Fitch Ratings

Tagging Info

Fitch Affirms Italian Autonomous Province of Trento at 'A'; Stable Outlook

Ratings Endorsement Policy
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Fitch Ratings-Moscow/Milan/London-16 January 2015: Fitch Ratings has affirmed the Autonomous Province of Trento's (PAT) Long-term foreign and local currency Issuer Default Ratings (IDRs) at 'A' and its Short-term foreign currency IDR at 'F1'. The Outlook is Stable.

Fitch has also affirmed the ratings of the Autonomous Province of Trento's credit-linked notes, as follows:

-University of Trento's EUR43.7m amortising fixed-rate notes due in 2015 (ISIN: IT0003976971): Long-term local currency rating 'A-'

-Garda Trentino Fiere's (GDF) EUR15m bullet fixed-rate notes (now Patrimonio del Trentino's (PdT) notes following the incorporation of GDF into PdT in December 2011) due in 2016 (ISIN: IT0004051436): Long-term local currency rating 'A-'

-PdT's EUR43m floating-rate bullet notes due in 2017 (ISIN: IT0005005456): Long-term local currency rating 'A'

The affirmation reflects PAT's low debt and continued strong budgetary performance, aided by the province's sound management.

KEY RATING DRIVERS

Institutional framework: PAT is rated above the sovereign by virtue of its institutional strength and high degree of financial autonomy. PAT's special autonomous status entitles it to receive fixed shares of major national taxes collected in its own territory, ranging from 90% personal income tax (PIT) and corporate income tax (CIT) to 80% of VAT. This underpins the province's tax revenue resilience, limiting dependence on state transfers, while a diversified set of responsibilities supports its budgetary flexibility.

Contributions to national consolidation efforts are subject to bilateral agreements and from 2019 will account for about EUR400m, or 0.5% of Italy's interest burden. PAT's rating differential of maximum two notches above the 'BBB+' sovereign rating, however, reflects the risk of weakening predictability of intergovernmental relations and captures possible interference by the State in case of macroeconomic stress and/or stressed sovereign finances.

Debt and liquidity: PAT's direct risk is fully sustainable at one year of the current balance, and about 30% as a proportion of the province's current revenue. PAT would be direct risk-free if Fitch did not reclassify debt issued by Cassa del Trentino (CdT) as direct risk. Fitch expects CdT debt to have been about EUR1.35bn at end-2014 and to remain at a moderate 33% of current revenue by 2016. Debt of other subsidiaries is subsidised by PAT and accounts for about EUR0.7bn. However, such debt will decline over the medium term as a result of PAT's strategy to concentrate debt at CdT. PAT has expressed its commitment to maintaining total public sector debt at below 10% of local GDP.

Fiscal performance: Fitch expects PAT to continue to report strong financial performance in the medium term, with a high operating margin of about 30% and a positive fund balance of between 5% and 10% of revenue. Fitch assumes in its baseline scenario that the cost of possible new functions, ranging from tax policing to justice, will not materially affect the operating margin, which we forecast to remain close to 30% in the medium term, or about EUR1.35bn.

Fitch forecasts average investment spending of EUR1.6bn per year over 2014-2016, largely funded by the current balance. The province benefits from high capex flexibility, with recurring capex of about EUR400m, or 25% of the total. Fitch expects PAT's overall budget to remain balanced, even in a stressed scenario in which the operating margin halves to 15%, as high discretionary capex allows for postponement of capital projects if required.

Management: PAT is among the most sophisticated sub-nationals in Italy. Its management is prudent, keeping free reserves at nearly 8% of revenue as buffer against unforeseen spending needs.

Economy: PAT is one of the wealthiest sub-nationals in Italy and Europe, with GDP per capita of about EUR31,000, or 20% above the EU average, and with an economy stronger than the national one. Fitch expects PAT's economy to have grown modestly (0.3%) in 2014, and strengthening towards 1% in 2015 on the back of domestic consumption recovery, public spending on infrastructure, and exports, including agricultural produce.

RATING SENSITIVITIES

PAT's IDRs move in parallel with those of Italy due to the province's profile being constrained by the sovereign's ratings. A downgrade or upgrade of the Republic of Italy would therefore translate into a corresponding action on PAT.

A growing national economy, with evidence of stability and therefore predictability of inter-governmental relations, could result in a wider rating gap between PAT and the Italian sovereign. A downgrade could be triggered by unfavourable changes in PAT's statute of autonomy or a substantial weakening of the financial profile of the province.

CREDIT-LINKED NOTES KEY RATING DRIVERS AND SENSITIVITIES
The notes were issued against annual contributions granted by PAT to public sector entities pursuant to provincial law. The entities have mandated PAT, through a delegation of debt under Italian Civil Code rules, to retain the contributions and irrevocably use them to service the notes when due. With the acceptance of the debt delegation, the province has undertaken a direct obligation towards the noteholders to pay principal and interest (within the limit of the contributions granted). A failure to do so would trigger the right of the noteholders to claim the amounts owed to them directly against the province without the need to request payments to the entities first. The province has undertaken an 'impegno di spesa pluriennale' (multi-annual fixed expense undertaking), implying an irrevocable commitment of the province on a multi-annual basis.

The debt delegation does not involve a discharge of the entities from their obligations under the notes. Therefore, should the province fail to make any payments, the entities would still be bound to make payments under the notes.

PAT does not explicitly recognise the contributions granted to the entities, and hence the instalments payable to noteholders, as ranking equally with PAT's own direct debt obligations. In Fitch's view, this implies that the notes, except PdT's EUR43m floating-rate bullet notes due in 2017, are subordinated to the province's senior unsecured debt. The 2017 notes are rated at the same level as PAT's IDR in light of the province's unconditional, irrevocable and first-demand guarantee.

As the ratings of the notes are credit-linked to those of PAT, changes in the province's ratings will be reflected in those of the bonds.

Contact:
Primary Analyst
Raffaele Carnevale
Senior Director
+39 02 879087 203
Fitch Italia S.p.A.
Via Morigi 6 - Ingresso Via Privata Maria Teresa, 8

20123 Milan

Secondary Analyst
Federica Bardelli
Analyst
+39 02 87 90 87 261

Committee Chairperson
Vladimir Redkin
Senior Director
+7 495 956 9901

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@fitchratings.com.

Additional information is available on www.fitchratings.com.

Applicable criteria, 'Tax-Supported Rating Criteria' dated 14 August 2012, and 'International Local and Regional Governments Rating Criteria - Outside the United States' dated 23 April 2014, are available at www.fitchratings.com.

Applicable Criteria and Related Research:
Tax-Supported Rating Criteria
International Local and Regional Governments Rating Criteria - Outside the United States