Fitch Ratings

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

Companhia de Saneamento Basico do Estado de Sao Paulo's (SABESP) ratings reflect a strengthened credit profile after the third tariff review cycle, which supports forecast cash flow from operations (CFO) increases through the regulatory cycle of 2021–2024. EBITDA margins are expected above 45% for 2022 to 2024 along with positive FCF. The company expected sustained net leverage below 2.0x and the successful reduction of FX debt exposure in 2020 was also incorporated.

The ratings consider the solid fundamentals of the water/wastewater industry under resilient demand, and SABESP's robust liquidity position, manageable debt maturity schedule and condition as a state-owned company. The Negative Outlook for the Long-Term (LT) Foreign Currency (FC) Issuer Default Rating (IDR) follows Brazil's (BB–/Negative) Sovereign Outlook.

Key Rating Drivers

Tariff Review Increases Predictability: The approval for an overall tariff increase of 7.1% in May 2021 and required regulatory revenue of BRL17.5 billion from May 2021 to April 2022, with a gradual increase to BRL18.7 billion from May 2024 to April 2025, should support the growth of SABESP's revenue during this regulatory cycle.

The company's required revenue is 21.0% above 2020 and is now protected by a range of a +/-2.5% band within the next four years. SABESP is to receive or return funds in the following year, through a tariff adjustment, if effective revenue falls outside this range. This provides further predictability for its results, irrespective of volume billed, with potential frustrations in revenue accounted for during a 12-month period, compared with regulatory numbers, being compensated in the following period.

Higher EBITDA Margins: SABESP's regulatory required revenue supports stronger EBITDA and EBITDA margins in 2022–2024 at above 45%. The base case scenario assumes no material effect on EBITDA and cash flow generation from potentially higher water losses or delinquency, along with significantly lower volumes billed, due to increased tariffs.

EBITDA in 2021 should be stable at BRL6.2 billion, with EBITDA margin declining to 40%, given projected cost pressures and low total volume growth of 0.5%. EBITDA margin should increase to 46%–48% in the following three years supported by revenue growth, resulting in annual EBITDA of BRL8.3 billion–BRL9.0 billion for the period.

Positive FCF in 2022: We forecast CFO of BRL3.4 billion in 2021, resulting in negative FCF of BRL662 million, pressured by capex of BRL3.7 billion and BRL272 million of dividends. FCF should be positive BRL239 million annually, on average, for 2022–2024, and favored by stronger annual CFO of BRL5.4 billion, on average. Capex during this period totals BRL11.3 billion and dividends BRL2.6 million. The base case scenario assumes manageable working capital requirements despite potential delinquency pressure with higher tariffs to the residential client segment as approved in the new tariff structure.

Conservative Leverage and Lower FX Exposure: SABESP's net leverage should remain conservative and below 2.5x over the next three years, including 2.3x in 2021, which is low for the industry and for its ratings, and supported by stronger EBITDA through the cycle. Net debt/EBITDA was 2.1x at YE 2020. The company has successfully reduced FC debt exposure to 21% from 48% in 2019, due to a strategy for new debt issuances in local currency (LC) to mitigate FX volatility effects. This mitigates concerns related to financial covenants and during periods of high FX debt maturity.

Corporates
Water/Wastewater Utility
Brazil

Ratings

Rating Type	Rating	Outlook	Last Rating Action
Long-Term Foreign Currency IDR	BB	Negative	Affirmed April 26, 2021
Long-Term Local Currency IDR	BB+	Stable	Upgrade April 26, 2021
National Long-Term Rating	AAA (bra)	Stable	Upgrade April 26, 2021

Click here for full list of ratings

Applicable Criteria

Corporate Rating Criteria (December 2020)
National Scale Rating Criteria (December 2020)
Government-Related Entities Rating Criteria (September 2020)

Analysts

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

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

Reduced Business Risk: The credit profile benefits from resilient demand and from low business risk, with a near-monopolistic position as a provider of an essential service within its operational area and its economies of scale as the largest basic sanitation company in the Americas by number of customers.

The assessment reflects SABESP's still-developing regulatory environment, the intrinsic hydrological risk of its business and the political risk associated with its position as a state-owned company subject to potential changes in management and strategy after each State of Sao Paulo (BB–/Negative) election. SABESP's activity in the State of Sao Paulo, which has the country's largest GDP and population, is viewed as positive.

Standalone Credit Profile: Per Fitch's *Government-Related Entities Rating Criteria*, we assess SABESP on a standalone basis. This approach is supported by our perception of reduced incentive for SABESP's major shareholder to provide support if needed, given minimal financial implications for the State of Sao Paulo if SABESP defaults, and limited evidence of a record or expectations for the state to provide support.

The issuer's activities are independent from its major shareholder, both financially and operationally. A default should have only moderate socio-political implications for the state, despite the strong assessment of its status, ownership and control by the state.

New Regulatory Environment: The base case scenario incorporates no major effects on SABESP's operations and cash flow from the recent regulatory changes by the Law 14.026. Discussions about regulatory guidelines for national water/wastewater should facilitate greater participation by private companies and enhance the industry's investment capacity. Private participants account for around 6% of the industry's market share and growth should occur mainly at the expense of highly inefficient state-owned companies or local municipality operators, which is not the case for SABESP.

Financial Summary

(BRL 000 as of Dec. 31)	2019	2020	2021F	2022F
Net Revenue	13,679,788	14,080,925	15,345,735	17,993,919
Operating EBITDA	6,081,214	6,264,903	6,202,660	8,683,454
Operating EBITDA Margin (%)	44.5	44.5	40.4	48.3
CFO	3,606,631	4,355,028	3,363,571	4,913,139
Total Adjusted Net Debt/Operating EBITDA (x)	1.8	2.1	2.3	1.6

F – Forecast. CFO – Cash flow from operations.
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 capital structure compared with Aegea Saneamento e Participacoes S.A. (BB/Negative), which has moderate leverage, reflecting its growth strategy.

SABESP's strengthened CFO generation capacity after the third tariff revision supports the one-notch difference in the LT LC IDR, despite exposure to political risk, given its status as a state-owned company. Aegea's credit profile benefits from diversified concessions within Brazil, while SABESP operates exclusively in the State of Sao Paulo, which concentrates operational and regulatory risks. Both SABESP and Aegea have similar and strong EBITDA margins.

Compared with power-transmission companies Transmissora Alianca de Energia Eletrica S.A. (BB/Negative) and Alupar Investimento S.A. (BB/Negative), SABESP presents higher regulatory risk, lower operational cash flow predictability and less asset diversification. This explains the difference in the LT FC IDR and LT LC IDR, despite SABESP's expected lower leverage metrics

Rating Sensitivities

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

- Positive rating actions on the LT FC IDR and LT LC IDR depend on positive actions on the sovereign rating.
- An upgrade on the National Long-Term Ratings does not apply as the rating is at the top of the National Scale.

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

- Negative rating actions on the sovereign rating may lead to negative action on the LT FC IDR and LT 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, sound CFO and proven financial market access is crucial for the company to manage expected negative FCF in 2021 and to refinance debt maturities.

Cash and equivalents of BRL3.8 billion at YE 2020 covered short-term debt of BRL3.0 billion by 1.3x. Total debt of BRL17.2 billion at YE 2020 presented a lengthened maturity profile and consisted mainly of multilateral agency loans of BRL6.1 billion and BRL6.6 billion in debenture issuances. The amount of total debt linked to FX rates without any hedge protection was BRL3.5 billion, or 21%, which represents moderate FX volatility exposure risk.

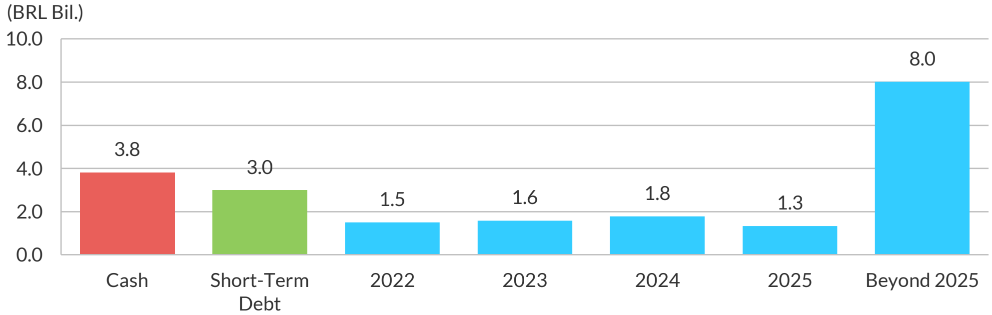
Only BRL2.8 billion of total debt at YE 2020 was secured by future flows of receivables linked with Banco Nacional de Desenvolvimento Economico e Social (BNDES; BB–/Negative) and Caixa Economica Federal (BB–/Negative) loans. This debt does not pressure unsecured rated issuances.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of Environmental, Social and Corporate Governance (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.

Liquidity and Debt Maturities with No Refinancing

Liquidity and Debt Maturity Schedule



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

Available Liquidity

(BRL Mil.)	2021F	2022F	2023F	2024F
Beginning Cash Balance	3,808	147	(811)	(2,006)
Rating Case FCF After Acquisitions and Divestitures	(662)	542	393	(5)
Total Available Liquidity (A)	**3,145**	**690**	**(418)**	**(2,011)**
Liquidity Uses				
Debt Maturities	(2,998)	(1,501)	(1,588)	(1,780)
Total Liquidity Uses (B)	**(2,998)**	**(1,501)**	**(1,588)**	**(1,780)**
Liquidity Calculation				
Ending Cash Balance (A+B)	**147**	**(811)**	**(2,006)**	**(3,791)**
Revolver Availability	0	0	0	0
Ending Liquidity	**147**	**(811)**	**(2,006)**	**(3,791)**
Liquidity Score (x)	**1.0**	**0.5**	**(0.3)**	**(1.1)**

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

Scheduled Debt Maturities

(BRL Mil.)	12/31/20
2021	(2,998)
2022	(1,501)
2023	(1,588)
2024	(1,780)
2025	(1,336)
Thereafter	(8,010)
Total	**(17,213)**

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

- Marginal total volume billed growth of 0.5% in 2021.
- Total annual tariff increases of 7.1% on May 2021.
- Effective net revenue in line with 97.5% of regulatory required revenue from May 2022 onward.
- Net revenue in 2022–2023 include an increase of BRL1.4 billion (pro rata) related to the difference of effective net revenue and regulatory required net revenue from May 2021 to April 2022.
- Average annual capex of BRL3.8 billion in 2021–2023.
- Dividends of BRL272 million in 2021 and a pay-out ratio of 30% of net profits thereafter.

Financial Data

	Historical			Forecast		
(BRL 000 as of Dec. 31)	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Summary Income Statement						
Net Revenue	12,482,424	13,679,788	14,080,925	15,345,735	17,993,919	18,672,864
Revenue Growth (%)	8.9	9.6	2.9	9.0	17.3	3.8
Operating EBITDA (Before Income from Associates)	5,762,686	6,081,214	6,264,903	6,202,660	8,683,454	9,007,969
Operating EBITDA Margin (%)	46.2	44.5	44.5	40.4	48.3	48.2
Operating EBIT	4,370,145	4,343,655	4,307,625	4,112,338	6,501,220	6,739,557
Operating EBIT Margin (%)	35.0	31.8	30.6	26.8	36.1	36.1
Gross Interest Expense	(503,835)	(489,821)	(421,351)	(1,204,967)	(1,329,158)	(1,272,256)
Pretax Income (Including Associate Income/Loss)	3,912,319	4,677,942	1,326,002	2,983,523	5,235,724	5,517,795
Summary Balance Sheet						
Readily Available Cash and Equivalents	3,029,191	2,253,210	3,807,547	3,183,087	2,524,687	2,696,057
Total Debt with Equity Credit	13,195,167	13,170,256	17,212,748	17,214,875	16,014,073	15,792,319
Total Adjusted Debt with Equity Credit	13,195,167	13,170,256	17,212,748	17,214,875	16,014,073	15,792,319
Net Debt	10,165,976	10,917,046	13,405,201	14,031,788	13,489,386	13,096,262
Summary Cash Flow Statement						
Operating EBITDA	5,762,686	6,081,214	6,264,903	6,202,660	8,683,454	9,007,969
Cash Interest Paid	(732,048)	(737,326)	(626,625)	(1,204,967)	(1,329,158)	(1,272,256)
Cash Tax	(888,077)	(1,222,747)	(373,112)	(1,014,398)	(1,780,146)	(1,876,050)
Dividends Received Less Dividends Paid to Minorities (Inflow/(Out)flow)	0	0	0	0	0	0
Other Items Before FFO	(249,544)	(239,699)	(489,778)	(326,340)	(326,340)	(326,340)
FFO	3,893,017	4,033,064	4,850,910	3,733,106	5,311,471	5,583,816
FFO Margin (%)	31.2	29.5	34.5	24.3	29.5	29.9
Change in Working Capital	(228,430)	(426,433)	(495,882)	(369,535)	(398,332)	(387,518)
CFO (Fitch Defined)	3,664,587	3,606,631	4,355,028	3,363,571	4,913,139	5,196,298
Total Non-Operating/Nonrecurring Cash Flow	0	0	0			
Capex	(2,183,204)	(3,273,406)	(3,342,064)			
Capital Intensity (Capex/Revenue) (%)	17.5	23.9	23.7			
Common Dividends	(653,393)	(739,996)	(890,095)			
FCF	827,990	(406,771)	122,869			
Net Acquisitions and Divestitures	8,131	0	0			
Other Investing and Financing Cash Flow Items	(45,782)	(56,935)	(181,741)	35,742	0	0
Net Debt Proceeds	(44,195)	(312,275)	1,613,209	2,127	(1,200,802)	(221,754)
Net Equity Proceeds	0	0	0	0	0	0
Total Change in Cash	746,144	(775,981)	1,554,337	(624,460)	(658,400)	171,370
Leverage Ratios (x)						
Total Net Debt with Equity Credit/Operating EBITDA	1.8	1.8	2.1	2.3	1.6	1.5
Total Debt with Equity Credit/Operating EBITDA	2.3	2.2	2.7	2.8	1.8	1.8
FFO-Adjusted Leverage	3.0	2.9	3.2	3.5	2.4	2.3
FFO-Adjusted Net Leverage	2.3	2.4	2.5	2.9	2.1	1.9
Calculations for Forecast Publication						
Capex, Dividends, Acquisitions and Other Items Before FCF	(2,828,466)	(4,013,402)	(4,232,159)	(4,025,900)	(4,370,737)	(4,803,173)
FCF After Acquisitions and Divestitures	836,121	(406,771)	122,869	(662,329)	542,402	393,125
FCF Margin (After Net Acquisitions) (%)	6.7	(3.0)	0.9	(4.3)	3.0	2.1

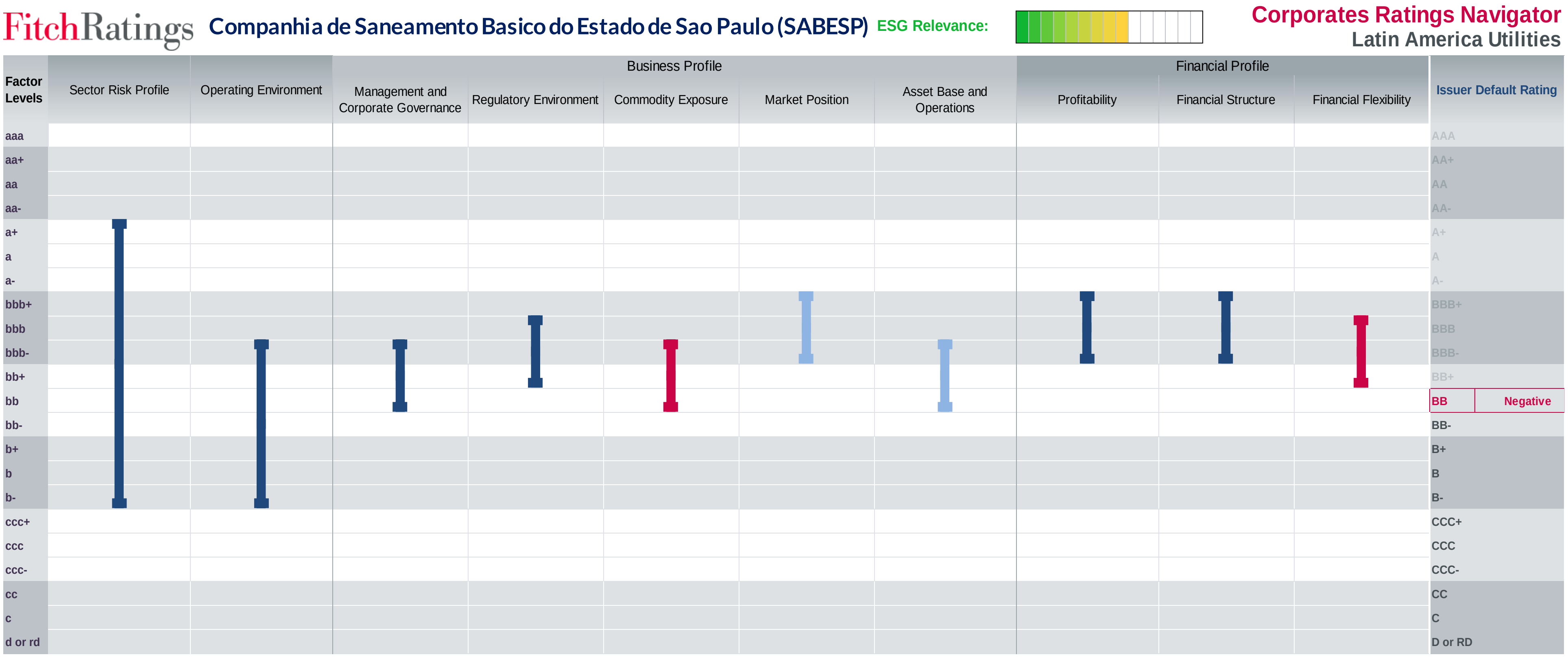
	Historical			Forecast		
(BRL 000 as of Dec. 31)	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Coverage Ratios (x)						
FFO Interest Coverage	6.1	6.3	8.6	4.0	4.9	5.3
FFO Fixed-Charge Coverage	6.1	6.3	8.6	4.0	4.9	5.3
Operating EBITDA/Interest Paid	7.9	8.2	10.0	5.1	6.5	7.1
Additional Metrics (%)						
CFO-Capex/Total Debt with Equity Credit	11.2	2.5	5.9	(2.3)	7.1	9.1
CFO-Capex/Total Net Debt with Equity Credit	14.6	3.1	7.6	(2.8)	8.4	10.9

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

How to Interpret the Forecast Presented

The forecast presented 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



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

FitchRatings

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

Corporates Ratings Navigator
Latin America Utilities

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+			

Management and Corporate Governance

bbb	Management Strategy	bb	Strategy generally coherent but some evidence of weak implementation.
bbb-	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 failing. Consistent with the average of listed companies in major exchanges.
bb-			

Regulatory Environment

bbb+	Independence	bb	Moderate government interference in utility regulations.
bbb	Balance	bbb	Regulatory framework is moderately biased toward the needs of end users at the expense of sector participants.
bbb-	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.
bb	Timeliness of Cost Recovery	bbb	Moderate lag to recover capital and operating costs.

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-			

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+			

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-			

Profitability

a-	Volatility of Profitability	bbb	Stability and predictability of profits in line with utility peers.
bbb+	Free Cash Flow	bbb	Structurally neutral to negative FCF across the investment cycle.
bbb			
bbb-			
bb+			

Financial Structure

a-	FFO Leverage	bbb	4.25x
bbb+	FFO Net Leverage	bbb	3.5x
bbb	Total Debt With Equity Credit/Op. EBITDA	a	<2.5x
bbb-			
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-	FFO Interest Coverage	bbb	4.5x
bb+	FX Exposure	bb	FX exposure on profitability and/or debt/cash flow match. Some hedging in place but only partly effective.
bb			

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.

Credit-Relevant ESG Derivation

Overall ESG

Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP) has 12 ESG potential rating drivers

- Energy and fuel use in operations; entities' financial targets for losses/shrinkage
- Water usage in operations; water utilities' financial targets for water quality, leakage and usage
- Impact of waste including pollution incidents; discharge compliance; sludge, coal ash
- Networks' exposure to extreme weather events- negative (e.g. risk of drought and flooding) or positive (e.g. additional return on resilience capex)
- Regulatory-driven access and affordability targets of utility services
- Quality and safety of products and services; data security

Showing top 6 issues

key driver	0	issues	5
driver	0	issues	4
potential driver	12	issues	3
not a rating driver	1	issues	2
	1	issues	1

For further details on Credit-Relevant ESG scoring, see page 3.

FitchRatings

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

Corporates Ratings Navigator
Latin America Utilities

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

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	12	issues	3
not a rating driver	1	issues	2
	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

E Scale: 5, 4, 3, 2, 1

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

S Scale: 5, 4, 3, 2, 1

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

G Scale: 5, 4, 3, 2, 1

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).

CREDIT-RELEVANT ESG SCALE

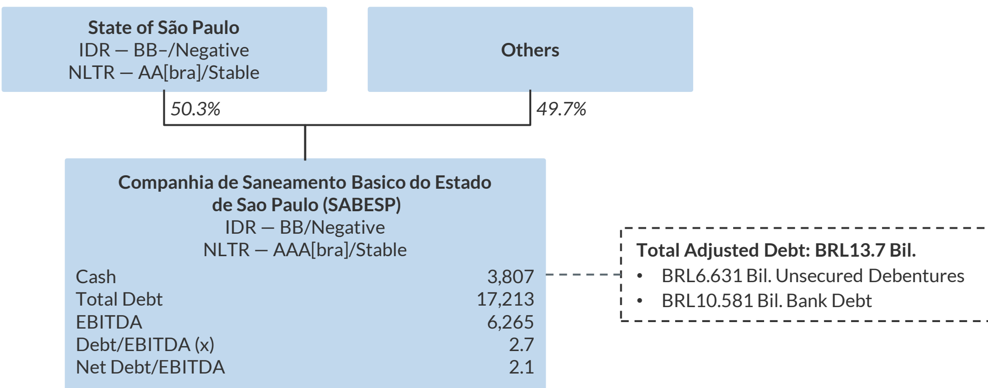
How relevant are E, S and G issues to the overall credit rating?

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, 2020)



IDR – Issuer Default Rating. NLTR – National Long-Term Rating.
Source: Fitch Ratings, Fitch Solutions, Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP).

Peer Financial Summary

Company	Issuer Default Rating	Financial Statement Date	Net Revenue (USD 000)	Operating EBITDA (USD 000)	Operating EBITDA Margin (%)	CFO (USD Mil.)	Total Adjusted Net Debt/ EBITDA (x)
Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP)	BB						
	BB	2020	2,733,307	1,216,106	44.5	845,373	2.1
	BB	2019	3,468,538	1,541,904	44.5	914,469	1.8
	BB	2018	3,418,806	1,578,340	46.2	1,003,692	1.8
Aegea Saneamento e Participacoes S.A.	BB						
	BB	2020	442,160	243,041	55.0	138,526	3.2
	BB	2019	544,046	300,441	55.2	76,132	3.2
	BB	2018	449,220	221,870	49.4	90,959	3.7
Agua y Saneamientos Argentinos S.A.	CCC						
	CCC	2019	657,968	(228,292)	(34.7)	(88,253)	(3.1)
	B	2018	696,422	(297,758)	(42.8)	(134,052)	(2.6)
	N.A.	2017	713,829	(322,632)	(45.2)	(106,144)	(0.6)
Companhia de Gas de Sao Paulo – COMGAS	BB						
	BB	2020	1,442,668	462,500	32.1	352,344	1.7
	BB	2019	2,206,126	637,078	28.9	585,980	1.4
	BB	2018	1,759,537	379,135	21.5	367,789	1.1
Energisa S.A.	BB						
	BB	2020	3,534,455	737,488	20.9	786,947	3.6
	BB	2019	4,382,536	818,241	18.7	408,827	4.5
	BB	2018	3,909,655	725,268	18.6	(445,604)	4.6

CFO – Cash flow from operations. N.A. – Not applicable.
Source: Fitch Ratings, Fitch Solutions.

Fitch Adjusted Financials

(BRL 000 as of Dec. 31, 2020)	Notes and Formulas	Reported Values	Sum of Adjustments	Cash Adjustment	CORP - Lease Treatment	Other Adjustments	Adjusted Values
Income Statement Summary							
Revenue		17,797,541	(3,716,616)	—	—	(3,716,616)	14,080,925
Operating EBITDAR		6,515,349	(250,446)	—	(142,790)	(107,656)	6,264,903
Operating EBITDAR After Associates and Minorities	(a)	6,515,349	(250,446)	—	(142,790)	(107,656)	6,264,903
Operating Lease Expense	(b)	0	—	—	—	—	0
Operating EBITDA	(c)	6,515,349	(250,446)	—	(142,790)	(107,656)	6,264,903
Operating EBITDA After Associates and Minorities	(d) = (a-b)	6,515,349	(250,446)	—	(142,790)	(107,656)	6,264,903
Operating EBIT	(e)	4,478,237	(170,612)	—	(62,956)	(107,656)	4,307,625
Debt and Cash Summary							
Total Debt with Equity Credit	(f)	17,212,748	—	—	—	—	17,212,748
Lease-Equivalent Debt	(g)	0	—	—	—	—	0
Other Off-Balance-Sheet Debt	(h)	0	—	—	—	—	0
Total Adjusted Debt with Equity Credit	(i) = (f+g+h)	17,212,748	—	—	—	—	17,212,748
Readily Available Cash and Equivalents	(j)	3,807,547	—	(3,411,146)	—	3,411,146	3,807,547
Not Readily Available Cash and Equivalents		35,742	—	—	—	—	35,742
Cash Flow Summary							
Operating EBITDA After Associates and Minorities	(d) = (a-b)	6,515,349	(250,446)	—	(142,790)	(107,656)	6,264,903
Preferred Dividends (Paid)	(k)	0	—	—	—	—	0
Interest Received	(l)	75,522	—	—	—	—	75,522
Interest (Paid)	(m)	(626,625)	—	—	—	—	(626,625)
Cash Tax (Paid)		(373,112)	—	—	—	—	(373,112)
Other Items Before FFO		(117,044)	(372,734)	—	62,956	(435,690)	(489,778)
FFO	(n)	5,474,090	(623,180)	—	(79,834)	(543,346)	4,850,910
Change in Working Capital (Fitch-Defined)		(495,882)	—	—	—	—	(495,882)
CFO	(o)	4,978,208	(623,180)	—	(79,834)	(543,346)	4,355,028
Non-Operating/Nonrecurring Cash Flow		0	—	—	—	—	0
Capex	(p)	(3,342,064)	—	—	—	—	(3,342,064)
Common Dividends (Paid)		(890,095)	—	—	—	—	(890,095)
FCF		746,049	(623,180)	—	(79,834)	(543,346)	122,869
Gross Leverage (x)							
Total Adjusted Debt/Operating EBITDAR[a]	(i/a)	2.6	—	—	—	—	2.7
FFO Adjusted Leverage	(i/(n-m-l-k+b))	2.9	—	—	—	—	3.2
FFO Leverage	(i-g)/(n-m-l-k)	2.9	—	—	—	—	3.2
Total Debt with Equity Credit/Operating EBITDA[a]	(i-g)/d	2.6	—	—	—	—	2.7
(CFO-Capex)/Total Debt with Equity Credit (%)	(o+p)/(i-g)	9.5	—	—	—	—	5.9
Net Leverage (x)							
Total Adjusted Net Debt/Operating EBITDAR[a]	(i-j)/a	2.1	—	—	—	—	2.1
FFO-Adjusted Net Leverage	(i-j)/(n-m-l-k+b)	2.2	—	—	—	—	2.5
FFO-Net Leverage	(i-g-j)/(n-m-l-k)	2.2	—	—	—	—	2.5
Total Net Debt with Equity Credit/Operating EBITDA[a]	(i-g-j)/d	2.1	—	—	—	—	2.1
(CFO-Capex)/Total Net Debt with Equity Credit (%)	(o+p)/(i-g-j)	12.2	—	—	—	—	7.6
Coverage (x)							
Operating EBITDA/(Interest Paid + Lease Expense)[a]	a/(-m+b)	10.4	—	—	—	—	10.0
Operating EBITDA/Interest Paid[a]	d/(-m)	10.4	—	—	—	—	10.0
FFO Fixed-Charge Coverage	(n-l-m-k+b)/(-m-k+b)	9.6	—	—	—	—	8.6
FFO Interest Coverage	(n-l-m-k)/(-m-k)	9.6	—	—	—	—	8.6

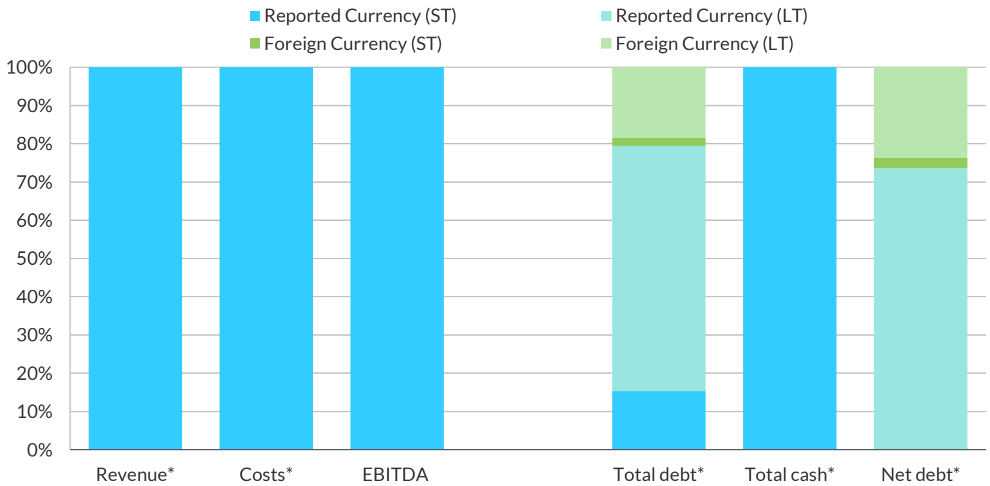
[a]EBITDA/R after dividends to associates and minorities. CFO – Cash flow from operations.
Source: Fitch Ratings, Fitch Solutions, Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP).

FX Screener

SABESP's FX debt exposure is manageable. The company had BRL3.5 billion, as of YE 2020, or 21% of total debt, exposed to FX volatility, while all revenues are generated in LC. A devaluation of 25% in the Brazilian real would result in only a 0.2x increase in the company's FFO adjusted net leverage.

Fitch FX Screener

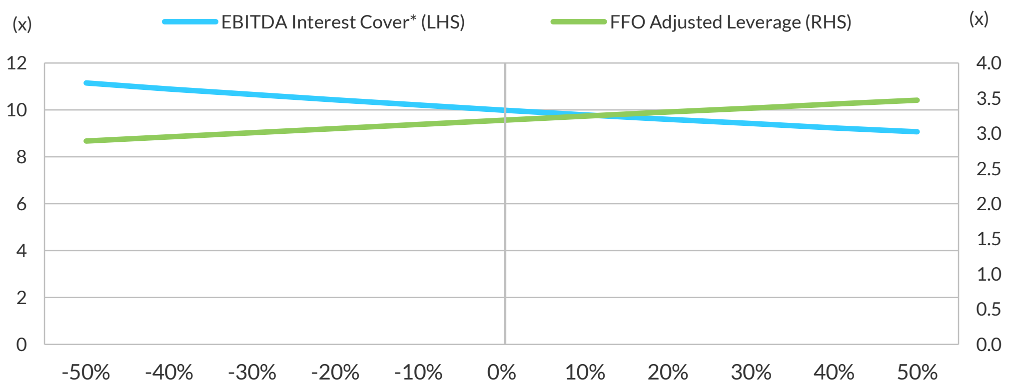
(Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP) — BB/Negative, LTM Dec.-20, BRL 000)



* Post hedge, absolute figures displayed are Fitch's analytical estimates, based on publicly available information
Source: Fitch Ratings, Fitch Solutions.

Fitch FX Screener - Foreign to Reported Currency Stress Test - Absolute Variation

(Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP) — BB/Negative, LTM Dec.-20)



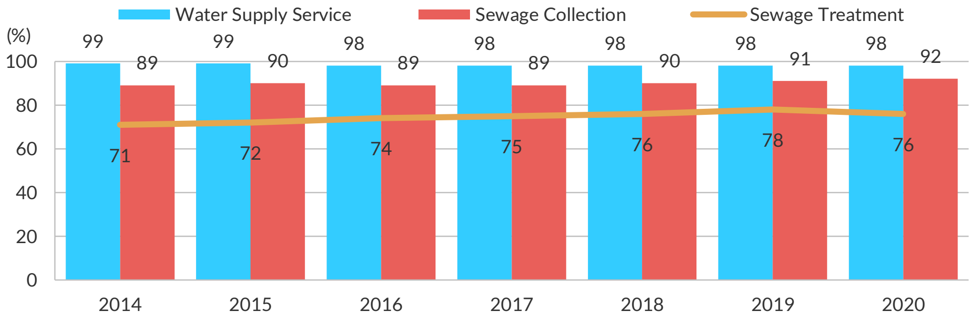
*EBITDA after Dividends to Associates and Minorities
Source: Fitch Ratings, Fitch Solutions.

Covenant Summary

The company is subject to a gross leverage covenant of 3.65x, which may limit its ability to issue debt for refinancing under distressed operating environments. The concern is mitigated, though, by a strong financial profile, which allows adequate headroom before covenants are breached. Fitch believes the company will remain compliant with its net debt/EBITDA of 3.5x covenant.

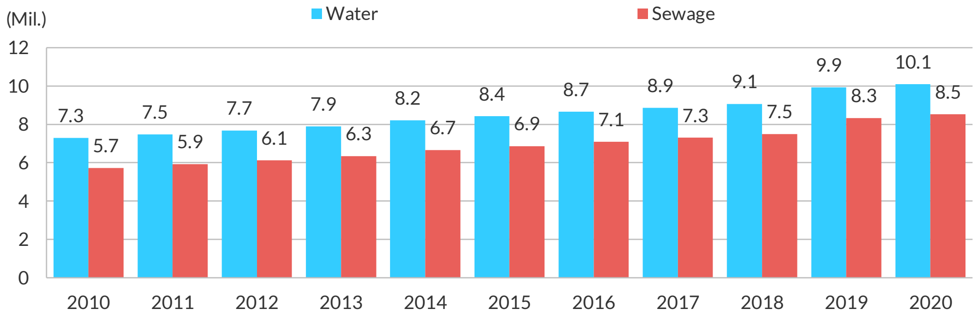
Charts

Evolution of Cover Ratios



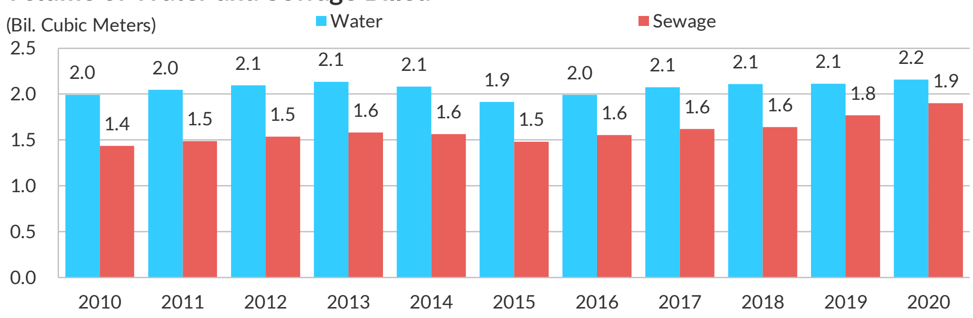
Source: Fitch Ratings, Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP).

Number of Connections



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

Volume of Water and Sewage Billed



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

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.