

Sanitation

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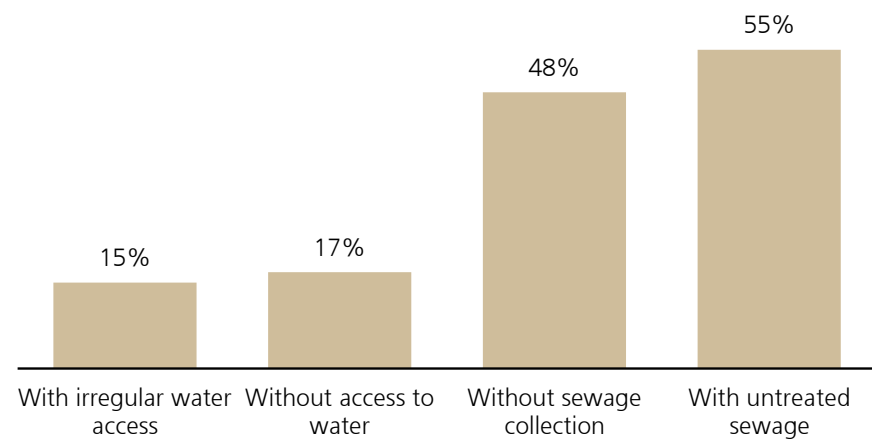
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Brazil's sanitation current situation

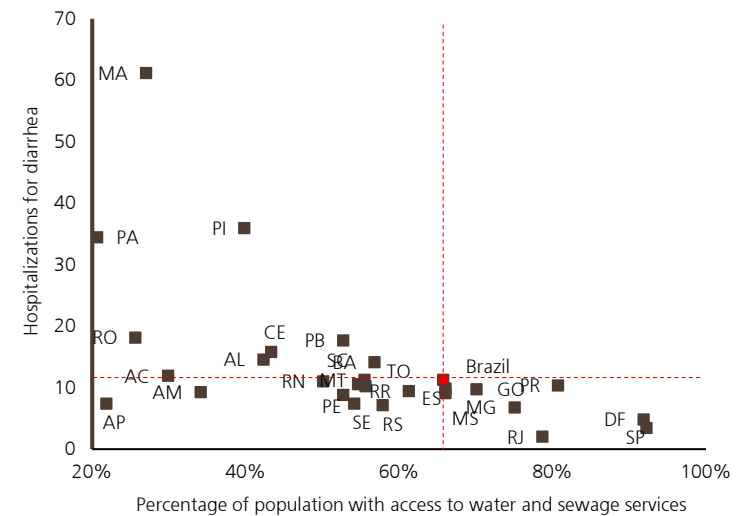
100 million Brazilians do not have access to sewage collection and 30 million to water supply

Figure 1: Percentage of people in Brazil with access to improved sanitation



Source: SNIS

Figure 2: Hospitalizations for diarrhea vs. population with sanitation services (states)

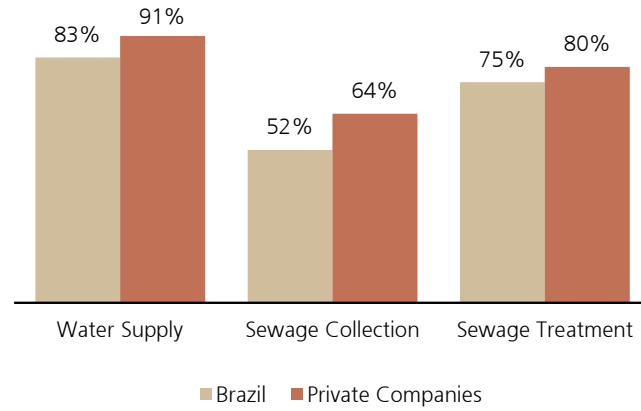


Source: SNIS

Private vs state-owned investments

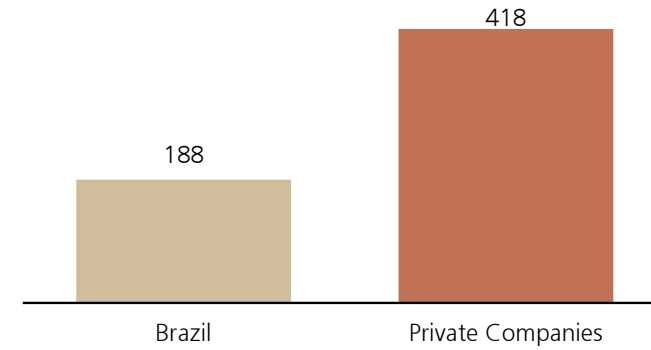
Only 6% of concessions are private concessions, while they are responsible for 20% of total investment made and planned in the sector.

Figure 3: Private investment (2014-16)



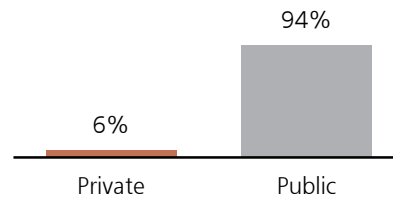
Source: SNIS

Figure 4: Investments per population 2014-16 (R\$)



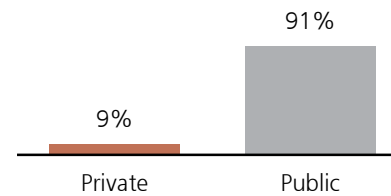
Source: SNIS

Figure 5: Share of private companies (%)



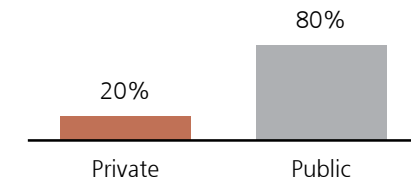
Source: SNIS, ABCON, CNI

Figure 6: Population coverage (%)



Source: SNIS, ABCON, CNI

Figure 7: Investments in sanitation

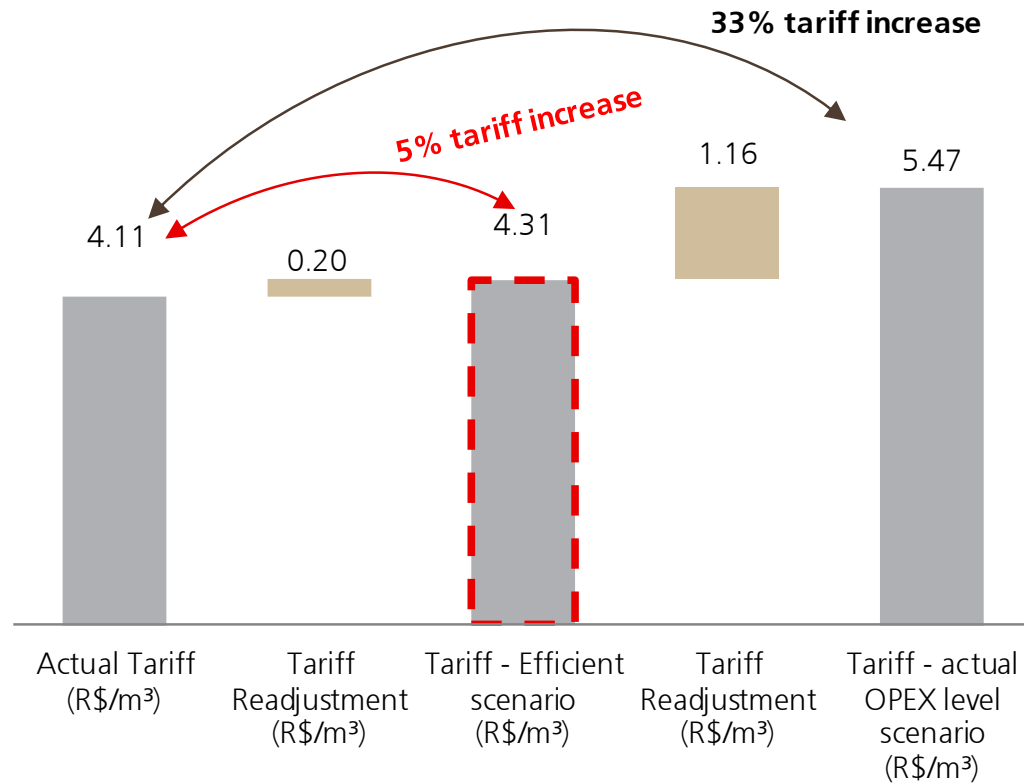


Source: SNIS, ABCON, CNI

Investments

We estimate it is possible to universalize sanitation services in Brazil by 2033, given our estimated total capex of R\$620bn, with a marginal tariff increase of 5%

Figure 8: Tariff increase scenario



Source: UBS estimates

New sanitation law

New sanitation law could boost sector's value to 4x higher than actual (R\$122bn), bringing regulatory and political stability.



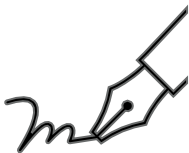
The main objective of the legislation is to universalize and qualify the provision of services in the sector. The federal government's goal is to achieve universalization by 2033, ensuring that 99% of the Brazilian population has access to drinking water and 90% to sewage treatment and collection.



Article 16 was vetoed, which would allow SOEs to renew program contracts by 30 years. With the veto, program contracts must be renewed to fit into the new law, but maintaining actual expiration dates.



Federal financing for sanitation investments requires that cities must operate in blocks. The states had 180 days to form the new blocks of municipalities.



The National Agency of Waters (ANA), will be regulatory agency responsible for the national regulation of the sector

Auctions

The sanitation bill enabled the privatization of companies and auction of concessions



CEDAE

State: Rio de Janeiro
Total grant: R\$22.6bn
Expected investment: R\$27.1bn



ALAGOAS CONCESSION

State: Alagoas
Total grant: R\$2bn
Expected investment: R\$2.6bn



AMAPÁ SANITATION CONCESSION

State: Amapá
Total grant: R\$930m + 20% tariff reduction for clients
Expected investment: R\$3.0bn

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Neutral	FSR is between -6% and 6% of the MRA.	36%	30%
Sell	FSR is > 6% below the MRA.	10%	23%
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Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

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