

Research Update:

Brazilian Utility Sabesp 'BB' Ratings Affirmed Despite Higher Investments; Outlook Remains Stable

March 23, 2026

Rating Action Overview

- Brazil-based water utility Companhia de Saneamento Básico do Estado de São Paulo (Sabesp) updated its 2024-2029 investment plan to approximately R\$70 billion, with an additional R\$8 billion related to inflation, according to our estimates, from roughly R\$60 billion previously. This will lead to a wider free operating cash flow (FOCF) deficit than previously anticipated, funded primarily with additional debt.
- On the other hand, tariff mechanisms allow for the annual incorporation of prior-year investments, supporting revenue generation. As a result, we don't expect a significant impact on credit metrics.
- On March 23, 2026, we affirmed our 'BB' issuer credit ratings on Sabesp. In addition, we assigned a '3' recovery rating to the company's senior unsecured notes, indicating our expectation of meaningful recovery (rounded estimate: 65%) in a simulated default scenario.
- The stable outlook reflects our expectation that debt to EBITDA will increase to about 2.8x-3.0x in 2026, from 2.3x in 2025, and funds from operations (FFO) to debt will reach around 17%-18%, from 28%, driven by additional debt to fund the R\$16 billion annual capital expenditure (capex) plan in 2026-2029.

Rating Action Rationale

Sabesp revised its investment program, leading to an increase in capex driven by inflationary pressures and continuous expansion, which leads to higher funding requirements. The company indicated it expects to invest at least R\$78 billion in 2024-2029, incorporating accumulated inflation between June 2023 and December 2025 of 11.3% and anticipating investments from the next regulatory cycle (2030-2034) subject to regulatory approval. As a result, we expect the FOCF deficit to increase by R\$500 million-R\$1 billion annually in 2026 and 2027, to R\$9.2 billion and R\$7.6 billion, respectively.

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We continue to expect that internal cash generation will be insufficient to fund the company's investment program, requiring additional borrowings and leading to a gradual increase in leverage.

We project gross debt to rise to R\$81 billion by 2029 from about R\$40 billion in 2025. We believe there is a risk of further pressure on credit metrics--and a potential weakening of the stand-alone credit profile (SACP)--if capex increases beyond current expectations and annual tariff adjustments are lower than projected, or if the company accelerates its investment pace without a corresponding improvement in cash flow generation.

The scale of Sabesp's investment program increases execution complexity. Although these investments should support long-term growth and efficiency gains, the difficulties associated with executing such a high volume of capex weigh on our assessment of the company's management and governance.

Reinforcing our view is the recent incident in Mairiporã, which involved the collapse of a supporting reservoir under construction during testing. Although the financial and operational impact of this accident is limited, in our view, and the event may be isolated, it points to potential challenges in project oversight and execution controls. Despite this, Sabesp has been consistently strengthening its safety culture, which has been established this year as a companywide target and is directly linked to variable compensation. As Sabesp accelerates its investment pace, the risk of similar incidents may increase if governance standards, technical supervision, and risk monitoring frameworks are not consistently enforced across a growing number of projects.

The new concession contracts allow Sabesp to incorporate investments into tariffs on an annual basis, with a typical lag of about one year. This should support revenue growth even amid a more intensive capex cycle. For instance, the regulator approved a 10.65% tariff increase effectively in 2026, of which roughly 5% reflects the incorporation of prior-year capex, alongside manageable opex adjustments. In addition, SABESP achieved 100% compliance with its water and sewage targets in 2024–2025, indicating adequate execution of its investment program in line with its operational plan.

As a result, assuming tariff adjustments moderately above inflation to incorporate at least part of prior-year investments, we expect adjusted net debt to EBITDA to increase to 2.8x-3.0x in 2026 and 2027, from 2.3x in 2025. We expect a more pronounced impact on FFO to debt, dropping to about 17%-18% in the same period from 28.7% in 2025, especially considering higher interest expenses from increased indebtedness, in the context of still elevated basic interest rates in Brazil. And the indirect effects of the Middle East war on global markets could delay the expected interest rate cuts in Brazil.

Sabesp continues to pursue operating efficiencies, supporting a significant improvement in profitability in 2025. The adjusted EBITDA margin increased to 60.2% in 2025 from 47.2% in 2024. This performance reflects measures such as workforce optimization, migration to the free energy market, and a review of provisions for doubtful accounts during the year.

Looking ahead, we expect more gradual margin expansion, with adjusted EBITDA margins of 59%-64% through 2028, primarily supported by tariff adjustments that incorporate prior-year investments and volume growth from new connections. At the same time, we expect provisions for doubtful accounts to normalize at 2%-3% of our adjusted net revenues, partially offsetting the remaining benefits from cost reduction initiatives, as most gains from personnel optimization appear to have already been captured in 2025.

Outlook

The stable outlook on Sabesp reflects our expectation that the company's leverage will increase, considering the execution of its sizable investment plan of R\$16 billion annually, with debt to EBITDA rising to 2.8x-3.0x in 2026 from the current 2.3x. At the same time, we project FFO to debt to decline to 17%-18% from 28.7%, primarily because we expect higher indebtedness to fund its investments.

Downside scenario

Any negative rating action on the sovereign would likely trigger a downgrade of Sabesp because we limit its credit quality to that of Brazil. We could also take a negative rating action on Sabesp if it adopts a more aggressive financial policy, leading to FFO to debt falling below 13% and debt to EBITDA exceeding 4.5x consistently. This could result from debt-funded acquisitions, higher-than-expected dividend distributions, or a combination of both. Downside pressure could also arise from adverse hydrological conditions that materially affect operations or cash flow generation.

We could revise down the SACP to 'bb' if debt to EBITDA surpasses 3.5x or FFO to debt decreases below 15% consistently, combined with an expectation of a wider FOCF deficit.

Upside scenario

An upgrade of Sabesp over the next 12 months would depend on an upgrade of Brazil. Although unlikely, we could also revise up the company's SACP if it demonstrates sustained improvement in credit metrics, with debt to EBITDA maintained below 2.5x and FFO to debt near 35%. This would likely result from a track record of incorporating investments into the asset base, supporting additional cash generation, alongside meaningful efficiency gains, disciplined execution of the investment plan, a prudent approach to growth (including limited reliance on debt-funded acquisitions), and a conservative dividend policy.

Company Description

Brazil-based Sabesp is the largest water and sewage company in Latin America, based on net revenue. It supplies water to approximately 30 million people and provides sewage collection services to 27 million people. The company operates water and sewage systems in 375 municipalities in the state of São Paulo, which generates about 31% of Brazil's GDP. Following the privatization in July 2024, the state of São Paulo now has a 18% stake of Sabesp, followed by Equatorial (15%). The remaining 67% is free floating on the stock markets.

Our Base-Case Scenario

Assumptions

- Demand for water and sewage services is expected to increase 2.5%-3.5% in the next three years as Sabesp expands water and sewage coverage.
- In 2026, we include the tariff already approved by ARSESP of 10.65% but deduct the impact from noncash/regulatory items, reaching 8.7%.

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- For 2027 onward, we assume tariffs are adjusted by a spread of the capex executed in the previous year (incorporating 3% increase), and updated to Brazil's inflation, which we project to be 4.5% in 2026, 3.5% in 2027, and 3.0% in 2028, according to "[Economic Outlook Emerging Markets Q1 2026: AI Will Drive Trade Divergence In 2026](#)," published Nov. 24, 2025.
- Hydrological conditions are expected to be in line with historical averages in the foreseeable future.
- Investments will total R\$16 billion annually in 2026-2029.
- Sabesp's acquisition of Empresa Metropolitana de Águas e Energia S.A. (not rated) for R\$1.33 billion was already disbursed in first-quarter 2026.
- Dividend payouts will be 25% in 2026 and 50% in 2027 and 2028.
- Our adjusted debt figures include pension-related liabilities of about R\$2.1 billion and leases of R\$300 million.

Key metrics

Companhia de Saneamento Basico do Estado de Sao Paulo--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	17,192	19,972	21,614	22,058	24,427	27,032	29,687	32,459
Gross profit	9,884	12,015	13,574	14,568	16,807	19,145	21,563	24,092
EBITDA (reported)	7,096	9,137	18,187	14,808	14,296	16,511	18,814	21,222
Plus: Operating lease adjustment (OLA) rent	--	--	--	--	--	--	--	--
Plus/(less): Other	(24)	(23)	(8,094)	(1,725)	115	135	154	173
EBITDA	7,072	9,113	10,093	13,083	14,411	16,647	18,968	21,395
Less: Cash interest paid	(2,128)	(2,560)	(2,541)	(3,517)	(6,563)	(6,684)	(6,956)	(6,780)
Less: Cash taxes paid	(1,369)	(1,569)	(1,763)	(2,518)	(1,848)	(2,366)	(2,860)	(3,476)
Plus/(less): Other	--	--	552	1,347	1,478	1,559	1,646	1,664
Funds from operations (FFO)	3,575	4,985	6,341	8,395	7,477	9,156	10,797	12,803
EBIT	5,258	6,982	8,269	12,726	13,316	15,363	17,469	19,578
Interest expense	2,107	2,835	2,910	5,312	6,753	6,874	7,147	6,970
Cash flow from operations (CFO)	3,345	4,231	6,840	7,541	6,775	8,433	10,055	12,042
Capital expenditure (capex)	3,001	3,515	7,466	12,920	16,000	16,000	16,000	16,000
Free operating cash flow (FOCF)	343	716	(626)	(5,379)	(9,225)	(7,567)	(5,945)	(3,958)
Dividends	604	824	929	2,364	2,116	2,180	2,809	5,112
Share repurchases (reported)	--	--	--	475	--	--	--	--
Discretionary cash flow (DCF)	(260)	(108)	(1,555)	(8,218)	(11,340)	(9,747)	(8,753)	(9,070)
Debt (reported)	18,499	19,085	24,790	39,866	54,124	64,057	74,526	82,657
Plus: Lease liabilities debt	459	452	468	276	289	299	308	317
Plus: Pension and other postretirement debt	--	--	--	--	--	--	--	--
Less: Accessible cash and liquid Investments	(3,583)	(3,265)	(5,382)	(12,361)	(14,148)	(14,165)	(15,680)	(14,483)
Plus/(less): Other	2,150	2,143	1,864	2,140	2,140	2,140	2,140	2,140

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Companhia de Saneamento Basico do Estado de Sao Paulo--Forecast summary

Debt	17,526	18,414	21,740	29,921	42,405	52,331	61,294	70,631
Equity	27,334	29,857	36,928	42,401	46,196	49,633	53,640	56,840
FOCF (adjusted for lease capex)	343	716	(626)	(5,379)	(9,119)	(7,454)	(5,826)	(3,836)
Interest expense (reported)	1,366	2,049	2,240	4,299	6,561	6,682	6,954	6,778
Capex (reported)	3,624	4,139	8,031	13,740	16,000	16,000	16,000	16,000
Cash and short-term investments (reported)	3,583	3,265	5,382	12,371	13,797	13,814	15,329	14,132
Adjusted ratios								
Debt/EBITDA (x)	2.5	2.0	2.2	2.3	2.9	3.1	3.2	3.3
FFO/debt (%)	20.4	27.1	29.2	28.1	17.6	17.5	17.6	18.1
FFO cash interest coverage (x)	2.7	2.9	3.5	3.4	2.1	2.4	2.6	2.9
EBITDA interest coverage (x)	3.4	3.2	3.5	2.5	2.1	2.4	2.7	3.1
CFO/debt (%)	19.1	23.0	31.5	25.2	16.0	16.1	16.4	17.0
FOCF/debt (%)	2.0	3.9	(2.9)	(18.0)	(21.8)	(14.5)	(9.7)	(5.6)
DCF/debt (%)	(1.5)	(0.6)	(7.2)	(27.5)	(26.7)	(18.6)	(14.3)	(12.8)
Lease capex-adjusted FOCF/debt (%)	2.0	3.9	(2.9)	(18.0)	(21.5)	(14.2)	(9.5)	(5.4)
Annual revenue growth (%)	13.7	16.2	8.2	2.1	10.7	10.7	9.8	9.3
Gross margin (%)	57.5	60.2	62.8	66.0	68.8	70.8	72.6	74.2
EBITDA margin (%)	41.1	45.6	46.7	59.3	59.0	61.6	63.9	65.9
Return on capital (%)	12.1	15.0	15.5	19.4	16.5	16.1	16.1	16.2
Return on total assets (%)	9.5	11.8	11.6	13.7	11.7	11.8	12.1	12.4
EBITDA/cash interest (x)	3.3	3.6	4.0	3.7	2.2	2.5	2.7	3.2
EBIT interest coverage (x)	2.5	2.5	2.8	2.4	2.0	2.2	2.4	2.8
Debt/debt and equity (%)	39.1	38.1	37.1	41.4	47.9	51.3	53.3	55.4
Debt fixed-charge coverage (x)	3.4	3.2	3.5	2.5	1.2	1.8	2.1	1.9
Debt/debt and undepreciated equity (%)	39.1	38.1	37.1	41.4	47.9	51.3	53.3	55.4

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

Liquidity

We expect Sabesp's cash sources to exceed uses by more than 1.1x in 2026, supported by the prefunding of its financing needs, with over R\$14 billion in new debt issued between January and February 2026. The company also ended 2025 with a solid cash position of R\$12.7 billion, and we project operating cash generation of approximately R\$7.5 billion in 2026. In addition, we view Sabesp's debt maturities as manageable, as the company has been actively issuing long-term instruments.

However, elevated capex, which can exceed R\$16 billion in 2026, will strain cash flow generation. As a result, we expect the company to continue accessing local and international capital and debt markets to address significant financing needs.

Principal liquidity sources	Principal liquidity uses
<ul style="list-style-type: none"> Cash position of R\$12.4 billion as of Dec. 31, 2025 	<ul style="list-style-type: none"> Short term debt of R\$5.1 billion in 2026

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- Projected cash FFO of around R\$7.5 billion in 2026
- New debt (debentures and IDB loan) totaling R\$14.1 billion issued in first-quarter 2026
- Working capital outflows of around R\$700 million in the next 12 months
- Total investments of about R\$16 billion in 2026, most of which is already funded
- Dividends of around R\$2.1 billion in 2026, assuming 25% of dividend payout in 2026

Covenants

Sabesp's debenture issuances have stricter financial covenants, including:

- Net debt to EBITDA of up to 3.5x; and
- EBITDA interest coverage of at least 1.5x.

These financial covenants are measured on a quarterly basis, and debt payment acceleration would occur only if the company cannot comply for two consecutive or nonconsecutive quarters in a 12-month period.

We expect Sabesp to comply with its covenants in the next three years, although with tighter covenant headroom of about 15% in 2028, as the company advances on its investment plan and takes on additional debt. Nevertheless, we see upside potential in its leverage metrics, measured by net debt to EBITDA relative to our base case, considering the potential for higher cash generation from tariff increases as investments are executed.

In addition, the company's covenant calculation methodology includes the financial asset adjustment--a noncash line that we take off from EBITDA. We expect this adjustment will increase considering the company's significant investment plan, providing additional room for covenant compliance.

Finally, the covenant's methodology doesn't incorporate the pension adjustment in the adjusted debt figures.

Environmental, Social, And Governance

Environmental factors are a negative consideration in our credit rating analysis of Sabesp. As a water utility, its operations continue to depend on hydrological conditions, especially in the São Paulo metropolitan area where the main reservoirs are located. Adverse conditions--such as water scarcity or rationing--could reduce consumption volumes, while service disruptions or supply constraints may impair billing and collections, ultimately weakening revenue generation and credit metrics. This risk is partially mitigated by the integration of the company's main reservoir systems, which enhances operational flexibility and supply management.

We assess governance aspects as moderately negative, reflecting execution risks associated with Sabesp's expanding capex program. While the recent incident in Mairiporã appears isolated and had limited financial impact, it highlights challenges in project oversight and risk management. As investment activity accelerates, the risk of similar issues may increase if controls and supervision are not consistently enforced.

Issue Ratings--Recovery Analysis

Key analytical factors

- Following its privatization, Sabesp transitioned into a widely held corporation without a controlling shareholder, which in principle makes it subject to the Brazilian Bankruptcy and Restructuring Law. This represents a change from its previous status as a state-controlled entity, which was not eligible for judicial recovery proceedings. Therefore, we are now assigning recovery ratings to Sabesp Lux S.a r.l.'s and NOVA Securitisation S.a.r.l.'s debt.
- Our recovery rating of '3' on the senior unsecured notes reflects the recovery prospects of approximately 65% for Sabesp's unsecured creditors in a hypothetical default scenario. Thus, we align the issue rating with our 'BB' issuer credit rating.
- Pro forma the IDB AB loan and other recently issued debt, we estimate the company's consolidated capital structure will consist of R\$53 billion in gross debt, of which R\$2.7 billion is secured. The debt is issued at the holding, at the same level of its operations. Thus, there is no structural subordination.
- In our hypothetical default scenario, Sabesp would be restructured rather than liquidated, due to the stable and predictable nature of its concession contract for providing water and sewage services in the state of São Paulo. Our scenario would occur amid a prolonged recession in the country and increasing execution risks for its investments. Such factors would increase default rates in the company's concession, reducing its cash flow and increasing its working capital needs.
- Our projected emergency EBITDA in the year of default would be approximately R\$9 billion. This amount, combined with a multiple of 6.0x applied to EBITDA, results in a total gross enterprise value (EV) of R\$54.3 billion

Simulated default assumptions

- Year of default: 2031
- Emergency EBITDA: R\$9 billion
- EBITDA multiple: 6.0x
- Jurisdiction: Brazil

Simplified waterfall

- Net EV after administrative costs of 5%: R\$51.6 billion
- Secured debt: R\$1.7 billion
- Sabesp's senior unsecured debt: R\$53 billion
- Expected recovery for Sabesp's senior unsecured debt: '3' (65%)

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Rating Component Scores

Component	
Foreign currency issuer credit rating	BB/Stable/--
Local currency issuer credit rating	BB/Stable/--
Business risk	Satisfactory
Country risk	Moderately high risk
Industry risk	Very low risk
Competitive position	Satisfactory
Financial risk	Significant
Cash flow/leverage	Significant
Anchor	bb+
Modifiers	
Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Adequate
Management and governance	Moderately Negative
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
- [Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments](#), Jan. 20, 2016
- [General Criteria: Rating Government-Related Entities: Methodology And Assumptions](#), March 25, 2015
- [Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#), Dec. 16, 2014
- [General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions](#), Nov. 19, 2013
- [General Criteria: Methodology: Industry Risk](#), Nov. 19, 2013
- [General Criteria: Country Risk Assessment Methodology And Assumptions](#), Nov. 19, 2013

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- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011

Ratings List

Ratings List

Ratings Affirmed

[Companhia de Saneamento Basico do Estado de Sao Paulo](#)

Issuer Credit Rating	BB/Stable/--
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Ratings Affirmed; New Recovery Rating

[NOVA Securitisation S.a.r.l.](#)

Senior Unsecured	BB
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Recovery Rating	3(65%)
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[Sabesp Lux S.a.r.l.](#)

Senior Unsecured	BB
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Recovery Rating	3(65%)
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