



NON-RATING ACTION COMMENTARY

Sabesp' Potential Privatization Should Not Affect Ratings

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Fitch Ratings-Rio de Janeiro-08 December 2023: The potential privatization of Companhia de Saneamento Básico do Estado de São Paulo (Sabesp) should not affect its ratings, as the ratings are not limited by the credit profile of the current controller, the State of São Paulo, according to Fitch Rating.

Fitch rates Sabesp's Long-Term Local and Foreign Currency Issuer Default Ratings (IDRs) 'BB+' and the Long-Term National Rating 'AAA(bra)'. The controller's Local and Foreign Currency IDRs are 'BB' and Long-Term National Rating 'AAA(bra)'. The Rating Outlook for all ratings is Stable.

Future assessments after the eventual privatization of Sabesp will consider the following: potential improvements in profitability; the company's operating environment; capital injection from privatization, if any; and the new, probably shorter, investment schedule for provision of water/wastewater services to all population on its operating region.

The privatization of Sabesp should provide greater flexibility in management and optimize expenses and capex execution. This condition can benefit the company's profitability. Sabesp's current EBITDA margin, although higher than 40% and strong compared to other state companies, is lower than that of private groups in the Brazilian basic sanitation sector.

Sabesp has robust liquidity and its broad access to financing sources can benefit from lower political risk with privatization. The company's credit indicators are solid and present some headroom rating to increase financial leverage, in case of capex acceleration. Fitch's projections, which do not consider ownership changes, point to net debt/EBITDA limited to 2.0x in the coming years, below the rating downgrade sensitivity of 3.0x for this index.

The Legislative Assembly of the State of São Paulo, on December 6, 2023, approved Bill 1,501/2023, which authorizes the privatization of Sabesp. This represents a step forward in the controller's strategy for privatizing the company. The model for the transaction remains under study, and, at this first stage, without indication of equity injection for Sabesp, only the sale of shares by the state, which should retain a minority stake. The company's privatization process is expected to be completed by mid-2024.

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