

## CREDIT OPINION

8 September 2021

New Issue

✓ Rate this Research

### RATINGS

#### Tisséo Collectivités

Domicile	France
Long Term Rating	A2
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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# Tisséo Collectivités (France)

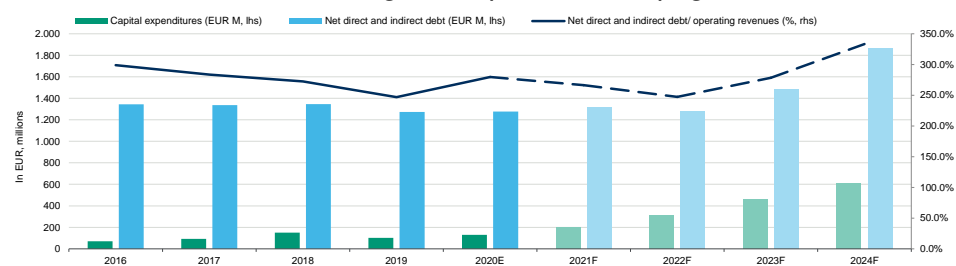
New issuer

## Summary

The credit profile of [Tisséo Collectivités](#) (A2 stable/Prime-1) reflects its very strong operating performance, sound governance and attractive territory with strong potential economic growth. Although the coronavirus pandemic has resulted in an economic shock and strained Tisséo Collectivités' operating revenue, its credit profile is supported by diversified revenue sources. The ratings are constrained by a high cost of debt, reflecting legacy transactions and a high debt burden, which will increase further on the back of its large multiyear fixed capital investment plan. Tisséo Collectivités' credit profile is also supported by the strong likelihood of extraordinary support from [Toulouse Métropole](#) (Aa2 stable) in the event that the issuer faces extreme liquidity stress.

Exhibit 1

### Debt will increase on the back of a large fixed capital investment programme



E = estimate, F = forecast.

Sources: [Tisséo Collectivités](#) and [Moody's Investors Service](#)

## Credit strengths

- » A very strong operating performance, benefitting from diversified revenue sources
- » An attractive territory with strong potential economic growth
- » Sound governance and liquidity

## Credit challenges

- » A high cost of debt that reflects legacy transactions and a very high debt burden
- » Debt will further increase on the back of a large multiyear fixed capital investment plan

## Rating outlook

The stable rating outlook reflects our expectation that Tisséo Collectivités will be able to maintain a very strong gross operating balance (GOB) ratio. It also reflects the strong commitment of Tisséo Collectivités' executive to use its budgetary flexibility to maintain a sufficiently high GOB to ensure the sustainability of its increasing debt burden, which is already high.

## Factors that could lead to an upgrade

A stronger operating performance than we currently expect, leading to a significantly lower debt burden over a prolonged period, would likely exert upward pressure on the rating, especially if it was accompanied by a rapid improvement in debt affordability.

## Factors that could lead to a downgrade

Tisséo Collectivités' ratings would face downward pressure if its debt burden increases more rapidly than expected. A tightening in Tisséo Collectivités' access to external funding and a loosening in the commitment of Tisséo Collectivités' executive to use budgetary flexibility, if needed, would also lead to downward pressure on the ratings. A weakening in Toulouse Métropole's creditworthiness would most likely exert downward pressure on Tisséo Collectivités' ratings.

## Key indicators

Exhibit 2

### Tisséo Collectivités

	2016	2017	2018	2019	2020E	2021F	2022F
Gross operating balance/ operating revenues (%)	21.0	23.7	27.1	30.4	23.2	27.3	26.1
Capital spending/ total expenditures (%)	16.4	20.7	29.5	22.1	27.1	35.8	43.7
Self-financing ratio	1.6	1.2	0.9	1.7	0.9	0.9	0.6
Financing surplus (requirement)/ total revenues (%)	8.4	3.9	-2.1	12.6	-2.0	-4.1	-22.8
Interest expenses/ operating revenues (%)	19.1	17.2	16.0	14.4	17.5	14.8	12.8
Intergovernmental revenues/ operating revenues (%)	22.9	22.2	21.2	20.0	22.9	21.4	20.8
Tariffs and fees/ operating revenues (%)	17.4	18.1	19.7	19.8	14.6	17.0	21.2
Net direct and indirect debt/ operating revenues (%)	299.0	283.7	272.4	246.9	279.7	266.4	247.3

E = estimate, F = forecast.

Sources: Tisséo Collectivités and Moody's Investors Service

## Detailed credit considerations

The credit profile of Tisséo Collectivités, as expressed in its A2 stable rating, reflects its Baseline Credit Assessment (BCA) of a3 and a strong likelihood of extraordinary support from Toulouse Métropole in the event the entity faces acute liquidity stress.

### Baseline credit assessment

#### A very strong operating performance, benefitting from diversified revenue sources

We expect Tisséo Collectivités' GOB to remain very strong, close to 30% of operating revenue on average until 2024. Although the pandemic has weakened Tisséo Collectivités' operating revenue, we expect its operating revenue to return to the pre-pandemic level in 2022, even if travels only recover to the 2018 level at that time.

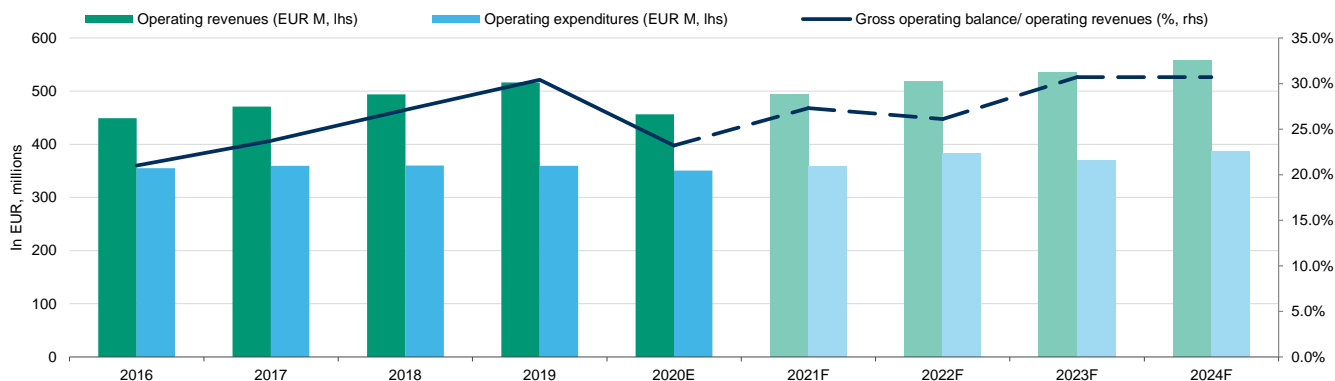
Tisséo Collectivités benefits from diversified revenue sources. Mobility tax proceeds — a tax paid on payroll by private companies, as well as public entities, and that represents more than half of operating revenue — will increase steadily in line with our baseline macroeconomic scenario of a solidifying economic recovery in [France](#) (Aa2 stable) and reach €305 million or 55% of operating revenue in 2024. Mandatory transfers from the intermunicipality's members, including Toulouse Métropole, its main member, will increase by around 2.5% per year on average over 2021-24 in line with their commitments and reach €115 million or 20.5% of operating revenue. Along with passenger revenue, these transfers will contribute to significant revenue growth until 2024. Although fare revenue decreased by 35% in 2020 and is likely to remain 18% below the 2019 level in 2021, we expect it to represent 126% of the 2019

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level in 2024 (€129 million or 23% of operating revenue), supported by planned increases in public transit supply and already voted increases in tariffs.

Exhibit 3

### Operating revenue growth will remain higher than expenditure growth, resulting in a very strong GOB ratio



E = estimate, F = forecast.

Sources: Tisséo Collectivités and Moody's Investors Service

Driven by prudent budgetary practices, sophisticated multiyear financial planning and in line with its track record of almost flat spending between 2015 and 2020 (around €355 million), we expect Tisséo Collectivités to continue to tightly control its operating expenditure in the coming years, with a growth rate lower than its operating revenue until 2024.

#### An attractive territory with strong potential for growth

As the local government organising, managing and funding mobilities (mainly public transportation) in Toulouse Métropole, Tisséo Collectivités benefits from the attractiveness of the territory in which it operates and from its strong potential economic growth. Both support the intermunicipality's large tax base (its mobility tax base is the highest in France, excluding [Region Ile-de-France](#) [Aa2 stable]), demand for public transportation and its four members' strength.

As of year-end 2018, local gross domestic product (GDP) per capita represented 121% of the national GDP per capita. The territory is also the only one in France meeting the Europe 2020 target for research and development (R&D) intensity of 3% of GDP, a long-term economic growth factor. Although the economy, as France's historical capital city of aeronautics and now the European aerospace industry's capital city (about a quarter of all European aerospace jobs), was hurt by the pandemic-induced economic shock, it is well diversified and resilient, with the location of headquarters and R&D teams and activities — including those of market leaders, such as [Airbus SE](#) (A2 negative), [Thales](#) (A2 negative), Rockwell Collins and Safran, established in the area for a long time — as well as the significant share of orders originating from the public sector to the defense and aerospace industries.

The attractiveness of the area is reflected in its demographics. With a fast-growing population (up 7.5% over 2011-17, compared with 3.1% for France over the same period) and 768,500 people as of year-end 2018, Toulouse Métropole is the sixth-largest metropolitan area among the 24 in France. The territory is also characterised by very large populations of students (one in four inhabitants in Toulouse city) and researchers.

#### Sound governance and liquidity

Tisséo Collectivités has sound governance, reflected in its transparent and well-defined financial strategy, with a clear focus on the entity's ability to have a high GOB to fund capital spending, shared by elected representatives, its members and the administration. Tisséo Collectivités' sound governance is also reflected in its prudent budgetary practices and sophisticated multiyear financial planning. This allows Tisséo Collectivités to have a credible contingency plan and to use budgetary flexibility in case of cost overruns or a revenue shock. In the midst of the coronavirus crisis in 2020, Tisséo Collectivités postponed the new metro line project by two years.

Tisséo Collectivités benefits from sound and secure liquidity, supported by predictable and regular cash flow, in line with other French regional and local governments (RLGs). Tisséo Collectivités also benefits from very good access to external funding, including the secured funding of public development banks, such as the [European Investment Bank](#) (Aaa stable), [Caisse Des Depots et Consignations](#)

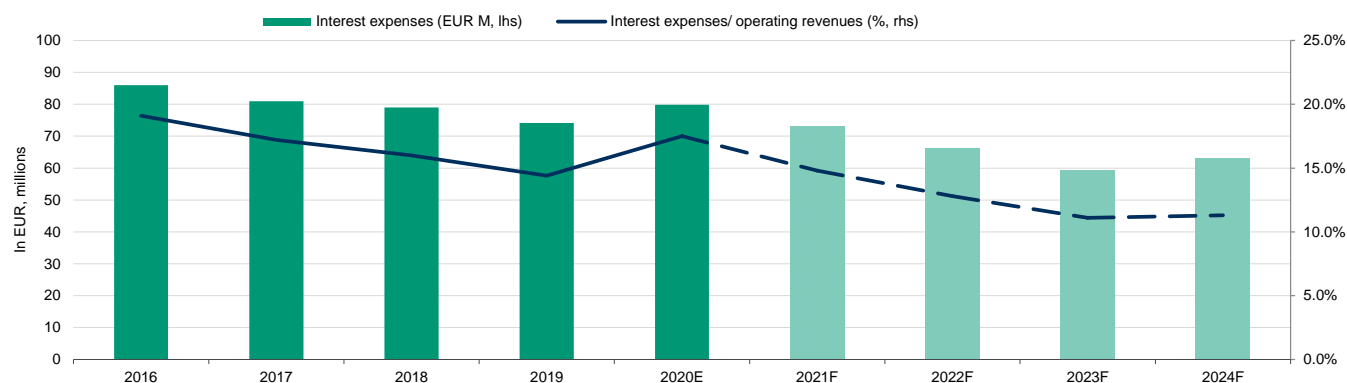
(Aa2 stable), [SFIL](#) (Aa3 stable) and [Agence France Locale](#) (AFL, Aa3 stable). As of year-end 2020, public lenders represented 64% of Tisséo Collectivités' outstanding debt, while the remaining was split between highly rated French and foreign commercial banks (28% and 4%, respectively) and bonds (4%). To meet its growing future needs and further diversify its funding sources, the intermunicipality will launch a Negotiable European Commercial Paper (NEU CP) programme and a European Medium Term Notes (EMTN) programme in 2022. Because Tisséo Collectivités' capital expenditures are near 100% green, we also expect the intermunicipality to issue green bonds.

#### A high cost of debt, reflecting legacy transactions and a very high debt burden

As of year-end 2021, we expect Tisséo Collectivités' net direct and indirect debt (NDID) to rise to €1.3 billion, representing 266% of operating revenue, and interest burden to represent 15% of operating revenue, much higher than its peers we rate. Although we expect interest expenses/operating revenue to decrease in the coming years, the ratio is likely to remain above 10% in 2024, constraining the rating. This high cost of debt not only reflects a very high debt burden, but also a somewhat complex debt structure and legacy transactions. Although 74% of its outstanding debt was at a fixed rate as of year-end 2020 and only 2.6% was made of risky structured products, Tisséo Collectivités is exposed to negative interest rates because of a large number of Euribor swaps, resulting in two paying legs in the current interest rate environment.

Exhibit 4

#### Although Tisséo Collectivités' cost of debt declined, it is still high



E = estimate, F = forecast.

Sources: Tisséo Collectivités and Moody's Investors Service

#### Debt will further increase on the back of a large multiyear fixed capital investment plan

By 2024, we expect Tisséo Collectivités' debt burden to increase to 333% of operating revenue (€1.9 billion) to fund capital spending. Over 2021-30, Tisséo Collectivités is committed to spend €4.2 billion to expand its network, including the construction of a new metro line (the third one), to support the territory's growth, densification and sustainability goals (including the creation of a Low Emission Zone and the reduction in carbon emissions). As a result, we expect capital spending to gradually increase to €608 million in 2024 from €204 million in 2021, compared with an average of €102 million over 2015-20.

Tisséo Collectivités' capital spending programme benefits from significant funding from the Government of France and the [European Union](#) (Aaa stable) as part of the Connecting Europe Facility, resulting in an already secured 15% share of subsidies or €630 million over 2021-30. Because of the strategic importance of green transportation in the European and French Recovery and Resilient Plans, we view this amount as a minimum. Although this large multiyear capital investment plan should also generate economic and social benefits (including the creation of 3,000 permanent new jobs) by 2030, we expect it to be 65% funded through debt, in our base case. Tisséo Collectivités' outstanding debt should reach its highest level in 2028-29, around €3.4 billion, representing 1.7x the 2020 outstanding debt.

#### Extraordinary support considerations

The extraordinary support that is likely to be provided by Toulouse Métropole is strong. Our assessment primarily captures Tisséo Collectivités' strategic role in the Toulouse area as the inter-RLG's organising, managing and funding public transportation.

## ESG considerations

### How environmental, social and governance (ESG) risks inform our credit analysis of Tisséo Collectivités

Environmental considerations are significant to Tisséo Collectivités' credit profile. Through its large multiyear capital spending plan, it supports the densification and sustainability goals of its territory, including the reduction in carbon emissions, while leading to increased capital spending.

Social considerations are significant to Tisséo Collectivités' credit profile because the territory in which it operates is wealthy, with strong demographic growth and a very large population of students and researchers. This supports tax revenue and demand for public transportation, but prompts the need for sustained fixed capital investment efforts.

Governance considerations are significant to Tisséo Collectivités' credit profile. Standards of governance are high, reflected in prudent budgetary practices and sophisticated planning. Financial management is characterised by a somewhat complex debt structure and a high cost of debt, reflecting legacy transactions.

Further details are provided in the Detailed credit considerations. Our approach to environmental, social and governance factors is explained in our cross-sector methodology, [General Principles for Assessing Environmental, Social and Governance Risks Methodology](#) (June 2021).

## Rating methodology and scorecard factors

Tisséo Collectivités' a3 BCA is close to the scorecard-indicated BCA of a2. The 1-notch difference captures Tisséo Collectivités' very high debt burden. The matrix-generated BCA of Tisséo Collectivités' reflects an Idiosyncratic Risk score of 4 (presented below) on a scale of 1-9, where 1 represents the strongest relative credit quality and 9 the weakest; and a Systemic Risk score of Aa2, reflected in France's Aa2 sovereign bond rating with a stable outlook.

Exhibit 5

### Tisséo Collectivités

#### Regional and Local Governments

Baseline Credit Assessment	Score	Value	Sub-factor Weighting	Sub-factor Total	Factor Weighting	Total
<b>Scorecard</b>						
<b>Factor 1: Economic Fundamentals</b>						
Economic strength	1	120.47	70%	1	20%	0.20
Economic volatility	1		30%			
<b>Factor 2: Institutional Framework</b>						
Legislative background	1		50%	3	20%	0.60
Financial flexibility	5		50%			
<b>Factor 3: Financial Performance and Debt Profile</b>						
Gross operating balance / operating revenues (%)	1	28.46	12.5%	5	30%	1.50
Interest payments / operating revenues (%)	9	15.23	12.5%			
Liquidity	5		25%			
Net direct and indirect debt / operating revenues (%)	9	246.87	25%			
Short-term direct debt / total direct debt (%)	1	7.53	25%			
<b>Factor 4: Governance and Management - MAX</b>						
Risk controls and financial management	1			5	30%	1.50
Investment and debt management	5					
Transparency and disclosure	1					
<b>Idiosyncratic Risk Assessment</b>						<b>3.8(4)</b>
<b>Systemic Risk Assessment</b>						<b>Aa2</b>
<b>Suggested BCA</b>						<b>a2</b>

Data for 2019.

Source: Moody's Investors Service

## Ratings

Exhibit 6

Category	Moody's Rating
<b>TISSEO COLLECTIVITES</b>	
Outlook	Stable
Issuer Rating	A2
ST Issuer Rating	P-1

Source: Moody's Investors Service

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