

Credit Opinion: Cassa del Trentino S.p.A.

Global Credit Research - 29 Jul 2015

Italy

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	A3
Senior Unsecured -Dom Curr	A3

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Opinion

SUMMARY RATING RATIONALE

The A3 issuer and debt ratings of Cassa del Trentino SpA (CdT) take into account its strategic role as the financial arm of the Autonomous Province of Trento (A3 stable), as well as irrevocable annual provincial transfers which fully cover CdT's debt service.

We analyse CdT as part of the Autonomous Province of Trento in order to reflect the high level of provincial involvement in its operations and governance, as well as its critical role in effectively managing provincial funds allocated to the local public sector.

Credit Strengths

Credit strengths for CdT include:

- The Province of Trento's full ownership reflects CdT's complete reliance on the province to fund its operations
- The Province of Trento's commitment to guarantee all of CdT's funding activities, and to advance liquidity when deemed necessary

Credit Challenges

Credit challenges for CdT include:

- Increasing debt exposure

Rating Outlook

The rating outlook is stable.

What Could Change the Rating - Up

An upgrade of the Autonomous Province of Trento's rating would lead to an upgrade of CdT's rating, all other factors being equal.

What Could Change the Rating - Down

A downgrade of the Autonomous Province of Trento's rating would lead to a downgrade of CdT's rating, all other factors being equal.

DETAILED RATING CONSIDERATIONS

THE PROVINCE OF TRENTO'S FULL OWNERSHIP REFLECTS CDT'S COMPLETE RELIANCE ON THE PROVINCE TO FUND ITS OPERATIONS

The Province of Trento and CdT are extremely closely inter-related, as reflected in the provincial administration's direct appointment of CdT's board of directors and its complete reliance on the Province of Trento for funding. Although CdT is a private firm that is legally independent from the province, the provincial government approves its strategy, defines its activities and periodically controls its finances. There is a regular operational dialogue between CdT and the province. The institutional framework in which CdT operates is mostly regulated by provincial legislation, as well as by a long-standing convention with the province.

CdT is wholly owned by the Province of Trento and acts as its financial arm. CdT's primary purpose is to manage provincial funds allocated both for capital investments and for distribution to the wider public sector, primarily municipalities. Therefore, we understand that CdT is instrumental to the planned reorganisation of the provincial public sector. As a part of a global reorganisation of provincial companies, CdT was merged with Centro tecnico-finanziario per lo sviluppo economico della provincia di Trento - Tecnofin Trentina S.p.a., in October 2013 with a consequent capitalisation increase to about EUR119 million.

CdT's main strategic role is to fulfil the province's interests by offering an improved and streamlined funding mechanism, given its more efficient management of liquidity and wider public sector debt. The centralisation of the funding mechanism has proven to be economically viable for the province, as indicated by constant returns in terms of savings and tax revenues.

We consider CdT to be a government-related issuer. From a credit-risk profile perspective, it is not meaningful to distinguish between CdT and the Autonomous Province of Trento because of the intrinsic operational and financial ties between the two. Therefore, CdT's ratings derive from the application of a credit substitution approach, as described in our rating methodology for government-related issuers (see "Government-Related Issuers," published in October 2014).

THE PROVINCE OF TRENTO'S COMMITMENT TO GUARANTEE ALL OF CDT'S FUNDING ACTIVITIES, AND TO ADVANCE LIQUIDITY WHEN DEEMED NECESSARY

CdT's role continues to evolve through the acquisition of new functions on behalf of the province. CdT has strengthened the liquidity management of provincial funds toward local governments in the province by incorporating the operating transfers of the municipal sector. In addition, CdT acts as a financial advisor to other entities in the wider public sector and plans to expand its activity into public-private partnerships which either the provincial companies or the province itself will implement. Given the off-balance-sheet nature of these projects, we will closely monitor the financial involvement of CdT.

The amount of extraordinary support that CdT would potentially require in the event of distress should be comfortably within the province's financial capacity: the provincial cash at year-end 2014 would fully cover CdT's outstanding debt. Furthermore, CdT benefits from the Province of Trento's commitment to promptly advance liquidity to CdT when deemed necessary.

However, the management has been able to undertake a conservative strategy, which enables CdT to report some profits every year, although CdT is not a profit-making institution. Although the comparability of results in 2013 and 2014 is affected by the merge event with Tecnofin Trentina S.p.a., the year-on-year increase in its net income to EUR5.6 million in 2014 (EUR5.2 million in 2013) is mainly due to the effective tax rate reduction to 54% in 2014 from 63% in 2013.

INCREASING DEBT EXPOSURE

As of year-end 2014, CdT reported outstanding net financial debt of EUR1,113 million - most of which is explicitly guaranteed by the Province of Trento - up from EUR986 million in 2013.

In 2014 CdT issued four Euro medium-term notes (EMTN) with an amortizing repayment schedule for a total of EUR387 million due between 2020 and 2034. In addition, CdT renewed and extended the EMTN programme up to

EUR1 billion from EUR800 million, which is fully guaranteed by the Province of Trento. CdT will take out the residual EUR150 million on the EMTN programme and we expect it to do so in August 2015.

In 2014 CdT took out loans with the European Investment Bank for EUR150 million, for investment purposes, and in 2015 it will take out a further EUR24 million.

We regard all CdT's debt as the province's debt, given the presence of guarantees and irrevocable annuities from the province that fully match all debt-service payments.

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