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CREDIT OPINION
30 November 2020

Update

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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

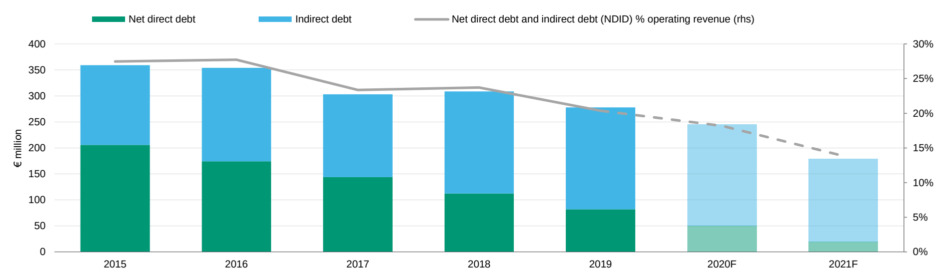
Summary

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 will be moderately impacted by the ongoing Covid-19 pandemics, although we expect the negative impact to be largely contained in FY2020-21. 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, 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. and Casino' de la Vallee S.p.A.'s financial debt. F = Forecast
Sources: Issuer and Moody's Public Sector Europe

Credit strengths

» Long-established autonomous status providing fiscal autonomy

» Strong budgetary performance resilient to Covid-19 shock

» Marked decline in direct and indirect debt

Credit challenges

» Regional economy posed under stress from the pandemics

» 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 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

	2017	2018	2019	2020F	2021F
Net direct and indirect debt as % of operating revenue	23.3	23.7	20.4	18.2	14.0
Cash financing surplus (requirement) as % of total revenue	9.5	0.3	12.4	-	-
Gross operating balance as % of operating revenue	14.8	15.1	24.0	12.9	11.6
Interest payments as % of operating revenue	1.4	1.4	1.3	1.4	1.4
Intergovernmental transfers as a % of operating revenue	3.1	1.9	2.8	6.1	7.7
Capital spending as a % of total expenditure	10.4	10.0	13.4	15.7	18.3
GDP per capita as a % of national average	131.9	133.3	133.3	-	-

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 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 providing fiscal autonomy

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.

During 2016-19, the region's total revenue registered a 1.8% average annual growth rate, but total expenditure decreased on average by 1.4% 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 was set at €102 million in 2020, down from €112 million paid in 2019 and €194 million paid in 2018. However, the advent of the pandemics in 2020 prompted a €84 million reduction in the region's contribution to the central government, along other support measures from the central government. The region also received €10 million as a compensation of the regional losses in corporate income tax (IRAP) and dedicated funds to cover healthcare costs triggered by the pandemics.

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 2015, 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 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.

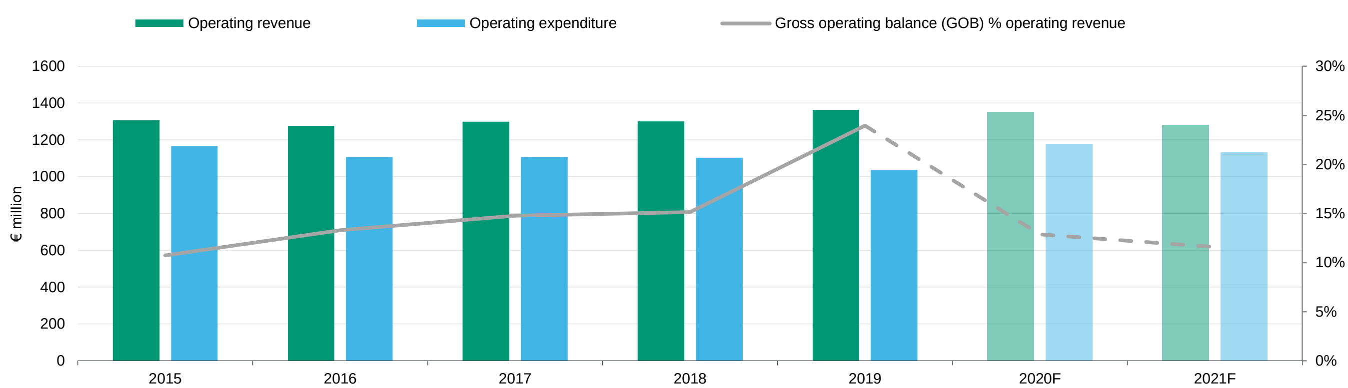
Strong budgetary performance resilient to Covid-19 shock

Valle d'Aosta entered the pandemics on a relatively strong fiscal footing, providing the region's budget resilience to the ongoing fiscal pressure. In 2015-18, the region achieved an average gross operating balance (GOB) of 13% of operating revenue, on the back of the regional tight control on spending. In 2019 the region recorded an exceptional ratio of 24% thanks to one-off events on the revenue side such as a high car tax revenue and the tax contribution of two important companies operating in the region and in the meantime contained operating expenditures, which decreased by 6% with respect to 2018.

The pandemics advent impacted the regional budget in 2020 through a decrease in corporate income tax and personal income tax estimated at €38 million, for which the region promptly created an ad hoc “risk” fund of the same amount to cover the loss. The region expects, however, a greater negative impact during FY2021 stemming from the VAT and fuel tax decline, given the one-year lag of the fiscal income on the budget. To these ends, Valle d'Aosta plans to use around €70 million of the €84 million freed by the central government's exemption in 2020. Forecasting a substantial containment in operating expenditures, we expect GOB at 12.9% of operating revenue in 2020 and at 11.6% in 2021.

Exhibit 3

GOB normalization in 2020-21 after 2019 peak



F = Forecast

Sources: Issuer and Moody's Public Sector Europe

Moreover, 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.

The healthcare sector, a key regional responsibility, accounts for 24% 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 was balanced in 2018 and 2019 and we expect it to withstand the pressure stemming from the Covid-19 emergency.

Marked decline in direct and indirect debt

Valle d'Aosta's net direct and indirect debt was moderate at 24% of operating revenue on average between 2016 and 2019. In 2020, we expect the ratio to decrease at 20% of operating revenue, led by the marked decrease in direct debt (expected at €50 million in 2020 compared with €274 million in 2013). In 2019, direct debt consisted of a €543 million bullet bond (maturing in 2021), net of the €488 million sinking fund in 2019, and an amortising bond (maturing in 2026) for a total of €82 million. Valle d'Aosta's debt is manageable, with interest payments amounting to just 1.3% of operating revenue in 2019. 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 new 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 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 guaranteed amounts reached a peak of €188 million in 2019-20, up from €179 million in 2018, and will decrease to €152 million in 2021. Such a decrease will bring the level of indirect debt, which also takes into consideration Casino' de la Vallee S.p.A.'s financial debt, at around €160 million in 2021. In 2019 indirect debt was 70% of the regional NDID while it is expected to reach 89% in 2021 on the back of the consistent decrease in direct debt.

Regional economy posed under stress from the pandemics

Valle d'Aosta is a small region in northwestern Italy with a GDP per capita equivalent to 133% of the national average, the fourth-highest of any Italian region. In 2019, the region's GDP amounted to about €4.9 billion, most of it generated by the service sector.

The unemployment rate of the region is lower than the national average (6.5% in Valle d'Aosta in 2019 compared with 10% in Italy over the same period).

The regional economy suffers the impact of the pandemics in terms of employment (-5.6% with respect to 2019), temporary shut down of enterprises producing 36% of the regional value added and tourism, a major revenue for the region. Although the tourism activity rebounded during Q3 2020, the second wave of lock-downs measures depicts a gloomier outlook for the region for the winter season. This is why the regional estimates for GDP in 2020 amount to a -10.5%, slightly superior compared with the north-west regional economies forecasts.

The region has proved its support to the impaired economic sectors by promulgating several dedicated regional laws, such as the n. 8/2020, wherein it channeled €190 million.

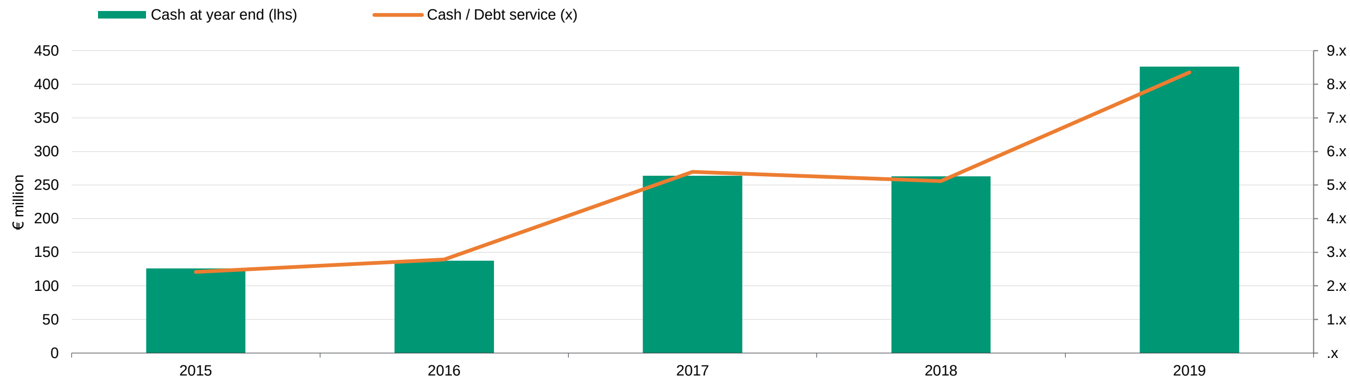
Modest capital spending to surge in the next few years

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. In 2019, capital spending increased at 13.4% of total expenditure, up from 10% in 2018 and expected at 18.3% in 2021.

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.

Increased capital spending is also supported by an important liquidity buffer, with cash as of year-end 2019 that reached €426 million, up from €264 million in 2018 and covering 8.4 times the regional debt service. Significant liquidity is driven by sound cash management, and will be further improved by the recent agreement with the central government.

Exhibit 4



Sources: Issuer and Moody's Public Sector Europe

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. We view the coronavirus pandemic as a social risk under our framework, given the substantial implications for public health and safety. 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				2.2	20%	0.44
Economic strength	1	133.10	70%			
Economic volatility	5		30%			
Factor 2: Institutional Framework				3	20%	0.60
Legislative background	5		50%			
Financial flexibility	1		50%			
Factor 3: Financial Performance and Debt Profile				2.75	30%	0.83
Gross operating balance / operating revenues (%)	1	20.14	12.5%			
Interest payments / operating revenues (%)	3	1.34	12.5%			
Liquidity	1		25%			
Net direct and indirect debt / operating revenues (%)	1	20.40	25%			
Short-term direct debt / total direct debt (%)	7	39.00	25%			
Factor 4: Governance and Management - MAX				1	30%	0.30
Risk controls and financial management	1					
Investment and debt management	1					
Transparency and disclosure	1					
Idiosyncratic Risk Assessment						2.17(2)
Systemic Risk Assessment						Baa1
Suggested BCA						baa2

Sources: Issuer and Moody's Public Sector Europe

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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