MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns A1/Prime-1 issuer ratings to the Département de la Seine Maritime; positive outlook

11 Dec 2019

Paris, December 11, 2019 -- Moody's Public Sector Europe ("Moody's") has today assigned an A1 long-term issuer rating and a Prime-1 short-term issuer rating to the Département de la Seine Maritime (DSM). The rating outlook is positive.

"The Département de la Seine Maritime's A1/ Prime-1 issuer ratings reflect a strong operating performance, a secure liquidity profile and a commitment to preserve the département's financial health, exemplified by good financial and management practices," says Cédric Poynard, Analyst in Moody's Sub-Sovereign Group and lead analyst for DSM. "The ratings also account for the high, although declining, debt and limited financial flexibility as for all French départements."

RATINGS RATIONALE

Today's rating action reflects DSM's strong operating performance and Moody's expectation that the gross operating balance (GOB) will stay on average above 11% of operating revenues by 2023. After dealing with the steady decline of central government transfers, the département benefits from the 2018 binding agreement that will stabilize central government transfers until 2020. DSM demonstrated strong control over the evolution of operating expenditures, including personnel costs, a trend that Moody's expects to continue in the coming years.

The Prime-1 issuer rating highlights the département's strong liquidity position and its well-managed treasury. DSM holds a high level of cash (close to EUR 150 million as of year end 2018) thanks to sound management and predictable and regular cash flows, especially the central government transfers and tax revenue collection. DSM has access to unused credit lines and revolving facilities amounting to €75 million as of December 2019. DSM has not needed other liquidity facilities since 2017 due to its large cash excess.

The département's administration is strongly committed to preserving DSM's financial health, with clearly defined and shared objectives, conservative long-term targets and frequently updated and back-tested financial planning. Debt management is prudent, with a 56% share of debt at fixed rates.

At the end of 2019, the net direct and indirect debt (NDID) will amount to €1.27 billion, representing a high 90% of operating revenues, down from over 105% in 2016. The interest burden was low at 2.1% of operating revenues in 2018. Debt is set to slowly decrease despite DSM entering a new fixed capital investment cycle, focusing mainly on high schools. Moody's expects NDID to reach 75% of operating revenues by 2022, a manageable debt level.

While acknowledging that DSM has demonstrated expense flexibility, Moody's notes that current tax reform affecting all French départements that swap land tax for a share of value-added tax will lower DSM's autonomy in setting tax rates and its fiscal flexibility.

DSM's A1 rating incorporates a baseline credit assessment (BCA) of a1 and Moody's assessment of a moderate likelihood of extraordinary support from the central government (France, Aa2 positive).

RATIONALE FOR THE POSITIVE OUTLOOK

The positive outlook reflects Moody's expectation that economic growth prospects will support DSM's revenue growth and help stabilise its social expenditure in the next 12-18 months, as well as the strong links between regional and local governments (RLGs) and the central government of France (Aa2 positive).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

In Moody's assessment, environmental considerations are not material to DSM's credit profile. Social considerations are material as social benefits paid by DSM are closely linked to unemployment and population ageing. Governance considerations are material to DSM's credit profile. Standards of governance are high, as illustrated by good financial and management practices.

WHAT COULD CHANGE THE RATING UP/DOWN

Better-than-expected operating results that would lead to a faster lowering of debt would most likely exert upward pressure on the rating. Additionally, any upgrade of France's rating would have positive implications for DSM.

The rating would come under pressure if the département posted higher debt levels than forecast and a lower-than-expected GOB, or both, leading to a deterioration of the debt-to-GOB ratio. A downgrade of the sovereign rating would also most likely have negative implications for DSM's rating.

The specific economic indicators, as required by EU regulation, are not available for Département de la Seine Maritime. 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$): 45,893 (2018 Actual) (also known as Per Capita Income)

Real GDP growth (% change): 1.7% (2018 Actual) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 1.9% (2018 Actual)

Gen. Gov. Financial Balance/GDP: -2.5% (2018 Actual) (also known as Fiscal Balance)

Current Account Balance/GDP: -0.6% (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 11 December 2019, a rating committee was called to discuss the rating of the Département de la Seine Maritime. The main points raised during the discussion were: the issuer's economic fundamentals, including its economic strength, the issuer's institutional strength/ framework, the issuer's governance and/or management, the issuer's fiscal or financial strength, including its debt profile, and the systemic risk in which the issuer operates.

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.

This rating action concerns a new rating for an issuer not previously publicly rated by us at the time that the sovereign release calendar was published, and is therefore being released on a date not listed in that publication.

REGULATORY DISCLOSURES

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security 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.

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