

Rating Action: Moody's assigns (P)Aa3 long-term rating to Region Bourgogne-Franche-Comte's EMTN programme

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Paris, November 12, 2020 -- Moody's Investors Service ("Moody's") has today assigned a provisional (P)Aa3 long-term rating to Region Bourgogne-Franche-Comte's senior unsecured EUR350 million Euro Medium Term Note (EMTN) programme.

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

RATINGS RATIONALE

Region Bourgogne-Franche-Comte's EMTN programme consists of senior unsecured obligations up to EUR350 million, which will be issued to fund capital expenditures (CAPEX) including for transport/mobility (such as the purchase of new railway equipment), 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, the region decided to boost CAPEX to support the local economy. Moody's expects CAPEX to be above EUR500 million in 2020, nearly 1.8 times the level in 2016. Net direct and indirect debt will thus increase to 74.2% of operating revenue at the end of 2020 (from 56.1% in 2019), a moderate level compared to that of peers.

Moody's expects the region to complete its inaugural bond issuance by the end of 2020. Over the next two to three years, the region is targeting to fund 50% of its annual borrowing needs through bond issuances. This funding strategy will further strengthen the region's access to external funding, and it already benefits from access to ample and secured funding from public development banks, including the European Investment Bank (Aaa stable), Caisse des Depots et Consignations (Aa2 stable) and SFIL (Aa3 stable), and highly rated French commercial banks, as well as from a commercial paper (NEU CP) programme eligible for the European Central Bank's (ECB) purchase programmes.

The Aa3 rating of Region Bourgogne-Franche-Comte is supported by its historically good operating performance, which provides shock absorption capacity even amid the coronavirus shock, a moderate level of debt with a non-risky profile, as well as good governance and management. The risk profile also captures the region's low potential economic growth, as well as limited revenue flexibility (as is the case for all French regions).

The outlook on Region Bourgogne-Franche-Comte is stable.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

In Moody's assessment, environmental considerations are not material to Region Bourgogne-Franche-Comte's credit profile.

Social considerations are material as population dynamics affect some key expenses of the region, including transportation and high schools. Moody's regards the coronavirus outbreak as a social risk under its environmental, social and governance (ESG) framework, given the substantial implications for public health and safety. For Region Bourgogne-Franche-Comte, the shock is transmitted mainly through lower tax revenues and an increase in operating expenses.

Governance considerations are material to the region's credit profile. Standards of governance are high, exemplified by prudent budgetary practices, conservative planning and sound liquidity and debt management.

The assignment of the 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.moody.com

The specific economic indicators, as required by EU regulation, are not available for Region Bourgogne-Franche-Comte. 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\$): 49,799 (2019 Actual) (also known as Per Capita Income)

Real GDP growth (% change): 1.5% (2019 Actual) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 1.6% (2019 Actual)

Gen. Gov. Financial Balance/GDP: -3% (2019 Actual) (also known as Fiscal Balance)

Current Account Balance/GDP: -0.7% (2019 Actual) (also known as External Balance)

External debt/GDP: [not available]

Economic resiliency: aa3

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

SUMMARY OF MINUTES FROM RATING COMMITTEE

On 9 November 2020, a rating committee was called to discuss the rating of the Region Bourgogne-Franche-Comte. The main points raised during the discussion were: the issuer's economic fundamentals, institutional strength/ framework, governance and/or management, fiscal or financial strength and the systemic risk in which the issuer operates have not materially changed.

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

Any change to Region Bourgogne France-Comte's issuer rating would result in a corresponding change to its debt rating.

Better-than-expected operating results and stabilizing debt ratios would most likely exert upward pressure on the rating. Additionally, any upgrade of France's rating would have positive implications for Region Bourgogne-Franche-Comte's rating.

The rating would come under pressure if the region posted a higher-than-expected growth in debt levels and/or a lower-than-expected gross operating balance. A downgrade of the sovereign rating would also most likely have negative implications for Region Bourgogne-Franche-Comte's rating.

The principal methodology used in this rating 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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The rating has been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569.

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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