

Rating Action: Moody's assigns (P)Aa3 ratings to Region Nouvelle-Aquitaine's EUR 1 billion EMTN programme

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Paris, October 15, 2021 -- Moody's Public Sector Europe ("Moody's") has today assigned provisional (P)Aa3 long-term ratings to Region Nouvelle-Aquitaine's senior unsecured EUR 1 billion Euro Medium Term Note (EMTN) programme. At the same time, Moody's affirmed the region's local currency long-term and short-term issuer ratings at Aa3/ Prime-1 and assigned foreign currency long-term and short-term issuer ratings at Aa3/ Prime-1. The rating outlook remains stable. The ratings primarily reflect a strong and resilient financial performance, an affordable albeit growing debt, and good governance and management.

"The (P)Aa3 debt ratings assigned to the new EMTN programme are derived from the issuer ratings of Region Nouvelle-Aquitaine (Aa3/P-1 stable). The proceeds from the debt programme will be used to fund fixed capital expenditures and will enable the region to further diversify external funding sources" says Matthieu Collette, Vice President-Senior Analyst in Moody's Sub-Sovereign Group and lead analyst for the region.

RATINGS RATIONALE

Region Nouvelle-Aquitaine's EMTN programme consists of senior unsecured obligations up to EUR 1 billion, which will be issued to fund capital expenditures (capex) including public transportation, high schools and economic development. The region was entering into a new fixed capital investment cycle when the coronavirus shock hit the French economy; as a result, and in line with the European and French Recovery and resilience plans, the region has been increasing capex to support the regional economy. Moody's expects capex to amount EUR 922 million in 2021, thus resulting in the region's annual borrowing needs to amount EUR 405 million, after EUR 456 million in 2020 and against EUR 280 million on average over 2016-2019.

Moody's expects the region to complete its inaugural bond issuance by the end of this year. Over the next two to three years, the region is targeting to fund 1/3 of its annual borrowing needs through bond issuances. The Region also plans to enter the labelled bond market due to the green and social nature of its investments. This funding strategy will further strengthen the region's access to external funding as it already benefits from access to public development banks, including the European Investment Bank (Aaa stable), Caisse des Depots et Consignations (Aa2 stable) and SFIL (Aa3 stable), and French and foreign commercial banks.

Region Nouvelle-Aquitaine's Aa3/ P-1 issuer ratings reflect its strong operating performance and Moody's expectation that gross operating balance (GOB) will average 18% over 2021-23 due to robust operating revenue growth and controlled operating spending. Indeed, the region's operating revenues -- including value added tax proceeds that represent around 46% of operating revenues -- will benefit from the solidifying economic growth of France while operating spending will gradually go back to normality.

While acknowledging that Region Nouvelle-Aquitaine's debt will materially increase by the end of 2023 -- net direct and indirect debt (NDID) will increase to EUR 3.1 billion from EUR 2.2 billion in 2019 -- due to the combined effect of the coronavirus-induced recession and the policy response, Moody's expects debt burden (NDID/ operating revenues) to remain moderate, about 124% in 2023 (against 88% in 2019). At the same time, debt will remain strongly affordable, with interest-to-operating revenues to remain flat at about 1.6%-1.7% over 2021-23.

Region Nouvelle-Aquitaine's Aa3 ratings incorporate a Baseline Credit Assessment (BCA) of aa3 and a moderate likelihood of extraordinary support from the central government.

RATING OUTLOOK

Region Nouvelle-Aquitaine's outlook is stable, reflecting Moody's expectations that the region will be able to maintain a strong operating performance and an affordable albeit growing debt. It also captures the current stable outlook on France sovereign bond rating (Aa2 stable).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

In Moody's assessment, environmental considerations are not material to Region Nouvelle-Aquitaine's credit profile. Social considerations are material to Region Nouvelle-Aquitaine's credit profile through demographic trends, labour and income as well as education. Due to the responsibilities assumed, population dynamics affect some key expenses of the region, including transportation and high schools. Governance considerations are material to Region Nouvelle-Aquitaine's credit profile. Standards of governance are high, exemplified by prudent budgetary practices, sophisticated multi-year planning and sound financial and debt management.

The assignment of the debt rating required the publication of this credit rating action on a date that deviates from the previously scheduled release date in the sovereign release calendar, published on www.moodys.com

The specific economic indicators, as required by EU regulation, are not available for Region Nouvelle-Aquitaine. The following national economic indicators are relevant to the sovereign rating, which was used as an input to this credit rating action.

Sovereign Issuer: France, Government of

GDP per capita (PPP basis, US\$): 46,062 (2020 Actual) (also known as Per Capita Income)

Real GDP growth (% change): -7.9% (2020 Actual) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 0% (2020 Actual)

Gen. Gov. Financial Balance/GDP: -9.2% (2020 Actual) (also known as Fiscal Balance)

Current Account Balance/GDP: -1.9% (2020 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 13 October 2021, a rating committee was called to discuss the EMTN programme and short-term and long-term ratings of Region Nouvelle-Aquitaine. The main points raised during the discussion were: The EMTN programme is in line with the issuer ratings. The issuer's economic fundamentals, including its economic strength, have not materially changed. The issuer's institutions and governance strength, have not materially changed. The issuer's governance and/or management, have not materially changed. The issuer's fiscal or financial strength, including its debt profile, has not materially changed. The systemic risk in which the issuer operates has not materially changed.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

A stronger operating performance than Moody's currently expects, leading to a materially lower debt burden, would likely put upward pressure on the ratings. An upgrade of France sovereign bond rating would also have positive implications for Region Nouvelle-Aquitaine.

The ratings would come under pressure if Region Nouvelle-Aquitaine's debt burden was to increase more rapidly than Moody's expects, potentially the result of a lower-than-expected GOB. A weakening in France's creditworthiness would also most likely have negative impacts on the region's ratings.

The principal methodology used in these ratings was Regional and Local Governments published in January 2018 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1091595. Alternatively, 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 further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1288435.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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