3.0x
bbb+	Total Debt With Equity Credit/Op. EBITDA		2.5x
bbb			
bbb-			

Credit-Relevant ESG Derivation

				Overall ESG
SABESP has 12 ESG potential rating drivers				
key driver	0	issues	5	
driver	0	issues	4	
potential driver	12	issues	3	
not a rating driver	1	issues	2	
	1	issues	1	

Showing top 6 issues

For further details on Credit-Relevant ESG scoring, see page 3.

Credit-Relevant ESG Derivation

SABESP has 12 ESG potential rating drivers

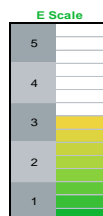
- ➔ SABESP has exposure to energy productivity risk but this has very low impact on the rating.
- ➔ SABESP has exposure to water management risk but this has very low impact on the rating.
- ➔ SABESP has exposure to waste & impact management risk but this has very low impact on the rating.
- ➔ SABESP has exposure to extreme weather events but this has very low impact on the rating.
- ➔ SABESP has exposure to access/affordability risk but this has very low impact on the rating.
- ➔ SABESP has exposure to customer accountability risk but this has very low impact on the rating.

Showing top 6 issues

				Overall ESG Scale
key driver	0	issues	5	
driver	0	issues	4	
potential driver	12	issues	3	
not a rating driver	1	issues	2	
	1	issues	1	

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1	Emissions from operations	Asset Base and Operations; Regulatory Risk; Profitability, Financial Structure
Energy Management	3	Energy and fuel use in operations; entities' financial targets for losses/shrinkage	Asset Base and Operations; Commodity Price and Market Risk; Profitability, Financial Structure
Water & Wastewater Management	3	Water usage in operations; water utilities' financial targets for water quality, leakage and usage	Asset Base and Operations; Regulatory Risk; Profitability
Waste & Hazardous Materials Management; Ecological Impacts	3	Impact of waste including pollution incidents; discharge compliance; sludge, coal ash	Asset Base and Operations; Regulatory Risk; Profitability
Exposure to Environmental Impacts	3	Networks' exposure to extreme weather events- negative (e.g. risk of drought and flooding) or positive (e.g. additional return on resilience capex)	Asset Base and Operations; Commodity Price and Market Risk; Profitability



How to Read This Page

ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

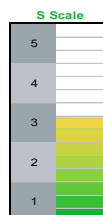
The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board(SASB).

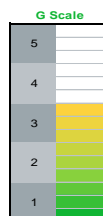
Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	3	Regulatory-driven access and affordability targets of utility services	Asset Base and Operations; Regulatory Risk; Profitability
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Quality and safety of products and services; data security	Regulatory Risk; Profitability
Labor Relations & Practices	3	Impact of labor negotiations and employee (dis)satisfaction	Profitability, Financial Structure; Financial Flexibility
Employee Wellbeing	2	Worker safety and accident prevention	Financial Flexibility
Exposure to Social Impacts	3	Social resistance to major projects that leads to delays and cost increases	Profitability, Financial Structure



Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance
Governance Structure	3	Board independence and effectiveness; ownership concentration	Management and Corporate Governance
Group Structure	3	Complexity, transparency and related-party transactions	Management and Corporate Governance
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance



CREDIT-RELEVANT ESG SCALE

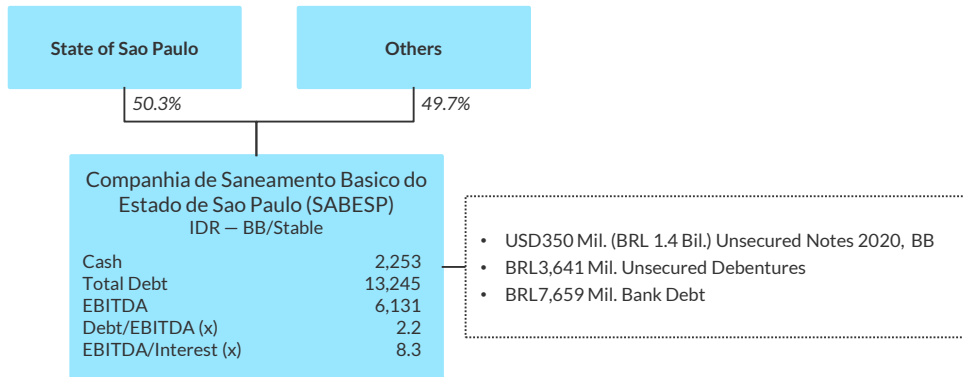
How relevant are E, S and G issues to the overall credit rating?

5		Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance w/in Navigator.
4		Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance w/in Navigator.
3		Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance w/in Navigator.
2		Irrelevant to the entity rating but relevant to the sector.
1		Irrelevant to the entity rating and irrelevant to the sector.

Simplified Group Structure Diagram

Organizational Structure – Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP)

(BRL Mil., as of Dec. 31, 2019)



IDR – Issuer Default Rating.

Source: Fitch Ratings, Fitch Solutions, Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP).

Peer Financial Summary

Company	Issuer Default Rating	Financial Statement Date	Net Revenue (USD 000)	Operating EBITDAR (USD 000)	Operating EBITDAR Margin (%)	Cash Flow from Operations (USD 000)	Total Adjusted Net Debt/ EBITDAR (x)
Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP)	BB						
	BB	2019	3,472,660	1,556,303	44.8	926,353	1.8
	BB	2018	3,417,841	1,577,894	46.2	1,003,409	1.8
	BB	2017	3,586,817	1,645,998	45.9	1,023,739	1.9
Agea Saneamento e Participacoes S.A.	BB						
	BB	2019	544,693	302,573	55.5	41,476	3.1
	BB	2018	449,093	221,808	49.4	129,877	3.7
	BB	2017	388,708	211,357	54.4	52,501	3.1
Agua y Saneamientos Argentinos S.A.	CCC						
	B	2019	657,968	(228,292)	(34.7)	(88,253)	(3.1)
	B	2018	696,422	(297,758)	(42.8)	(134,052)	(2.6)
	B	2017	713,829	(322,632)	(45.2)	(106,144)	(0.6)
Companhia de Gas de Sao Paulo - COMGAS	BB						
	BB	2019	2,208,748	637,835	28.9	586,677	1.4
	BB	2018	1,759,041	379,029	21.5	367,686	1.1
	BB+	2017	1,623,727	475,373	29.3	441,656	1.0
Energisa S.A.	BB						
	BB	2019	4,387,744	819,213	18.7	409,313	4.5
	BB	2018	3,908,552	725,063	18.6	-445,478	4.6
	BB	2017	3,833,427	642,573	16.8	200,888	3.3

Source: Fitch Ratings, Fitch Solutions.

Reconciliation of Key Financial Metrics

(BRL 000, as reported)	Dec. 31, 2019
Income Statement Summary	
Operating EBITDA	7,488,016
+ Recurring Dividends Paid to Non-controlling Interest	0
+ Recurring Dividends Received from Associates	0
+ Additional Analyst Adjustment for Recurring I/S Minorities and Associates	0
= Operating EBITDA After Associates and Minorities (k)	7,488,016
+ Operating Lease Expense Treated as Capitalised (h)	0
= Operating EBITDAR after Associates and Minorities (j)	7,488,016
Debt & Cash Summary	
Total Debt with Equity Credit (l)	13,244,709
+ Lease-Equivalent Debt	0
+ Other Off-Balance-Sheet Debt (p)	0
= Total Adjusted Debt with Equity Credit (a)	13,244,709
Readily Available Cash [Fitch-Defined]	2,253,210
+ Readily Available Marketable Securities [Fitch-Defined]	0
= Readily Available Cash & Equivalents (o)	2,253,210
Total Adjusted Net Debt (b)	10,991,499
Cash-Flow Summary	
Preferred Dividends (Paid) (f)	0
Interest Received	151,622
+ Interest (Paid) (d)	(737,326)
= Net Finance Charge (e)	(585,704)
Funds from Operations [FFO] (c)	4,623,678
+ Change in Working Capital [Fitch-Defined]	(426,433)
= Cash Flow from Operations [CFO] (n)	4,197,245
Capital Expenditures (m)	(3,273,406)
Multiple applied to Capitalised Leases	5.0
Gross Leverage (x)	
Total Adjusted Debt/Op. EBITDAR^a (a/j)	1.8
FFO Adjusted Gross Leverage (a/(c-e+h-f))	2.5
<i>Total Adjusted Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)</i>	
FFO Leverage ((l+p)/(c-e+h-f))	2.5
<i>(Total Debt + Other Debt)/(FFO - Net Finance Charge - Pref. Div. Paid)</i>	
Total Debt with Equity Credit/Op. EBITDA^a [x] (l/k)	1.8
CFO-Capex/Total Debt with Equity Credit (%)	7.0%
Net Leverage (x)	
Total Adjusted Net Debt/Op. EBITDAR^a (b/j)	1.5
FFO Adjusted Net Leverage (b/(c-e+h-f))	2.1
<i>Total Adjusted Net Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)</i>	
FFO Net Leverage ((l+p-o)/(c-e+h-f))	2.1
<i>Total Adjusted Net Debt/(FFO - Net Finance Charge - Pref. Div. Paid)</i>	
Total Net Debt/(CFO - Capex) ((l-o)/(n+m))	11.9
CFO-Capex/Total Net Debt with Equity Credit (%)	8.4
Coverage (x)	
Op. EBITDAR/(Interest Paid + Lease Expense)^a (i/-d+h)	10.2
Op. EBITDA/Interest Paid^a (k/(-d))	10.2
FFO Fixed Charge Cover ((c+e+h-f)/(-d+h-f))	7.1
<i>(FFO + Net Finance Charge + Capit. Leases - Pref. Div Paid)/(Gross Int. Paid + Capit. Leases - Pref. Div. Paid)</i>	
FFO Gross Interest Coverage ((c+e-f)/(-d-f))	7.1
<i>(FFO + Net Finance Charge - Pref. Div Paid)/(Gross Int. Paid - Pref. Div. Paid)</i>	

^aEBITDA/R after dividends to associates and minorities.

Source: Fitch Ratings, Fitch Solutions, Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP).

Fitch Financial Adjustments – Summary Financials

(BRL 000)	Reported Values Dec. 31. 2019	Sum of Fitch Adjustments	CORP - Lease Treatment	Other Adjustment	Adjusted Values
Income Statement Summary					
Revenue	17,983,654	(4,303,866)	–	(4,303,866)	13,679,788
Operating EBITDAR	7,488,016	(1,357,300)	–	(1,357,300)	6,130,716
Operating EBITDAR after Associates and Minorities	7,488,016	(1,357,300)	–	(1,357,300)	6,130,716
Operating Lease Expense	0	0	–	–	0
Operating EBITDA	7,488,016	(1,357,300)	–	(1,357,300)	6,130,716
Operating EBITDA after Associates and Minorities	7,488,016	(1,357,300)	–	(1,357,300)	6,130,716
Operating EBIT	5,707,922	(1,357,300)	–	(1,357,300)	4,350,622
Debt & Cash Summary					
Total Debt with Equity Credit	13,244,709	0	–	–	13,244,709
Total Adjusted Debt with Equity Credit	13,244,709	0	–	–	13,244,709
Lease-Equivalent Debt	0	0	–	–	0
Other Off-Balance Sheet Debt	0	0	–	–	0
Readily Available Cash & Equivalents	2,253,210	0	–	–	2,253,210
Not Readily Available Cash & Equivalents	26,018	0	–	–	26,018
Cash-Flow Summary					
Preferred Dividends (Paid)	0	0	–	–	0
Interest Received	151,622	0	–	–	151,622
Interest (Paid)	(737,326)	0	–	–	(737,326)
Funds from Operations [FFO]	4,623,678	(548,079)	(548,079)	–	4,075,599
Change in Working Capital [Fitch-Defined]	(426,433)	0	–	–	(426,433)
Cash Flow from Operations [CFO]	4,197,245	(548,079)	(548,079)	–	3,649,166
Non-Operating/Non-Recurring Cash Flow	0	0	–	–	0
Capital (Expenditures)	(3,273,406)	0	–	–	(3,273,406)
Common Dividends (Paid)	(739,996)	0	–	–	(739,996)
Free Cash Flow [FCF]	183,843	(548,079)	(548,079)	–	(364,236)
Gross Leverage (x)					
Total Adjusted Debt/Op. EBITDAR ^a	1.8	–	–	–	2.2
FFO Adjusted Leverage	2.5	–	–	–	2.8
FFO Leverage	2.5	–	–	–	2.8
Total Debt with Equity Credit/Op. EBITDA ^a	1.8	–	–	–	2.2
CFO-Capex/Total Debt with Equity Credit (%)	7.0	–	–	–	2.8
Net Leverage (x)					
Total Adjusted Net Debt/Op. EBITDAR ^a	1.5	–	–	–	1.8
FFO Adjusted Net Leverage	2.1	–	–	–	2.4
FFO Net Leverage	2.1	–	–	–	2.4
Total Net Debt/(CFO - Capex)	11.9	–	–	–	29.3
CFO-Capex/Total Net Debt with Equity Credit (%)	8.4	–	–	–	3.4
Coverage (x)					
Op. EBITDAR/(Interest Paid + Lease Expense) ^a	10.2	–	–	–	8.3
Op. EBITDA/Interest Paid ^a	10.2	–	–	–	8.3
FFO Fixed Charge Coverage	7.1	–	–	–	6.3
FFO Interest Coverage	7.1	–	–	–	6.3

^aEBITDA/R after dividends to associates and minorities.

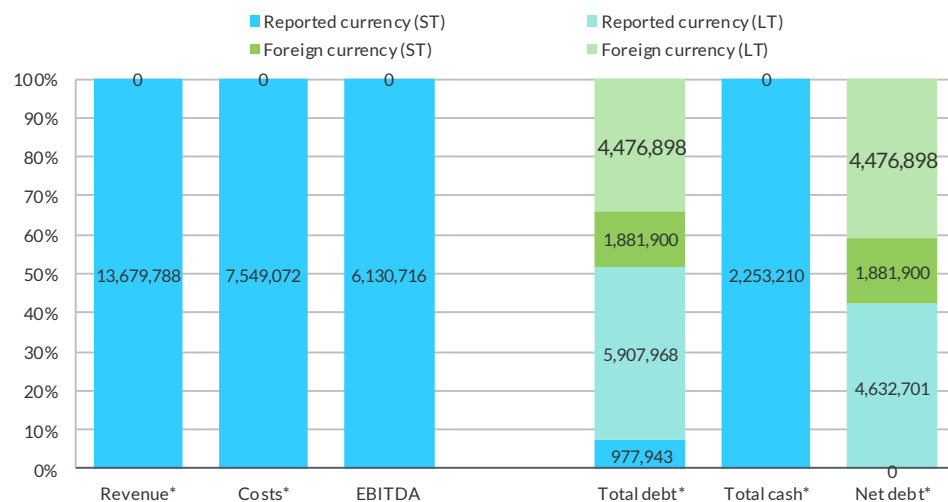
Source: Fitch Ratings, Fitch Solutions, Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP).

FX Screener

SABESP's high FX debt exposure may present risks, particularly in the event of significant FX depreciation combined with meaningful debt maturities, such as in 2020. SABESP's sound financial profile and flexibility partially mitigates these concerns. The company had BRL6.4 billion, or 48% of its total debt, exposed to the FX volatility at YE 2019, while all of its revenues are generated in local currency.

Fitch FX Screener

(Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP) – BB/Negative, Dec-19, BRLth)

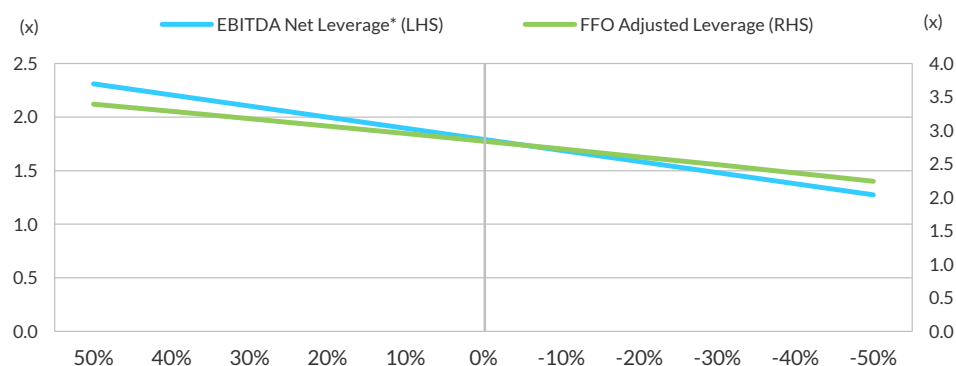


* Post hedge, absolute figures displayed are Fitch's analytical estimates, based on publicly available information

Source: Fitch Ratings

Fitch FX Screener - Foreign to Reported Currency Stress Test - Absolute Variation

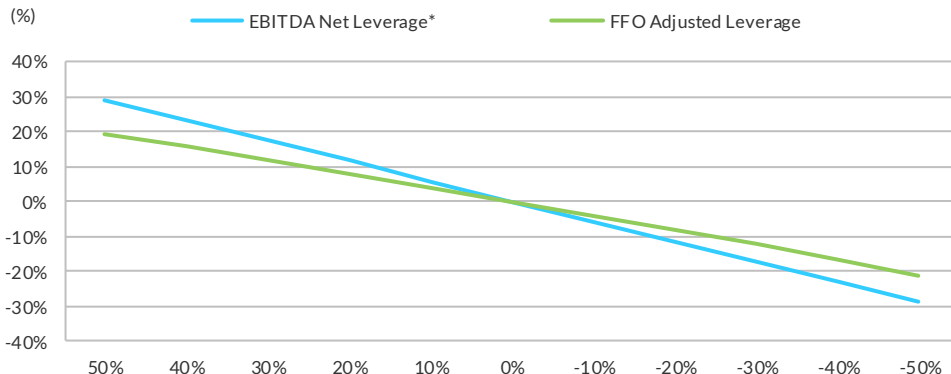
(Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP) – BB/Negative, Dec-19)



*EBITDA after Dividends to Associates and Minorities

Source: Fitch Ratings

Fitch FX Screener - Foreign to Reported Currency Stress Test - Relative Variation
(Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP) – BB/Negative, Dec-19)



*EBITDA after Dividends to Associates and Minorities
Source: Fitch Ratings

Covenant Summary

The company is subject to a gross leverage covenant of 3.65x, which may limit its ability to issue debt for refinancing under distressed operating environments. The concern is mitigated, though, by its strong financial profile, which allows adequate headroom before covenants are breached.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2020 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.