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Ratings

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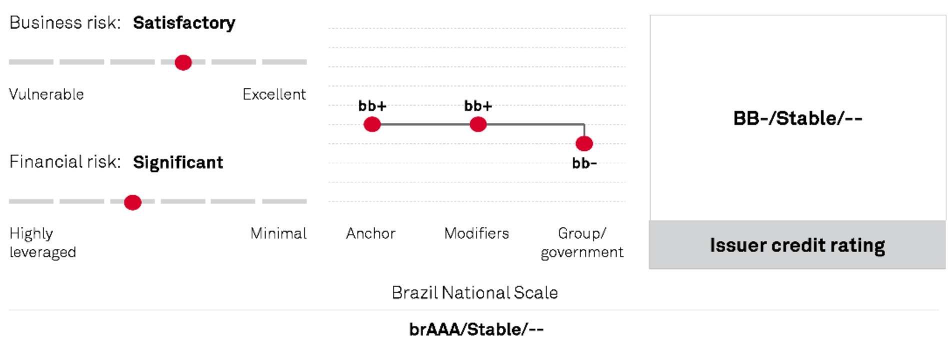
Companhia de Saneamento Básico do Estado de São Paulo - SABESP

June 15, 2022

Ratings Score Snapshot



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Credit Highlights

Overview

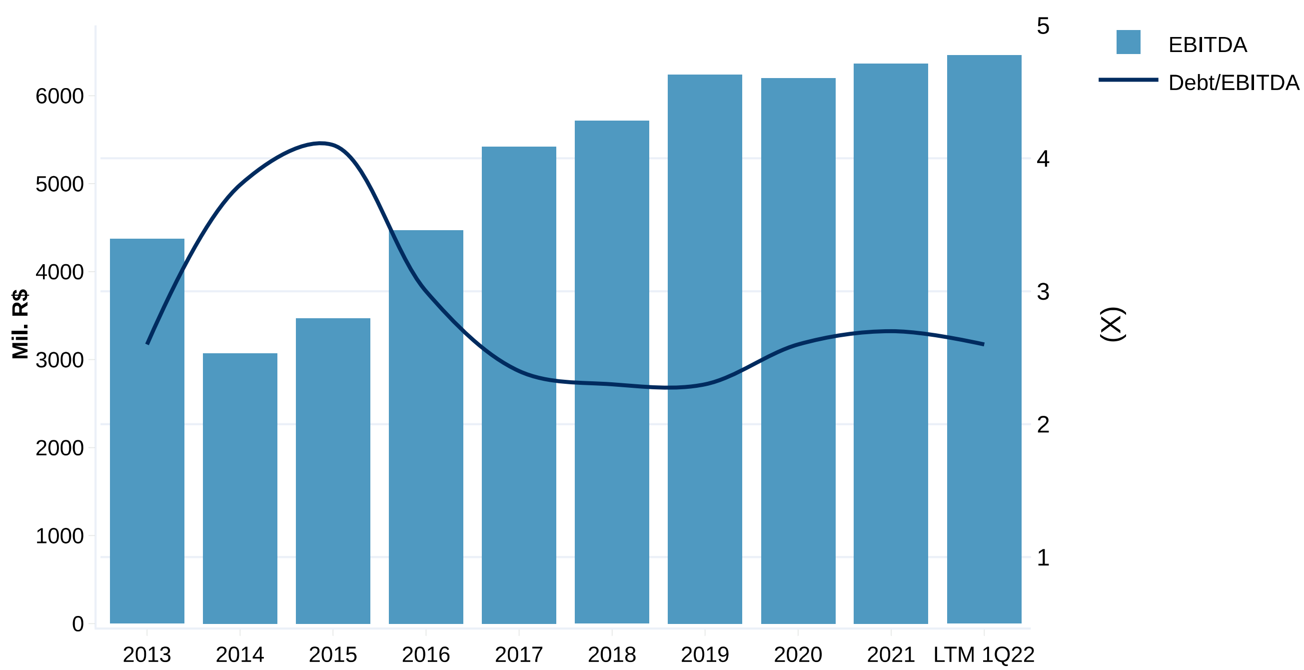
Key strengths	Key risks
Predictable cash flows thanks to a stable regulated water and sewage business, with monopolistic position and diverse client base.	It's still unclear what plans the controlling shareholder, the state of São Paulo, has for the company. We believe privatization is possible.
Relatively stable credit metrics over the past few years, with debt to EBITDA of 2.5x-3.0x, highlighting resiliency amid Brazil's economic woes.	Although the company's stand-alone credit profile (SACP) is 'bb+', any negative rating action on the sovereign would trigger a downgrade of the company because we limit its credit quality to that of Brazil.
Ongoing investments of about R$5 billion annually to increase water and sewage coverage in its concession area, which are already higher than the national average.	Provisions for customer delinquency increased 46.7% in the first quarter of 2022 year-over-year, eating into EBITDA margins.

Despite the higher-than-expected increase in provisions for doubtful accounts (PCLD), credit metrics remain in line with expectations. We forecast Companhia de Saneamento Básico do Estado de São Paulo - SABESP to keep posting somewhat resilient operating performance amid Brazil's troubled economy, as was the case during the pandemic-induced shock, given the essential nature of the service that the company provides. Its credit metrics remain comfortable, with adjusted debt to EBITDA of 2.6x in the past 12 months as of March 2022, compared with our expectation of 2.7x for 2022.

We expect EBITDA margins to take a hit from higher customer delinquency, and payroll, treatment supplies, and electricity costs, given that inflation rose 11.73% in the past 12 months as of May 2022. EBITDA margin slipped to about 42% in the first quarter of 2022 from 45% in the same quarter last year, and we expect them at 41.0%-41.5% in 2022. Provisions for PCLD increased 46.7% in the first quarter of 2022 year-over-year, given that delinquency remained relatively high throughout the period. The increase in PCLD is associated with high unemployment in the company's concession area as well as the introduction of SABESP’s new system. Due to the introduction of this new system, the company adopted a conservative stance and did not put into practice more incisive collection actions until the system was fully stabilized. We expect the drop in PCLD and more incisive measures for accounts in arrears to cause the delinquency rate return to the regular levels for the remainder of the year.

In the first quarter of 2022, revenues grew thanks to rate adjustments (average adjustment of 7% since May 2021) and volume recovery especially in the public (13.2%) and commercial (1.2%) segments that have higher average rates, as the pernicious effect of COVID-19 eases. In the first quarter of 2022, total billed volume decreased 0.4% compared with the same period a year ago, given a 0.8% drop in the residential segment because less clients are staying at home following the lifting of mobility restrictions, and a 4.4% fall in the industrial segment. We continue assessing SABESP's liquidity as adequate, given its long-term maturities with an average weighted profile of more than four years and cash position of R$3.4 billion as of March 31, 2022, versus short-term debt maturities of R$1.7 billion.

EBITDA and Leverage



Source: S&P Global Ratings

Debt's exposure to foreign currency fell to 15%. SABESP is gradually reducing its exposure to foreign-currency fluctuations. At the end of March 2022, debt in U.S. dollars or Japanese yen (unhedged) accounted for 15% of total debt, compared with 19% as of the end of 2021, 21% in 2020, and 48% in 2019.

SABESP's investment plan will total about R$23.8 billion in the next five years. SABESP plans sizable capital expenditures to expand water and sewage coverage in its concession area. Out of R$ 9.3 billion in investments in 2022 and 2023, about 54% will be allocated to sewage collection and treatment, particularly to meet the goals of increasing sewage collection and treatment, which consequently will improve the water quality of the Pinheiros and Tietê rivers that run through the city of São Paulo. We expect the company to fund investments with a combination of internal cash generation and addition debt, while dividend payout should remain at historical levels of about 27.9%. In our view, the company has ability to fund its investments while maintaining conservative credit metrics.

Outlook

The stable outlook on SABESP for the next 12 months reflects our view that it will maintain debt to EBITDA of about 2.7x and liquidity sources over uses above 1.1x, despite planned investments of R$18.8 billion until 2025. Also, as a regulated utility, the company is exposed to Brazil's economic conditions, so we cap our ratings on SABESP by those on the sovereign (BB-/Stable/B).

Downside scenario

Any negative rating action on the sovereign would trigger a downgrade of SABESP because we limit its credit quality to that of Brazil. We could also downgrade SABESP if its funds from operations (FFO) to debt falls below 9% or if debt to EBITDA rises above 5.5x due to a weaker operating performance and sharp depreciation of the Brazilian real. Finally, we could lower the ratings if the state of São Paulo intervenes in the company's operations, for example, by increasing sharply increasing dividend streams above the ones in recent years.

Upside scenario

An upgrade of SABESP in the next 12 months would rely on an upgrade of Brazil. We could revise the company's SACP upward if it maintains debt to EBITDA below 2.0x and FFO to debt near 35%, mostly because of improving operating performance and lower debt.

Our Base-Case Scenario

Assumptions

- In the next few years, hydrology conditions in line with historical average.
- As economy recovers from the pandemic-induced shock and given that residential consumption remained resilient during the coronavirus pandemic, demand for the water and sewage services to rise 1.5% starting in from 2022.
- Rates adjusted to inflation. Average inflation in Brazil of 10.6% in 2022, 4.9% in 2023, and 3.7% in 2024, according to our report, “Economic Research: Global Macro Update: Growth Forecasts Lowered On Longer Russia-Ukraine Conflict And Rising Inflation”, published on May 17, 2022.
- Annual investments of about R$ 5 billion, mostly for sewage services.
- Dividend payouts of 27.9%, except in 2022, for which we assume almost R$1 billion.

Key metrics

Companhia de Saneamento Básico do Estado de São Paulo – SABESP

Mil. $	2020a	2021a	2022e	20203f	2024f

Revenue	13,880.2	15,114.3	16,300-16,900	18,400-19,000	20,200-20,800
EBITDA	6,199.7	6,366.1	6,600-7,000	7,500-7,900	8,500-8,900
EBITDA margin (%)	44.9	42.1	41.0-41.5	41.0-41.5	42.0-42.5
Capital expenditure	3,103.7	3,446.2	4,500-5,000	4,500-5,000	4,500-5,000
Dividends	890.1	254.2	900-1,000	400-500	450-550
Debt to EBITDA (x)	2.6	2.7	2.5-3.0	2.3-2.8	2.0-2.5
FFO to debt (%)	30.4	23.7	18-23	23-28	27-32

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

Base-case projections. Over the past few years and in line with our expectations, SABESP has been posting relatively stable credit metrics, pointing to resiliency amid Brazil's weak economy, with debt to EBITDA of 2.7x at the end of 2021. Moreover, given the company's investments in the past to integrate the main reservoirs and to expand water treatment and storage capacity, we believe that its performance is now more resilient to droughts. Therefore, we expect SABESP to post debt to EBITDA between 2.5x and 3.0x and FFO to debt of 18%-27% in the coming few years. The likely drop in EBITDA margin will be due to higher payroll, treatment supplies, and electricity costs, given the rise in inflation and still high PCLD.

Company Description

Brazil-based SABESP is the largest water and sewage company in Latin America, based on the number of clients and net revenue. It supplies water to 28.4 million people and provides sewage collection services to 25.2 million people. The company operates water and sewage systems in 375 municipalities in the state of São Paulo, which generate about 32% of Brazil's GDP. The company is a government-related entity (GRE), because the state of Sao Paulo is SABESP's controlling shareholder, with a 50.3% equity stake. The remaining portion is traded on B3 S.A. – Brasil, Bolsa, Balcao, and the New York Stock Exchange.

Peer Comparison

We've selected the following companies as SABESP's peers because they're both pure water utilities, GREs, and rated in the 'BB' category. When comparing them, SABESP has a much larger scale, along with solid governance standards, financial resilience, and a track record of a hands-off approach by the government, which help mitigate the likelihood of government interference, allowing the company to carry more debt. We believe this will remain the case in the next few years, because SABESP is an important vehicle in terms of public investment in Brazil's economy and an essential services provider.

Companhia de Saneamento Basico do Estado de Sao Paulo--Peer Comparisons

	Companhia de Saneamento Basico do Estado de Sao Paulo	Rand Water	China Water Affairs Group Ltd.
Foreign currency issuer credit rating	BB-/Stable/--	BB-/Positive/--	BB+/Stable/--
Local currency issuer credit rating	BB-/Stable/--	BB/Stable/--	BB+/Stable/--
Period	Annual	Annual	Annual

Companhia de Saneamento Basico do Estado de Sao Paulo--Peer Comparisons

Period ending	2021-12-31	2021-06-30	2021-03-31
Mil.	R$	R$	R$
Revenue	15,114	5,819	7,521
EBITDA	6,366	1,175	2,798
Funds from operations (FFO)	4,011	1,017	2,038
Interest	1,294	147	600
Cash interest paid	1,146	158	600
Operating cash flow (OCF)	3,613	1,344	1,978
Capital expenditure	3,446	872	2,718
Free operating cash flow (FOCF)	167	473	(740)
Discretionary cash flow (DCF)	(87)	473	(1,353)
Cash and short-term investments	3,151	2,465	3,963
Gross available cash	3,151	2,465	3,791
Debt	16,894	0	11,679
Equity	24,932	10,115	12,323
EBITDA margin (%)	42.1	20.2	37.2
Return on capital (%)	10.9	12.1	11.4
EBITDA interest coverage (x)	4.9	8.0	4.7
FFO cash interest coverage (x)	4.5	7.4	4.4
Debt/EBITDA (x)	2.7	0.0	4.2
FFO/debt (%)	23.7	NM	17.5
OCF/debt (%)	21.4	NM	16.9
FOCF/debt (%)	1.0	NM	(6.3)
DCF/debt (%)	(0.5)	NM	(11.6)

Business Risk

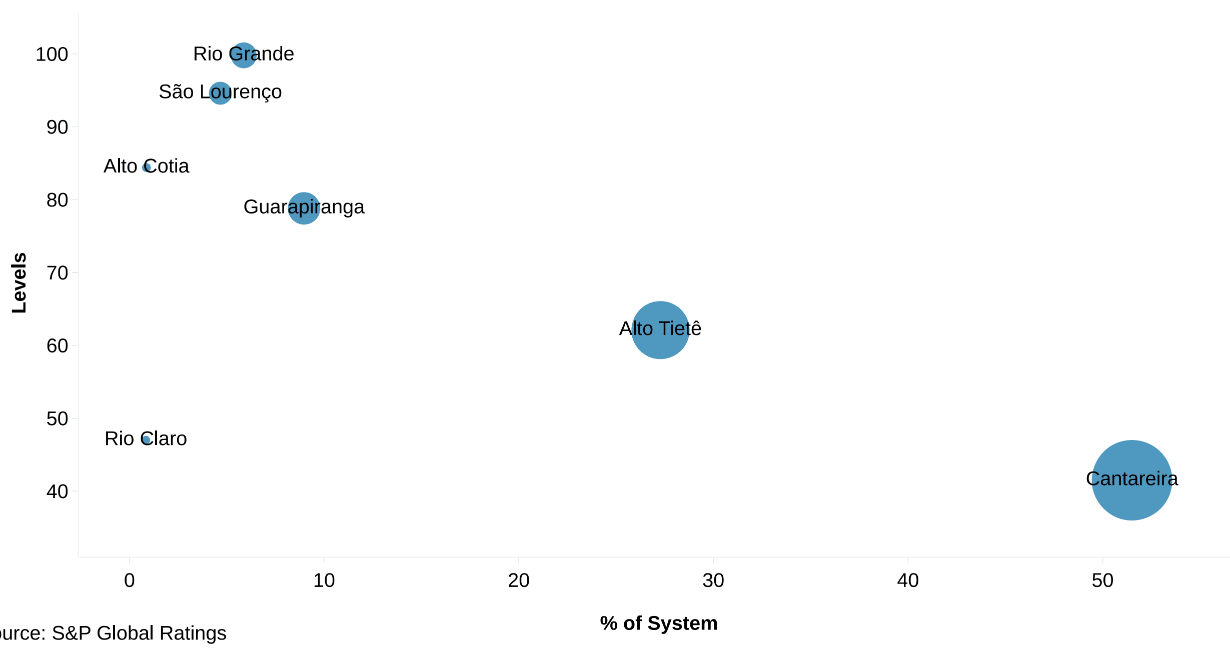
The state regulatory agency--Agencia Reguladora de Serviços Públicos do Estado de São Paulo (ARSESP)--sets the company's regulatory framework, which we view as transparent. The regulator is responsible for authorizing SABESP's annual rate adjustments, which mostly relate to the pass-through of costs for the provision of water and sewage services. In addition, ARSESP establishes the methodology for SABESP's periodic rate reset--which occurs every four years--that defines the weighted average cost of capital (WACC) that will reimburse SABESP's investments that will increase the company's asset base during the cycle. In April 2021, the regulator approved the terms of the third-rate review cycle and the review of the tariff structure. A base rate was approved at R$5.1251 per cubic meter (m3) as of February 2021 based on a regulatory WACC of 8.10%. Changes in the rate structure will be implemented gradually. The new rate will consist of the following:

- A fixed value per connection to cover the costs of infrastructure and a variable amount based on volumes;
- The minimum 10 m3 per month charge was removed;
- A single rate for all the regions, and a differentiation for each type of service: water supply, sewage collection, and sewage treatment; and
- A staggered real rate increase for residential customers: 1.5% in 2022, 3.0% in 2023, and 4.6% in 2024.

We believe that the regulatory framework has ensured that SABESP can continue investing to improve the service provision n the municipalities where it operates. Since the 2014-2015 drought, SABESP took several initiatives to connect its water reservoirs that serve the city of São Paulo's metropolitan area and increase water production and storage capacity. We believe that the company is now better prepared for a severe drought than in the past, indicating a more resilient operating and financial performance. Water levels at SABESP's main water reservoirs, Cantareira and Alto Tietê, both of which represent about 60% of the water supply for the metropolitan region of São Paulo, were at 41.1% and 61.7%, respectively, as of June 15, 2022, compared with 46.4% and 56.2% one year ago.

Reservoir Levels

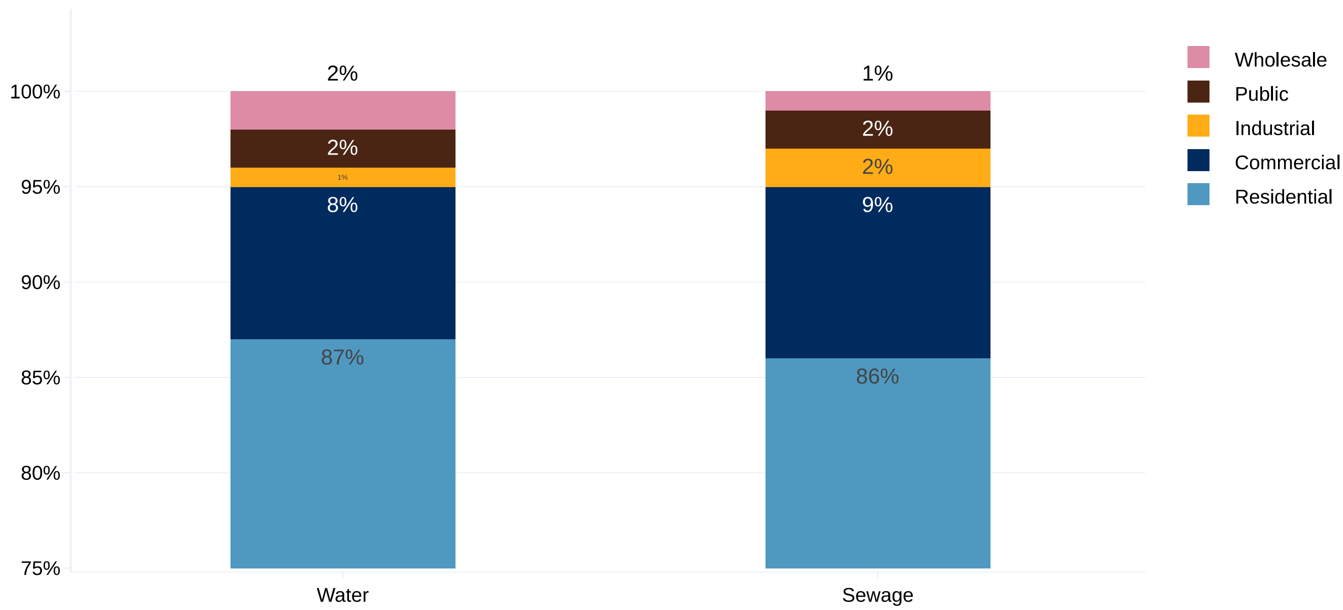
Levels X % of System



Source: S&P Global Ratings

A diversified customer base. Given that SABESP's client base is mostly in the residential segment, we don't believe the company faces any client concentration risks. This confers stability to the company's performance because the residential clients' consumption tends to be somewhat inelastic.

Clients' breakdown by billed volume
1Q22



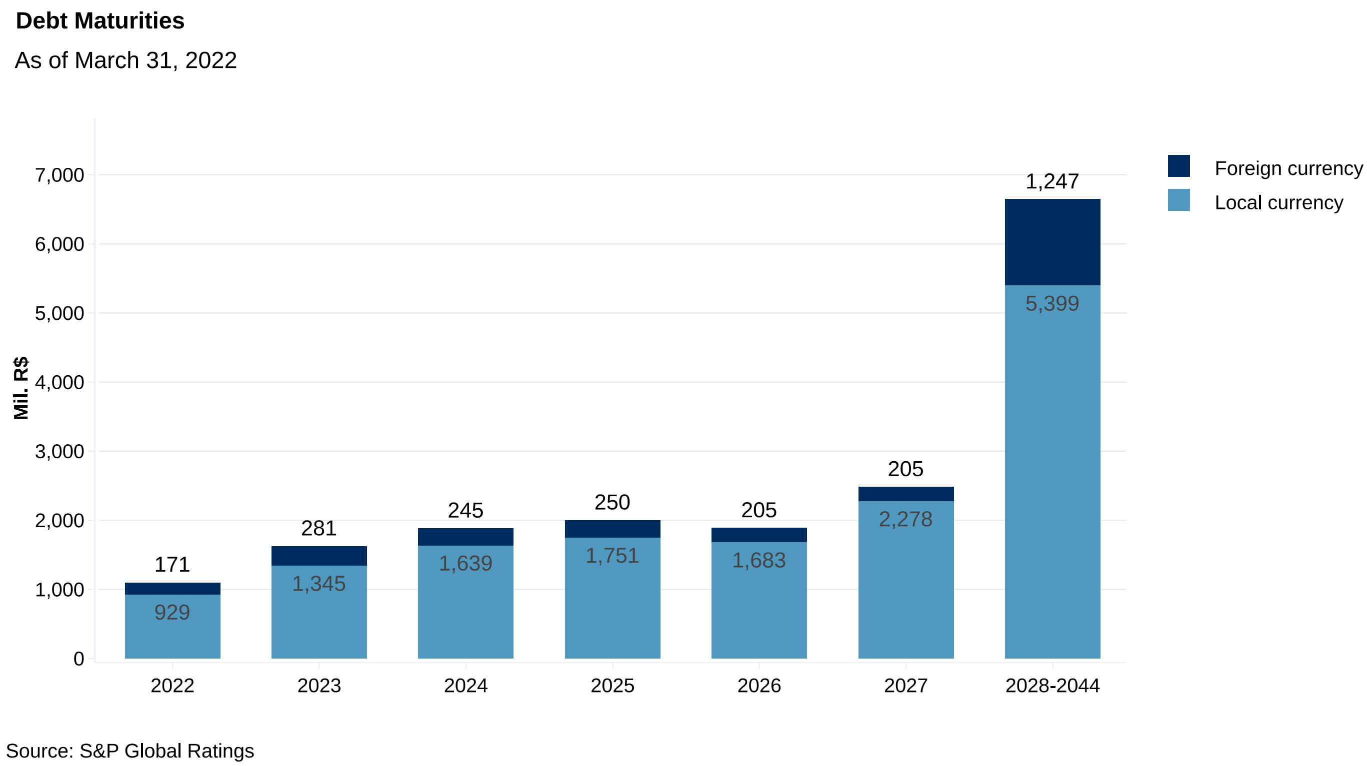
Source: S&P Global Ratings

SABESP mostly operates in the metropolitan region of the city of São Paulo, which represents about 70% of the company's revenue. Furthermore, the concession contract for this area still has 18 years remaining and provides stability to the company's revenue.

Financial Risk

Despite the harsh impact of COVID-19 on overall economic activity and exchange rates, SABESP maintained satisfactory operating performance and credit metrics in 2021, a trend we expect to remain in place over the next few years. Moreover, we believe that SABESP's operations are now more resilient to dry conditions after it invested in connecting its reservoirs. Therefore, we expect the company's debt to EBITDA to remain at 2.5x-3.0x and FFO to debt of 18%-27% in the next few years. Given that SABESP's investment plan of about R$23.8 billion until 2026, we expect the company would need to raise additional debt to fund investments and distribute dividends in the next few years. Nevertheless, we observe a smooth debt amortization profile, as shown in the chart below.

Debt maturities



Companhia de Saneamento Basico do Estado de Sao Paulo--Financial Summary

Period ending	Dec-31-2016	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021
Reporting period	2016a	2017a	2018a	2019a	2020a	2021a
Display currency (mil.)	R$	R$	R$	R$	R$	R$
Revenues	10,365	11,457	12,354	13,700	13,800	15,114
EBITDA	4,472	5,421	5,713	6,299	6,200	6,366
Funds from operations (FFO)	2,002	3,163	3,605	4,106	4,962	4,011
Interest expense	1,205	1,383	1,350	1,269	1,210	1,294
Cash interest paid	1,441	1,325	1,221	971	865	1,146
Operating cash flow (OCF)	2,303	2,653	3,354	3,964	4,740	3,613
Capital expenditure	1,435	1,328	1,695	3,040	3,104	3,446
Free operating cash flow (FOCF)	868	1,325	1,660	924	1,636	167
Discretionary cash flow (DCF)	728	559	1,006	184	746	(87)
Cash and short-term investments	1,886	2,283	3,029	2,253	3,808	3,151
Gross available cash	1,886	2,283	3,029	2,253	3,808	3,151

Companhia de Saneamento Basico do Estado de Sao Paulo--Financial Summary

Debt	13,343	12,750	13,094	14,352	16,320	16,894
Common equity	15,419	17,513	19,552	21,636	22,794	24,932
Adjusted ratios						
EBITDA margin (%)	43.1	47.3	46.2	46.0	44.9	42.1
Return on capital (%)	12.9	14.8	14.9	14.1	11.8	10.9
EBITDA interest coverage (x)	3.7	3.9	4.2	5.0	5.1	4.9
FFO cash interest coverage (x)	2.4	3.4	4.0	5.2	6.7	4.5
Debt/EBITDA (x)	3.0	2.4	2.3	2.3	2.6	2.7
FFO/debt (%)	15.0	24.8	27.5	28.6	30.4	23.7
OCF/debt (%)	17.3	20.8	25.6	27.6	29.0	21.4
FOCF/debt (%)	6.5	10.4	12.7	6.4	10.0	1.0
DCF/debt (%)	5.5	4.4	7.7	1.3	4.6	(0.5)

Reconciliation Of Companhia de Saneamento Basico do Estado de Sao Paulo Reported Amounts With S&P Global Adjusted Amounts (Mil. R$)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2021									
Company reported amounts	17,201	24,932	19,491	6,351	4,098	879	6,366	3,914	254	3,747
Cash taxes paid	-	-	-	-	-	-	(1,209)	-	-	-
Cash interest paid	-	-	-	-	-	-	(845)	-	-	-
Lease liabilities	523	-	-	-	-	-	-	-	-	-
Accessible cash and liquid investments	(3,151)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	-	-	301	(301)	(301)	-	(301)
Income (expense) of unconsolid. cos.	-	-	-	(22)	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	297	-	-	-	-	-
Debt: Workers comp/ self insurance	2,322	-	-	-	-	-	-	-	-	-

Reconciliation Of Companhia de Saneamento Basico do Estado de Sao Paulo Reported Amounts With S&P Global Adjusted Amounts (Mil. R$)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Revenue: other	-	-	(4,377)	(4,377)	(4,377)	-	-	-	-	-
COGS: Valuation gains/(losses)	-	-	-	37	37	-	-	-	-	-
COGS: other nonoperating nonrecurring items	-	-	-	4,278	4,278	-	-	-	-	-
SG&A: Valuation gains/(losses)	-	-	-	77	77	-	-	-	-	-
EBITDA: other	-	-	-	22	22	-	-	-	-	-
Interest expense: other	-	-	-	-	-	114	-	-	-	-
Working capital: Taxes	-	-	-	-	-	-	-	1,209	-	-
Working capital: other	-	-	-	-	-	-	-	1,246	-	-
OCF: Taxes	-	-	-	-	-	-	-	(1,209)	-	-
OCF: other	-	-	-	-	-	-	-	(1,246)	-	-
Total adjustments	(306)	-	(4,377)	15	334	415	(2,355)	(301)	-	(301)
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	16,894	24,932	15,114	6,366	4,431	1,294	4,011	3,613	254	3,446

Liquidity

We still view SABESP as having adequate liquidity, because we expect the company's cash sources to uses to be above 1.1x in the next 12 months, and that the company will be able to keep complying with its financial covenants. We also expect the difference between cash sources and uses to remain positive for the next 12 months even if forecasted EBITDA were to decline by 10%. We also believe that the company has flexibility to absorb high-impact, low-probability events with limited refinancing risk, as seen in its performance during the 2015 drought. In our view, SABESP has wide access to credit and capital markets, and it has sound relationships with public and private banks, and multilateral lending agencies.

Principal liquidity sources

- Consolidated cash and liquid investments of R$3.4 billion as of March 31, 2022; and
- Projected cash flows of about R$4.4 billion the next 12 months.

Principal liquidity uses

- Short-term debt maturities of R$1.8 billion as of March 31, 2022;
- Minimum annual investments of about R$2 billion.

Covenant Analysis

Requirements

SABESP has several financial covenants on its debt contracts, with which it was in compliance as of March 2022. The company's debentures issuances (21st, 22nd, 23rd, 24th, 26th, 27th, 28th, 29th, and 30th) has the following financial covenants:

- Net debt to EBITDA up to 3.5x; and
- EBITDA interest coverage of at least 1.5x.

These financial covenants are measured on a quarterly basis and a debt payment acceleration would occur only if the company is unable to comply with them for two consecutive or non-consecutive quarters (in a 12-month period).

For the company's 18th debenture issuances and its loan from the Brazilian development bank (BNDES; except for contract 08.2.0169.1), compliance is measured on a quarterly basis through the following:

- Net debt to EBITDA up to 3.0x; and
- EBITDA interest coverage equal to or more than 3.5x.
- Other debts to EBITDA equal to or less than 1.0x.

Covenants are considered breached if SABESP is unable to comply with these thresholds for two quarters in a 12-month period. For the BNDES loan, the company will be required to increase the receivables given as collateral by 20% if covenants are breached.

For BNDES contract 08.2.0169.1, the following covenants are calculated on an annual basis:

- EBITDA margin of 38% or higher;
- EBITDA interest coverage of 2.35x or higher; and
- Net debt to EBITDA up to 3.2x.

For the company's 12th debentures issuance, compliance is measured on a quarterly basis, and a breach will occur if SABESP doesn't comply for two quarters in a 12-month period:

- Current ratio above 1.0x; and
- EBITDA interest coverage of at least 1.5x.

This issuance also has a rating trigger clause, so if SABESP is downgraded below 'brAA-', the debt payment accelerates.

For its 17th debenture issuance, compliance is calculated on a quarterly basis, and a breach would be non-compliance for two consecutive quarters or two non-consecutive ones (in a 12-month period):

- Gross debt to EBITDA up to 3.65x; and
- EBITDA interest coverage of at least 1.5x.

For its 21st and 22nd debenture issuances, compliance is calculated on a quarterly basis, and a breach would be non-compliance for two consecutive quarters or two non-consecutive ones (in a 12-month period):

- Net debt to EBITDA up to 3.50x; and
- EBITDA interest coverage of at least 1.5x.

Compliance expectations

We expect SABESP to comply with its financial covenants in the following few quarters, even with more volatile exchange rates, because about 15% of the company's debt is denominated in dollars or yen. Even if its EBITDA declines by about 10% amid economic slump, due to challenging hydrology conditions, or if the Brazilian real depreciates and the company's gross and net debt increase 15%, we believe that SABESP has enough cushion in its financial covenants to remain in compliance with them. In our view, as SABESP's debt has matured or the company has financed it, the 3.65x gross debt-to-EBITDA financial covenants have been gradually replaced with a 3.50x threshold on a net debt basis.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	E-2	**E-3**	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	G-2	**G-3**	G-4	G-5
- Physical risks					- N/A					- Other governance factors				

N/A—Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

Environmental aspects have a moderately negative consideration in our credit rating analysis of SABESP. As a water utility, its operations continue to depend on hydrological conditions, especially in the Sao Paulo metropolitan area where the main reservoirs are located. This risk was mitigated by integration of the company's main reservoirs. Social factors have an overall neutral influence on the rating. Our analysis incorporates SABESP's critical role in providing services to the state of Sao Paulo, the country's wealthiest and most populous state, to which the company provides water services to 99% of its residents and sewage (95%), much higher than the national average (60%). Governance factors are a moderately negative consideration because the company is controlled by the state of Sao Paulo (not rated), fiscal conditions of which deteriorated following the COVID-19 pandemic. Although the state hasn't taken actions that could have jeopardized the company's operating and financial performance recently, we believe SABESP could be exposed to political influence.

Government Influence

We view SABESP as a GRE because the state of São Paulo owns 50.3% of the company. In general, the credit quality of the Brazilian local and regional governments (LRGs) usually limits those of the entities they control. We attribute varying degrees of likelihood of support from the states to these companies. However, we also believe states might intervene by redirecting financial resources, and could therefore, weaken GREs, especially amid fiscal strains. Nevertheless, we believe that SABESP has solid governance standards, the government's record of a hands-off approach, and financial resilience, all of which help mitigate the risk of potential interference. In addition, while the dividends that the company is expected to distribute aren't relevant compared to the state's overall operating revenues, SABESP is an important vehicle in terms of public investment in the local economy. We also believe that the state's extract incentive to extract assets, capital, or liquidity from SABESP, which is an essential services provider, is limited amid the unprecedented public health crisis. Still, we tested SABESP's resilience to a hypothetical default of the state of São Paulo. Due to Brazil's weak economy and given that our base-case scenario assumes stressed conditions, the level of stress incorporated into our test of SABESP was limited and included an extraordinary increase in state tax, a delay in adjusting rates, and much higher working capital needs because of an increase in delinquency levels. We expect SABESP to be relatively resilient to such a hypothetical scenario.

Rating Above The Sovereign

As a regulated utility, the company is exposed to Brazil's overall economic conditions, so we cap our ratings on SABESP to those on the sovereign (BB-/Stable/B).

Issue Ratings--Subordination Risk Analysis

Capital structure

We rate SABESP's following debt instruments:

- R$500 million 12th debentures maturing in 2025 (rated 'brAAA').
- R$1 billion 17th debentures that matures in 2023 ('brAAA').
- R$500 million 21st debentures maturing in 2022 ('brAAA').
- R$867 million 23rd debentures that matures in 2027 ('brAAA').
- R$400 million 24th debentures that matures in 2029 ('brAAA').
- R$1.045 billion 26th debentures that matures in 2030 ('brAAA').
- R$1 billion 27th debentures that matures in 2027 (rated 'brAAA').
- R$1.2 billion 28th debentures that matures in 2028 ('brAAA').

SABESP's capital structure consists of about R$17 billion in financial debt, including its senior unsecured debt.

Analytical conclusions

All the issue-level ratings on SABESP are at the same level as our global and national scale issuer credit ratings on the company. This is because SABESP issued all the rated debt at the operating level, and less than 20% of its financial debt is secured; and consequently, doesn't pose a significant disadvantage to the unsecured creditors.

Rating Component Scores

Foreign currency issuer credit rating	**BB-/Stable/--**
Local currency issuer credit rating	**BB-/Stable/--**
Business risk	**Satisfactory**
Country risk	Moderately High
Industry risk	Very Low
Competitive position	Satisfactory
Financial risk	**Significant**
Cash flow/leverage	Significant
Anchor	**bb+**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Fair (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**bb+**

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- 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: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, 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

Ratings Detail (as of June 15, 2022)*

Companhia de Saneamento Basico do Estado de Sao Paulo

Ratings Detail (as of June 15, 2022)*

Issuer Credit Rating		BB-/Stable/--
Brazil National Scale		brAAA/Stable/--
Senior Unsecured		
Brazil National Scale		brAAA
Issuer Credit Ratings History		
06-Dec-2021		BB-/Stable/--
12-Jun-2020		BB-/Negative/--
12-Jan-2018		BB-/Stable/--
18-Aug-2017		BB/Negative/--
06-Dec-2021	*Brazil National Scale*	brAAA/Stable/--
12-Jun-2020		brAAA/Negative/--
11-Jul-2018		brAAA/Stable/--
12-Jan-2018		brAA-/Stable/--
18-Aug-2017		brAA-/Negative/--
20-Jun-2017		brAA-/Watch Neg/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.