

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

The Outlook revision to Negative for Companhia de Saneamento Basico do Estado de Sao Paulo's (SABESP) Local-Currency Issuer Default Rating (LC IDR) reflects Fitch Ratings' view on SABESP's ownership exposure, derived from porous legal ring-fencing and porous access and control from its majority shareholder, State of Sao Paulo (BB-/Negative). This constrains the rating up to two notches from the parent's rating, per Fitch criteria.

SABESP's ratings also reflect the solid fundamentals of Brazil's water and wastewater industry and solid business profile. The company is expected to maintain conservative net leverage and robust liquidity, despite Fitch's forecast of negative FCF. The Negative Outlook on SABESP's Foreign-Currency (FC) IDR is in line with Brazil's (BB-/Negative) Rating Outlook.

## Key Rating Drivers

**Porous Linkage Assessment:** SABESP's assessment considers that its Standalone Credit Profile (SCP) is commensurate with an LC IDR of 'BB+'. Nevertheless, as a company controlled by the State of Sao Paulo, Fitch applied the government-related entities and parent-subsidiary linkage rating criteria, which resulted in the issuer's LC IDR limited at two notches above its parent's IDR. Considering Sao Paulo's IDR is 'BB-', SABESP's LC IDR reflects its SCP of 'BB+', but the Outlook of both IDRs must be equalized as Negative. Fitch considers the strength of linkage between them as moderate and the incentive to support as weak to moderate. In addition, the company presents porous legal ring-fencing and porous access and control.

**Low Business Risk:** SABESP's credit profile benefits from its almost monopolistic position for provision of an essential service in its concession area. The issuer presents economies of scale as the largest water/wastewater company in North America by number of customers, which adds to profitability. The analysis considers the evolving regulatory environment, the hydrological risk intrinsic to its business and the political exposure as a state-owned company, with potential changes in strategies after each election for the government of Sao Paulo. The company's activity in the state of Sao Paulo is favorable, given the state has the largest GDP and population in the country.

**High Revenue Predictability:** The approved required revenue until 2024 improves SABESP's cash flow predictability. The company implemented a tariff increase of 12.8% in May 2022 that includes 2.4% of regulatory adjustment to compensate for lower verified revenue, compared with minimal required revenue during the prior 12 months. SABESP approved the required revenue of BRL17.5 billion for the regulatory year May 2021–April 2022, and BRL18 billion for May 2022–April 2023. The company must receive or return revenue to customers in the following year, by means of a tariff adjustment, if actual revenues fall outside the range plus- or minus-2.5% from the required revenue.

**EBITDA Margin Above Peers:** Fitch expects SABESP to keep its EBITDA margin in the 40%–45% range, which is high and compares favorably with its state-owned peers. In the base case scenario for the rating, the company's EBITDA will reach BRL7.2 billion in 2022 (42% margin), with a gradual growth to BRL8.0 billion by 2024 (43%). Total volume billed should increase by 1.5% on average annually, given the higher number of connections. The base case scenario assumes manageable levels of water losses and delinquency.

## Ratings

Rating Type	Rating	Outlook	Last Rating Action
Long-Term Local-Currency IDR	BB+	Negative	Affirmed May 6, 2022
Long-Term IDR	BB	Negative	Affirmed May 6, 2022
National Long-Term Rating	AAA (bra)	Stable	Affirmed May 6, 2022

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

## Applicable Criteria

[Parent and Subsidiary Linkage Rating Criteria \(December 2021\)](#)  
[Corporate Rating Criteria \(October 2021\)](#)  
[National Scale Rating Criteria \(December 2020\)](#)  
[Government-Related Entities Rating Criteria \(September 2020\)](#)

## Related Research

[Fitch Affirms Sabesp's Ratings \(May 2022\)](#)

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**Heavy Investment Cycle:** SABESP's large capex program should pressure its FCF in the coming years. Fitch projects SABESP's cash flow from operations (CFO) at BRL3.4 billion in 2022, resulting in a negative FCF of BRL2.0 billion after investments of BRL4.8 billion and dividends of BRL644 million. Annual FCF in 2023-2025 is expected to average BRL1.2 billion negative, after robust CFO of BRL4.6 billion, investments of BRL5.2 billion and expected dividends of BRL609 million on average per year. Working capital pressure should ease as the company implements new commercial management system.

**Low Leverage:** SABESP's leverage metrics should remain low over the rating horizon, despite relevant planned investments to expand service capacity and coverage. The base case scenario considers that the total debt/EBITDA and net debt/EBITDA ratios will remain below 3.0x and 2.5x, respectively, which are conservative for the industry. Fitch forecasts gross leverage of 2.6x and net leverage of 2.3x from 2022 to 2024, compared with an annual average of 2.6x and 2.1x, respectively, from 2019 to 2021.

**New Regulatory Environment:** SABESP's ratings do not incorporate a major impact of recent regulatory changes in its operations and cash flow. Discussions regarding the national regulatory guidelines for the sanitation service should facilitate greater participation by private companies and increase the investment capacity of the sector. The increase in the private sector's participation should occur primarily at the expense of more inefficient state-owned companies or municipal operators, which is not the case for SABESP.

## Financial Summary

(BRL Mil., as of Dec. 31)	2020	2021	2022F	2023F	2024F
Net Revenue	14,081	15,114	16,983	17,800	18,577
Operating EBITDA	6,265	6,207	7,157	7,572	7,990
Operating EBITDA Margin (%)	44.5	41.1	42.1	42.5	43.0
Cash Flow from Operations	4,355	3,259	3,444	4,294	4,632
Total Adjusted Net Debt/Operating EBITDA (x)	2.1	2.3	2.3	2.3	2.3

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 financial structure, when compared with Aegea Saneamento e Participacoes S.A. (LC IDR of BB/Stable; FC IDR of BB/Negative), which has moderate leverage, reflecting its growth strategy, partially mitigated by strong EBITDA margins. SABESP's strengthened CFO generation capacity after the third tariff revision in 2021 also supports the one notch difference on the LC IDR, despite exposure to political risk. 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.

Compared with power-transmission companies Transmissora Alianca de Energia Eletrica S.A. (LC IDR of BBB-/Negative; FC IDR of BB/Negative) and Alupar Investimento S.A. (LC IDR of BBB-/Negative; FC IDR of BB/Negative), SABESP presents higher regulatory risk, lower operational cash flow predictability and less asset diversification, which explain the difference on the LC IDRs, despite SABESP's expected lower leverage metrics.

## Rating Sensitivities

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

- The Outlook revision to Stable on the LC IDR depends on the same movement on Sao Paulo's rating;
- The Outlook revision to Stable on the FC IDR depends on the same movement on the sovereign rating;

- An upgrade on the national scale ratings does not apply, as the rating is at the top of the national scale.

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

- Negative rating actions on the sovereign rating may lead to negative action on the FC IDR;
- Negative rating actions on the state of Sao Paulo rating may lead to negative action on the LC IDR;
- EBITDA margins below 40%;
- Net leverage sustained above 3.0x;
- Increased political or regulatory risk;
- Lower financial flexibility.

## Liquidity and Debt Structure

**Strong Liquidity Profile:** SABESP's robust cash position and strong access to the financial market are a key factor for the rating, as they enable the company to manage its forecast negative FCF and refinancing needs. SABESP's cash position of BRL3.4 billion at the end of March 2022 covered its short-term debt of BRL1.7 billion by 2.0x. Total debt of BRL17.5 billion had an extended maturity profile and consisted primarily of funding from multilateral agencies of BRL5.9 billion, BRL8.1 billion in debenture issuances, and BRL2.8 billion from Caixa Economical Federal (BB-/Negative) and Banco Nacional de Desenvolvimento Economico e Social (BNDES; BB-/ Negative). Foreign currency debt corresponding to 15% of total debt represents moderate exposure risk to currency volatility. At the end of March 2022, only Caixa's and BNDES's debt was secured by receivables that represent less than 0.5x EBITDA and do not pressure the ratings of unsecured issuances.

## ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance 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 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](http://www.fitchratings.com/esg).

## Liquidity and Debt Maturities

### Liquidity Analysis

(BRL Mil.)	2022F	2023F	2024F	2025F
<b>Available Liquidity</b>				
Beginning Cash Balance	3,151	(623)	(3,292)	(6,218)
Rating Case FCF After Acquisitions and Divestitures	(2,013)	(1,074)	(1,012)	(1,607)
<b>Total Available Liquidity (A)</b>	<b>1,139</b>	<b>(1,697)</b>	<b>(4,304)</b>	<b>(7,825)</b>
<b>Liquidity Uses</b>				
Debt Maturities	(1,761)	(1,595)	(1,914)	(2,044)
<b>Total Liquidity Uses (B)</b>	<b>(1,761)</b>	<b>(1,595)</b>	<b>(1,914)</b>	<b>(2,044)</b>
<b>Liquidity Calculation</b>				
Ending Cash Balance (A + B)	(623)	(3,292)	(6,218)	(9,869)
Revolver Availability	0	0	0	0
<b>Ending Liquidity</b>	<b>(623)</b>	<b>(3,292)</b>	<b>(6,218)</b>	<b>(9,869)</b>
Liquidity Score (x)	0.6	(1.1)	(2.2)	(3.8)

F - Forecast.

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

## Scheduled Debt Maturities

(BRL Mil.)	12/31/21
2022	1,761
2023	1,595
2024	1,914
2025	2,044
Thereafter	10,283
<b>Total</b>	<b>15,836</b>

Note: Numbers may not add due to rounding.

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 Include

- Total volume billed growth of 1.5% in 2022, supported by growth of connections and marginal decrease on volume/connection for residential segment;
- Total annual tariff increase of 12.8% in May 2022 and in line with inflation estimates, resulting in revenues within regulatory required revenue range;
- Average annual capex of BRL4.9 billion in 2022–2024;
- Dividends of BRL644 million in 2022 and a payout ratio of 30% of net profits thereafter.

## Financial Data

(BRL 000, as of Dec. 31)	Historical			Forecast		
	2019	2020	2021	2022	2023	2024
<b>Summary Income Statement</b>						
Gross Revenue	13,679,788	14,080,925	15,114,322	16,983,207	17,799,997	18,577,343
Revenue Growth (%)	9.6	2.9	7.3	12.4	4.8	4.4
Operating EBITDA (Before Income from Associates)	6,081,214	6,264,903	6,206,892	7,157,439	7,572,316	7,989,543
Operating EBITDA Margin (%)	44.5	44.5	41.1	42.1	42.5	43
Operating EBIT	4,343,655	4,307,625	4,028,611	4,798,514	5,070,174	5,346,408
Operating EBIT Margin (%)	31.8	30.6	26.7	28.3	28.5	28.8
<b>Summary Balance Sheet</b>						
Readily Available Cash and Equivalents	2,253,210	3,807,547	3,151,314	2,005,726	2,031,195	2,019,469
Total Adjusted Debt with Equity Credit	13,170,256	17,212,748	17,597,867	18,336,556	19,384,473	20,384,828
Net Debt with Equity Credit	10,917,046	13,405,201	14,446,553	16,330,830	17,353,278	18,365,358
<b>Summary Cash Flow Statement</b>						
Operating EBITDA	6,081,214	6,264,903	6,206,892	7,157,439	7,572,316	7,989,543
Cash Interest Paid	(737,326)	(626,625)	(845,445)	(2,650,164)	(1,933,203)	(2,038,177)
Cash Tax	(1,222,747)	(373,112)	(1,208,569)	(739,044)	(1,001,263)	(1,053,405)
Other Items Before FFO	(239,699)	(489,778)	(47,865)	0	0	0
FFO	4,033,064	4,850,910	4,255,645	4,083,362	4,838,422	5,101,081
FFO Margin (%)	30	35	28	24	27	28
Change in Working Capital	(426,433)	(495,882)	(996,419)	(639,794)	(544,596)	(469,419)
CFO (Fitch Defined)	3,606,631	4,355,028	3,259,226	3,443,568	4,293,826	4,631,662
Capex	(3,273,406)	(3,342,064)	(3,746,950)			
Capital Intensity (Capex/Revenue) (%)	24	24	25			
Common Dividends	(739,996)	(890,095)	(254,218)			
FCF	(406,771)	122,869	(741,942)			

(BRL 000, as of Dec. 31)	Historical			Forecast		
	2019	2020	2021	2022	2023	2024
Other Investing and Financing Cash Flow Items	(56,935)	(181,741)	(15,539)	128,500	52,000	0
Net Debt Proceeds	(312,275)	1,613,209	101,248	738,689	1,047,917	1,000,355
Net Equity Proceeds	0	0	0	0	0	0
Total Change in Cash	(775,981)	1,554,337	(656,233)	(1,145,588)	25,470	(11,726)
<b>Leverage Ratios (x)</b>						
Total Net Debt with Equity Credit/Operating EBITDA	1.8	2.1	2.3	2.3	2.3	2.3
Total Debt with Equity Credit/Operating EBITDA	2.2	2.7	2.8	2.6	2.6	2.6
FFO-Adjusted Leverage	2.9	3.2	3.6	2.9	2.9	2.9
FFO-Adjusted Net Leverage	2.4	2.5	2.9	2.5	2.6	2.6
Calculations for Forecast Publication						
Capex, Dividends, Acquisitions and Other Items Before FCF	(4,013,402)	(4,232,159)	(4,001,168)	(5,456,345)	(5,368,273)	(5,643,743)
FCF After Acquisitions and Divestitures	(406,771)	122,869	(741,942)	(2,012,777)	(1,074,447)	(1,012,081)
FCF Margin (After Net Acquisitions) (%)	(3.0)	0.9	(4.9)	(11.9)	(6.0)	(5.4)
<b>Coverage Ratios (x)</b>						
FFO Interest Coverage	6.3	8.6	5.9	2.4	3.4	3.4
Operating EBITDA/Interest Paid	8.2	10.0	7.3	2.7	3.9	3.9
<b>Additional Metrics (%)</b>						
CFO-Capex/Total Debt with Equity Credit	2.5	5.9	(2.8)	(7.5)	(3.0)	(1.8)
CFO-Capex/Total Net Debt with Equity Credit	3.1	7.6	(3.4)	(8.4)	(3.4)	(1.9)

CFO – Cash flow from operations.

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**



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

ESG Relevance:



**Corporates Ratings Navigator**  
Latin America Utilities

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

Bar Chart Legend:			
Vertical Bars = Range of Rating Factor		Bar Arrows = Rating Factor Outlook	
Bar Colours = Relative Importance		↑	Positive
■	Higher Importance	↓	Negative
■	Average Importance	↕	Evolving
■	Lower Importance	□	Stable

**Operating Environment**

bbb	Economic Environment	bbb	Average combination of countries w here economic value is created and w here assets are located.
bbb-	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 with 'bb'.
b-			
ccc+			

**Regulatory Environment**

bbb-	Independence	bb	Moderate government Interference in utility regulations.
bb+	Balance	a	Balanced framew ork betw een end users' and sector participants' needs. It seeks low tariffs for users and attractive return on capital.
bb	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.
b+	Timeliness of Cost Recovery	bbb	Moderate lag to recover capital and operating costs.

**Market Position**

a-	Consumption Growth Trend	bbb	Customer and usage growth in line with industry averages.
bbb+	Customer Mx	a	Well diversified customer mix.
bbb	Geographic Location	bb	High sensitivity to extreme w eather 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	bbb	One year liquidity ratio above 1.25x. Well-spread maturity schedule of debt but funding may be less diversified.
bbb-	FFO Interest Coverage	bbb	4.5x
bb+	FX Exposure	bb	FX exposure on profitability and/or debt/cash flow match. Some hedging in place but only partly effective.
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.
bb+	Governance Structure	bb	Board effectiveness questionable w ith few independent directors. "Key person" 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.
b+			

**Commodity Exposure**

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	bbb	Good quality and/or reasonable scale diversified assets.
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	bbb	4.25x
a-	FFO Net Leverage	bbb	3.5x
bbb+	Total Debt With Equity Credit/Op. EBITDA	a	<2.5x
bbb			
bbb-			

**Credit-Relevant ESG Derivation**

Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP) has 12 ESG potential rating drivers				<b>Overall ESG</b>	
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

Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP) has 12 ESG potential rating drivers

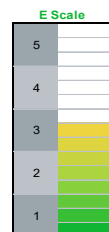
- ▶ Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP) has exposure to energy productivity risk but this has very low impact on the rating.
- ▶ Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP) has exposure to water management risk but this has very low impact on the rating.
- ▶ Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP) has exposure to waste & impact management risk but this has very low impact on the rating.
- ▶ Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP) has exposure to extreme weather events but this has very low impact on the rating.
- ▶ Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP) has exposure to access/affordability risk but this has very low impact on the rating.
- ▶ Companhia de Saneamento Basico do Estado de Sao Paulo (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.

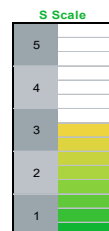
The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned 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).

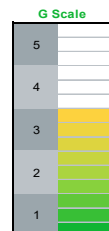
Social (S)

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?

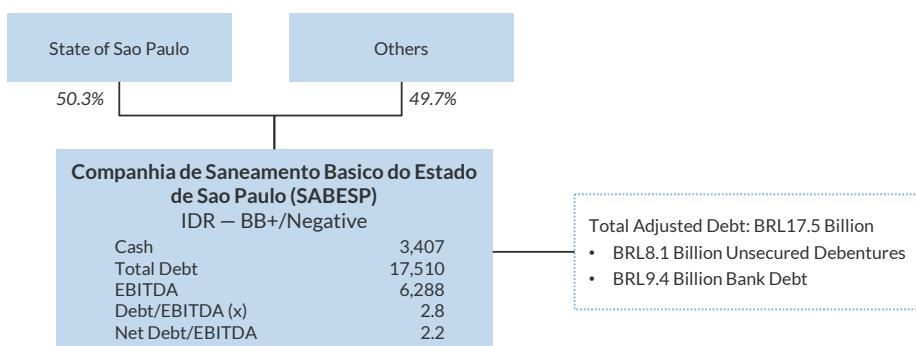
5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within 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 within 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 March 31, 2022)



IDR – Issuer Default Rating.

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

## Peer Financial Summary

Company	NLTR/IDR	Financial Statement Date	Net Revenue (BRL Mil.)	Operating EBITDA (BRL Mil.)	Operating EBITDA Margin (%)	Cash Flow from Operations (BRL Mil.)	Total Net Debt/EBITDA (x)
Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP)	AAA(bra)/BB						
	AAA(bra)/BB	2021	15,114	6,207	41.1	3,259	2.3
	AA(bra)/BB	2020	14,081	6,265	44.5	4,355	2.1
	AA(bra)/BB	2019	13,680	6,081	44.5	3,607	1.8
Aegea Saneamento e Participacoes S.A.	AA(bra)/BB						
	AA(bra)/BB	2021	2,939	1,759	59.8	664	2.8
	AA(bra)/BB	2020	2,278	1,252	55.0	714	3.2
Companhia de Gas de Sao Paulo - COMGAS	AA(bra)/BB	2019	2,146	1,185	55.2	300	3.2
	AAA(bra)/BB						
	AAA(bra)/BB	2021	10,690	3,015	28.2	2,089	1.6
Energisa S.A.	AAA(bra)/BB	2020	7,432	2,383	32.1	1,815	1.7
	AAA(bra)/BB	2019	8,701	2,513	28.9	2,311	1.4
	AAA(bra)/BB						
Transportadora Associada de Gas S.A. - TAG	AAA(bra)/BB	2021	24,147	5,123	21.2	739	3.5
	AAA(bra)/BB	2020	18,208	3,547	19.5	4,336	3.8
	AAA(bra)/BB	2019	17,285	3,227	18.7	1,612	4.5
Compass Gas e Energia S.A.	AAA(bra)/BB						
	AAA(bra)/BB	2021	7,071	5,980	84.6	4,881	3.8
	–	2020	6,004	5,139	85.6	3,760	4.7
Compass Gas e Energia S.A.	–	2019	5,195	4,471	86.1	3,251	5.1
	AAA(bra)/BB						
	AAA(bra)/BB	2021	11,310	2,345	20.7	1,752	1.0
–	2020	8,208	2,184	26.6	1,815	1.7	

NLTR – National Long-Term Rating. IDR – Issuer Default Rating.

Source: Fitch Ratings, Fitch Solutions.

## Fitch Adjusted Financials

(BRL 000, as of Dec. 31, 2021)	Notes and Formulas	Reported Values	Sum of Adjustments	Cash Adjustment	CORP-Lease Treatment	Other Adjustments	Adjusted Values
<b>Income Statement Summary</b>							
Revenue		19,491,061	(4,376,739)			(4,376,739)	15,114,322
Operating EBITDAR		6,328,822	(121,930)		(143,771)	21,841	6,206,892
Operating EBITDAR After Associates and Minorities	(a)	6,328,822	(121,930)		(143,771)	21,841	6,206,892
Operating Lease Expense	(b)	0					0
Operating EBITDA	(c)	6,328,822	(121,930)		(143,771)	21,841	6,206,892
Operating EBITDA After Associates and Minorities	(d) = (a-b)	6,328,822	(121,930)		(143,771)	21,841	6,206,892
Operating EBIT	(e)	4,075,500	(46,889)		(68,730)	21,841	4,028,611
<b>Debt and Cash Summary</b>							
Total Debt with Equity Credit	(f)	17,597,867					17,597,867
Lease-Equivalent Debt	(g)	0					0
Other Off-Balance-Sheet Debt	(h)	0					0
Total Adjusted Debt with Equity Credit	(i) = (f+g+h)	17,597,867					17,597,867
Readily Available Cash and Equivalents	(j)	3,151,314		(2,433,385)		2,433,385	3,151,314
Not Readily Available Cash and Equivalents		28,467					28,467
<b>Cash Flow Summary</b>							
Operating EBITDA After Associates and Minorities	(d) = (a-b)	6,328,822	(121,930)		(143,771)	21,841	6,206,892
Preferred Dividends (Paid)	(k)	0					0
Interest Received	(l)	150,632					150,632
Interest (Paid)	(m)	(845,445)					(845,445)
Cash Tax (Paid)		(1,208,569)					(1,208,569)
Other Items Before FFO		484,732	(532,597)		68,730	(601,327)	(47,865)
Funds from Operations (FFO)	(n)	4,910,172	(654,527)		(75,041)	(579,486)	4,255,645
Change in Working Capital (Fitch-Defined)		(996,419)					(996,419)
Cash Flow from Operations (CFO)	(o)	3,913,753	(654,527)		(75,041)	(579,486)	3,259,226
Non-Operating/Nonrecurring Cash Flow		0					0
Capital (Expenditures)	(p)	(3,746,950)					(3,746,950)
Common Dividends (Paid)		(254,218)					(254,218)
Free Cash Flow (FCF)		(87,415)	(654,527)		(75,041)	(579,486)	(741,942)
<b>Gross Leverage (x)</b>							
Total Adjusted Debt/Operating EBITDAR <sup>a</sup>	(i/a)	2.8					2.8
FFO Adjusted Leverage	(i)/(n-m-l-k+b)	3.1					3.6
FFO Leverage	(i-g)/(n-m-l-k)	3.1					3.6
Total Debt with Equity Credit/Operating EBITDA <sup>a</sup>	(i-g)/d	2.8					2.8
(CFO-Capex)/Total Debt with Equity Credit (%)	(o+p)/(i-g)	0.9					(2.8)
<b>Net Leverage (x)</b>							
Total Adjusted Net Debt/Operating EBITDAR <sup>a</sup>	(i-j)/a	2.3					2.3
FFO Adjusted Net Leverage	(i-j)/(n-m-l-k+b)	2.6					2.9
FFO Net Leverage	(i-g-j)/(n-m-l-k)	2.6					2.9
Total Net Debt with Equity Credit/Operating EBITDA <sup>a</sup>	(i-g-j)/d	2.3					2.3
(CFO-Capex)/Total Net Debt with Equity Credit (%)	(o+p)/(i-g-j)	(1.2)					(3.4)
<b>Coverage (x)</b>							
Operating EBITDA/(Interest Paid + Lease Expense) <sup>a</sup>	a/(-m+b)	7.5					7.3
Operating EBITDA/Interest Paid <sup>a</sup>	d/(-m)	7.5					7.3
FFO Fixed-Charge Coverage	(n-l-m-k+b)/(-m-k+b)	6.6					5.9
FFO Interest Coverage	(n-l-m-k)/(-m-k)	6.6					5.9

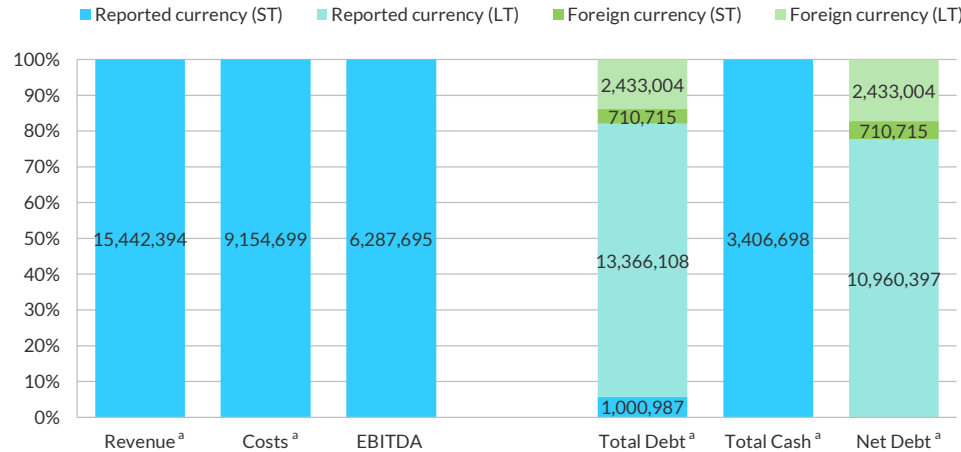
<sup>a</sup>EBITDA/R after dividends to associates and minorities.

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

FX Screener

Fitch FX Screener

(Companhia de Saneamento Basico do Estado de Sao Paulo – BB/Negative, LTM March 2022, BRL 000)

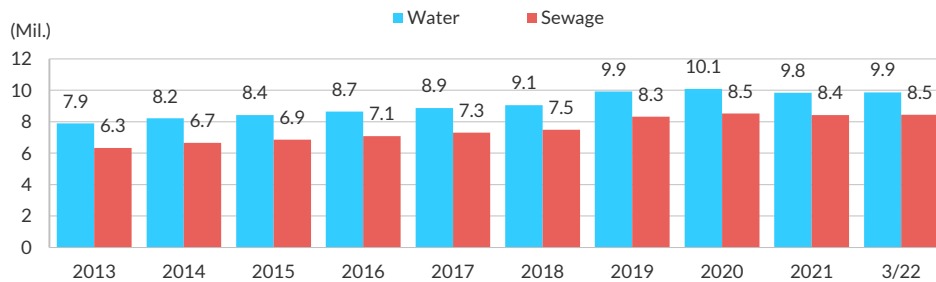


<sup>a</sup>Post hedge, absolute figures displayed are Fitch’s analytical estimates, based on publicly available information.

Source: Fitch Ratings.

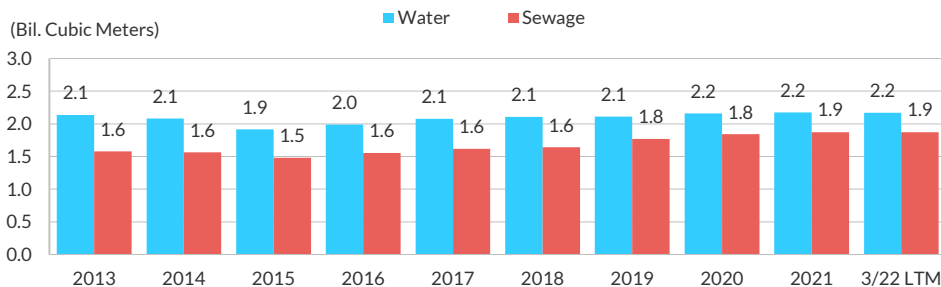
Water and Sewage Coverage Charts

Number of Connections



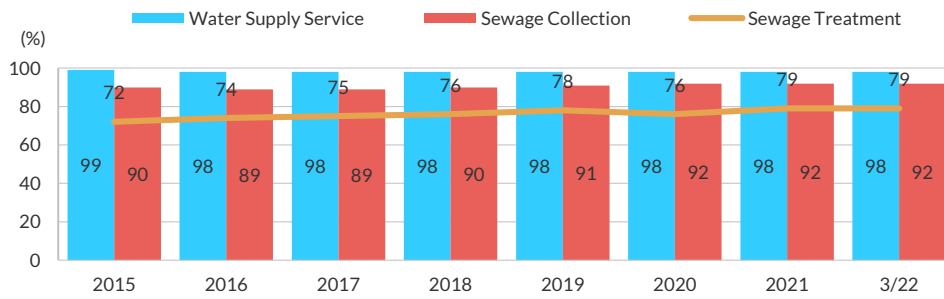
Source: Fitch Ratings, Fitch Solutions, Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP).

Volume of Water and Sewage Billed



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

**Evolution of Cover Ratios**



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

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