

## RATING ACTION COMMENTARY

# Fitch Affirms Trentino Trasporti at 'BBB+'; Outlook Stable

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Fitch Ratings - Milan - 01 Jul 2020: Fitch Ratings has affirmed Trentino Trasporti S.p.A.'s (TT) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'BBB+' with Stable Outlook. Fitch has also affirmed TT's Short-Term Foreign-Currency IDR at 'F1'.

Fitch classifies TT as a government-related entity (GRE) of the Autonomous Province of Trento (PAT, BBB+/Stable/F1) under its GRE criteria, and equalises TT's ratings with those of PAT. In Fitch's view, TT is very strongly linked to PAT in light of the broad provincial direction and control over TT's operations, full guarantee of TT's financial obligations and our expectation of timely extraordinary support in case of need.

The COVID-19 outbreak and related government containment measures worldwide create an uncertain environment for TT in the near term. Material changes in revenue and cost profiles are occurring across services, and are likely to continue in the coming weeks and months as economic activity suffers and government restrictions are maintained and broadened. Fitch's ratings are forward-looking in nature, and we will monitor developments in the sector as a result of the coronavirus outbreak for their severity and duration.

## KEY RATING DRIVERS

Status, Ownership and Control Assessed as 'Very Strong'

TT is a limited liability company that operates as the in-house provider of the transport service and runs the transport infrastructure in the provincial territory of Trento. PAT owns 80% of TT, while the remainder is owned by other local governments in the province and a minor (0.001%) private stake.

Its in-house status allows TT to run the service on a direct mandate (without public tender) in force until 2024, which grants PAT to exercise control over TT similar to that over its own departments. PAT is maintaining its tight grip following the COVID-19 pandemic outbreak and required TT to provide free public transport services during the initial lockdown phase, and to introduce a unique discounted transport fare to avoid direct contact when issuing tickets during phase two. Fitch believes that the proximity to PAT's functions driven by the in-house status could ultimately lead to a transfer of assets and liabilities from TT to PAT in case of financial stress, which underpins our 'Very Strong' assessment.

Support Track Record and Expectations Assessed as 'Very Strong'

PAT continues to strongly support TT's operations and capex. In light of the severe financial impact of the COVID-19 in 2020, when revenues from fares will cover only 10% of transport service costs (down from 20% in 2019) PAT and other local governments are expected to increase their support for TT's operations to more than EUR90 million per year in the medium term.

TT's EUR135 million 2020-2022 investment plan is expected to progress smoothly, despite the limitations on works functionality due to the pandemic-related safety measures. More than 40% will be funded through provincial grants. The remaining share of capex will be financed with European Investment Bank (EIB) and market loans, both backed by PAT guarantees.

TT's debt service is supported by PAT transfers, which are ultimately designed so that TT's net earnings after taxes break even.

Socio-Political Implications of Default Assessed as 'Moderate'

PAT has highlighted TT's strategic role as the province's leading transport provider, promoting its merger with the former transport service provider and a local airport. TT's dominant position in the local transport sector was further consolidated by PAT continuing to manage the railway service and infrastructure Trento-Malé.

Fitch believes that TT's default would probably not disrupt provision of the transport service in the area, as distressed transport companies can continue to provide their services under bankruptcy protection (concordato in continuità), while other public or private mass transit operators can ultimately step in.

#### Financial Implications of Default Assessed as 'Strong'

In Fitch's view, the full provincial guarantee on TT's EUR87.5 million outstanding debt at end-2019 and the modest size of its debt compared with PAT's EUR4.6 billion operating revenue make a default of TT very unlikely. Its implications for PAT's borrowing options would be limited, as long as Cassa Depositi e Prestiti (BBB-/Stable) is the lender of last resort for Italian local and regional governments.

Nevertheless, Fitch believes that PAT's incentive to support TT's creditworthiness is strong, as TT and other provincial subsidiaries benefit from the province's financial support, including bank loans at favourable rates and EIB funds that represented more than 80% of TT's debt at end-2019, and a potential default could ultimately impact the market perception of PAT's network of GREs.

#### Operations:

Even in a worst case scenario of ridership levels not returning to 2019 standards before 2024, Fitch expects that TT will balance its income statements in the medium term, as the compensation scheme outlined in provincial laws requires that potential revenue shortfalls or expenditure peaks will be covered by grants from PAT or other local governments. Fitch expects that TT will maintain its stable cost structure in the medium term. Salaries will continue to be around EUR60 million after some one-off outlays pushed it up to EUR64 million in 2019, while we expect a 5%-6% increase in EUR45 million purchases (including fuel and energy) to accommodate for sanitisation and pandemic-related additional costs.

New market debt and EIB lines totalling more than EUR60 million will be covered by first-demand guarantees from PAT and will be used to finance planned investments on rail lines and bus fleets. Given TT's not-for-profit mission, EBIT will remain

positive thanks to provincial contributions designed to balance TT's income statement, while EBITDA is expected around EUR2.5 million-EUR3.0 million or 2.5% of revenue in the medium to long term, driving a weak net debt/EBITDA ratio towards 40x.

## **DERIVATION SUMMARY**

According to Fitch's GRE top-down approach, TT is credit-linked to PAT because of the strength of its linkage and the incentive of the sponsor to provide support in case of need. This results in an overall score of 35, which would warrant a one-notch differential irrespective of TT's standalone assessment.

As the GRE criteria allows for rating equalisation when the share of guaranteed debt is above 75%, we equalise TT's ratings with those of its sponsor because TT's debt is entirely supported by unconditional and irrevocable first-demand guarantees from PAT.

## **RATING SENSITIVITIES**

Factors that could, individually or collectively, lead to positive rating action/upgrade:

Positive rating action on PAT would be mirrored by corresponding positive rating action on TT, provided that the share of TT's debt guaranteed by the sponsor remains above 75%.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

A dilution of provincial support, as evidenced by guaranteed borrowing falling below 75% or recurrent income losses not compensated by transfers from PAT, could lead to a downgrade.

## **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 OF RATING

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

## ESG CONSIDERATIONS

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

## RATING ACTIONS

ENTITY/DEBT	RATING			PF
Trentino Trasporti	LT IDR	BBB+ Rating Outlook Stable	Affirmed	BE O1 St
●	ST IDR	F1	Affirmed	F1
●	LC LT IDR	BBB+ Rating Outlook Stable	Affirmed	BE O1 St

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## **APPLICABLE CRITERIA**

[Rating Criteria for International Local and Regional Governments \(pub. 13 Sep 2019\) \(including rating assumption sensitivity\)](#)

[Government-Related Entities Rating Criteria \(pub. 13 Nov 2019\)](#)

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Trentino Trasporti

EU Issued

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