

Bulletin:

Potential Privatization Of Companhia de Saneamento Basico do Estado de Sao Paulo Is Currently Credit Neutral

December 7, 2023

This report does not constitute a rating action.

SAO PAULO (S&P Global Ratings) Dec. 7, 2023--S&P Global Ratings said today that the approval of the state of Sao Paulo's legislative assembly to privatize Companhia de Saneamento Basico do Estado de São Paulo (SABESP) advances the privatization process of the utility. We think it's now more likely that the state of Sao Paulo will sell a portion of its 50.26% stake in the water utility through a capitalization in the market (with the possibility of a follow-on equity issuance). At this point, the privatization process doesn't affect our ratings on SABESP (global scale: BB-/Positive/--; national scale: brAAA/Stable/--), because the utility's stand-alone credit profile is 'bb+'--above its rating, which we limit by the rating on Brazil (BB-/Positive/B). The sovereign rating cap is because as a regulated utility, the company is sensitive to Brazil's overall economic conditions, and a sovereign stress scenario would hamper its ability to repay debt.

We'll monitor the next steps of the process, which include approvals from the state government, although we don't expect difficulties because the state administration that took office in January 2023 initiated the privatization. On the other hand, we think there could be political actions from opposition parties against the process.

Once and if the privatization is completed, we'll reevaluate SABESP's new investment plan, the impact on its water bills, and the overall credit impact on the company. According to the terms of the privatization, SABESP will target universal access to water in its concession area by 2029 (four years ahead of the original plan) and lower water tariffs to low-income clients.

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