



## RATING ACTION COMMENTARY

# Fitch Affirms Cassa del Trentino S.p.A. at 'A-'; Outlook Stable

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Fitch Ratings - Milan - 05 May 2023: Fitch Ratings has affirmed Cassa del Trentino's (CdT) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'A-' with Stable Outlooks. Fitch has also affirmed the long-term ratings on CdT's senior unsecured debt at 'A-'. A full list of rating actions is below.

The affirmation reflects Fitch's view that CdT will maintain its role as the funding agency of the Autonomous Province of Trento (PAT; A-/Stable/F1) and that PAT will continue to guarantee CdT's borrowing.

CdT's IDRs move in tandem with those of PAT, as its share of government-guaranteed debt, adjusted by Fitch, is expected to remain close to 100% over the medium term. This triggers the rating equalisation by overriding our assessment of the government-related entity (GRE) support factors.

## KEY RATING DRIVERS

### Status, Ownership and Control: 'Very Strong'

CdT's limited liability status does not imply automatic transfer of liabilities to PAT by legal provisions, should the former for any reason be subject to liquidation. However, the high likelihood of liability transfer to PAT, if needed to prevent CdT's default, reflects CdT's inclusion in the Eurostat scope of Italy's and PAT's public sectors from September 2019; and its near-governmental functions for PAT, such as borrowing on PAT's behalf.

CdT is fully owned by PAT. PAT appoints CdT's board of directors, approves its annual budgets, medium-term business plans and financial statements, and retains control of its strategic decisions and policy design. PAT performs routine checks on the adherence of CdT's operations to provincial guidelines. In addition, CdT's creditors can enforce their rights against PAT, as per law provision, leading to legal transfer of liabilities.

### **Support Track Record: 'Very Strong'**

Our assessment reflects ongoing annuity transfers from PAT matching CdT's needs for interest and principal repayment, as CdT itself is designed to borrow on behalf of PAT without a specific objective of profit generation. As an in-house provider of financial and consultancy services, Fitch believes PAT's support to CdT would not be hampered by EU state-aid rules while national legislation tends to allow for equity injections for loss-making GREs as part of a recovery plan.

CdT is PAT's funding agency and a pass-through entity, which does not bear market, financial or operational risks associated with its lending, which are instead carried by PAT.

### **Socio-Political Implications of Default: 'Moderate'**

Fitch's assessment reflects CdT's fairly low visibility outside its restricted operating range, which involves about a dozen of investors in around EUR900 million outstanding gross debt over last five years; the European Investment Bank (EIB) as a main bank lender; and about 200 borrowers/beneficiaries of PAT's resources.

CdT is also an agency for the implementation of other provincial policies including monitoring aggregated public sector debt, consultancy services such as public private partnership, and the disbursement of provincial funds to local cities and PAT's companies. The interruption of those activities, in case of CdT not functioning, may be slightly disruptive for municipalities and PAT's subsidiaries, prompting support from the autonomous province, prompting support from PAT.

### **Financial Implications of Default: 'Strong'**

Fitch's assessment balances Cassa del Trentino's role as a borrower on behalf of PAT and its consequent wide negative repercussions for PAT's market borrowing capacity in a default against the availability of Cassa Depositi e Prestiti SpA (CDP; BBB/Stable) as Italy's government lending arm. CDP is required to fund Italy's local and regional governments uniformly, possibly regardless of CdT's default if not due to PAT's credit quality.

## Operating Performance

Net interest income for CdT was around EUR18 million in 2018-2022 (Fitch's expected data for 2022), apart from 2020 (EUR4 million), when it waived interest revenue from PAT as a contribution to pandemic-related provincial spending and return on equity slowed to about 1.5%.

Over the medium term, Fitch expects profitability to be around 7% of net equity, fairly similar to pre-pandemic levels. This reflects our expectation that the discount rate applied to PAT's transfers would be revised to be more in line with CdT's borrowing rate. We estimate net profit to stabilise at around EUR10 million.

Loans represented around 70% of total assets (2018-2022), at EUR1.1 billion-EUR1.3 billion, which Fitch expects to continue maintaining a similar level over the medium term. Counterparty risk is not significant since PAT is the final obligor of the loans, with impairments likely to be negligible. The remainder is largely cash and liquid securities for which counterparty risk is limited since more than 70% is investment-grade.

CdT's short-term liabilities are funds owed to municipalities and other beneficiaries of provincial resources and have been around 40% of total assets over the last five years. CdT's liquid assets cover debt service and short-term debt liabilities when the latter are adjusted for probability of disbursement.

Fitch expects the EIB to be the primary source of borrowing, and CdT's financial debt to reach EUR1 billion by 2025, assuming some new borrowing to boost local economy together with provincial transfers. Fitch forecasts a modest increase in equity at around EUR140 million by 2025 as CdT retains part of its profits to enhance its capitalisation ratio.

Fitch expects CdT to maintain its equity-to-assets at least at 7.5% over the medium term.

## Derivation Summary

Our overall evaluation of support stemming from the assessments of the four GRE risk factors translates into a top-down approach, under Fitch's GRE Rating Criteria, which would result in a one-notch differential with PAT's IDRs, absent the assessment of CdT's SCP. However, CdT's ratings are equalised with those of PAT because the high (nearly 100%) share of government-guaranteed debt, as calculated by Fitch, overrides the assessment of GRE support factors.

## Short-Term Ratings

CdT's Short-Term IDR of 'F1' is equalised with PAT's Short-Term rating.

## Debt Ratings

Fitch rates CdT's senior unsecured debt at 'A-'.

## KEY ASSUMPTIONS

Borrowing will continue to be largely backed by PAT's guarantees.

## Liquidity and Debt Structure

At end-2022, CdT's debt was nearly EUR890 million (estimated by Fitch), including EUR110.5 million of intergovernmental lending. The debt is fixed-rate and entirely euro-denominated. Fitch expects limited refinancing risk, since CdT's only bullet bond (EUR74.6 million with maturity in 2027) is supported by a sinking fund (around EUR52 million estimated at end-2022), creating a consistently amortising debt structure.

CdT has an adequate liquidity position with cash and liquid securities expected to be more than 3x annual financial debt service (EUR110 million - EUR140 million in 2023-2025, Fitch's forecast). Access to PAT's liquidity mitigates risks of unanticipated short-term asset/liability mismatches.

## Issuer Profile

CdT is wholly owned by PAT. PAT develops the local economy through CdT, which finances investments of municipalities and not-for-profit organisations located in the province.

## RATING SENSITIVITIES

### Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

-Negative rating action on PAT's IDRs would be mirrored on CdT's IDRs

-Negative rating action could also be prompted by a dilution of support resulting from non-guaranteed financial debt exceeding 25% of CdT's financial debt

### Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

-Positive rating action on PAT would be reflected on CdT's rating, if the share of guaranteed debt by PAT remains high and above 75%

## ESG Considerations

Fitch is no longer providing ESG Relevance Scores for CdT as its ratings and ESG profile are derived from its sponsor government. ESG relevance scores and commentary for the sponsor government - Autonomous Province of Trento - can be found here <https://www.fitchratings.com/site/pr/10213875>.

## PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

CdT's IDRs are credit-linked to PAT's.

### Best/Worst Case Rating Scenario

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

### References for Substantially Material Source Cited as Key Driver Rating

The principal sources of information used in the analysis are described in the Applicable Criteria.

## RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕		PRIOR ↕
Cassa del Trentino S.p.A.	LT IDR	A- Rating Outlook Stable	A- Rating Outlook Stable
	Affirmed		
	ST IDR	F1 Affirmed	F1

LC LT IDR A- Rating Outlook Stable

A- Rating  
Outlook  
Stable

Affirmed

senior unsecured

LT A- Affirmed

A-

[VIEW ADDITIONAL RATING DETAILS](#)**FITCH RATINGS ANALYSTS****Giulia Gasparini**

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## **APPLICABLE CRITERIA**

[Government-Related Entities Rating Criteria \(pub. 30 Sep 2020\)](#)

[Public Sector, Revenue-Supported Entities Rating Criteria \(pub. 27 Apr 2023\) \(including rating assumption sensitivity\)](#)

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Cassa del Trentino S.p.A.

EU Issued, UK Endorsed

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