

# Companhia de Saneamento Basico do Estado de Sao Paulo's R\$1 Billion Debentures Rated 'brAAA'

November 17, 2020

SAO PAULO (S&P Global Ratings) Nov. 17, 2020--S&P Global Ratings assigned today its 'brAAA' Brazil national scale issue-level rating to Companhia de Saneamento Basico do Estado de Sao Paulo's (SABESP; BB-/Negative/--; brAAA/Negative/--) proposed 27th debentures issuance. The R\$1 billion issuance will comprise three series, with final maturity in 2027, and proceeds will be used for refinancing and strengthening the company's cash position.

## Issue Ratings - Subordination Risk Analysis

The rating on the proposed issuance is at the same level as the issuer credit rating in the Brazilian national scale, because all the debt is issued at the operating level. We note that just 20% of SABESP's debt is secured, and therefore unsecured creditors are not in material disadvantage to the secured creditors. As of Sept. 30, 2020, SABESP's capital structure consisted of about R\$15.4 billion in debt.

## Covenants

The company's proposed 27th debentures issuance will be subject to the following financial covenants:

- Maximum net debt to adjusted EBITDA of 3.5x; and
- Minimum EBITDA interest coverage of 1.5x.

These financial covenants will be measured on a quarterly basis and a debt-payment acceleration event would occur only if the company is unable to comply with them by two consecutive quarters, or two staggered ones in a 12-month period. We believe SABESP has sufficient headroom to comply with them in the next 12 months.

## Performance Update

We expect the company to keep posting somewhat resilient operating performance despite subdued demand due to COVID-19, which has been shrinking volumes in the commercial and industrial segments (down 10.5% and 8.9%, respectively, from the nine months of 2020 from the same period in 2019), while the residential segment that represent the bulk of volumes remains resilient (up 2%). We expect leverage in 2020 and 2021 to be slightly above historical levels, with debt EBITDA of 2.5x-3.0x and funds from operations (FFO) to debt of about 25%. We view SABESP's liquidity and financial flexibility as adequate, given long-term maturities with an average weighted maturity profile of more than four years and cash position of R\$1.9 billion as of Sept. 30, 2020, versus short-term debt maturities of R\$1.4 billion. Although SABESP remains subject to foreign currency fluctuations, as its cash flows are in the domestic currency, the company is gradually reducing its debt denominated in U.S. dollars or Japanese yen (unhedged).

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As of Sept. 30, 2020, such debt accounted for 24% of total debt, compared with about 50% at the end of 2019.

The negative outlook on the rating on SABESP reflects our view that it remains exposed to the overall fiscal weakness of the state of São Paulo. SABESP is regulated by the state of Sao Paulo's regulatory agency--Agencia Reguladora de Saneamento e Energia do Estado de Sao Paulo. The latter could ultimately be a source of interference, because it's responsible for authorizing SABESP's annual rate adjustments. At this point, we don't expect extraordinary action from the state government that could erode the company's liquidity and credit metrics. We acknowledge that the regulatory framework has a track record of good execution, and has ensured that SABESP can continue investing to improve service coverage in the municipalities where it operates.

### Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- 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
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

### Related Research

- Companhia de Saneamento Basico do Estado de Sao Paulo Outlook Revised To Negative; 'BB-' Ratings Affirmed, June 12, 2020
- Companhia de Saneamento Basico do Estado de Sao Paulo , April 20, 2020

## Ratings List

### New Rating

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#### Companhia de Saneamento Basico do Estado de Sao Paulo

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Senior Unsecured

brAAA

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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