FitchRatings

Correction: Fitch Revises Italian Autonomous Province of Trento's Outlook to Stable; Affirms at 'A'

Ratings Endorsement Policy
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Link to Fitch Ratings' Report: Autonomous Province of Trento - Rating Action Report

Fitch Ratings-Milan/London-21 July 2014: Following the rating action taken on 18 July, this announcement corrects the previously published press release to include the full body text.

Fitch Ratings has revised the Outlooks on the Autonomous Province of Trento (PAT) to Stable from Negative and affirmed its Long-term foreign and local currency Issuer Default Ratings (IDRs) at 'A' and Short-term foreign currency IDR at 'F1'. The revision of the Outlooks taps the criteria leeway unlocked by the revision of Italy's Outlook to Stable on 25 April 2014.

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 affirmed at 'A-'

-Trentino Trasporti's EUR33.6m amortising fixed-rate notes due in 2014 (ISIN: IT0003794127): Long-term local currency rating affirmed at '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 affirmed at 'A-'

-Itea's EUR49.9m amortising fixed-rate notes due in 2015 (ISIN: IT0003794572): Long-term local currency rating affirmed at 'A-'

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

KEY RATING DRIVERS
The rating action reflects the following rating drivers and their relative weights:

High:
Institutional framework: PAT is eligible to be rated above the sovereign by virtue of its institutional strength and high degree of financial and fiscal autonomy, which are protected by the Italian Constitution from the risk of unilateral decisions by the state regarding revenue and spending responsibilities. Contributions to national consolidation efforts are subject to bilateral agreements. The uplift from the 'BBB+' sovereign rating is limited to two notches to capture possible interferences by the state in periods of economic or financial stress. Ongoing negotiations are expected to resolve some outstanding issues in the relations between the province and the central government. Fitch does not expect changes in PAT's statute of autonomy.

PAT's special autonomous status entitles it to receive fixed regional shares of major national taxes, notably 90% of VAT, personal income tax (PIT) and corporate income tax (CIT). This revenue structure underpins the province's tax revenues resilience, limits its dependence on transfers from the central government and supports its budgetary flexibility, allowing PAT to maintain a healthy financial profile while coping with external pressures, including contributions to help reduce national deficit and debt.

PAT's ratings also reflect the following rating drivers:

Debt and liquidity: PAT's direct risk is fully sustainable at one year of the current balance, although it has increased over the past five years as a proportion of the province's current revenue (up to 31.3% in 2013 from 14.7% in 2009). Liquidity is strong, underpinned by high tax compliance. PAT does not issue debt but Fitch reclassifies debt issued by its financial arm Cassa del Trentino (CdT) as direct risk of the province. This stood at EUR1.3bn at end-2013 and is forecast by Fitch to increase to EUR1.5bn in 2016, or a moderate 33% of PAT's projected current revenues.

Non-CdT debt subsidised by the province, related to public sector entities and municipalities, was low at EUR698m in 2013. Guarantees were stable at about EUR238m. Fitch expects Trento's indirect debt to keep declining in the medium term as a result of the strategy to concentrate debt at CdT. The province is committed 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 extremely strong operating margin of about 30% and positive fund balance of between 5% and 10% of revenues. 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 is projected by the agency to remain above 30% in the medium term reflecting operating balance growing towards EUR1.4bn.

Fitch forecasts average investment spending of EUR1.6bn per year over 2014-2016, largely funded by current balance. The province benefits from high capital expenditure flexibility, with recurring capex of only EUR440m, or less than one-third 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 a result of stagnant revenues and/or a higher than expected contribution to the reduction of the national deficit, as high discretionary capex allows for postponement of capital projects if required.

Management: Trento ranks as one of the top subnationals in Italy by degree of financial sophistication and timely payment of commercial obligations (in 2013, 98% of total amounts due was paid within 90 days). Budgeting is prudent, with budget figures regularly outperformed by actual figures. Cash-basis/accrual-basis discrepancies are minimised by recourse to internal control systems and daily monitoring of cash movements. Substantial reserves (EUR372m at end-2013, up from EUR295m in 2012 and accounting for 8% of revenues) cushion the entity against unforeseen events.

Economy: PAT is one of the wealthiest sub-nationals in Italy and Europe with GDP per capita of EUR30,888 in 2012, or 21% above the EU average, and an economy stronger than the national one. Fitch expects PAT's economy to recover from the recent slowdown and post real GDP growth close to 0.7% in 2014 and 1.2% in 2015, slightly outperforming forecast real GDP growth for the sovereign (0.6% and 1.0%, respectively). Local recovery is assumed to take place on the back of further measures in support of the local economy as well as expenditure in major infrastructure projects.

RATING SENSITIVITIES

Sovereign Trends

PAT's IDR moves in tandem with that of Italy due to the compression exerted by the sovereign ratings on PAT's standalone profile. A downgrade or upgrade of the Republic of Italy would therefore translate in a downgrade or upgrade of PAT.

Additional Rating Triggers

An upgrade to three notches from the current two above the sovereign could stem from a growing national economy providing evidence of stability and therefore predictability of inter-governmental relations. A downgrade could be triggered by unfavourable changes in PAT's statute of autonomy, a deterioration of the relations between the province and the central government, or a substantial weakening of the financial profile of the province.

CREDIT-LINKED NOTES

These 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 a subordination of the notes to the province's senior unsecured debt, with the exception of PdT's EUR43m floating-rate bullet notes due in 2017

(ISIN:IT0005005456) whose rating is equalised with that of PAT in light of an unconditional, irrevocable and first demand guarantee.

As the ratings of the notes are credit-linked to those of PAT, any movement in the ratings of the latter will be reflected by those of the bonds.

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Additional information is available on www.fitchratings.com.

Applicable criteria, 'Tax-Supported Rating Criteria' dated 14 August 2012, '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