MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Republic and Canton of Ticino's Aa2 ratings, with stable outlook

28 Jun 2019

Paris, June 28, 2019 -- Moody's Public Sector Europe today affirmed the Republic and Canton of Ticino's Aa2 issuer and senior unsecured debt ratings. The outlook is stable.

RATINGS RATIONALE

The affirmation of the Aa2 issuer and unsecured debt ratings reflects improving financial performance supported by a high degree of revenue raising flexibility, as well as the Canton's good liquidity position. The ratings also incorporate Ticino's relatively high debt levels, and its significant contingent liabilities, mainly in the form of a deficiency guarantee on Banca Stato's (unrated) deposits, a cantonal bank entirely owned by Ticino.

Over the last three years, Ticino's operating financial performance has improved, reflecting noteworthy operating revenue growth (3.5% CGAR), while the Canton tightly controlled operating expenditure growth (1.3% CAGR). Like other Swiss Cantons, Ticino has full autonomy in setting rates for cantonal personal income tax and corporate tax, the two combined accounting for the largest portion of its tax revenue (68.9% as of YE2018). Moody's also notes that the Canton's low tax rates would provide a fiscal buffer in case of need. Some rigidity is due to the Canton's ageing population, but Ticino maintains significant control over its operating expense. Over the next two years, Moody's expects revenue growth to continue to exceed expenditure growth, contributing to continued positive gross operating balance-to-revenue ratio (5.4% at YE2018). Ticino's focus on long-term financial equilibrium, an objective embedded in its constitution, will further support its operating results.

Canton Ticino has good access to capital markets, including the short-term money market. As of 2018, Ticino had access to CHF3.5 billion of uncommitted credit lines with 30 counterparties. Cash-on-hand stood at 6% of operating revenues at YE2018. Improved liquidity metrics are a consequence of the Canton's solid financial results and also reflect financial products thanks to negative interest rates on its short-term debt. Moody's expects positive cash flow generation to further increase liquidity reserves in the next two to three years, while capital expenditure (CHF421 million at YE 2018) should remain commensurate with the canton's self-financing capacity.

With a net direct and indirect debt (NDID) to operating revenue ratio at 81% in 2018 (down from 94% in 2014), Ticino's debt levels are relatively high. Moody's expects the Canton's debt ratio to continue slowly declining over the next two to three years. With average interest rate at 1.2% on its long-term debt at YE2018 and a simple debt profile, the canton's debt is very manageable, in Moody's view. Ticino's indirect debt consists of a financial liability of CHF418 million at YE2018 aimed at funding 85% of the canton's pension obligations by 2051.

Ticino provides a full deficiency guarantee on Banca Stato's deposits (equivalent to 2.7x the canton's revenues), which Moody's considers as part of the contingent liabilities. In our view, the risks associated to these liabilities are low reflecting the bank's strong business profile. Should Banca Stato's balance sheet expand, the value of the cantonal guarantee would grow proportionally, which would be credit negative.

The Republic and Canton of Ticino 's Baseline Credit Assessment (BCA) is unchanged at aa2. Ticino's Aa2 ratings also incorporate an assumption of a moderate likelihood of extraordinary support coming from the Government of Switzerland (Aaa, stable).

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook reflects Ticino's long term commitment to maintain solid operating results and a debt burden compatible with Aa2 rating.

WHAT COULD MOVE THE RATING UP/DOWN

A combination of the following could have positive rating implications: (1) a positive GOB, amounting to and stabilizing at a double-digit percentage of operating revenue; and (2) a sustained deleveraging.

Negative pressure could be exerted on the rating by one or a combination of the following: (1) a materially higher-than-expected net direct and indirect debt (NDID) to revenue ratio; and (2) significant financial pressure arising from contingent liabilities.

The publication of this rating action deviates from the previously scheduled release date in the sovereign release calendar published on www.moodys.com. The reason for the deviation is the publication of the 2018 financial statements and other material information by the issuer.

The specific economic indicators, as required by EU regulation, are not available for Ticino, Republic and Canton of. The following national economic indicators are relevant to the sovereign rating, which was used as an input to this credit rating action.

Sovereign Issuer: Switzerland, Government of

GDP per capita (PPP basis, US$): 64,649 (2018 Actual) (also known as Per Capita Income)

Real GDP growth (% change): 2.5% (2018 Actual) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 0.7% (2018 Actual)

Gen. Gov. Financial Balance/GDP: 1.3% (2018 Actual) (also known as Fiscal Balance)

Current Account Balance/GDP: 10.2% (2018 Actual) (also known as External Balance)

External debt/GDP: [not available]

Level of economic development: Very High level of economic resilience

Default history: No default events (on bonds or loans) have been recorded since 1983.

SUMMARY OF MINUTES FROM RATING COMMITTEE

On 25 June 2019, a rating committee was called to discuss the rating of the Republic and Canton of Ticino. The main points raised during the discussion were: The issuer's institutional, fiscal and financial strength have not materially changed, nor its liquidity and debt profile.

The principal methodology used in these ratings was Regional and Local Governments published in January 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The weighting of all rating factors is described in the methodology used in this credit rating action, if applicable.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Elise Savoye
Vice President - Senior Analyst
Sub-Sovereign Group
Moody's France SAS
96 Boulevard Haussmann
Paris 75008
France
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

David Rubinoff
MD - Sub Sovereigns
Sub-Sovereign Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's France SAS
96 Boulevard Haussmann
Paris 75008
France
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454