MOODY'S
PUBLIC SECTOR EUROPE

CREDIT OPINION
14 December 2017

Rate this Research

RATINGS

Valle d'Aosta, Autonomous Region of

Domicile	Italy
Long Term Rating	Baa1
Type	LT Issuer Rating - Fgn Curr
Outlook	Negative

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Francesco Zambon +44.20.7772.1196
Analyst
francesco.zambon@moodys.com

Massimo Visconti +39.02.9148.1124
VP-Sr Credit Officer/ Manager
massimo.visconti@moodys.com

Gianluca Beltracchi +44.20.7772.1054
Associate Analyst
gianluca.beltracchi@moodys.com

Francesco Mazzoni +44.20.7772.1073
Associate Analyst
francesco.mazzoni@moodys.com

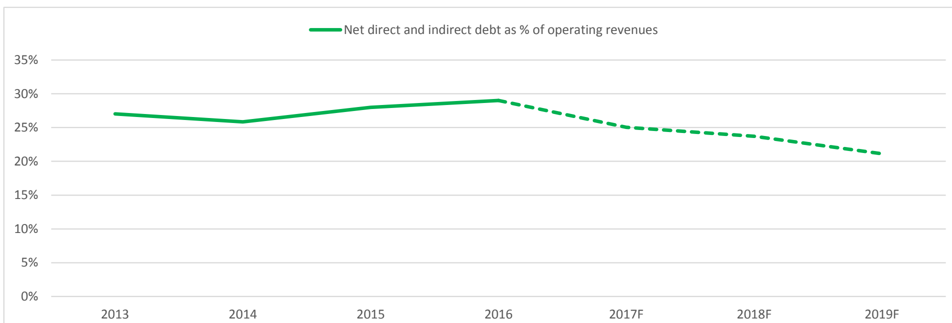
Autonomous Region of Valle d'Aosta (Italy)

Update to credit analysis

Summary

The credit profile of the Autonomous Region of Valle d'Aosta's (Baa1 negative) is underpinned by its long-established autonomous status that provides a high degree of financial autonomy and budgetary flexibility; its solid gross operating margins; a strong regional economy. Valle d'Aosta's credit profile also benefits from a moderate extraordinary support from Italy (Baa2 negative) if it needed it. At the same time, the region faces the following credit negative factors: rising indirect debt, although total debt levels remain moderate; falling capital expenditure (capex), potentially limiting future economic growth.

Exhibit 1
Net direct and indirect debt of Valle d'Aosta is expected to decline



F = Forecast
Source: Issuer, Moody's

Credit strengths

» Long-established autonomous status

» Solid gross operating margins supporting a healthy budgetary surplus

» A strong local economy, despite modest size and diversification

Credit challenges

» Slightly rising debt in the recent years, although expected to decline

» Falling capex constrains economic growth

Rating outlook

The negative sovereign credit conditions drive the outlook for the sector. Slow progress with national economic and fiscal reforms pose risks for RLGs and outweigh successful budgetary consolidation efforts.

Factors that could lead to an upgrade

- » A strengthening of Italy's sovereign credit profile
- » Structural improvement of operating margins toward 30% of operating revenues
- » Declining debt levels following budget forecasts

Factors that could lead to a downgrade

- » A downgrade of Italy's sovereign rating
- » Any alteration of the region's autonomous status

Key indicators

Exhibit 2
Valle d'Aosta, Autonomous Region of
Year ending December 31

	2013	2014	2015	2016	2017B	2018B	2019B
Net direct and indirect debt as % of operating revenues	27.0	25.8	28.0	29.0	25.0	23.7	21.1
Accrual financing surplus (requirement) as % of total revenue	-0.3	7.5	7.6	9.6	3.3	6.5	11.0
Gross operating balance as % of operating revenue	11.5	15.0	10.7	13.3	15.5	19.7	21.3
Interest payments as % of operating revenue	1.4	1.4	1.4	1.4	1.2	1.2	1.2
Intergovernmental transfers as a % of operating revenues	0.6	0.4	6.9	2.0	2.3	2.3	1.9
Capital spending as a % of total expenditures	15.9	11.7	6.3	6.0	16.6	17.2	14.0
GDP per capita as a % of national average	141.1	144.4	139.2	139.2	139.2	139.2	139.2

B = Budget
Source: Issuer, Moody`s

Detailed credit considerations

The credit profile of the Autonomous Region of Valle d'Aosta, as expressed in a Baa1 negative rating, combines (1) a baseline credit assessment (BCA) of baa1, and (2) a moderate likelihood of extraordinary support from the national government in the event that the region faced acute liquidity stress.

Baseline credit assessment

Long-established autonomous status

The region's autonomous status allows to retain all fiscal revenues generated and collected in its territory. Although this creates a strong correlation with the local economy, it also gives the region much greater budgetary flexibility than other Italian regions. This additional flexibility is partly offset by annual spending limits agreed by Valle d'Aosta and the Ministry of Finance as part of Italy's national budgetary consolidation efforts.

Valle d'Aosta has been affected by the central government's national budgetary consolidation programme. The region's accumulated spending reductions between 2013 and 2016 amount to EUR196 million. The Internal Stability Pact of 2016 has imposed additional spending cuts of EUR69 million in 2016 and EUR16 million in 2017. Valle d'Aosta's fiscal consolidation efforts sharply reduced the region's capex during 2011-16. From 2017, Valle d'Aosta will aim to break even, but will not be subject to further annual expenditure limits. Moody's regards the region's budgetary consolidation programme as manageable. We expect it to preserve sound finances and its traditionally high standards of public services.

Solid gross operating margins supporting a healthy budgetary surplus

In 2013-16 Valle d'Aosta achieved an average operating margin of 12.6% of operating revenues, and we expect no significant volatility for the next two years. RAVA has maintained a higher gross operating balance than its peers, despite the national abolition of import duty and a reduction of excise duties on beer and energy. As part of a spending review in 2015, Valle d'Aosta matched expenses to available revenues without affecting its fiscal flexibility.

Valle d'Aosta has greater financial flexibility than its national peers as it has scope to increase personal income tax, corporate tax, and hydroelectricity license revenues. The region also has some room for maneuver on the spending side if necessary.

The healthcare sector, a key regional responsibility, accounts for 20% of RAVA's total expenditure. Healthcare spending was reduced to EUR250 million in 2016 from EUR278 million in 2013 and we expect another reduction to EUR233 million in 2016. The healthcare sector's budget is balanced thanks to the substantial level of resources provided by the region. Going forward we expect the region to maintain its traditionally high standard of public services.

Strong local economy, despite modest size and diversification

Valle d'Aosta is a small region in northwestern Italy with GDP per capita equivalent to 144% of the national average, the second-highest of any Italian region. Valle d'Aosta's GDP contracted by 2.5% in 2007-14 as a result of the financial crisis, well below the 9% decline in national GDP over the same period. In 2015, the region's GDP amounted to about EUR4.8 billion, most of it generated by the service sector. Tourism, a major revenue source for the region, has been hit by a decline in the number of international visitors, partly offset by an increase in domestic tourism. Since Valle d'Aosta is a small region, its GDP is materially affected by the financial results of its major companies. The beverage sector generates about the 8% of the region's operating revenues in the form of beer excise duty and corporate taxes. For 2017-2019 we expect a slight rebound in regional economic indicators, mirroring the national average.

Debt level is moderate

Valle d'Aosta's net direct and indirect debt is moderate compared to peers at 27.5% of operating revenues on average between 2013-16. We expect the region's direct debt to be equivalent to 25% of operating revenues and keep this declining trend within the next three years. 2016 debt consists of an EMTN bullet bond of EUR138 million, net of the related sinking fund, and an amortizing bond of EUR37 million. Since 2013, Valle d'Aosta's debts have been managed by Finaosta S.p.A. (not rated), an arms-length financial institution fully owned by the region which operates as a holding company for the region's subsidiaries, and is responsible for developing the local economy. The increase in Valle d'Aosa's indirect debt is largely due to increased borrowing by Finaosta S.p.A. In 2015, the company accounted for almost all of the region's indirect debt of EUR125 million. We expect Finaosta S.p.A.'s debt to increase in 2017 by a maximum of EUR40 million, taking the total to EUR195 million. This would moderately increase Valle d'Aosta's net direct and indirect debt to 29% of latest reported operating revenues in 2016. We expect NDID to fall subsequently, based on regional forecasts. Although the region's indirect debt has increased, its total debt is still very manageable, with interest payments amounting to just 1.4% of operating revenues.

Falling capex constrains economic growth

Valle d'Aosta's fiscal consolidation efforts, coupled with a decrease in important revenue sources, reduced the region's capex by 67% during 2013-16, weighing on the local economy. Capex accounted for 6% of total expenditure in 2016, down from 16% in 2013, but we expect it to increase in 2017-18 to an average of 16% of total expenditures. The economy of Valle d'Aosta is mainly service-based, and we consider current low investment levels as a challenge to GDP growth in the long-term.

Extraordinary support considerations

We consider a moderate probability of extraordinary support from the central government, reflecting the region's long-established special autonomous status.

Rating methodology and scorecard factors

The assigned baseline credit assessment (BCA) of baa1 is close to the scorecard-indicated BCA of baa2. The matrix-generated BCA of baa2 reflects (1) an idiosyncratic risk score of 2 (presented below) on a 1 to 9 scale, where 1 is the strongest relative credit quality and 9 the weakest; and (2) a systemic risk score of Baa2, as reflected in the sovereign bond rating for Italy.

Exhibit 3

Autonomous Region of Valle d`Aosta

Regional and Local Governments

Baseline Credit Assessment	Score	Value	Sub-factor Weighting	Sub- factor Total	Factor Weighting	Total
Scorecard						
Factor 1: Economic Fundamentals						
Economic strength	1	139.20	70%	2.20	20%	0.44
Economic volatility	5		30%			
Factor 2: Institutional Framework						
Legislative background	5		50%	3.00	20%	0.60
Financial flexibility	1		50%			
Factor 3: Financial Performance and Debt Profile						
Gross operating balance / operating revenues (%)	1	13.30	12.5%	1.75	30%	0.53
Interest payments / operating revenues (%)	3	1.40	12.5%			
Liquidity	1		25%			
Net direct and indirect debt / operating revenues (%)	1	29.01	25%			
Short-term direct debt / total direct debt (%)	3	18.50	25%			
Factor 4: Governance and Management - MAX						
Risk controls and financial management	1			1.00	30%	0.30
Investment and debt management	1					
Transparency and disclosure	1					
Idiosyncratic Risk Assessment						1.87 (2)
Systemic Risk Assessment						Baa1
Suggested BCA						baa2

Source: Issuer, Moody`s

Ratings

Exhibit 4

Category	Moody's Rating
VALLE D'AOSTA, AUTONOMOUS REGION OF	
Outlook	Negative
Issuer Rating	Baa1
Senior Unsecured -Dom Curr	Baa1
ST Issuer Rating	P-2

Source: Moody's Investors Service

REPORT NUMBER 1103113

Contacts

Francesco Zambon *Analyst* francesco.zambon@moodys.com	+44.20.7772.1196	Massimo Visconti *VP-Sr Credit Officer/ Manager* massimo.visconti@moodys.com	+39.02.9148.1124
Gianluca Beltracchi *Associate Analyst* gianluca.beltracchi@moodys.com	+44.20.7772.1054	Francesco Mazzoni *Associate Analyst* francesco.mazzoni@moodys.com	+44.20.7772.1073

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S
PUBLIC SECTOR EUROPE