



## Rating Action: Moody's affirms Sanepar ratings; assigns Ba2/Aa2.br to proposed BRL350 million debentures

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Sao Paulo, February 05, 2020 -- Moody's America Latina Ltda., ("Moody's") has affirmed the Corporate Family Ratings (CFR) and senior unsecured debt ratings assigned to Companhia de Saneamento do Parana -- SANEPAR ("Sanepar" or "the company") at Ba2/Aa2.br (Global scale and Brazilian national scale, respectively) and maintained the ba2 baseline credit assessment (BCA). The outlook is stable. At the same time, Moody's has assigned Ba2/Aa2.br ratings to its proposed 10th issuance of senior unsecured debentures in the amount of BRL350 million due 2027 and 2029. Proceeds of the issuance will be used to support capital investments.

The ratings assigned to the proposed debentures are based on preliminary documentation. Moody's does not anticipate changes in the main conditions that the debentures will carry. Should issuance conditions and/or final documentation deviate from the original ones submitted and reviewed by the rating agency, Moody's will assess the impact that these differences may have on the ratings and act accordingly.

### RATINGS RATIONALE

Sanepar's Ba2/Aa2.br corporate family ratings reflect: (i) the company's attractive concession area, with long-term contracts providing visibility over cash flow generation; (ii) its solid operating performance relative to peers; and (iii) strong and resilient credit metrics, with funds from operations (FFO) to net debt and FFO interest coverage expected to be above 37% and 6.4x, respectively.

The ratings also reflect the short track record of the applicable regulatory framework, with a new tariff-setting mechanism approved in 2017 that aims to compensate investments made by the company. The company is still in the middle of its first tariff cycle, with some exposure to political intervention as a differed portion of the 2017 tariff increase will be applied on an annual basis over the next 5 years. We consider that 2018 and 2019 tariff adjustments were in line with parameters set during the tariff review process, despite some judicial disputes during the process.

Also incorporated in the ratings is Sanepar's large capital expenditure program of BRL7.6 billion over the next 5 years, which is expected to absorb a large portion of the company's operating cash flow in the coming years, and the relatively high dividend payouts historically when compared to national peers. We note that Sanepar has a manageable debt schedule, with a long-dated maturity profile, with 55% of debt maturing beyond 5 years, and a good track record in accessing debt markets.

The Ba2/Aa2.br ratings for the proposed BRL350 million senior debentures due 2027-2029, despite their unsecured nature, are in line with Sanepar's CFR, reflecting Moody's view that the pledges attached to the secured portion of the company's debt obligations are reflective of relatively loose pledges on future flow receivables that do not bring additional recovery prospects upon default to their creditors relative to other debt instruments within the company's capital structure. Some of Sanepar's debt is backed by three-month reserve accounts or secured against future receivables which are dependent of the company's ability to operate as a going concern.

The proposed debentures will be senior unsecured debt obligations of Sanepar. They will include standard debt acceleration clauses among which a change of the company's control by the State of Parana (Ba2/Aa2.br), and inability to comply, for two consecutive quarters or two quarters within any four quarter period, with financial covenants consisting of Net Debt to EBITDA and EBITDA to Net financial expenses ratios set at 3.0x and 1.5x respectively.

### RATING OUTLOOK

The stable outlook incorporates the view that Sanepar's credit metrics will remain adequately positioned for the Ba2 category, as reflected in FFO to Net Debt in the 37%-40% range and FFO interest coverage of 6.2x-6.6x.

### WHAT COULD CHANGE THE RATING UP/DOWN

The company's credit profile is linked to that of the Government of Brazil (Ba2 stable), given the domestic nature of its operations, links to the local regulatory environment and some exposure to government interference. Therefore, positive rating pressure on the global scale is unlikely. That said, a longer track record of consistent application of a transparent and predictable regulatory framework and maintenance of strong credit metrics, such that FFO interest coverage and FFO/net debt remain above 6.5x and 40%, respectively, could lead to an upgrade of the ratings on the national scale.

On the other hand, a downgrade of the ratings could result from Moody's perception of a material change in the regulatory framework under which Sanepar operates or a disruptive political interference in the normal course of its business. A sustained deterioration in the company's credit metrics, such that FFO/net debt declines below 25% and

FFO interest coverage moves toward 4.0x, or a deterioration in Brazil's sovereign credit quality could also lead to a downgrade.

Headquartered in Curitiba, in the State of Parana (Ba2/Aa2.br stable), Brazil, Sanepar was founded in 1963. As of September 30, 2019, Sanepar had more than 3.2 million water connections and more than 2.2 million sewage connections to provide treatment and distribution of water to more than 10 million consumers and sewage services to 346 municipalities. Of these municipalities, 345 are in the State of Parana, representing around 86% of the State's total municipalities, and one municipality in the State of Santa Catarina. Sanepar is controlled by the State of Parana, which owns 60.01% of the company's voting shares, and the remaining portion is in free float. In the twelve months ended in September 30, 2019, Sanepar reported net sales of BRL4.5 billion and net profit of BRL1.0 billion.

The principal methodology used in these ratings was Regulated Water Utilities published in June 2018. Please see the Rating Methodologies page on [www.moodys.com.br](http://www.moodys.com.br) for a copy of this methodology.

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