

CREDIT OPINION

29 November 2019

Update

✓ Rate this Research

RATINGS

Valle d'Aosta, Autonomous Region of

Domicile	Italy
Long Term Rating	Baa2
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

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.

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Autonomous Region of Valle d'Aosta (Italy)

Update to credit analysis

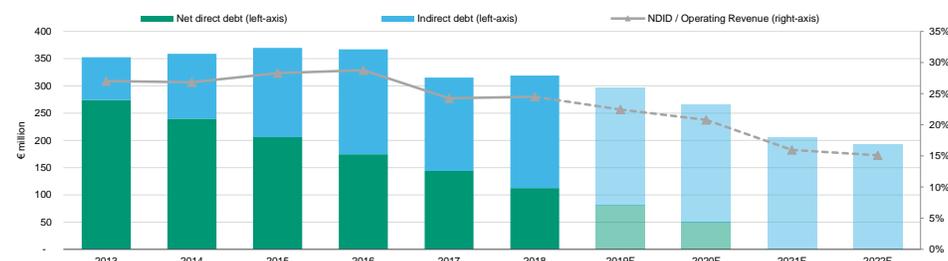
Summary

The credit profile of the [Autonomous Region of Valle d'Aosta](#) (Valle d'Aosta, Baa2 stable) is underpinned by its long-established autonomous status that provides a high degree of financial autonomy and budgetary flexibility, its solid gross operating margin, and a strong regional economy. Valle d'Aosta's credit profile is one notch above that of the [Government of Italy](#) (Baa3 stable) because of strong idiosyncratic features. Valle d'Aosta's debt is modest and is likely to decline further with the extinction of its direct debt from 2022, while capital spending will surge from its low starting point on the back of enhanced cash flow predictability and important liquidity.

Exhibit 1

Valle d'Aosta's indirect debt is likely to stabilise over the next three years while NDID will decline

Net direct and indirect debt as a percentage of operating revenue



*Direct debt net of sinking fund. Indirect debt includes Finaosta S.p.A., Casino' de la Vallee S.p.A. and Struttura Valle d'Aosta S.r.l.'s financial debt. F = Forecast.

Sources: Issuer and Moody's Investors Service

Credit strengths

- » Long-established autonomous status
- » Solid gross operating margin, supporting a healthy budgetary surplus
- » A strong local economy, despite modest size and little diversification

Credit challenges

- » Leverage will decline on the back of a marked decline in direct debt; indirect debt to stabilise
- » Modest capital spending to surge in the next few years

Rating outlook

The stable rating outlook reflects Valle d'Aosta's steady and strong financial performance, supported by sound governance and its unique status.

Factors that could lead to an upgrade

We would consider upgrading the rating in case of a structural improvement in Valle d'Aosta's operating margin towards 30% of operating revenue and a decline in its debt levels. An upgrade of Italy's sovereign rating would also exert upward pressure on its rating.

Factors that could lead to a downgrade

Any alteration of the region's unique status and a deterioration in its debt metrics and financial performance would strain Valle d'Aosta's rating. A downgrade of Italy's sovereign rating could also lead to a downgrade of Valle d'Aosta's rating.

Key indicators

Exhibit 2

Autonomous Region of Valle d'Aosta Year ending December 31

	2016	2017	2018	2019F	2020F	2021F
Net direct and indirect debt as % of operating revenues	28.7	24.3	24.5	22.5	20.7	16.0
Cash financing surplus (requirement) as % of total revenue	3.7	9.5	0.3	-	-	-
Gross operating balance as % of operating revenues	13.3	14.8	15.1	9.3	12.9	13.4
Interest payments as % of operating revenues	1.4	1.4	1.4	1.4	1.4	1.4
Intergovernmental transfers as a % of operating revenues	21.8	23.3	22.7	24.3	24.3	23.9
Capital spending as a % of total expenditures	6.0	10.4	10.0	15.7	15.6	12.2
GDP per capita as a % of national average	125.9	123.2	123.2	-	-	-

F = Forecast.

Sources: Issuer and Moody's Investors Service

Detailed credit considerations

The credit profile of the Autonomous Region of Valle d'Aosta, as expressed in a Baa2 stable rating and a Prime-2 rating, combines (1) a Baseline Credit Assessment (BCA) of baa2, and (2) a moderate likelihood of extraordinary support from the central government in the event that the region faces acute liquidity stress.

Baseline Credit Assessment

Long-established autonomous status

The region's autonomous status allows it to retain all fiscal revenue 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 with ordinary status.

Similar to other Italian regions, Valle d'Aosta has been affected by the central government's national budgetary consolidation programme through spending cut and annual contributions. During 2015-18, the region's total revenue registered a modest 0.3% average annual growth rate, but total expenditure decreased on average by 1.1% each year over the same period. Valle d'Aosta's annual contribution to the national budgetary consolidation will decrease and stabilise, providing greater budgeting stability for the autonomous region and reflecting improved negotiating power with the central government. In accordance with the agreement for national fiscal consolidation, Valle d'Aosta's annual contribution will stabilise at €103 million from 2020, down from €112 million paid in 2019, €194 million paid in 2018 and €240 million paid in 2017.

Despite recent relative local political uncertainty with four regional president changes between 2017 and 2018, the region successfully achieved higher transparency and coordination with the central government, reflecting the good level of resiliency demonstrated by Valle d'Aosta's administration. In 2019, the region also finalised the settlement of the repartition of beer and energy taxes, which resulted in €520 million of additional receivables from the central government over the past few years. Valle d'Aosta reached an

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agreement with the central government to make regular transfers (the government will pay €65.8 million each year until 2023 and €45 million thereafter until redemption of the €520 million original debt), reducing its stock of receivables while improving its liquidity. Because of the *Decreto Sblocca-Cantieri*, which is a 2019 decree focused on unlocking construction tenders, and the higher level of stability of its link with the central government, Valle d'Aosta's capital spending planning has improved materially.

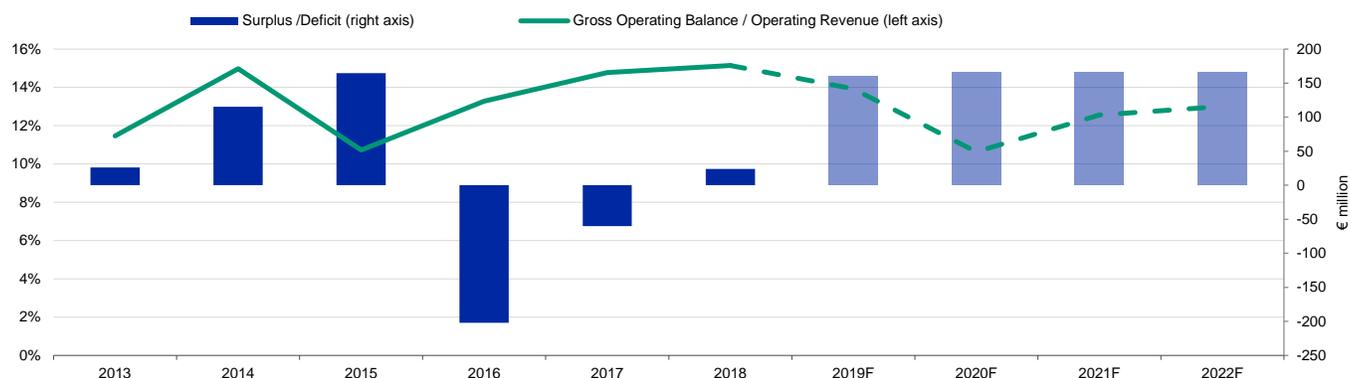
Solid gross operating margin, which supports a healthy budgetary surplus

In 2014-18, Valle d'Aosta achieved an average gross operating balance of 14% of operating revenue (compound annual growth rate of 0.2% over the period), and we expect this robust level to remain stable over the next three years, on the back of the regional tight control on spending. The expected decrease in revenue other than taxes — *entrata extra tributaria* — by 41% in 2019-21 with respect to 2016-2018 will be compensated through a rise in ordinary taxes (5.3% over the same period), driven by improved economic fundamentals. This will restore untapped revenue flexibility as *entrata extra tributaria* are usually incurred to preserve operating surplus.

Valle d'Aosta has greater financial flexibility than its national peers under ordinary status, because it has the scope to set, as well as increase personal income tax, corporate tax and hydroelectricity licence revenue. Because the region has a wider scope of operations than other regions with ordinary status, Valle d'Aosta has some room to manoeuvre on the spending side, if necessary, as it demonstrated with recent measures to support the local economy.

Exhibit 3

Valle d'Aosta is likely to display a solid gross operating balance, supporting future surplus



*2016 deficit driven by one-off restatement of accounts payable and receivable.

Sources: Issuer and Moody's Investors Service

The healthcare sector, a key regional responsibility, accounts for 20% of Valle d'Aosta's total expenditure, lower than that for regions with ordinary status because of the wider scope of Valle d'Aosta's core competencies. The healthcare sector's budget is balanced because of the substantial level of resources provided by the region (€250 million in 2018 or 21% of its operating spending). 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 a GDP per capita equivalent to 121% of the national average, the fourth-highest of any Italian region. In 2018, local GDP increased by 0.7% compared with 2016, which is a modest growth and is in line with the national average. The region's GDP amounted to about €4.5 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 €25 million annually in the form of beer excise duty and corporate taxes.

The unemployment rate of the region is lower than the national average (7% in Valle d'Aosta in the second quarter of 2019 compared with 9.8% in Italy over the same period).

Total debt will decline on the back of a marked decline in direct debt; indirect debt to stabilise

Valle d'Aosta's net direct and indirect debt was moderate at 26% of operating revenue on average between 2016 and 2018. In 2019, we expect the same ratio to decrease at 24% of operating revenue, led by the marked decrease in direct debt (expected at €81 million in 2019 compared with €274 million in 2013). In 2018, direct debt consisted of a €543 million bullet bond, net of the €461 million sinking fund in 2018, and an amortising bond for a total of €112 million. We expect direct debt to be extinguished by 2021 when the bullet bond matures. Valle d'Aosta's debt is manageable, with interest payments amounting to just 1.4% of operating revenue in 2018. We do not expect the region to take on additional debt, because it has ample liquidity and self-financing capacity to support its future capital spending.

Since 2013, Valle d'Aosta's debt has been managed by Finaosta S.p.A., an arms-length financial institution fully owned by the region, which operates as a holding company for the region's subsidiaries and which is responsible for developing the local economy. The increase in Valle d'Aosta's indirect debt is largely driven by increased borrowings by Finaosta S.p.A., entirely guaranteed by the region. The expected guaranteed amounts shall reach a peak of €188 million in 2019-20 (according to prudent forecast from the region), up from €179 million in 2018, and will decrease progressively to €166 million in 2022. During 2018-22, the level of indirect debt, which also partially takes into consideration Casino' de la Vallee S.p.A.'s debt, shall stabilise at around €200 million.

Modest capital spending to surge in the next few years

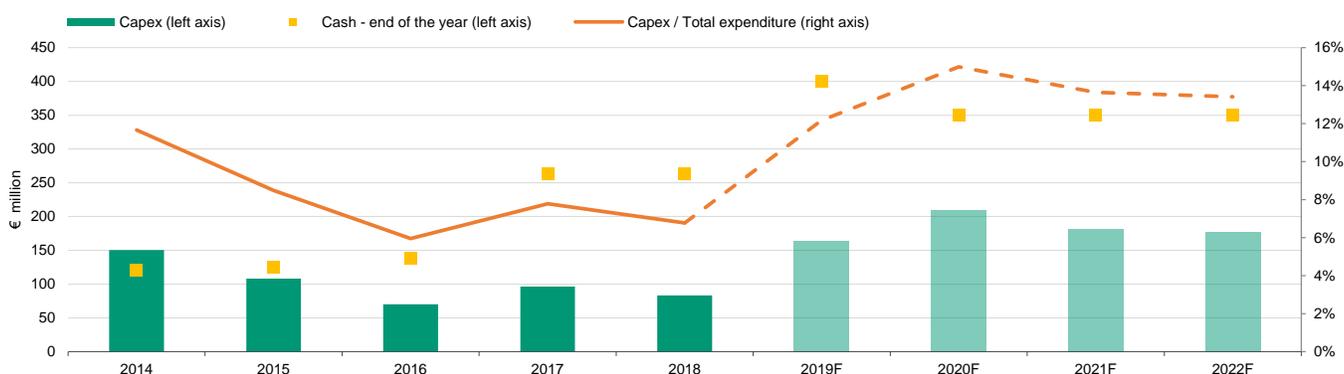
Valle d'Aosta's fiscal consolidation efforts, coupled with a significant decrease in revenue sources from the central government, reduced the region's capital spending by 45% during 2014-18. The improved transparency and programming capacity stemming from the relationship with the central government is likely to revert the trend in capital spending. We expect capital spending to increase at 12.1% of total expenditure in 2019, significantly up from 6.8% in 2018.

As part of the agreement with the central government, which improves the regional programming capacity through greater cash-flow predictability, Valle d'Aosta will also receive a total of €120 million for regional capital spending spread over around 10 years from 2019. We expect this additional source to be earmarked for the building of a new hospital, a long-term project of around €100 million that will be completed in the next 10 years.

Exhibit 4

Capital spending will increase after years of stagnation

Left axis in € million



F = Forecast.

Sources: Issuer and Moody's Investors Service

Increased capital spending is also supported by an important liquidity buffer with cash as of year-end 2019 expected to reach €400 million, up from €264 million in 2018. Significant liquidity is driven by sound cash management, and will be further improved by the recent agreement with the central government. Finally, if the rescue plan for Casino' de la Vallee S.p.A is successfully implemented, this shall free up additional €55 million, which have been set apart by the region in a prudential manner.

Extraordinary support considerations

Valle d'Aosta has a moderate likelihood of receiving extraordinary support from the central government, reflecting the region's long-established special autonomous status.

ESG considerations

We take into account the impact of environmental, social and governance factors when assessing sub-sovereign issuers' economic and financial strength. In the case of Valle d'Aosta, the materiality of environmental, social and governance factors to the credit profile is as follows:

Environmental considerations are not material to Valle d'Aosta's credit profile. Its main environmental risk exposures relate to its susceptibility to avalanche and landslide risks. Both are predominantly managed by national authorities, especially in case of emergency (*stato di emergenza*). In addition, Valle d'Aosta's capital spending plan aims to prevent and reduce the impact of such events, which enhances its resiliency to those risks.

Exposure to social risks associated with demographic, labour income, access to basic services and education is material, because the region is responsible for healthcare and social care services, while education is an important cultural topic (bilingualism). However, those risks are well managed with the regional healthcare sector being structurally balanced and social pressures being fairly limited. In addition, Valle d'Aosta displays an unemployment rate below the national average.

Governance considerations are material to Valle d'Aosta's credit profile. Valle d'Aosta displays high standards of governance and management. Its policies are credible and effective, with a solid track record of sound financial results associated with high data transparency.

Further details are provided in the "Detailed credit considerations" section above. Our approach to environmental, social and governance considerations is explained in our cross-sector methodology [General Principles for Assessing Environmental, Social and Governance Risks](#).

Rating methodology and scorecard factors

The assigned BCA of baa2 is the same as the scorecard-indicated BCA. 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. In the case of Valle d'Aosta, the Systemic Risk score of Baa2 exceeds the sovereign bond rating by one notch, which reflects its limited borrowing requirements, its constitutional protection and its outstanding financial flexibility, which could offset the impact of a sovereign decision detrimental to its financials.

For details about our rating approach, please refer to [Rating Methodology: Regional and Local Governments](#), published on 16 January 2018.

Exhibit 5

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				2.20	20%	0.44
Economic strength	1	123.62	70%			
Economic volatility	5		30%			
Factor 2: Institutional Framework				3.00	20%	0.60
Legislative background	5		50%			
Financial flexibility	1		50%			
Factor 3: Financial Performance and Debt Profile				2.25	30%	0.68
Gross operating balance / operating revenues (%)	1	14.76	12.5%			
Interest payments / operating revenues (%)	3	1.40	12.5%			
Liquidity	1		25%			
Net direct and indirect debt / operating revenues (%)	1	24.46	25%			
Short-term direct debt / total direct debt (%)	5	27.70	25%			
Factor 4: Governance and Management - MAX				1.00	30%	0.30
Risk controls and financial management	1					
Investment and debt management	1					
Transparency and disclosure	1					
Idiosyncratic Risk Assessment						2.02(2)
Systemic Risk Assessment						Baa1
Suggested BCA						baa2

Sources: Issuer and Moody's Investors Service

Ratings

Exhibit 6

Category	Moody's Rating
VALLE D'AOSTA, AUTONOMOUS REGION OF	
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured -Dom Curr	Baa2
ST Issuer Rating	P-2

Source: Moody's Investors Service

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