Valle d'Aosta,Autonomous Region of (/gws/en/esp/issr/88380856)

FitchRatings

Fitch Affirms Italian Region of Valle d'Aosta at 'A-'; Outlook Stable

Fitch Ratings-Milan/London-11 May 2018: Fitch Ratings has affirmed the Region of Valle d'Aosta's (VdA) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'A-' with Stable Outlook and Short-Term Foreign-Currency IDR at 'F1'. The long-term ratings on the region's senior unsecured bonds have also been affirmed at 'A-'.

The affirmation reflects our expectation that the operating margin will be close to 20% of revenue, providing ample coverage to debt servicing requirements amid ongoing institutional strength provided by the constitutional recognised autonomy. The Stable Outlook mirrors that on Italy as the region's standalone profile is partly constrained by Italy's BBB rating.

KEY RATING DRIVERS
Fiscal Performance: Strength /Stable
VdA recorded an operating surplus close to EUR200 million in 2017, or 16% of operating revenue according to preliminary data, in line with Fitch's expectations for 2017-2020. A contribution to the national budget halving to about EUR100 million over 2018-2019 from nearly EUR200 million over the past five years will provide flexibility to raise spending towards historical standards. Health care per-capita of EUR2,000 was compressed by nearly 10% in 2014-2017 to make room for transfers to the national government.

VdA's tax-rate rising leeway of 5% of revenue is complemented by tax base growth flexibility. Fitch expects revenue to grow by about 2% edging towards EUR1.35 billion by 2020, from about EUR1.25 billion in 2015-2016. Capital spending will bounce back towards EUR200 million per year, or 15% of total spending, from the 2016 trough of investment-to-total spending ratio of 4% as the region prioritises a new hospital, transportation and schools infrastructure and support for economic activities, including tourism and agriculture.

Debt & Liquidity: Strength/Stable
Fitch expects VdA's financial debt to hover just above EUR0.5 billion, accounting for nearly 50% of revenue and two years of the current balance, or less than one

year when about EUR470 million resources provisioned into the sinking fund for repayment of the EUR550 million bullet bond in 2021 are netted out. With rising direct investment, VdA will scale back the spending of its regional development agency, Finaosta, whose financial debt may rise towards EUR250 million over the medium term, down from the previous expectation of EUR350 million as the larger operating surplus is devolved to fund capex. On the back of relatively high tax compliance, Fitch expects Valle d'Aosta to maintain a strong liquidity position alongside the 2017 average of EUR250 million, covering debt servicing by more than 5x.

Management: Strength/Stable
VDA's traditionally conservative management has led to outperforming budgets, especially on the revenue side. Fitch expects the region to restate the fund balance by 2019/2020, replenishing the EUR200 million deficit posted at end-2016 following a rescheduling of nearly EUR700 million (50% of the budget size) of receivables towards the state amid new accounting rules. The region does not envisage new borrowing over the medium term as outstanding debt is predominantly fixed rate and thanks to hedging derivatives. Strict control of Finaosta and the health care unit help the revenue/spending match.

Budgetary provisions help tackle the financial challenges from the region's casino company, as declining revenue contributed to a recurring net loss over the last few years (EUR20 million in 2017) making banks reluctant to lend unless loans are backed by regional guarantees. The company is still half-way through the implementation of a recovery plan and the listing of its hydroelectric company (CVA; A-/Negative) has been delayed to after the regional elections, which will take place by the end of May.

Economy: Strength/Stable
VdA is a wealthy region by international standards with GDP per capita of nearly EUR35,000, or about 25% above the EU average, and an employment base of about 55,000, which has been resilient to deep recessions such as the 5% GDP contractions in 2009 and 2013. Its relative small size (127,000 inhabitants) exposes the region to economic fluctuations amid a cyclical steel industry, which accounts for about 13% of local GDP. Steady growth in tourist stays (300,000 in 2017, from 250,000 in 2011) amid a hotel occupation rate hovering below 30% helps GDP growth.

The region's EUR4 billion GDP is likely to have grown by about 1% in 2017, roughly mirroring Italy's average, as its predominantly mountainous territory and network of small companies is not particularly conducive to exports, which account for less than 10% of GDP. Fitch expects GDP to grow by about 1% per year over the medium term, supported by a re-strengthening industrial sector (20% of GDP) eventually shrinking the unemployment rate to 6% from 7% currently.

Institutional framework: Neutral/Stable
Fitch assesses Italian inter-governmental relations as neutral for Valle d'Aosta. VDA is eligible to be rated above the sovereign by virtue of its institutional strength and high degree of financial autonomy. VDA's special autonomous status entitles it to receive the entirety of all major national taxes, ranging from personal income tax (PIT), corporate income tax (CIT) and VAT. This underpins the region's tax revenue resilience and limits dependence on state transfers.

The region's diversified set of responsibilities supports budgetary flexibility and contributions to national consolidation efforts are subject to bilateral agreement. However, the maximum two-notch leeway above the 'BBB' sovereign rating captures possible interferences by the state in case of macroeconomic or financial stress of sovereign finances and subsequent risk of weakening predictability of intergovernmental relations.

RATING SENSITIVITIES
Any rating action on Italy will be mirrored in VdA's ratings in light of the rating constraint. A prolonged economic downturn leading to a sharp deterioration of the operating margin on a sustained basis could also result in a multi-notch weakening of the region's standalone assessment and therefore a downgrade of the IDR.

Primary Analyst
Raffaele Carnevale
Senior Director
+39 02 87 90 87 203
Fitch Italia - Societa Italiana per il Rating S.p.A.
Via Morigi 6 - Ingresso Via Privata Maria Teresa, 8
20123 Milan

Secondary Analyst
Chiaramaria Mozzi
Associate Director
+39 02 87 90 87 231

Committee Chairperson
Vladimir Redkin
Senior Director
+7 495 956 2405

Media Relations: Athos Larkou, London, Tel: +44 203 530 1549, Email:

athos.larkou@fitchratings.com

Additional information is available on www.fitchratings.com

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Entity/Security	ISIN/CUSIP/COUPON RATE	Rating Type	Solicitation Status
Valle d'Aosta,Autonomous Region of	-	Long Term Issuer Default Rating	Unsolicited
Valle d'Aosta,Autonomous Region of	-	Short Term Issuer Default Rating	Unsolicited

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Valle d'Aosta,Autonomous Region of	-	Local Currency Long Term Issuer Default Rating	Unsolicited
Valle d'Aosta,Autonomous Region of EUR 543 mln Floating Rate Notes 28 May 2021	XS0129991864	Long Term Rating	Unsolicited
Valle d'Aosta,Autonomous Region of EUR 74 mln 4.197% Notes 31 Dec 2026	IE00B1LD3052	Long Term Rating	Unsolicited

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