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NON-RATING ACTION COMMENTARY

Sabesp’s Significant Capex Plan Increase Unlikely to Affect Ratings

Wed 27 Dec, 2023 - 10:05 AM ET

Fitch Ratings-Rio de Janeiro-27 December 2023: Companhia de Saneamento Básico do Estado de São Paulo’s (Sabesp) substantial 84% increase of estimated 2024-2027 capex compared to the previous base scenario, is not expected to affect the company’s ratings, according to Fitch Ratings.

Fitch expects the evolution of the Sabesp’s operating cash generation will support the greater capex in the cycle, without impacting its credit profile. Currently, Sabesp’s Long-Term Local and Foreign Currency Issuer Default Ratings (IDRs) are 'BB+' and National Long-Term Rating 'AAA(bra)'. The Rating Outlooks are Stable.

On Dec. 18, 2023, Sabesp announced a BRL39.1 billion investment plan for the 2024-2027 period (an annual average of BRL9.8 billion) to support expansion of the service provision coverage for the population in water distribution and sewage collection and treatment, and comply with regulatory targets in all the municipalities served by the company. The capex should also support an increase in water availability and safety, among other issues. For 2023, the estimated BRL5.1 billion investment is already well above the annual average of BRL3.6 billion during the 2020-2022 period.

Fitch expects Sabesp's EBITDA to gradually evolve, benefiting from the estimated increase in total volume billed at 1.7% per year on average from 2024 to 2027. In addition, the company’s EBITDA should benefit from tariff adjustments in line with inflation and efficiency gains in its cost structure. In Fitch’s base case scenario, Sabesp's EBITDA will be BRL8.9 billion in 2024, growing to BRL11.3 billion in 2027. The EBITDA margin should also rise from 44% in 2024 to 47% in 2027.

Sabesp should maintain a solid financial profile, with net leverage peaking at 3.1x in 2026, even with the aggressive investment cycle. This profile is consistent with Sabesp's current rating, for which the rating trigger for a downgrade is a net debt/EBITDA ratio above 3.0x, on a sustainable basis. Failure to meet this expectation could pressure the ratings. Historically, Sabesp has invested less than planned and the implementation of the current aggressive plan will be a challenge. Partial execution of investments could mitigate any leverage increases.

Sabesp’s broad access to adequate sources of financing should enable it to obtain the necessary resources to support its funding needs. The company should maintain robust liquidity and a lengthened debt maturity profile in the coming years while making its investments. At the end of September 2023, cash balance amounted to BRL3.0 billion, against a debt of BRL18.8 billion, of which BRL2.5 billion matures in the short term.

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