



Aegea expected to bid for public-private partnerships in Ceara

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Aegea (Ba2/BB) is likely to take part in the auction for two public-private partnerships (PPPs) to provide sanitation services in the state of Ceara, in September, despite challenges with its investments in Aguas do Rio and other concessions, according to two lawyers, a portfolio manager and a consultant.

The two PPPs will require around BRL 6bn (USD 1.1bn) in investments for the next 30 years to provide sanitation services for 24 municipalities in Ceara, according to the notice of bidding published on 14 July. The auctions are scheduled for September 2022, before the presidential election on 2 October.

The Brazilian water and sanitation company is already involved in challenging projects that are straining the company financially and operationally, the consultant said. Aegea could eventually take part in the bid more to put pressure on its competitors than to seek to win the concessions, the consultant said.

In addition to the large volume of investments, the two PPP concessions in Ceara would bring additional pressure on a company that is already facing operational challenges related to its special purpose vehicles (SPVs) Aguas do Rio 1 and 2, won from the state of Rio de Janeiro in the Cedae privatization in November 2020, requiring BRL 30bn worth of investments for the next 35 years.

The auctions are expected to draw fierce competition from water and sewage companies already operating in the Northeastern region, such as BRK Ambiental, Aegea, Igua and GS Inima, the first lawyer said. Also, other companies seeking to start operating in the region, such as Terracom, have hired advisors to review the auction conditions.

These companies already operating in the Northeast could eventually develop some synergies with their operations in the region, said Fernando Vernalha, partner at Vernalha Pereira Advogados. Yet, they have already won several concessions since the new regulatory framework was approved two years ago, he added.

“The big question here is if these companies will have the financial and operational capacity to take on new projects,” Vernalha said. Ultimately, the appetite of these groups is related to their ability to take on new projects and take on new financing, he said. So, it is possible to see new international players this time, he added.

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Aegea Saneamento E Participacoes SA



Aegea has some room to improve net leverage on its balance sheet, but faces operating challenges since it won the Cedae concession, the consultant said. Covenants limit the company's net leverage ratio to 4x, while it stood at 2.51x as of 30 March, as reported.

Brazil's current economic environment is very challenging for launching large infrastructure projects in general, but the sanitation sector has been an exception, Vernalha said. If you look back, the most recent highway projects have had very low competitiveness, and some bids have even failed due to a lack of market interest, but the sanitation sector has been an outlier because of the new framework for auctions, he said.

"Despite the challenging environment, the state-owned companies have a legal agenda to fulfill, and they need to implement the universal coverage target by 2033," Vernalha said. However, these players will review the notice of the bidding conditions, to determine if the guarantees will protect operators as well as reduce the impact of market risk, he said.

"If there is a good structure of guarantees, the trend is to have competitiveness despite the environment," Vernalha said.

A new concession in the state of Ceara would be part of Aegea's strategy to expand operations in that region, as it already provides sanitation services for the municipality of Crato, Aegea's CFO told *Debtwire* earlier this year.

When asked if Aegea was still interested in the Ceara PPPs auctions, a spokesperson said in an emailed comment that it has been operating in the sanitation sector since 2010, and is always attentive to new opportunities.

"The evaluation of new bids is carried out respecting the company's business model, which provides for a detailed study of each project and responsible investments," the spokesperson said in the emailed comment.

Aegea's USD 500m 6.75% 2029 bond last traded on 12 July at 92.75, according to *MarketAxess*.

by Fabiola Gomes

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