

Sabesp (SBSP3.SA)

ARSESP releases technical note with preliminary figures for the second phase of Sabesp's 2nd tariff review

BUY

SBSP3.SA	12m Price Target: R\$42.00	Price: R\$38.73	Upside: 8.4%
SBS	12m Price Target: \$13.00	Price: \$11.61	Upside: 12.0%

On March 26, regulator ARSESP opened Public Hearing #03/2018 to discuss the second tariff revision process and disclosed the technical note with a proposed preliminary tariff increase of 4.774% vs. our 8.30% estimate. Main highlights include: (1) an initial net regulatory asset base (net RAB) of R\$38.4bn vs. our R\$40.3bn estimate, and (2) a P0 (initial tariff) of R\$3.8207/m3. These figures will be discussed in the Public hearing until April 17, with the final figures in this final stage to be published by May 10 (per ARSESP).

Implications

The proposed preliminary tariff increase came below our estimates notably due to: (1) lower proposed net RAB vs. our assumptions, (2) lower regulatory losses curve vs. Oct. 2017 and reflected in our model, and (3) retroactive impact from the previous tariff cycle that led to a negative R\$664.3mn impact on tariffs. On the positive side, we highlight: (1) ARSESP incorporated a 4.0% royalties pass-through for serviced municipalities (or a 1.6% effect on total gross revenues) vs none previously, and (2) the retroactive impacts to April 2017 tariffs (original tariff revision date).

As is the case for tariff revision processes for regulated sectors, proposed figures by ARSESP are still preliminary, and we will only reassess our model once final tariff parameters are out (after the Public Hearing process). For example, should the regulator consider the R\$624mn from YE16 inventories into the net RAB (in line with the methodology for the first phase in October 2017), we estimate this would lead to a tariff increase of 5.619% vs. the preliminary 4.774% proposed. We recall that in the first phase of the tariff revision process (Oct. 2017), the regulators proposed a preliminarily 4.365% increase in tariffs, but the final figure came in at 7.889%.

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Key Data

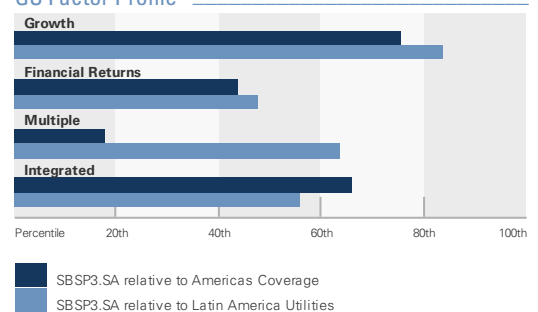
Market cap: R\$26.5bn / \$8.0bn
Enterprise value: R\$39.6bn / \$12.0bn
3m ADTV: R\$45.6mn / \$14.1mn
Brazil
Latin America-Utilities: Attractive
M&A Rank: 3

GS Forecast

	12/16	12/17E	12/18E	12/19E
Revenue (R\$ mn)	10,365.3	11,521.4	12,884.3	14,076.9
EBITDA (R\$ mn)	4,372.7	5,363.4	6,482.0	7,362.3
EBIT (R\$ mn)	3,249.5	4,082.4	4,998.8	5,641.0
EPS (R\$)	4.31	4.18	4.76	5.52
P/E (X)	6.2	9.3	8.1	7.0
EV/EBITDA (X)	7.3	7.4	6.1	5.3
FCF yield (%)	8.1	3.4	3.2	6.0
Dividend yield (%)	3.8	2.5	3.0	6.6
Net debt/EBITDA (X)	3.1	2.5	2.0	1.7

	9/17	12/17E	3/18E	6/18E
EPS (R\$)	1.32	1.35	1.12	0.95

GS Factor Profile



Source: Company data, Goldman Sachs Research estimates. See disclosures for details.

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Buy

Sabesp (SBSP3.SA)

Rating since Feb 5, 2012

Ratios & Valuation

	12/16	12/17E	12/18E	12/19E
P/E (X)	6.2	9.3	8.1	7.0
EV/EBITDA (X)	7.3	7.4	6.1	5.3
EV/sales (X)	3.1	3.4	3.1	2.8
FCF yield (%)	8.1	3.4	3.2	6.0
EV/DACF (X)	7.5	9.3	8.0	7.0
CROCI (%)	14.4	13.4	13.6	13.9
ROE (%)	14.6	12.5	12.5	13.5
Net debt/EBITDA (X)	3.1	2.5	2.0	1.7
Net debt/equity (%)	86.5	75.2	66.1	57.3
Interest cover (X)	4.5	5.6	6.1	6.7
Inventory days	3.1	3.3	3.8	4.0
Receivable days	50.8	48.7	47.9	51.9
Days payable outstanding	36.1	37.3	35.6	35.1

Growth & Margins (%)

	12/16	12/17E	12/18E	12/19E
Total revenue growth	23.8	11.2	11.8	9.3
EBITDA growth	40.6	22.7	20.9	13.6
EPS growth	449.5	(3.1)	13.9	16.1
DPS growth	449.4	(3.6)	15.7	122.3
Gross margin	31.4	35.4	38.8	40.1
EBIT margin	31.4	35.4	38.8	40.1

Price Performance

Source: FactSet. Price as of 26 Mar 2018 close.

Income Statement (R\$ mn)

	12/16	12/17E	12/18E	12/19E
Total revenue	10,365.3	11,521.4	12,884.3	14,076.9
Cost of goods sold	(7,115.8)	(7,439.0)	(7,885.5)	(8,436.0)
SG&A	0.0	0.0	–	–
R&D	0.0	0.0	0.0	0.0
Other operating inc./exp.)	0.0	0.0	–	–
EBITDA	4,372.7	5,363.4	6,482.0	7,362.3
Depreciation & amortization	(1,123.2)	(1,281.0)	(1,483.3)	(1,721.3)
EBIT	3,249.5	4,082.4	4,998.8	5,641.0
Net interest inc./exp.)	(270.1)	(204.1)	(286.9)	(127.2)
Income/(loss) from associates	0.0	0.0	–	–
Pre-tax profit	3,305.6	3,173.2	3,582.0	4,288.5
Provision for taxes	(1,182.0)	(1,111.7)	(1,248.8)	(1,489.0)
Minority interest	0.0	0.0	–	–
Preferred dividends	0.0	0.0	–	–
Net inc. (pre-exceptionals)	2,123.6	2,061.6	2,333.2	2,799.5
Net inc. (post-exceptionals)	2,947.1	2,855.6	3,252.1	3,774.9
EPS (basic, pre-exception) (R\$)	3.11	3.02	3.41	4.10
EPS (diluted, pre-exception) (R\$)	3.11	3.02	3.41	4.10
EPS (ex-ESO exp., dil.) (R\$)	0.00	0.00	0.00	0.00
DPS (R\$)	1.02	0.99	1.14	2.54
Div. payout ratio (%)	33.0	32.7	33.5	62.0
Wtd avg shares out. (basic) (mn)	683.5	683.5	683.5	683.5
Wtd avg shares out. (diluted) (mn)	683.5	683.5	683.5	683.5

Balance Sheet (R\$ mn)

	12/16	12/17E	12/18E	12/19E
Cash & cash equivalents	1,886.2	2,888.1	4,048.9	5,731.4
Accounts receivable	1,557.5	1,516.4	1,865.7	2,134.2
Inventory	58.0	77.3	86.7	95.9
Other current assets	321.9	553.5	603.7	651.2
Total current assets	3,823.6	5,035.4	6,605.0	8,612.7
Net PP&E	22,393.2	25,247.7	28,006.7	30,430.8
Net intangibles	0.0	0.0	–	–
Total investments	0.0	0.0	0.0	0.0
Other long-term assets	10,528.2	9,298.3	8,668.9	8,251.2
Total assets	36,745.0	39,581.4	43,280.6	47,294.7
Accounts payable	772.0	749.1	790.4	830.0
Short-term debt	1,246.6	1,378.1	2,560.2	2,599.8
Other current liabilities	2,283.9	2,267.1	2,465.5	3,508.5
Total current liabilities	4,302.5	4,394.3	5,816.1	6,938.3
Long-term debt	13,982.8	14,652.7	14,579.6	15,558.8
Other long-term liabilities	3,040.5	3,053.5	3,070.9	3,091.2
Total long-term liabilities	17,023.3	17,706.3	17,650.5	18,650.0
Total liabilities	21,325.8	22,100.6	23,466.6	25,588.3
Preferred shares	0.0	0.0	–	–
Total common equity	15,419.2	17,480.8	19,814.0	21,706.4
Minority interest	0.0	0.0	–	–
Total liabilities & equity	36,745.0	39,581.4	43,280.6	47,294.7
BVPS (R\$)	22.56	25.58	28.99	31.76

Cash Flow (R\$ mn)

	12/16	12/17E	12/18E	12/19E
Net income	2,947.1	2,855.6	3,252.1	3,774.9
D&A add-back	1,123.2	1,281.0	1,483.3	1,721.3
Minority interest add-back	0.0	0.0	–	–
Net (inc)/dec working capital	143.0	(343.6)	(294.0)	(206.2)
Others	0.0	0.0	–	–
Cash flow from operations	4,213.3	3,793.1	4,441.5	5,290.0
Capital expenditures	(2,714.5)	(2,883.4)	(3,590.4)	(3,711.0)
Acquisitions	0.0	0.0	–	–
Divestitures	0.0	0.0	–	–
Others	(1,667.7)	(4.2)	(4.4)	(4.6)
Cash flow from investing	(4,382.1)	(2,887.6)	(3,594.7)	(3,715.6)
Dividends paid	(127.4)	(700.0)	(794.1)	(918.9)
Share issuance/(repurchase)	0.0	0.0	–	–
Inc/(dec) in debt	543.3	796.5	1,108.2	1,026.9
Others	0.0	0.0	–	–
Cash flow from financing	415.8	96.4	314.1	108.0
Total cash flow	247.0	1,001.9	1,160.8	1,682.4
Free cash flow	1,498.8	909.6	851.1	1,579.0
Free cash flow per share (R\$)	2.19	1.33	1.25	2.31

Source: Company data, Goldman Sachs Research estimates.

Arsesp releases technical note with preliminary tariff review figures

Analysis of preliminary figures from Arsesp's technical note

We outline below the main preliminary parameters proposed by regulator Arsesp for the second phase of the 2nd tariff revision process for Sabesp, which is scheduled to conclude by May 10, 2018. For details on the references to the final figures proposed in the first phase for the company's 2nd tariff review, please refer to our October 9, 2017 report, *Arsesp releases technical note with final tariff review figures*.

(1) Regulatory Asset Base (RAB): Arsesp reduced the Net RAB to R\$38.4bn (as of YE2016) vs. the R\$40.3bn proposed in the first phase of the tariff review process, mainly reflecting (1) Sabesp's updated appraisal report, which showed a lower Net RAB (as of Jun-2016) of R\$37.6bn vs. R\$38.3bn previously, and (2) the fact that the regulator has not considered R\$624.2mn in inventories related to RAB in FY2016, as opposed to the previous methodology applied in the first phase when the regulator included such figure in the net RAB estimate. Should the regulator consider the R\$624.2mn in inventories to the regulatory asset base, consistent with the methodology previously applied, we estimate Net RAB (as of YE2016) would reach R\$39.1bn.

Exhibit 1: Final Net Regulatory Asset Base figures for the 2nd tariff review vs. previous figures

In R\$

Old - October 2017 (Technical Note #4/2017)		New - March 2018 (Technical Note #4/2018)	
Net Regulatory Asset Base build-up	R\$	Net Regulatory Asset Base build-up	R\$
Initial base - until Sep/2011 (Jun/2016 values)	27,169,186	Initial base - until Sep/2011 (Jun/2016 values)	27,169,186
Incremental base - from Sep/2011 to Jun/2016	9,542,563	Incremental base	11,236,701
48.85% of Difference between appraisal report and audited net PP&E	1,556,661	Net Asset Base	38,405,887
Net Asset Base, Jun/2016	38,268,410	Public-private partnerships (PPPs) and asset leases	424,867
Monetary correction between Jun/2016 and Dec/2016	686,070	Net Asset Base, ex-PPPs	37,981,019
Additions between Jun/2016 and Dec/2016	1,517,678	Additions from new municipalities	387,451
Depreciation between Jun/2016 and Dec/2016	(768,236)	Final Asset Base, Jun/2016 values	37,593,567
Net Asset Base, Dec/2016	39,703,922	Final Asset Base, Dec/2016 values	38,267,539
Regulatory Working Capital	624,786	Investments between Jul/2016 - Dec/2016	745,386
Final Net Regulatory Asset Base, Dec/2016	40,328,708	Capitalized expenses, Jul/2016 - Dec/2016	84,809
		Depreciation over asset base, Jul/2016 - Dec/2016	(506,611)
		Depreciation over capex, Jul/2016 - Dec/2016	(4,934)
		Asset write-offs, Jul/2016 - Dec/2016	(136,310)
		Final Net Regulatory Asset Base (RAB), Dec/2016	38,449,876

Source: Arsesp

(2) Regulatory Opex: Regulator Arsesp reduced the figures published in the first phase of the tariff review process, increasing the gap between regulatory opex vs. Sabesp's 2017-20 opex estimates to an average of 8.2% vs. 4.6% previously. It is important to highlight that in the previous 2012-2016 cycle, the regulator assumed a 9.0% lower opex vs. Sabesp's opex plan for the equivalent period.

Exhibit 2: Regulatory opex vs. Sabesp's 2017-20 opex estimates

In R\$m

		2017	2018	2019	2020	TOTAL
OPEX	Sabesp's business plan	5,983.7	6,354.4	6,243.7	6,217.8	24,799.6
	Arsesp's estimates	5,555.8	5,641.1	5,728.4	5,845.1	22,770.5
	Difference (%)	-7.1%	-11.2%	-8.3%	-6.0%	-8.2%

Source: Arsesp

(3) Demand projections: Regulator Arsesp increased the water and sewage billed volume projections published in the first phase of the tariff review process, increasing the gap between Sabesp's 2017-20 business plan estimates to an average 2.1% vs. 0.3% previously.

Exhibit 3: Regulator's water and sewage demand projections vs. Sabesp's 2017-20 business plan

In 000 cubic meters

Water and Sewage Demand, 000 m3	2017E	2018E	2019E	2020E
Sabesp projections	3,627,131	3,725,470	3,828,116	3,929,680
ARSESP projections, Mar 2018	3,707,335	3,806,967	3,907,919	4,006,723
ARSESP vs. Sabesp, %	2.2%	2.2%	2.1%	2.0%
ARSESP projections, Oct 2017	3,637,669	3,736,800	3,840,302	3,942,743
ARSESP, new vs. old, %	1.9%	1.9%	1.8%	1.6%

Source: Arsesp

(4) Regulatory Losses Curve: Regulator Arsesp tightened the parameters for regulatory losses vs. the first phase of the tariff review process. The regulatory water losses curve for 2017-2020 stands at 30.0%/28.8%/27.6%/26.4% vs. 31.7%/31.0%/30.1%/29.3% proposed in the first phase (Oct 2017) and the previous regulatory targets in the 2012-2016 cycle of 32.1%/30.5%/29.3%/28.1%/27.0%.

Exhibit 4: 2017-20E final regulatory water losses curve

In % of billed volumes, compared to Sabesp's claim, the previous cycle curve and Sabesp's 2012-16A performance

Water losses	2012A	2013A	2014A	2015A	2016A	2017E	2018E	2019E	2020E
Sabesp projections	32.1%	31.2%	29.8%	28.5%	31.8%	31.7%	31.3%	30.6%	29.9%
ARSESP projections, Mar 2018	32.1%	30.5%	29.3%	28.1%	27.0%	30.0%	28.8%	27.6%	26.4%
ARSESP vs. Sabesp, %	0.0%	-0.7%	-0.5%	-0.4%	-4.8%	-1.7%	-2.5%	-3.0%	-3.5%
ARSESP projections, Oct 2017	32.1%	30.5%	29.3%	28.1%	27.0%	31.7%	31.0%	30.1%	29.3%
ARSESP, new vs. old, %	0.0%	0.0%	0.0%	0.0%	0.0%	-1.7%	-2.2%	-2.5%	-2.9%

Source: Arsesp

(5) Regulatory Delinquency Rates: Arsesp increased the regulatory delinquency rate for 2017-2020 to 1.29% / year vs. 1.15% / year previously. Nevertheless, such figures are still below the previous regulatory targets in the 2012-2016 cycle of 2.20%/2.07%/1.94%/1.80%.

Exhibit 5: 2017-20 proposed regulatory delinquency rates

As a % of direct regulatory revenues and compared

Water losses	2013A	2014A	2015A	2016A	2017E	2018E	2019E	2020E
Sabesp projections	1.08%	1.55%	0.03%	0.80%	1.95%	2.10%	2.09%	2.07%
ARSESP projections, Mar 2018	2.20%	2.07%	1.94%	1.80%	1.29%	1.29%	1.29%	1.29%
ARSESP vs. Sabesp, %	1.12%	0.52%	1.91%	1.00%	-0.66%	-0.81%	-0.80%	-0.78%
ARSESP projections, Oct 2017	2.20%	2.07%	1.94%	1.80%	1.15%	1.15%	1.15%	1.15%
ARSESP, new vs. old, %	0.00%	0.00%	0.00%	0.00%	0.14%	0.14%	0.14%	0.14%

Source: Arsesp

(6) Adjustments related to previous tariff cycle: Regulator Arsesp included in Sabesp's 2nd tariff review an adjustment component related to the previous tariff revision cycle in 2013-2016. The component aimed to compensate differences between previous forecasts and actual figures related to (i) PIS/COFINS tariffs, (ii) actual figures for other revenues, indirect revenues and working capital, (iii) removal of net RAB cuts and actual capex figures reported by Sabesp and (iv) tariff contingencies revenues. We highlight most of the difference refer to lower capex disbursements by Sabesp vs. regulatory projections. All in, total adjustments totaled a negative R\$(664.3)mn adjustment to be compensated in the 2017-20 tariff cycle.

Exhibit 6: Retroactive impacts from the previous tariff revision cycle in 2013-2016

	2013	2014	2015	2016
IPCA	1.9%	6.2%	8.1%	9.4%
X-factor		0.94%	0.94%	0.94%
A: Required revenue authorized in the previous tariff cycle (nominal R\$ 000)	10,033,311	10,653,145	9,798,561	11,003,323
B: Required revenue with adjustments (nominal R\$ 000)	9,900,218	10,511,830	9,668,582	10,857,363
Difference B-A (nominal R\$ 000)	(133,093)	(141,315)	(129,979)	(145,960)
Difference (Dec/2016 prices, R\$ 000)	(168,558)	(167,581)	(140,577)	(146,971)
Difference accrue by WACC (R\$ 000)	(189,769)	(181,361)	(146,242)	(146,971)
Final adjustment to be applied in the current tariff revision cycle, R\$		-664,342,592		

Source: Arsesp

(7) Pass-through of royalties: For the 2017-2020 tariff cycle, Arsesp incorporated a 4.0% royalties pass-through for serviced municipalities (or a 1.6% effect on the company's total gross revenues). Although we see this as positive, the actual pass-through of the R\$212mn-R\$229mn in charges for the tariff revision cycle remain significantly below our projections of R\$435mn - R\$630mn over the same period, based on the 7.5% charge from the city of São Paulo.

Exhibit 7: Arsesp's royalty estimates vs. GSe

In R\$000

	2017	2018	2019	2020	
Royalties	GS estimates	435,187.7	524,101.8	572,616.7	630,677.3
	Arsesp's estimates	212,369.3	218,076.5	223,859.4	229,519.2

Source: Arsesp, Goldman Sachs Global Investment Research

(8) Regulatory EBITDA: The 2017-20 regulatory EBITDA, as per Arsesp's technical note, implies an average EBITDA 1.7% below our estimates, and 20.1% above Bloomberg consensus.

Exhibit 8: 2017-20E proposed regulatory EBITDA

In R\$m; values as of YE2016

	2017	2018	2019	2020
Direct Regulatory Revenues	13,593.5	13,958.8	14,328.9	14,691.2
Indirect Revenues	214.8	220.5	226.4	232.1
Non Operating Revenues	106.2	106.2	106.2	106.2
(-) PIS-Cofins taxes	(928.1)	(924.8)	(959.0)	(986.9)
Total Net Revenues	12,986.3	13,360.7	13,702.5	14,042.6
(-) Regulatory OPEX	(5,555.8)	(5,641.1)	(5,728.4)	(5,845.1)
(-) Expenses related to PPP	(172.6)	(576.4)	(576.4)	(576.4)
(-)Regulatory delinquency expenses	(175.0)	(179.7)	(184.5)	(189.2)
(-) Royalties charges	(212.4)	(218.1)	(223.9)	(229.5)
Regulatory EBITDA	6,870.5	6,745.4	6,989.4	7,202.5
GSe EBITDA	6,296.3	6,889.5	7,589.1	7,666.1
Bloomberg Consensus	5,178.5	5,652.1	5,846.4	6,605.9
Regulatory vs. Gse	9.1%	-2.1%	-7.9%	-6.0%
Regulatory vs. Consensus	32.7%	19.3%	19.6%	9.0%

Source: Arsesp, Bloomberg

Based on the final regulatory parameters, the regulator Arsesp has proposed a preliminary 4.774% tariff increase related to the second phase of Sabesp's 2nd tariff review on top of the already announced 4.774% increase related to the first phase of the tariff review process, as detailed in Exhibit 9:

Exhibit 9: Arsesp's final tariff increase related to the first phase of the 2nd tariff review process

Breakdown of the preliminary P0 (initial tariff); prices as of YE2016

	NPV Dec 2016	2017	2018	2019	2020
p0 tariff (R\$/m3)	3.6666				
Estimated volumes ('000 m3)	15,428.9	3,707.3	3,807.0	3,907.9	4,006.7
Direct Regulatory Revenues	46,611.4	13,593.5	13,958.8	14,328.9	14,691.2
Indirect Revenues	736.4	214.8	220.5	226.4	232.1
Non Operating Revenues	350.9	106.2	106.2	106.2	106.2
(-) PIS-Cofins taxes	(3,131.1)	(928.1)	(924.8)	(959.0)	(986.9)
(-) Regulatory OPEX	(18,778.0)	(5,555.8)	(5,641.1)	(5,728.4)	(5,845.1)
(-) Expenses related to PPP	(1,530.9)	(172.6)	(576.4)	(576.4)	(576.4)
(-) Royalties charges	(728.2)	(212.4)	(218.1)	(223.9)	(229.5)
(-) R&D expenses	(5.4)	-	-	-	(7.3)
(-)Regulatory delinquency expenses	(600.1)	(175.0)	(179.7)	(184.5)	(189.2)
Taxes (Income tax + Social Contribution)	(6,342.8)	(1,934.6)	(1,863.9)	(1,920.2)	(1,965.6)
Capex	(9,667.8)	(2,552.0)	(3,712.3)	(2,208.6)	(3,255.5)
Financial Remuneration for Working progress (18 months)	(303.0)	(92.6)	(113.1)	(54.4)	(105.8)
Changes in Working Capital	(578.7)	(499.7)	(72.0)	(38.7)	(33.1)
Retroactive impact from delays	664.3	179.6	194.1	209.9	226.9
Initial Net RAB	38,449.9	-	-	-	-
Final Net RAB	31,752.8	-	-	-	43,375.6
Free Cash Flow	(38,449.9)	1,971.1	1,178.3	2,977.3	45,437.6
IRR (real terms)	8.11%				
P0 at April 2018 (R\$/m3)	3.82070				
Necessary tariff adjustment	4.774%				

Source: Arsesp

Assessing the preliminary tariff review figures under different net RAB scenarios

Although we don't take a view on the likelihood of potential changes in the public hearing process and acknowledge a range of outcomes exist outside the analysis we present, for illustrative purposes we assess different regulatory Net RAB figures for Sabesp's final tariff review process.

Should the regulator consider the R\$624.2mn in inventories to the regulatory asset base, consistent with the methodology previously applied, we estimate Net RAB (as YE2016) would reach R\$39.1bn. As a result, in such a scenario, we estimate a tariff increase of 5.619% based on an implied preliminary P0 of R\$3.85/m3 vs. 4.774% proposed by Arsesp, all else held equal.

Exhibit 10: For illustrative purposes, GS estimated implied tariff increase under a higher RAB scenario
in R\$m; values as of YE2016

	NPV Dec 2016	2017	2018	2019	2020
p0 tariff (R\$/m3)	3.6962				
Estimated volumes ('000 m3)	15,428.9	3,707.3	3,807.0	3,907.9	4,006.7
Direct Regulatory Revenues	46,986.8	13,703.0	14,071.3	14,444.4	14,809.6
Indirect Revenues	736.4	214.8	220.5	226.4	232.1
Non Operating Revenues	350.9	106.2	106.2	106.2	106.2
(-) PIS-Cofins taxes	(3,155.8)	(935.43)	(932.08)	(966.54)	(994.66)
(-) Regulatory OPEX	(18,777.8)	(5,555.8)	(5,641.1)	(5,728.4)	(5,845.1)
(-) Expenses related to PPP	(1,530.8)	(172.6)	(576.4)	(576.4)	(576.4)
(-) Royalties charges	(734.1)	(214.1)	(219.8)	(225.7)	(231.4)
(-) R&D expenses	(5.4)	-	-	-	(7.3)
(-)Regulatory delinquency expenses	(605.0)	(176.4)	(181.2)	(186.0)	(190.7)
Taxes (Income tax + Social Contribution)	(6,436.9)	(1,962.5)	(1,892.1)	(1,949.0)	(1,994.9)
Capex	(9,667.8)	(2,552.0)	(3,712.3)	(2,208.6)	(3,255.5)
Financial Remuneration for Working progress (18 months)	(303.0)	(92.6)	(113.1)	(54.4)	(105.8)
Changes in Working Capital	(578.7)	(499.7)	(72.0)	(38.7)	(33.1)
Retroactive impact from delays	664.3	179.6	194.1	209.9	226.9
Initial Net RAB	39,074.1	-	-	-	-
Final Net RAB	32,130.9	-	-	-	43,892.8
Free Cash Flow	(39,074.1)	2,042.3	1,252.1	3,053.2	46,032.7
IRR (real terms)	8.11%				
P0 at April 2018 (R\$/m3)	3.8515				
Necessary tariff adjustment	5.619%				

Source: Goldman Sachs Global Investment Research

Exhibit 11: For illustrative purposes, implied regulatory EBITDA under a higher RAB scenario
in R\$m; values as of YE2016

	2017	2018	2019	2020
Direct Regulatory Revenues	13,703.0	14,071.3	14,444.4	14,809.6
Indirect Revenues	214.8	220.5	226.4	232.1
Non Operating Revenues	106.2	106.2	106.2	106.2
(-) PIS-Cofins taxes	(935.4)	(932.1)	(966.5)	(994.7)
Total Net Revenues	13,088.6	13,466.0	13,810.5	14,153.3
(-) Regulatory OPEX	(5,555.8)	(5,641.1)	(5,728.4)	(5,845.1)
(-) Expenses related to PPP	(172.6)	(576.4)	(576.4)	(576.4)
(-)Regulatory delinquency expenses	(176.4)	(181.2)	(186.0)	(190.7)
(-) Royalties charges	(214.1)	(219.8)	(225.7)	(231.4)
Regulatory EBITDA	6,969.6	6,847.5	7,094.1	7,309.7
GSe EBITDA	6,296.3	6,889.5	7,589.1	7,666.1
Bloomberg Consensus	5,178.5	5,652.1	5,846.4	6,605.9
Regulatory vs. Gse	10.7%	-0.6%	-6.5%	-4.6%
Regulatory vs. Consensus	34.6%	21.1%	21.3%	10.7%

Source: Goldman Sachs Global Investment Research

Valuation and Key Risks

We maintain our Buy rating on Sabesp and our 12-month, DCF-based price targets of R\$42.0 and US\$13.0/ADR. Key risks include (1) lower-than-expected water and sewage volumes; (2) worse final tariff review figures vs. our assumptions.

Disclosure Appendix

Reg AC

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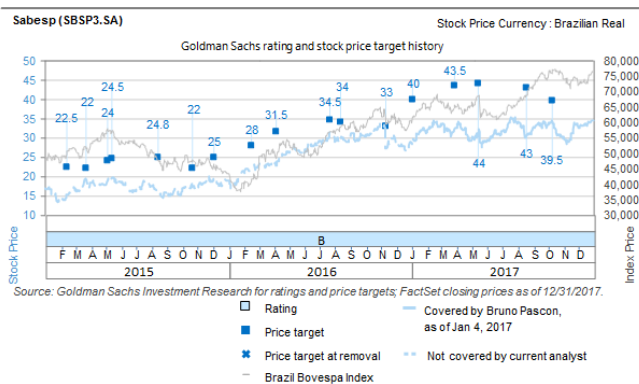
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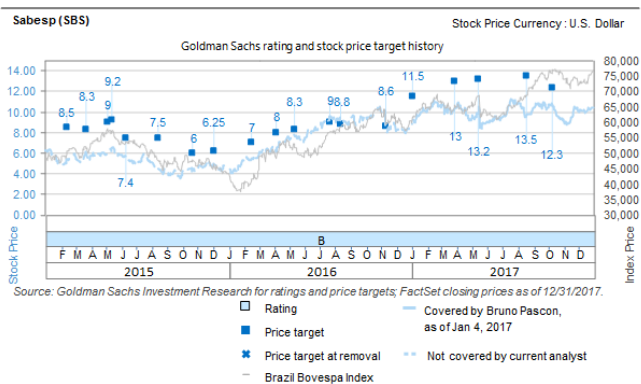
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