S&P Global Ratings

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Companhia de Saneamento Basico do Estado de Sao Paulo

July 31, 2025

This report does not constitute a rating action.

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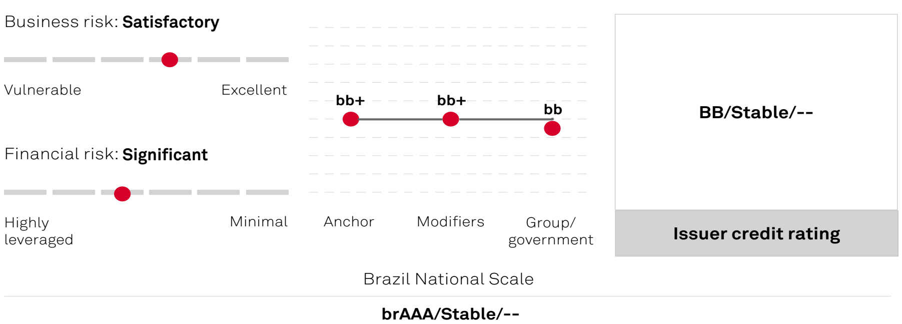
Ratings Score Snapshot



Credit Highlights

Overview

Key strengths	Key risks
Stable and resilient cash flow generation.	Challenging execution risk of its five-year more than Brazilian real (R$) 60 billion capital expenditure (capex) plan.
Comfortable credit metrics as it funds its sizable investment program.	Increasing pressure on SABESP's cash flows due to high interest rates.
Latin America's largest water and sewage utility by net revenue.	Operations remain exposed to rainfall variability.
	Exposure to rating actions on Brazil.

Despite more than Brazilian real (R$) 60 billion in investments in the next five years, leverage will remain controlled. Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP) has committed to achieving a universalization target of 99% water and sewage coverage across its concessions by December 2029 (from current 98% and 85%, respectively), which will require investments of more than R$60 billion. Given the inherent execution risks due the sizable investment program, we will monitor the implementation of investments, which will total R$15 billion to R$16 billion annually in 2025-2027 and R$10 billion to R$11 billion in 2028 and 2029, compared to an average of R$5 billion annually in the past few years.

Still, S&P Global Ratings projects SABESP will maintain net debt to EBITDA between 2.5x-3.5x (from 2.0x in the first quarter of 2025) in the next couple years, while funds from operations (FFO) to debt is likely to decline to around 15% in the next three years (from 28.1% in March 2025) due to higher leverage and increased interest expenses in Brazil. The higher debt reflects our expectation that the company will fund its investments with a combination of internal cash generation and long-term debt, based on its proven access to international and domestic capital markets, commercial and development banks, and multilateral lending agencies. For instance, throughout 2025 SABESP has already issued approximately R$9.8 billion through its 33rd debentures issuance, the US$600 million loan agreement with the International Finance Corp. (IFC) and the recently issued US$500 million unsecured notes.

In May 2025, the company announced the acquisition of two public-private partnerships from Iguá Saneamento (brA/Stable/--), Águas de Andradina, and Águas de Castilho for less than R$100 million. These are small and mature concessions that won't affect SABESP's credit metrics. In our base-case, we don't consider new acquisitions, as they are uncertain and depend on auctions. Nevertheless, we believe SABESP's growth strategy could include selective participation in upcoming sanitation auctions especially in the state of São Paulo, although the company's primary focus remains on delivering its more than R$60 billion investment plan within its current concession area.

SABESP is advancing on unlocking efficiencies, bolstering margins. Following the appointment of a new board and senior management at the end of 2024, SABESP focused in the first half of 2025 on optimizing leadership teams, as well as improving technology and internal processes. In January 2025, the company concluded its voluntary termination program, with an adoption rate of 20% (equivalent to 2,039 employees). Despite this reduction, management aims to rebalance the workforce structure by reducing reliance on outsourced personnel, who currently represent the majority of the company's staff. On the commercial side, SABESP has been revising discount policies for large clients and advancing the connection of new users—efforts that are already translating into higher revenues.

For example, our adjusted EBITDA margin for SABESP improved to 49.1% in March 2025 from 46.2% in March 2024 (on a rolling 12-month basis). We expect SABESP's EBITDA margin to increase more significantly in 2025, reaching around 55%--in line with the first quarter's performance--as the above-mentioned initiatives are more immediately reflected in results. From 2026 onward, we forecast more gradual operational improvements, with EBITDA margins in the 55%-60% range in the long term, as the company focuses on executing its sizable investment plan to expedite the goal of universal service access, adapt to the new concession contracts, prepare for annual tariff reviews, and improve operational efficiencies.

SABESP remains a strategic asset to the state of São Paulo. Despite the reduction in the state's equity stake following the privatization to 18% from 50.3%, we continue to view the government of São Paulo as a key stakeholder, and SABESP as a government-related entity (GRE), with a moderately high likelihood of receiving extraordinary support from the state. The state's retention of a golden share, combined with the poison pill mechanism that prevents concentration of ownership above 30%, signals ongoing interest in preserving SABESP's strategic direction and public role.

Additionally, 100% of the dividends received by the state--stemming from its remaining 18% stake--will be deposited in the Support Fund for the Universalization of Sanitation in the State of

São Paulo through 2029, which can be used to mitigate potential tariff increases during the investment-heavy period. In our view, this reinforces the likelihood of extraordinary support, if needed, which is a sign of potential support.

In general, the credit quality of the Brazilian local and regional governments (LRGs) usually limits those of the entities they control. We attribute varying degrees of likelihood of support from LRGs to these companies. However, we also believe LRGs might intervene by redirecting financial resources, and could therefore, weaken GREs--especially amid fiscal strains. We tested SABESP's resilience to a hypothetical default of the state of São Paulo. Possible stressors included an extraordinary increase in state tax, a delay in adjusting rates, and much higher working capital needs because of an increase in delinquency levels. We expect SABESP to be relatively resilient to such a hypothetical scenario. Nevertheless, as a regulated utility, SABESP’s credit quality remains closely tied to the country’s economic and institutional environment in our view. As such, we cap our ratings on the company at the level of the sovereign.

Outlook

The stable outlook on SABESP reflects our expectation that the company will successfully execute its substantial annual investments of approximately R$15 billion while maintaining strong credit metrics over the next 12 months. We expect a debt-to-EBITDA ratio between 2.5x and 3.5x and a FFO-to-debt ratio around 15%. Additionally, we expect SABESP to maintain adequate liquidity, with sources comfortably exceeding uses over 1.1x. As a regulated utility, the company is also sensitive to Brazil's economic conditions; therefore, we cap our ratings on SABESP at the same level as those of the sovereign (BB/Stable/B).

Downside scenario

Any negative rating action on the sovereign would trigger a downgrade of SABESP because we limit its credit quality to that of Brazil. We could revise downward the company's stand-alone credit profile (SACP) in case of aggressive credit ratios, with FFO to debt consistently below 13% and debt to EBITDA above 3.5x, which could result from significant dividend distributions combined with a concentration of investments in specific years and/or a large debt-financed acquisition.

Upside scenario

An upgrade of SABESP in the next 12 months would rely on an upgrade of Brazil. We could revise the company's SACP upward if it maintains a debt to EBITDA below 2.5x and FFO to debt near 35%, mostly because of significant efficiency gains and low dividend distributions. The national scale rating is already at the highest level possible.

Our Base-Case Scenario

Assumptions
• Demand for water and sewage services to increase by 2%-3% as SABESP expands water and sewage coverage. • For 2026 onward, we assume tariffs are adjusted by a spread of the capex executed in the previous year, and updated to Brazil's inflation, which we project to be 5.1% in 2025, 4.5% in 2026, and 3.5% in 2027, according to our report: "Economic Outlook Emerging Markets Q3 2025: Tariffs' Direct Impact Is Modest So Far, But Indirect Effect Will Feed

Through," June 24, 2025. Following privatization, residential tariffs were reduced by 1%, social and vulnerable customers decreased by 10%, and all other rates saw a reduction of 0.5%, applicable only to the first consumption tier (defined as monthly usage up to 10 cubic meters).

- Hydrology conditions in line with historical averages in the foreseeable future.
- Average investments of R$15 billion-R$16 billion annually in 2025-2027, and about R$10 billion-R$11 billion in 2028 and 2029.
- About R$471 million of cash inflows to be received in first-half 2025, following an agreement with the government of São Paulo on registered warrants.
- Dividend payouts of 25% in 2025 and 2026, and 50% in 2027 and 2028. In 2025, the company already paid R$2.5 billion in dividends in May.
- Our adjusted debt figures include pension-related liabilities of about R$1.9 billion.

Key metrics

(Mil. R$)	2023	2024	2025e	2026f	2027f
Water and sewage volume (000s m³)	4,206	4,319	~4,400	~4,500	~4,700
Revenue	19,971.7	21,614.3	22,000-22,500	24,000-24,500	26,000-26,500
EBITDA	9,113.3	10,092.9	12,300-12,800	13,700-14,200	15,500-16,000
Funds from operations (FFO)	4,985.0	5,788.7	5,900-6,400	6,400-6,900	7,300-7,800
Interest expense	2,834.6	2,910.0	4,000-4,300	5,200-5,500	5,500-5,800
Capex	3,515.4	7,466.4	~15,000	~16,000	~13,000
Free operating cash flow (FOCF)	715.8	(626.1)	~(9.000)	~(10.000)	~(6.500)
Dividends	823.7	928.9	2.548	1,000-1,200	1,800-2,000
Discretionary cash flow (DCF)	(107.9)	(1,555.0)	~(11.500)	~(11.300)	~(7.700)
Accessible cash & liquid investments	3,265.2	5,382.3	~3,000	~3,000	~3,000
Net debt	18,414.0	21,739.7	33,000-34,000	44,000-45,000	52,000-53,000
EBITDA margin (%)	45.6	46.7	53-57	56-60	56-60
Debt/EBITDA (x)	2.0	2.2	~2.5	3.0-3.5	3.0-3.5
FFO/debt (%)	27.1	26.6	15-20	~15	~15
FFO cash interest coverage (x)	2.9	3.3	~2.5	2.0-2.5	2.0-2.5
FOCF/debt (%)	3.9	(2.9)	(30)-(25)	(25)-(20)	(12)-(7)

*All figures adjusted by S&P Global Ratings. e--Estimated. f--Forecast. R$--Brazilian real.

Company Description

Brazil-based SABESP is the largest water and sewage company in Latin America, based on net revenue. It supplies water to 28.1 million people and provides sewage collection services to 24.9 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 (not rated) now has a 18% stake of SABESP, followed by Equatorial (15%). The remaining 67% is free floating on the stock markets.

Peer Comparison

We selected as peers regulated utilities, some of which are GREs (except for Aegea), rated in the 'BB' category (Aegea is not rated on the global scale). When compared with the other water utilities, SABESP has a much larger scale, along with solid governance standards, financial resilience, and a track record of a hands-off approach by its major shareholder, which helps mitigate the likelihood of government interference. We believe this will remain the case in the next few years, because SABESP plays a large role in terms of public investment in Brazil's economy and is an essential service provider.

SABESP's domestic peer--Aegea--is a player that has expanded its scale through acquisitions in recent years and has incurred higher leverage to do so. Meanwhile, while SABESP will also incur higher debt to execute its investment plan, its credit metrics are stronger than Aegea's, as the former has more mature concessions and operates under a more transparent and robust regulatory framework, regulated by Agência Reguladora de Saneamento e Energia do Estado de São Paulo (ARSESP).

Eletrobras is Brazil's largest integrated electricity utility group, focusing on generation with approximately 44 gigawatts in installed capacity, and transmission with roughly 74,100 kilometers of lines. Similarly to SABESP, in June 2022 Eletrobras underwent a privatization process, in which the government reduced its stake to 42% (down from 61% directly and indirectly). We assess the likelihood of extraordinary support from the Brazilian government to Eletrobras as high, given Eletrobras' critical role for the government and the country's electricity system, as well as its strong link with the government even after the privatization. Likewise, we assess a moderately high likelihood of SABESP receiving extraordinary support from the state. This reflects the important role that the company plays for the state of São Paulo as an essential service provider, combined with its strong link with the government, since the latter continues having significant influence on the company.

We also rate China Water Affairs and Rand Water in the 'BB' category. They operate in similar sectors to SABESP, but their regulatory framework structures and risk profiles are different. China Water is a private utility company in China with a diversified portfolio across provinces and has greater flexibility in managing capex and funding, supported by the regulatory frameworks and urban growth. Rand Water, on the other hand, is a fully state-owned South African utility company that--despite its scale--faces operational challenges such as high water losses and aging infrastructure. While both are essential service provides, China Water shows stronger financial and operational discipline, whereas Rand Water has higher execution and governance risk.

Companhia de Saneamento Basico do Estado de Sao Paulo--Peer comparisons

	Companhia de Saneamento Basico do Estado de Sao Paulo	AEGEA Saneamento e Participacoes S.A.	Eletrobras-Centrais Eletricas Brasileiras S.A.	Rand Water	China Water Affairs Group Ltd.
(Mil. R$)					
Revenue	21,614	16,201.0	40,137.2	6,634.3	8,240.8
EBITDA	10,093	8,521.6	22,449.3	1,208.3	2,855.1
Funds from operations (FFO)	5,789	5,539.8	14,310.1	1,091.0	1,648.4
Interest	2,910	3,569.9	7,316.0	117.3	903.2
Cash interest paid	2,541	2,344.5	6,650.9	117.3	903.2

Operating cash flow (OCF)	6,840	2,367.6	12,385.6	1,326.0	1,968.6
Capital expenditure	7,466	5,220.8	7,386.4	467.7	3,365.4
Free operating cash flow (FOCF)	(626)	(2,853.2)	4,999.2	858.3	(1,396.8)
Discretionary cash flow (DCF)	(1,555)	(4,409.8)	3,576.2	858.3	(1,872.1)
Cash and short-term investments	5,382	6,718.9	35,524.4	2,770.1	3,872.1
Debt	21,740	39,551.3	100,390.5	0.0	13,774.5
Equity	36,928	14,736.5	121,999.8	12,249.6	13,748.6
EBITDA margin (%)	46.7	52.6	55.9	18.2	34.6
Return on capital (%)	15.5	15.4	11.4	12.0	8.7
EBITDA interest coverage (x)	3.5	2.4	3.1	10.3	3.2
FFO cash interest coverage (x)	3.3	3.4	3.2	10.3	2.8
Debt/EBITDA (x)	2.2	4.6	4.5	0.0	4.8
FFO/debt (%)	26.6	14.0	14.3	NM	12.0
OCF/debt (%)	31.5	6.0	12.3	NM	14.3
FOCF/debt (%)	(2.9)	(7.2)	5.0	NM	(10.1)
DCF/debt (%)	(7.2)	(11.1)	3.6	NM	(13.6)

Business Risk

ARSESP sets the company's regulatory framework, which we view as transparent. After the privatization, SABESP's rate reviews will be applied annually from 2026 to 2029, which will allow it to capture its large investments into its regulatory asset base and pass through costs into rates until 2034. We view this as positive considering the large investment plan. Previously, the company was subject to four-year review cycles with lower incentives for investments. Following the new concession agreement signed in July 2024, SABESP implemented a new tariff structure for the year, which reduced residential tariffs by 1%, social and low-income tariffs by 10%, and all other categories by 0.5%. These adjustments applied exclusively to the first consumption tier, defined as monthly usage up to 10 cubic meters. However, starting in 2026 tariff adjustments will incorporate the investments made.

The privatization of SABESP was positive on a regulatory and business standpoint, but lacks a track record of execution. The privatization also included the extension of SABESP's concessions in 371 municipalities until 2060 (from concession terms between 2025-2040) as well as improvements in regulations. Those include better defined operational and commercial parameters, which reduce regulatory discretion and allow for higher revenue, including the annual rate reviews mentioned above. Nonetheless, since the privatization is recent and the new management has recently taken office, we expect SABESP's operational improvements to be gradual. We believe that the regulatory framework ensures that SABESP can continue investing to improve the service provision in the municipalities where it operates.

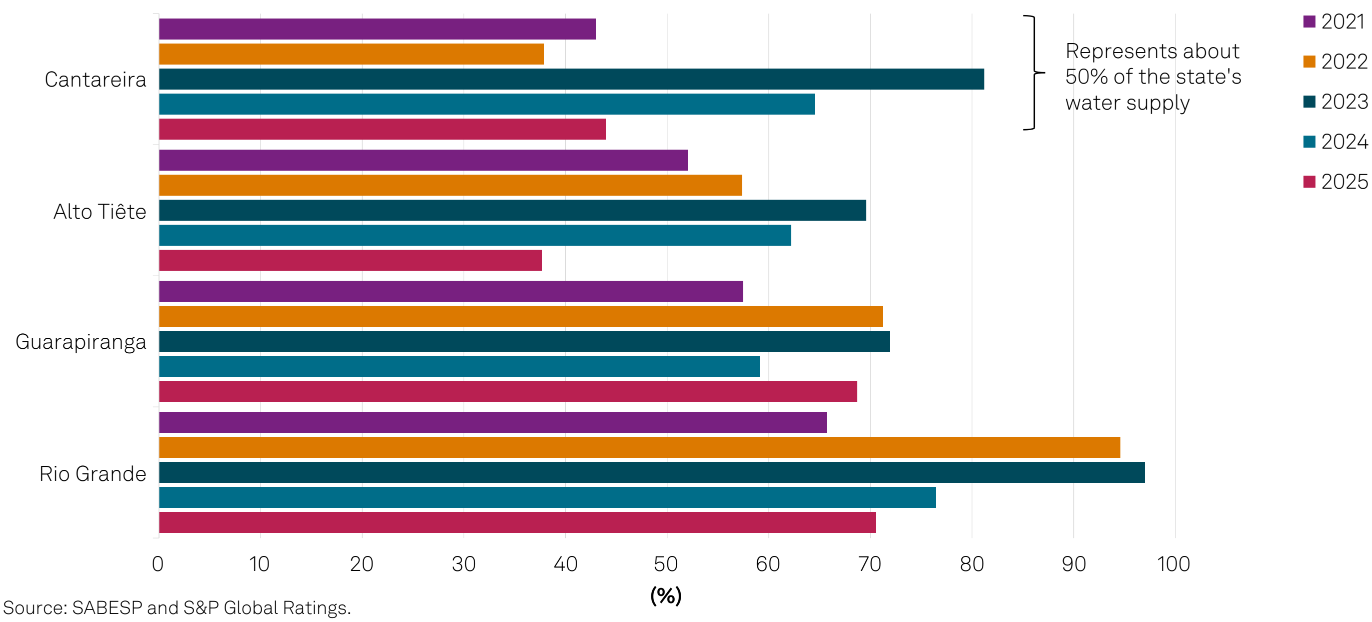
We believe that SABESP can leverage the proven track record of its shareholder, Equatorial (brAAA/Stable/--), in successfully turning around utility operations, as demonstrated with its electricity distribution subsidiaries. Additionally, we expect the company to benefit from increased flexibility in procurement and personnel management, which should gradually enhance its operational efficiency and profit margins.

Previous investments improved resilience of SABESP's reservoirs. Since the severe 2014–2015 drought, the company has undertaken several initiatives to interconnect its water reservoirs serving the São Paulo metropolitan area, while also expanding storage capacity and improving infrastructure. These efforts position SABESP well to handle droughts, reflecting more resilient operational and financial performances.

As of July 16, 2025, water levels at SABESP's main reservoirs--Cantareira and Alto Tietê, which together supply about 70% of the metropolitan area--stood at 44% and 37%, respectively. Although these levels are lower than in the previous two years, both reservoirs remain in line with average historical levels, while Brazil is in the peak of the dry season. Nevertheless, to maintain a stable water supply, SABESP continues to integrate systems, promote water conservation, and monitor reservoir levels daily, adjusting operations as necessary. The company is also prepared to implement additional measures if adverse weather conditions or further drops in water levels occur, demonstrating its capacity to sustain resilient operations and minimize supply risks amid ongoing climate challenges.

Level of SABESP's largest reservoirs

Annual comparison on July 16th

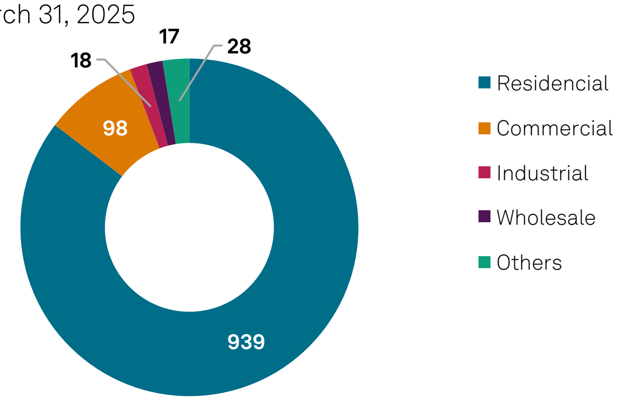


Source: SABESP and S&P Global Ratings.

Stable demand from residential customer base. With about 88% of its clients in the residential segment, SABESP benefits from stable demand, as household water consumption tends to remain inelastic even during economic downturns.

Clients breakdown by billed volume

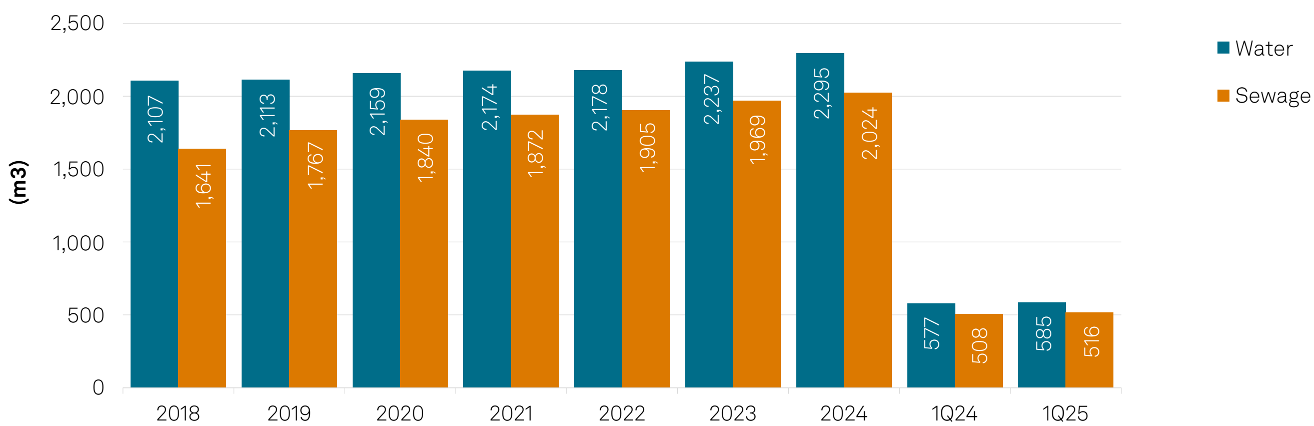
As of March 31, 2025



Source: SABESP and S&P Global Ratings.

In addition, SABESP primarily operates in the São Paulo metropolitan area, which accounts for approximately 70% of its revenue. With concessions renewed through 2060, we continue to expect resilient and gradually increasing revenue, supported mainly by the expansion of sewage services as investments advance.

Billed volume



Source: S&P Global Ratings.

Financial Risk

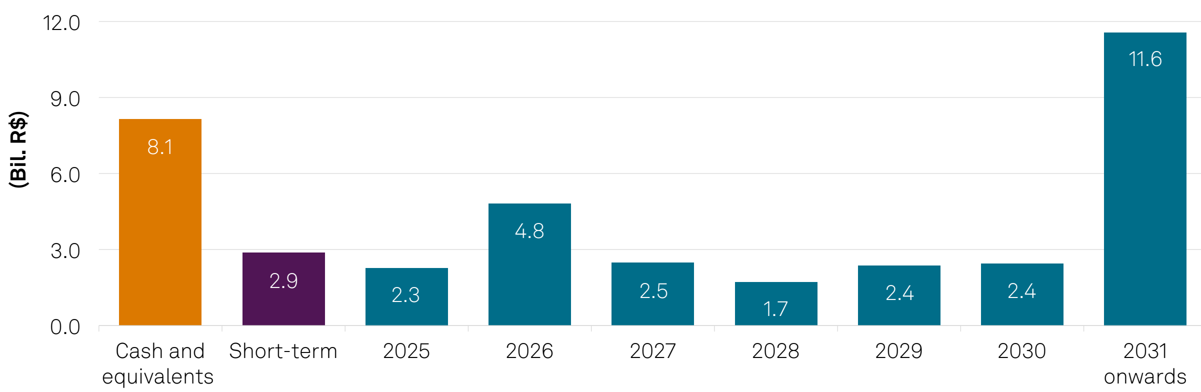
SABESP plans to invest more than R$60 billion by 2029 to meet its targets of 99% water and sewage coverage across its concession areas. Over the next two to three years, SABESP will focus on the Integra Tietê initiative, which aims to clean up the Tietê river--the largest one in the São Paulo metropolitan area--alongside expanding sewage treatment by connecting new clients and increasing treatment capacity. The investment program also includes efficiency improvements, water quality enhancements, reduction of water losses, and maintenance of the existing asset base. Despite the sizable capex, we do not expect a material deterioration in credit metrics, as we expect the new investments to generate additional cash flows. We project net debt to EBITDA to peak between 3.0x-3.5x (from 2.0x in the first quarter of 2025) in 2027, while FFO to debt is likely to decline to around 15% in the next few years, down from 28.1%.

We believe that SABESP will finance its projected free operating cash flow (FOCF) shortfall of about R$9 billion-R$10 billion in the next two years with debt, based on its proven access to international and domestic capital markets, commercial and development banks, and multilateral lending agencies. The new dividend policy establishes that payouts increase following the completion of the investment program, which should allow the company to preserve its cash position.

Debt maturities

Amortization schedule

As of March 31, 2025



Source: SABESP and S&P Global Ratings.

Companhia de Saneamento Basico do Estado de Sao Paulo--Financial Summary

Period ending	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024
Reporting period	2019a	2020a	2021a	2022a	2023a	2024a
Display currency (mil.)	R$	R$	R$	R$	R$	R$
Revenues	13,700	13,800	15,114	17,192	19,972	21,614
EBITDA	6,299	6,200	6,366	7,072	9,113	10,093
Funds from operations (FFO)	4,106	4,962	4,011	3,575	4,985	5,789
Interest expense	1,269	1,210	1,294	2,107	2,835	2,910
Cash interest paid	971	865	1,146	2,128	2,560	2,541
Operating cash flow (OCF)	3,964	4,740	3,613	3,345	4,231	6,840
Capital expenditure	3,040	3,104	3,446	3,001	3,515	7,466
Free operating cash flow (FOCF)	924	1,636	167	343	716	(626)
Discretionary cash flow (DCF)	184	746	(87)	(260)	(108)	(1,555)
Cash and short-term investments	2,253	3,808	3,151	3,583	3,265	5,382
Gross available cash	2,253	3,808	3,151	3,583	3,265	5,382
Debt	14,352	16,320	16,894	17,526	18,414	21,740

Companhia de Saneamento Basico do Estado de Sao Paulo--Financial Summary

Common equity	21,636	22,794	24,932	27,334	29,857	36,928
Adjusted ratios						
EBITDA margin (%)	46.0	44.9	42.1	41.1	45.6	46.7
Return on capital (%)	14.1	11.8	10.9	12.1	15.0	15.5
EBITDA interest coverage (x)	5.0	5.1	4.9	3.4	3.2	3.5
FFO cash interest coverage (x)	5.2	6.7	4.5	2.7	2.9	3.3
Debt/EBITDA (x)	2.3	2.6	2.7	2.5	2.0	2.2
FFO/debt (%)	28.6	30.4	23.7	20.4	27.1	26.6
OCF/debt (%)	27.6	29.0	21.4	19.1	23.0	31.5
FOCF/debt (%)	6.4	10.0	1.0	2.0	3.9	(2.9)
DCF/debt (%)	1.3	4.6	(0.5)	(1.5)	(0.6)	(7.2)

Reconciliation Of Companhia de Saneamento Basico do Estado de Sao Paulo Reported Amounts With S&P Global Adjusted Amounts (Mil. R$)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2024									
Company reported amounts	24,790	36,928	36,145	18,187	15,510	2,240	10,093	7,405	929	8,031
Cash taxes paid	-	-	-	-	-	-	(1,763)	-	-	-
Cash interest paid	-	-	-	-	-	-	(1,977)	-	-	-
Lease liabilities	468	-	-	-	-	-	-	-	-	-
Accessible cash and liquid investments	(5,382)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	-	-	564	(564)	(564)	-	(564)
Income (expense) of unconsolid. cos.	-	-	-	(35)	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	817	-	-	-	-	-
Debt: Workers comp/ self insurance	1,931	-	-	-	-	-	-	-	-	-
Debt: Derivatives	(67)	-	-	-	-	-	-	-	-	-
Revenue: other	-	-	(14,531)	(14,531)	(14,531)	-	-	-	-	-
COGS: Valuation gains/(losses)	-	-	-	24	24	-	-	-	-	-
COGS: other nonoperating nonrecurring items	-	-	-	6,086	6,086	-	-	-	-	-

Reconciliation Of Companhia de Saneamento Basico do Estado de Sao Paulo Reported Amounts With S&P Global Adjusted Amounts (Mil. R$)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
SG&A: Valuation gains/(losses)	-	-	-	82	82	-	-	-	-	-
EBITDA: other	-	-	-	280	280	-	-	-	-	-
Interest expense: other	-	-	-	-	-	106	-	-	-	-
Working capital: Taxes	-	-	-	-	-	-	-	1,763	-	-
Working capital: other	-	-	-	-	-	-	-	1,977	-	-
OCF: Taxes	-	-	-	-	-	-	-	(1,763)	-	-
OCF: other	-	-	-	-	-	-	-	(1,977)	-	-
Total adjustments	(3,051)	-	(14,531)	(8,094)	(7,242)	670	(4,304)	(564)	-	(564)
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	21,740	36,928	21,614	10,093	8,269	2,910	5,789	6,840	929	7,466

Liquidity

We expect SABESP to maintain adequate liquidity, with cash sources exceeding uses by at least 10% in the next 12 months, while the company will continue complying with its financial covenants. SABESP's current cash on hand is more than sufficient to cover its debt maturities, working capital, and dividends in the next 12 months. In our view, the company has flexibility to absorb high-impact, low-probability events with limited refinancing risk, thanks to its resilient operations that withstood the 2015 drought and have since benefited from continued investment. In addition, SABESP has ample access to the debt markets, and sound relationships with public and private banks and multilateral lending agencies.

Principal liquidity sources

- Consolidated cash and liquid investments of R$8.1 billion as of March 31, 2025;
- Projected cash FFO of about R$7.0 billion in the next 12 months;
- R$415.8 million of cash inflows following the agreement with the government of São Paulo on registered warrants; and

Debt issuance of R$ 4.5 billion during the second quarter of 2025.

Principal liquidity uses

- Short-term debt maturities of R$2.9 billion as of March 31, 2025;
- Working capital outflows of about R$700 million in the next 12 months;
- Minimum maintenance and expansion annual investments of about R$11 billion; and
- Dividends of R$ 2.1 billion.

Covenant Analysis

Requirements

SABESP has several financial covenants on its debt contracts and has complied with all of them as of March 2025. The company'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.

Compliance expectations

We expect SABESP to remain compliant with its financial covenants over the next few quarters, even amid exchange rate volatility. Although 11% of its debt is denominated in foreign rates--U.S. dollars and Japanese yen--we don’t expect debt to increase due to foreign exchange movements, as SABESP fully hedges the principal on all foreign-denominated debt.

We expect tighter covenant headroom in 2027, of about 10%, 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 non-cash line that we take off from our EBITDA. We believe this adjustment should increase going forward considering the company’s significant investment plan, providing additional room for covenant compliance.

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. This risk was mitigated by integration of the company’s main reservoirs.

Social factors have an overall neutral influence on the rating. Our analysis incorporates SABESP’s critical role in providing services to the state of São Paulo--the country’s wealthiest and most populous state--to which the company provides water services to 98% of its residents and sewage service to 93%, much higher than the national average of 52%.

We assess governance factors as a neutral consideration. Despite the privatization, we still view SABESP as having a strong link with the government, because the latter continues having significant influence on the company. Moreover, although the state no longer controls SABESP, it remains the largest shareholder, appointing three out of nine board members. We believe that SABESP has solid governance standards, especially after the privatization, limiting the likelihood of the state intervening in its operations by redirecting financial resources, which could weaken the GRE, especially amid the government's fiscal strains. In addition, the state of Sao Paulo has a record of a hands-off approach toward GREs, all of which help mitigate the risk of potential interference.

Rating Above The Sovereign

As a regulated utility, the company is sensitive to Brazil's overall economic conditions, so we cap our ratings on SABESP by those on the sovereign (BB/Stable/B).

Issue Ratings--Subordination Risk Analysis

Capital structure

We rate the following issuances of SABESP's and its fully owned subsidiary Sabesp Lux S.à r.l. The unsecured notes of Sabesp Lux are unconditionally and irrevocably guaranteed by SABESP. In this sense, the ratings on the notes reflect the parent's credit quality.

Companhia de Saneamento Basico do Estado de Sao Paulo--Debt-level ratings

Issue	Amount (as of March 31, 2025)	Maturity	Rating
23rd debentures issuance	R$374 million	May, 2027	brAAA
24th debentures issuance	R$552 million	July, 2029	brAAA
26th debentures issuance	R$1,406 million	July, 2030	brAAA
27th debentures issuance	R$ 500 million	December, 2027	brAAA
28th debentures issuance	R$1.071 million	July, 2028	brAAA
Sabesp Lux S.à r.l.			
Senior unsecured notes	$500 million	August, 2030	BB

Considering the debt position as of March 31, 2025--and pro -forma the new issuance of Sabesp Lux and new debentures' issuances--the group's capital structure consists of about R$30.5 billion in debt, including its senior unsecured debt.

Analytical conclusions

All the issue-level ratings on SABESP and its subsidiary SABESP Lux are at the same level as our global and national scale issuer credit ratings on the company. This is because SABESP issued all the rated debt at the operating level, and less than 10% of its debt is secured. Consequently, we don't believe unsecured creditors are in significant disadvantage relative to creditors that benefit from guarantees.

Rating Component Scores	
Foreign currency issuer credit rating	**BB/Stable/--**
Local currency issuer credit rating	**BB/Stable/--**
Business risk	**Satisfactory**
Country risk	Moderately High
Industry risk	Very Low
Competitive position	Satisfactory
Financial risk	**Significant**
Cash flow/leverage	Significant
Anchor	**bb+**
Modifiers	
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**bb+**

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- 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: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- 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: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Sabesp Lux S.à r.l. Proposed Unsecured Notes Rated 'BB', July 21, 2025

Ratings Detail (as of July 31, 2025)*

Companhia de Saneamento Basico do Estado de Sao Paulo		
Issuer Credit Rating		BB/Stable/--
Brazil National Scale		brAAA/Stable/--
Senior Unsecured		
Brazil National Scale		brAAA
Issuer Credit Ratings History		
20-Dec-2023		BB/Stable/--
15-Jun-2023		BB-/Positive/--
06-Dec-2021		BB-/Stable/--
06-Dec-2021	*Brazil National Scale*	brAAA/Stable/--
12-Jun-2020		brAAA/Negative/--
11-Jul-2018		brAAA/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.