

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

Companhia de Saneamento Basico do Estado de Sao Paulo's (SABESP) ratings reflect the solid fundamentals of the water/wastewater industry in Brazil and the issuer's solid business profile. Fitch Ratings expects the company to maintain conservative net leverage and robust liquidity, despite forecasted negative FCF. The analysis incorporates Fitch's view of the company's ownership exposure to its majority shareholder, the state of Sao Paulo (BB-/Stable). This limits the Local Currency (LC) Issuer Default Rating (IDR) up to two notches from the parent's rating, per Fitch's criteria, but currently is not a constraint. The Foreign Currency (FC) IDR is capped by Brazil's 'BB' country ceiling.

Key Rating Drivers

Porous Linkage Assessment: SABESP's Standalone Credit Profile (SCP) is commensurate with an LC IDR of 'bb+'. As a company controlled by the state of Sao Paulo, Fitch applied the *Government-Related Entities Rating Criteria* and *Parent and Subsidiary Linkage Rating Criteria*, which resulted in the issuer's LC IDR limited at two notches above the parent's IDR. Considering that the state of Sao Paulo's IDR is 'BB-', SABESP's LC IDR can reflect its SCP of 'bb+'. Fitch considers the strength of the 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 the Americas by number of customers, which adds to profitability. The analysis considers the evolving regulatory environment, the hydrological risk intrinsic to its business and 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: Until 2024, the approved required revenue improves SABESP's cash flow predictability. The company implemented tariff increase of 9.6% in May 2023 that includes 3.8% of regulatory adjustment to compensate for lower effective revenue, compared with minimal required regulatory revenue during the prior 12 months. SABESP's inflation-adjusted required revenue for the regulatory year May 2023–April 2024 is BRL20.0 billion. The company must receive or return revenue to customers in the following year, by means of a tariff adjustment, if realized revenues fall outside the range about 2.5% from the required revenue.

EBITDA Margin Above Peers: Fitch expects SABESP to keep its EBITDA margin in the 38%–44% range, which is high and compares favorably with its state-owned peers. In the base case scenario for the rating, EBITDA will reach BRL7.2 billion in 2023, a 38% margin – pressured by non-recurring cost spending, and BRL8.8 billion in 2024, a 44% margin. Total volume billed should increase by 1.5% on average annually during this period, given the increasing number of connections. The base case scenario assumes manageable levels of water losses and delinquency and no water supply restrictions as reservoir levels are currently high.

Ratings

Foreign Currency

Long-Term IDR BB

Local Currency

Long-Term IDR BB+

National Rating

National Long-Term Rating AAA

Outlooks

Long-Term Foreign-Currency IDR Stable

Long-Term Local-Currency IDR Stable

National Long-Term Rating Stable

2035 Climate Vulnerability Score: 14
[Click here for the full list of ratings](#)

Applicable Criteria

[Corporate Rating Criteria \(October 2022\)](#)

[Parent and Subsidiary Linkage Rating Criteria \(December 2021\)](#)

[National Scale Rating Criteria \(December 2020\)](#)

[Government-Related Entities Rating Criteria \(September 2020\)](#)

Related Research

[Global Corporates Macro and Sector Forecasts](#)

[Fitch Affirms Sabesp's Ratings; Outlook Stable \(April 2023\)](#)

Analysts

Gustavo Mueller
 +55 21 4503 2632
gustavo.mueller@fitchratings.com

Mauro Storino
 +55 21 4503 2625
mauro.storino@fitchratings.com

Heavy Investment Cycle: SABESP's large capex program should pressure FCF in the coming years. Fitch projects cash flow from operations (CFO) at BRL3.4 billion in 2023, resulting in a negative FCF of BRL2.6 billion after investments of BRL5.1 billion and dividends of BRL899 million. Annual FCF in 2024–2025 is expected to average negative BRL1.2 billion, after robust average CFO of BRL5.0 billion, investments of BRL5.7 billion and expected dividends of BRL508 million on average per year. Working capital pressure should ease as the company implements efficiency commercial measures.

Low Leverage: The leverage metrics of SABESP should remain low over the rating horizon, despite of 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 limited to 3.0x and 2.6x, respectively, which are conservative for the industry. Fitch forecasts gross leverage of 2.9x and net leverage of 2.5x in 2023 and below this level thereafter, compared with an annual average of 2.6x and 2.1x, respectively, from 2019 to 2022.

New Regulatory Environment Neutral: SABESP's ratings do not incorporate a major impact of recent regulatory changes in its operations and cash flow. Fitch sees some setback in the recent flexibility and extension of the deadline for inefficient state public companies to prove the economic and financial capacity to continue providing the water/wastewater service in the municipalities they operate. 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.)	2021	2022	2023F	2024F
Gross Revenue	15,114	17,192	19,070	19,997
EBITDA	6,351	7,063	7,191	8,756
EBITDA Margin (%)	42.0	41.1	37.7	43.8
Cash Flow from Operations (Fitch Defined)	3,334	3,377	3,442	4,816
EBITDA Net Leverage (x)	2.3	2.2	2.5	2.1

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 and FC IDRs BB/Stable), which has moderate leverage, reflecting its growth strategy, partially mitigated by strong EBITDA margins. SABESP's strengthened CFO 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 BBB-/Negative; FC IDR BB/Stable) and Alupar Investimento S.A. (LC IDR BBB-/Stable; FC IDR BB/Stable), SABESP presents higher regulatory risk, lower operational cash flow predictability and less asset diversification, which explain the difference in the LC IDRs, despite SABESP's expected lower leverage metrics.

SABESP favorably compares with Namibia Water Corporation (NamWater; FC LC IDRs BB-/Stable), a government-related entity in Namibia that has its ratings constrained by the sovereign given Fitch's view of strong strength of linkage and incentive to support between the company and the government. NamWater's SCP is 'bbb-' given strong sector positioning, predictable cash flow and a strong liquidity profile.

Rating Sensitivities

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

- A positive rating action on the FC IDR depends on the same movement on the sovereign rating;
- A positive rating action on the LC IDR depends on FCF at least neutral to slightly negative associated with the same movement on the rating of the state of São Paulo;
- An upgrade of the National Scale Ratings is not possible 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 action on the sovereign rating may lead to negative action on the FC IDR;
- Negative rating action on the state of São Paulo rating may lead to negative action on the LC IDR;
- EBITDA margins below 40%;
- Net leverage sustained above 3.0x;
- Increased political and/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 key factors for the rating, as they enable the company to manage the forecast of negative FCF and refinancing needs. SABESP's cash position of BRL3.5 billion at YE 2022 covered its short-term debt of BRL2.2 billion by 1.6x. Total debt of BRL18.9 billion had an extended maturity profile and consisted primarily of funding from multilateral agencies of BRL7.4 billion, BRL8.2 billion in debenture issuances, and BRL2.9 billion from Caixa Economica Federal and Banco Nacional de Desenvolvimento Economico e Social (BNDES). Foreign currency debt corresponding to 15% of total debt represents moderate exposure risk to currency volatility. At YE 2022, only Caixa's and BNDES's debt was secured by receivables that represents less than 0.4x its EBITDA and does not pressure the ratings of unsecured issuances.

Issuer Profile

SABESP is a basic sanitation concessionaire that provides treated water supply and sewage collection and treatment services in 375 of the 645 municipalities in São Paulo. The company directly supplies water to 28.0 million people and sewage collection services to 24.7 million. SABESP is controlled by the state of São Paulo and listed on B3 S.A. - Bolsa Brasil, Balcão (Novo Mercado) and the New York Stock Exchange (ADR Level III).

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.

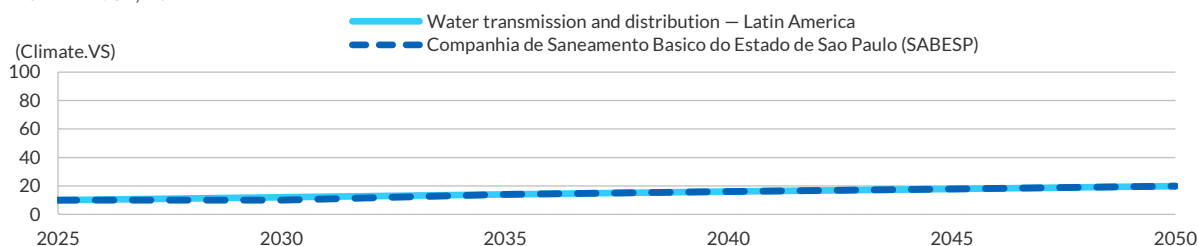
Climate Vulnerability Considerations

We are currently in consultation with our stakeholders on a proposal to support consistency and transparency in the way Fitch identifies and addresses potentially credit-relevant climate risks in its credit rating process. This would include adding the section below to all Rating Reports. To learn more about the approach, and provide feedback, please see our [Climate Vulnerability in Corporate Ratings – Consultation Paper](#) or contact climate.vsfeedback@fitchratings.com.

The 2021 revenue-weighted Climate Vulnerability Score (Climate.VS) for SABESP for 2035 is 14 out of 100, suggesting low exposure to climate-related risks in that year. For further information on how Fitch perceives climate-related risks in the utilities sector see our [Utilities – Long-Term Climate Vulnerability Scores Update](#).

Climate.VS Evolution

As of Dec. 31, 2022



Source: Fitch Ratings

Liquidity and Debt Maturities

Liquidity Analysis

(BRL Mil.)	2023F	2024F	2025F	2026F
Available Liquidity				
Beginning Cash Balance	3,545	-1,230	-4,081	-7,794
Rating Case FCF After Acquisitions and Divestitures	-2,601	-826	-1,533	-1,417
Total Available Liquidity (A)	944	-2,055	-5,614	-9,211
Liquidity Uses				
Debt Maturities	-2,174	-2,026	-2,180	-2,057
Total Liquidity Uses (B)	-2,174	-2,026	-2,180	-2,057
Liquidity Calculation				
Ending Cash Balance (A+B)	-1,230	-4,081	-7,794	-11,268
Revolver Availability	1.0	1.0	1.0	1.0
Ending Liquidity	-1,228.8	-4,080.0	-7,793.0	-11,267.3
Liquidity Score (x)	0.4	-1.0	-2.6	-4.5

F – Forecast

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

Scheduled Debt Maturities

(BRL Mil.)	12/31/22
2023	2,174
2024	2,026
2025	2,180
2026	2,057
2027	2,675
Thereafter	7,745
Total	18,857

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 1.3% in 2023, supported by growth of connections and overall stable volume/connection consumption;
- Total annual tariff increase of 9.6% in May 2023, 2.5% in 2024 and in line with inflation estimates, resulting in revenues within regulatory required revenue range;
- Average annual capex of BRL5.5 billion in 2023–2025;
- Dividends of BRL899 million in 2023 and a payout ratio of 29% of net profits thereafter.

Financial Data

(BRL Mil.)	Historical			Forecast		
	2020	2021	2022	2023	2024	2025
Summary Income Statement						
Gross Revenue	14,080.9	15,114.3	17,192.0	19,069.9	19,997.0	21,120.6
Revenue Growth (%)	2.9	7.3	13.7	10.9	4.9	5.6
EBITDA (Before Income from Associates)	6,407.7	6,350.7	7,063.1	7,190.6	8,756.0	9,057.1
EBITDA Margin (%)	45.5	42.0	41.1	37.7	43.8	42.9
EBIT	4,370.6	4,097.3	4,612.3	4,473.9	5,883.3	5,986.8
EBIT Margin (%)	31.0	27.1	26.8	23.5	29.4	28.3
Gross Interest Expense	-484.3	-564.0	-1,001.9	-3,092.6	-2,795.1	-2,501.5
Pretax Income (Including Associate Income/Loss)	1,326.0	3,170.2	4,272.8	1,760.7	3,330.6	3,690.3

(BRL Mil.)	Historical			Forecast		
	2020	2021	2022	2023	2024	2025
Summary Balance Sheet						
Readily Available Cash and Equivalents	3,807.5	3,151.3	3,545.4	2,754.3	2,847.6	2,860.8
Debt	17,212.7	17,597.9	18,857.3	20,683.4	21,602.2	23,148.2
Lease-Adjusted Debt	17,212.7	17,597.9	18,857.3	20,683.4	21,602.2	23,148.2
Net Debt	13,405.2	14,446.6	15,311.9	17,929.2	18,754.7	20,287.3
Summary Cash Flow Statement						
EBITDA	6,407.7	6,350.7	7,063.1	7,190.6	8,756.0	9,057.1
Cash Interest Paid	-626.6	-845.4	-1,505.5	-3,092.6	-2,795.1	-2,501.5
Cash Tax	-373.1	-1,208.6	-1,368.7	-474.5	-897.6	-994.5
Dividends Received Less Dividends Paid to Minorities (Inflow/(Out)flow)	—	—	—	0.0	0.0	0.0
Other Items Before FFO	-552.7	-116.6	-507.6	0.0	0.0	0.0
FFO	4,930.7	4,330.7	4,098.5	4,002.9	5,305.8	5,766.1
FFO Margin (%)	35.0	28.7	23.8	21.0	26.5	27.3
Change in Working Capital	-495.9	-996.4	-721.1	-561.2	-490.0	-503.2
Cash Flow from Operations (Fitch Defined)	4,434.9	3,334.3	3,377.4	3,441.7	4,815.8	5,262.9
Total Non-Operating/Nonrecurring Cash Flow	—	—	—	—	—	—
Capex	-3,342.1	-3,747.0	-3,624.2	—	—	—
Capital Intensity (Capex/Revenue) (%)	23.7	24.8	21.1	—	—	—
Common Dividends	-890.1	-254.2	-603.5	—	—	—
FCF	202.7	-666.9	-850.3	—	—	—
Net Acquisitions and Divestitures	—	—	—	—	—	—
Other Investing and Financing Cash Flow Items	-181.7	-15.5	-25.9	—	—	—
Net Debt Proceeds	1,533.4	26.2	1,270.3	1,826.1	918.8	1,545.9
Net Equity Proceeds	—	—	—	0.0	0.0	0.0
Total Change in Cash	1,554.3	-656.2	394.0	-791.1	93.3	13.3
Leverage Ratios (x)						
EBITDA Leverage	2.7	2.8	2.7	2.9	2.5	2.6
EBITDA Net Leverage	2.1	2.3	2.2	2.5	2.1	2.2
FFO-Adjusted Leverage	3.1	3.5	3.6	3.1	2.7	2.9
FFO-Adjusted Net Leverage	2.4	2.9	3.0	2.7	2.4	2.5
Calculations for Forecast Publication						
Capex, Dividends, Acquisitions and Other Items Before FCF	-4,232.2	-4,001.2	-4,227.7	-6,043.0	-5,641.3	-6,795.5
FCF After Acquisitions and Divestitures	202.7	-666.9	-850.3	-2,601.3	-825.5	-1,532.7
FCF Margin (After Net Acquisitions) (%)	1.4	-4.4	-4.9	-13.6	-4.1	-7.3
Coverage Ratios (x)						
FFO Interest Coverage	8.7	5.9	3.4	2.2	2.8	3.2
EBITDA Interest Coverage	10.2	7.5	4.7	2.3	3.1	3.6
Additional Metrics (%)						
CFO-Capex/Debt	6.3	-2.3	-1.3	-8.2	-2.2	-3.8
CFO-Capex/Net Debt	8.2	-2.9	-1.6	-9.5	-2.5	-4.3
CFO/Capex	132.7	89.0	93.2	66.9	91.0	85.8

CFO – Cash flow from operations
Source: Fitch Ratings, Fitch Solutions

How to Interpret the Forecast Presented

The forecast presented above 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

FitchRatings

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	Business Profile			Financial Profile			Issuer Default Rating
				Regulatory Environment	Commodity Exposure	Market Position	Asset Base and Operations	Profitability	Financial Structure	
aaa										AAA
aa+										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 Colors = Relative Importance	↑ Positive
Higher Importance	↓ Negative
Average Importance	↕ Evolving
Lower Importance	□ Stable

Operating Environment

bbb	Economic Environment	bbb	Average combination of countries where economic value is created and where 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 framework between 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 Mix	a	Well diversified customer mix.
bbb	Geographic Location	bb	High sensitivity to extreme weather 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 with 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-	EBITDA Interest Coverage		
bb+	FFO Interest Coverage	4.5x	
bb	FX Exposure	bb	FX exposure on profitability and/or debt/cash flow match. Some hedging in place but only partly effective.

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 with 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 without significant falling. Consistent with 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 with '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 with industry averages with 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	EBITDA Leverage		
a-	EBITDA Net Leverage	<2.5x	
bbb+	FFO Leverage	4.25x	
bbb	FFO Net Leverage	3.5x	
bbb-			

Credit-Relevant ESG Derivation

Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP) has 12 ESG potential rating drivers				Overall ESG	
key driver	0	ISSUES	5		
Energy and fuel use in operations; entities' financial targets for losses/shrinkage	driver	0	ISSUES	4	
Water usage in operations; water utilities' financial targets for water quality, leakage and usage	potential driver	12	ISSUES	3	
Impact of waste including pollution incidents; discharge compliance; sludge, coal ash	not a rating driver	1	ISSUES	2	
Networks' exposure to extreme weather events- negative (e.g. risk of drought and flooding) or positive (e.g. additional return on resilience capex)		1	ISSUES	1	
Regulatory-driven access and affordability targets of utility services					
Quality and safety of products and services; data security					
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

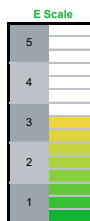
- Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP) has exposure to energy productivity risk but this has very low impact on the rating.
- Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP) has exposure to water management risk but this has very low impact on the rating.
- Companhia 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

key driver	0	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
not a rating driver	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.

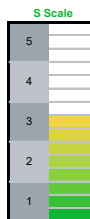
The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned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

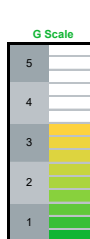
Social (S)

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



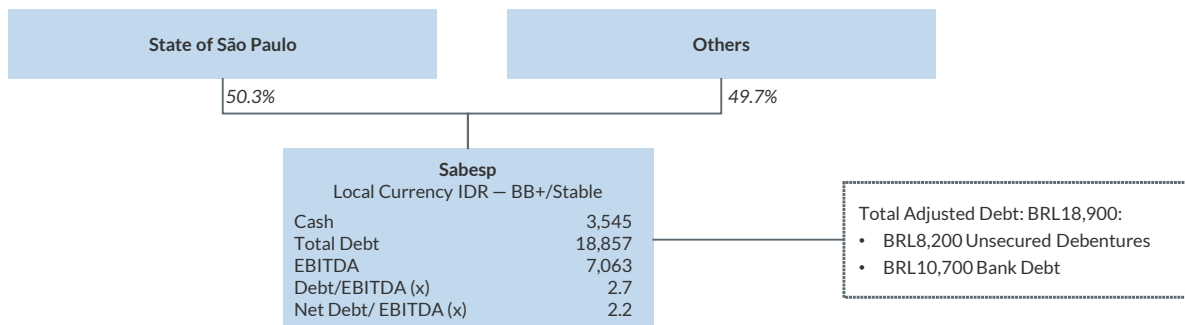
CREDIT-RELEVANT ESG SCALE

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 Dec. 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	Issuer Default Rating/ National Long-Term Rating	Financial Statement Date	Gross Revenue (BRL Mil.)	EBITDA (BRL Mil.)	EBITDA Margin (%)	Cash Flow from Operations (BRL Mil.)	EBITDA Net Leverage (x)
Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP)							
	BB/AAA(bra)	2022	17,192	7,063	41.1	3,377	2.2
	BB/AAA(bra)	2021	15,114	6,351	42.0	3,334	2.3
	BB/AA(bra)	2020	14,081	6,408	45.5	4,435	2.1
Aegea Saneamento e Participacoes S.A.							
	BB/AA(bra)	2022	3,674	2,231	60.7	368	3.7
	BB/AA(bra)	2021	2,939	1,759	59.8	664	2.8
	BB/AA(bra)	2020	2,278	1,242	54.5	703	3.2
Companhia de Gas de Sao Paulo - COMGAS							
	BB/AAA(bra)	2022	16,279	3,222	19.8	2,967	1.6
	BB/AAA(bra)	2021	10,690	3,015	28.2	2,089	1.6
	BB/AAA(bra)	2020	7,432	2,383	32.1	1,815	1.7
Energisa S.A.							
	BB/AAA(bra)	2022	22,265	5,855	26.3	4,427	3.7
	BB/AAA(bra)	2021	24,147	5,123	21.2	739	3.5
	BB/AAA(bra)	2020	18,208	3,547	19.5	4,336	3.8
Compass Gas e Energia S.A.							
	BB/AAA(bra)	2022	18,916	3,312	17.5	3,542	1.2
	BB/AAA(bra)	2021	11,310	2,345	20.7	1,752	1.0
	—	2020	8,208	2,184	26.6	1,815	1.7

Source: Fitch Ratings, Fitch Solutions

Fitch Adjusted Financials

(BRL 000, as of Dec. 31, 2022)	Notes and Formulas	Reported Values	Sum of Adjustments	Cash Adjustment	Other Adjustments	Adjusted Values
Income Statement Summary						
Revenue		22,055,720	-4,863,752		-4,863,752	17,191,968
EBITDAR		7,071,462	-8,327		-8,327	7,063,135
EBITDAR After Associates and Minorities	(a)	7,071,462	-8,327		-8,327	7,063,135
Lease Expense	(b)	0				0
EBITDA	(c)	7,071,462	-8,327		-8,327	7,063,135
EBITDA After Associates and Minorities	(d) = (a-b)	7,071,462	-8,327		-8,327	7,063,135
EBIT	(e)	4,620,613	-8,327		-8,327	4,612,286
Debt and Cash Summary						
Other Off-Balance-Sheet Debt	(f)	0				0
Debt	(g)	18,958,671	-101,374		-101,374	18,857,297
Lease-Equivalent Debt	(h)	0				0
Lease-Adjusted Debt	(i) = (g+h)	18,958,671	-101,374		-101,374	18,857,297
Readily Available Cash and Equivalents	(j)	3,545,358		-1,677,873	1,677,873	3,545,358
Not Readily Available Cash and Equivalents		37,474				37,474
Cash Flow Summary						
EBITDA After Associates and Minorities	(d) = (a-b)	7,071,462	-8,327		-8,327	7,063,135
Preferred Dividends (Paid)	(k)	0				0
Interest Received	(l)	417,129				417,129
Interest (Paid)	(m)	-1,505,488				-1,505,488
Cash Tax (Paid)		-1,368,686				-1,368,686
Other Items Before FFO		74,270	-581,874		-581,874	-507,604
FFO	(n)	4,688,687	-590,201		-590,201	4,098,486
Change in Working Capital (Fitch-Defined)		-721,088				-721,088

(BRL 000, as of Dec. 31, 2022)	Notes and Formulas	Reported Values	Sum of Adjustments	Cash Adjustment	Other Adjustments	Adjusted Values
Cash Flow from Operations (CFO)	(o)	3,967,599	-590,201		-590,201	3,377,398
Non-Operating/Nonrecurring Cash Flow		0				0
Capex	(p)	-3,624,205				-3,624,205
Common Dividends (Paid)		-603,541				-603,541
FCF		-260,147	-590,201		-590,201	-850,348
Gross Leverage (x)						
EBITDAR Leverage ^a	(i/a)	2.7				2.7
FFO-Adjusted Leverage	(i/(n-m-l-k+b))	3.3				3.6
FFO Leverage	(i-h)/(n-m-l-k)	3.3				3.6
EBITDA Leverage ^a	(i-h)/d	2.7				2.7
(CFO-Capex)/Debt (%)	(o+p)/(i-h)	1.8				-1.3
Net Leverage (x)						
EBITDAR Net Leverage ^a	(i-j)/a	2.2				2.2
FFO-Adjusted Net Leverage	(i-j)/(n-m-l-k+b)	2.7				3.0
FFO Net Leverage	(i-h-j)/(n-m-l-k)	2.7				3.0
EBITDA Net Leverage ^a	(i-h-j)/d	2.2				2.2
(CFO-Capex)/Net Debt (%)	(o+p)/(i-h-j)	2.2				-1.6
Coverage (x)						
EBITDAR Fixed-Charge Coverage ^a	a/(-m+b)	4.7				4.7
EBITDA Interest Coverage ^a	d/(-m)	4.7				4.7
FFO Fixed-Charge Coverage	(n-l-m-k+b)/(-m-k+b)	3.8				3.4
FFO Interest Coverage	(n-l-m-k)/(-m-k)	3.8				3.4

^aEBITDA/R after dividends to associates and minorities. CFO – Cash flow from operations. Note: Debt includes other off balance sheet debt.
Source: Fitch Ratings, Fitch Solutions, Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP)

FX Screener

SABESP's manageable FX debt exposure. As of December 2022, the company had BRL2.8 billion, or 15% of its total debt, exposed to the FX volatility, while all of its revenues are generated in local currency.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: <https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Copyright © 2023 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.