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Research Update:

Two Brazilian State-Owned Utilities Downgraded To 'BB-' From 'BB' After Similar Rating Action On The State Of Sao Paulo

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Overview

- On Jan. 11, 2018, we lowered our foreign and local currency ratings on Brazil to 'BB-' from 'BB' and affirmed the 'brAA-' Brazil national scale rating. We revised the outlook on both ratings to stable from negative.
- On Jan. 12, 2018, we also lowered the foreign and local currency ratings on the state of Sao Paulo to 'BB-' from 'BB' and affirmed the 'brAA-' Brazil national scale rating. We also revised the outlook on both ratings to stable from negative.
- As a result, we are taking the same rating actions on CESP and Sabesp, utility companies that the state of Sao Paulo controls.

Rating Action

On Jan. 12, 2018, S&P Global Ratings lowered the global scale foreign and local currency ratings on CESP-Companhia Energetica de Sao Paulo (CESP) and Companhia de Saneamento Basico do Estado de Sao Paulo (Sabesp) to 'BB-' from 'BB' and affirmed the 'brAA-' Brazil national scale ratings on both companies. We also lowered Sabesp's senior unsecured issue-level ratings to 'BB-' from 'BB' and affirmed the 'brAA-' ratings on its domestic issuances. These actions followed the same rating action on the state of São Paulo. We revised the outlook of these entities to stable from negative.

Rationale

The ratings on the Brazilian states usually limit the ratings of the entities they control. We believe that the states might intervene in companies they control by redirecting resources to the government and therefore weakening the entities' credit quality, particularly amid challenging fiscal conditions. Therefore, we took the same rating actions on CESP and Sabesp as we did on the state. The outlooks on these two utilities are now stable, mirroring the one on the state.

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, Sept. 21, 2017
- General Criteria: S&P Global Ratings' National And Regional Scale Mapping

Tables, Aug. 14, 2017

- 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: National And Regional Scale Credit Ratings, Sept. 22, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, 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
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Brazil Long-Term Ratings Lowered To 'BB-' On Less Timely And Effective Policymaking; Outlook Is Stable, Jan. 11, 2018
- Three Brazilian Local And Regional Governments Downgraded Following A Similar Action On The Sovereign, Jan. 12, 2018

Ratings List

Downgraded; CreditWatch/Outlook Action

	To	From
CESP#Companhia Energetica de Sao Paulo		
Issuer Credit Rating		
Global Scale	BB-/Stable/--	BB/Negative/--
Brazilian National Scale	brAA-/Stable/--	brAA-/Negative/--

Companhia de Saneamento Basico do Estado de Sao Paulo

Issuer Credit Rating		
Global Scale	BB-/Stable/--	BB/Negative/--
Brazilian National Scale	brAA-/Stable/--	brAA-/Negative/--

Senior Unsecured

Global Scale	BB-	BB
Brazilian National Scale	brAA-	brAA-

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