

CREDIT OPINION

3 January 2022

 Rate this Research

RATINGS

Region Bourgogne-Franche-Comte

| | |
|------------------|--------------------------------|
| Domicile | France |
| Long Term Rating | Aa3 |
| Type | LT Issuer Rating - Dom 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.

Contacts

Matthieu Collette +33.1.5330.1040
VP-Senior Analyst
matthieu.collette@moodys.com

Marc-Antoine Galey +49.69.7073.0894
Associate Analyst
marc-antoine.galey@moodys.com

Sebastien Hay +34.91.768.8222
Senior Vice President/Manager
sebastien.hay@moodys.com

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Region Bourgogne-Franche-Comte

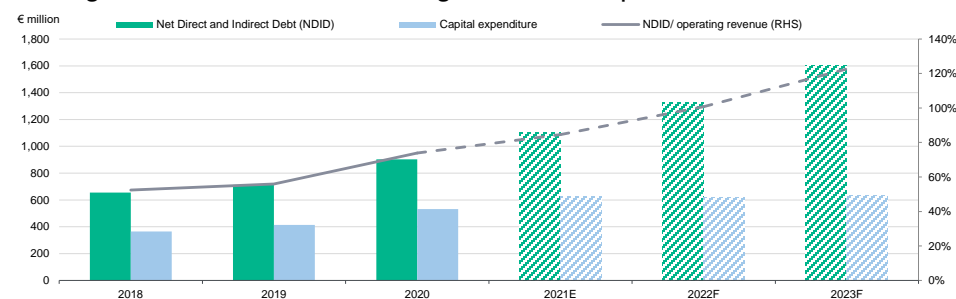
Update to credit analysis

Summary

The credit profile of [Region Bourgogne-Franche-Comte](#) (Aa3 stable/P-1) reflects a strong operating performance – with a gross operating balance (GOB)-to-operating revenues to average 18% over 2021-23. The ratings are also supported by a manageable and strongly affordable debt, while planned to increase as the region is committed to boost fixed capital investment, as well as good governance and management. Our assessment of the region's creditworthiness also accounts for a low potential economic growth and limited revenue flexibility as is the case for all French regions.

Exhibit 1

A manageable debt burden, while increasing to boost fixed capital investment



E = Estimate, F = Forecast

Source: Region Bourgogne-Franche-Comte, Moody's Investors Service

Credit strengths

- » A strong and resilient operating performance
- » A manageable and strongly affordable debt, while increasing to boost fixed capital investment
- » Good governance and management focused on debt sustainability

Credit challenges

- » A diversified economy but low potential growth
- » Limited revenue flexibility, like all French regions

Rating outlook

The stable outlook reflects our expectation that Region Bourgogne-Franche-Comte's operating performance will remain strong and debt sustainable.

Factors that could lead to an upgrade

- » Better-than-expected operating results and a trend reversal in 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. However, this is unlikely given the Government of France's current Aa2 rating with stable outlook.

Factors that could lead to a downgrade

- » 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.

Key indicators

Exhibit 2

Region Bourgogne-Franche-Comte

| | 2018 | 2019 | 2020 | 2021E | 2022F | 2023F |
|---|------|------|------|-------|-------|-------|
| Gross operating balance / operating revenue (%) | 18% | 18% | 16% | 19% | 18% | 15% |
| Capital spending / total expenditure (%) | 26% | 28% | 34% | 37% | 37% | 36% |
| Self-financing ratio | 0.9 | 0.8 | 0.7 | 0.7 | 0.6 | 0.6 |
| Financing surplus (requirement) / total revenues (%) | -2% | -5% | -13% | -15% | -15% | -19% |
| Interest expenses / operating revenues (%) | 1% | 1% | 1% | 1% | 1% | 1% |
| Direct debt / operating revenues (%) | 52% | 56% | 74% | 84% | 101% | 123% |
| Net Direct and Indirect debt / operating revenues (%) | 52% | 56% | 74% | 85% | 101% | 123% |

E = Estimate, F = Forecast

Sources: Region Bourgogne-Franche-Comte, Moody's Investors Service

Detailed credit considerations

The credit profile of Region Bourgogne-Franche-Comte, as expressed in an Aa3 stable rating, combines (1) a Baseline Credit Assessment (BCA) of aa3, and (2) a moderate likelihood of extraordinary support from the Government of France if the region were to face acute liquidity stress.

Baseline credit assessment

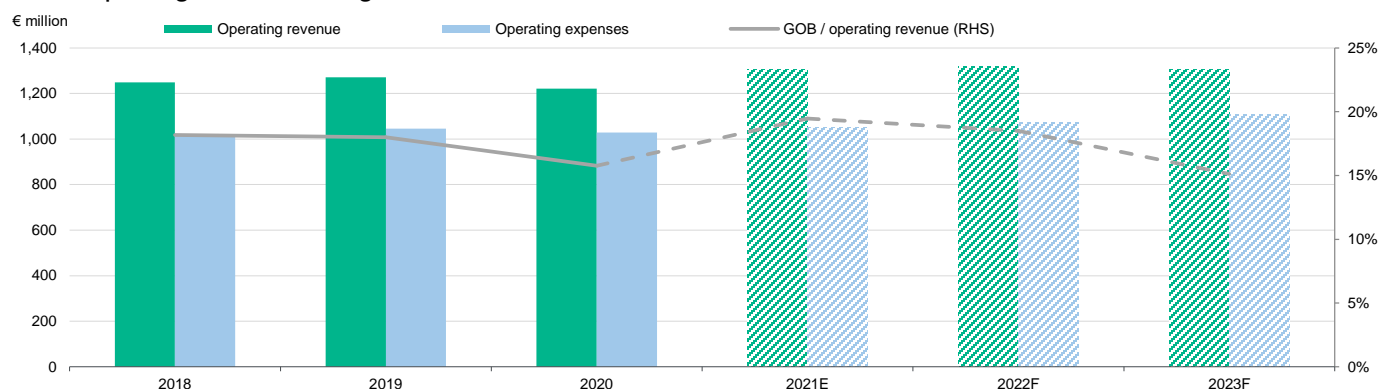
A strong and resilient operating performance

Over the coming two years, we expect Region Bourgogne-Franche-Comte to continue to post strong operating surpluses, with a GOB ratio averaging 18% of operating revenues over 2021-23. While the coronavirus-induced recession halted operating revenue growth, the region entered the crisis with a 18% GOB ratio at the end of 2019, providing shock absorption capacity - the ratio decreased to 16% in 2020. The central government also decided to offset the potential 2021 loss in local business tax proceeds (CVAE or *Cotisation sur la valeur ajoutée des entreprises*). This is because the 2020 macroeconomic contraction would have severely reduced the proceeds that Region Bourgogne-Franche-Comte would have received because this tax is received with a lag of one to two years. Therefore, starting in 2021, French regions are receiving an additional share of value added tax (VAT) equal to 2020 CVAE proceeds (around €330 million for Bourgogne-Franche-Comte or 27% of its operating revenues). From 2022 onwards, the region's operating revenues -

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including VAT proceeds, now totaling around half of operating revenues - will benefit from France return to economic growth. On the other hand, operating expenses will gradually go back to normality, consistent with a track-record of adherence to the pre-coronavirus agreement with the central government to limit expenditures growth.

Exhibit 3

GOB-to-operating revenue to average 18% over 2021-23

E = Estimate, F = Forecast

Sources: Region Bourgogne-Franche-Comte, Moody's Investors Service

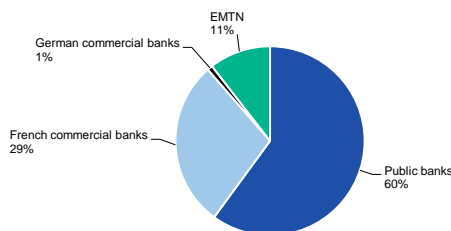
A manageable and strongly affordable debt, while increasing to boost fixed capital investment

At the end of 2023, we expect Bourgogne-Franche-Comte's net direct and indirect debt (NDID) to peak at €1,602 million or 123% of operating revenues (from 56.1% in 2019) and 8 years of GOB, before decreasing in 2024 consistently with the Region's target of a debt to GOB ratio of 7.5 years by 2026, representing a manageable debt burden, in particular when benchmarking with the other European regions. 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 further boost capital expenditures (CAPEX) to support the local economy and environmental transition, and launched a year ago a recovery plan, the so-called PAIR (*Plan d'Accélération de l'Investissement Régional*). Focused primarily on economic development, transport/mobility (such as the purchase of new railway equipment) and high schools, we expect CAPEX to amount €620-630 each year over 2021-23, or 2.2 times the level in 2016, the year in which the region was created from the merger of Region Bourgogne and Region Franche-Comte. We expect capital revenues to slightly exceed €150 million each year over 2021-23, including from the €116 million allocated to the region from European Union (EU)'s Recovery and Resilience Facility (RRF) - in France, regions are responsible for REACT-EU funds - as well as from the National Recovery Plan. At the same time, we expect new borrowings to pick-up around €345 million in 2023, against €260 million and €290 million in 2021 and 2022 respectively.

At the end of 2020, the interest burden was at 0.7% of operating revenue and we expect the current and forecast low-interest-rate environment to allow Region Bourgogne-Franche-Comte to keep its burden below or equal to a low level of 1% over 2021-23, supporting its strong debt affordability.

The region's debt management is sound and secure and debt non-risky. As of year-end 2020, the region's outstanding debt is safely split between public development banks – [European Investment Bank](#) (Aaa stable), [Caisse des Dépôts et Consignations](#) (Aa2 stable), [SFIL](#) (Aa3 stable) and La Banque Postale account for 60% of the region's outstanding debt – and French and German commercial banks, attesting a very good access to external funding. We also note that the region joined [Agence France Locale](#) (AFL, Aa3 stable) – the credit institution owned by French regional and local governments (RLGs) and dedicated to provide them financing – in 2021 and borrowed €30 million. The launch of a €350 million EMTN programme, with €95 million raised in its inaugural issuances at the beginning of December 2020, further strengthened the region's access to external funding. In 2021, the region issued a €150 million bond. Of the region's total outstanding debt, 44% is at fixed rates and 56% is at standard variable rates. We also consider Region Bourgogne-Franche-Comte to have a smooth debt amortization profile, with debt repayment amounting to €58 million in 2021, or 4% of operating revenues.

Exhibit 4

Public lenders represented 60% of Region Bourgogne-Franche-Comte's debt as of year-end 2020

Sources: Region Bourgogne-Franche-Comte, Moody's Investors Service

Good governance and management focused on debt sustainability

While CAPEX will materially increase, Region Bourgogne-Franche-Comte's executive remains strongly committed to preserving the region's financial health, with a focus on debt sustainability. The region has a shared and well-defined financial strategy (including a floor for the GOB-to-operating revenue ratio and a reasonable 7.5-year limit for the debt-to-GOB ratio at the end of the current 2021-26 mandate), a prudent budgetary approach exemplified by realistic long-term targets, and conservative financial planning.

The region's liquidity benefits from predictable and regular cash flow particularly from monthly tax revenue, as well as good and secured access to external long-term and short-term funding, including its regularly used €150 million Negotiable European Commercial Paper (NEU CP) programme. As of December 2021, the programme is covered by €135 million of committed short-term facilities, corresponding to the 2021 maximum outstanding commercial paper.

A diversified economy but low potential growth

Born after France's territorial reform in 2016, which reduced the number of metropolitan regions to 13 from 22, Bourgogne-Franche-Comte's economy is fragile with unfavorable fundamentals. Gross domestic product (GDP) per capita represents 79% of the national one, the region's population is declining, and regional potential growth is therefore low. However, disposable income per capita is high relative to international standards, with Bourgogne-Franche-Comte in the top 36% of OECD regions.

In addition, while shares of industry and agriculture are above the national averages, the industry is diversified and evolving, with 6.9% of high and medium-high technology manufacturing jobs and activities, compared with 4.2% at the national level. The region is capitalizing on its industrial fabric to foster the development of high-tech sectors by supporting competitiveness clusters which promote synergies between industry and research. We also note that a clear goal of the region's recovery plan is to transition towards a more sustainable industry, including by supporting the development of a hydrogen sector. Furthermore, agriculture is focused on high demand products, such as high-end Burgundy wine.

Limited revenue flexibility, like all French regions

Like all French regions, Region Bourgogne-Franche-Comte has to contend with limited revenue flexibility. The only tax rate regions can modulate is the tax on vehicle registrations, representing 9% of operating revenues in 2019 for Region Bourgogne-Franche-Comte. On the spending side, French regions have a greater flexibility, mainly because of the high proportion of subsidies as a share of total spending. For Region Bourgogne-Franche-Comte, operating and capital subsidies amounted to around €400 million, or 25% of total spending, in 2020.

Extraordinary support considerations

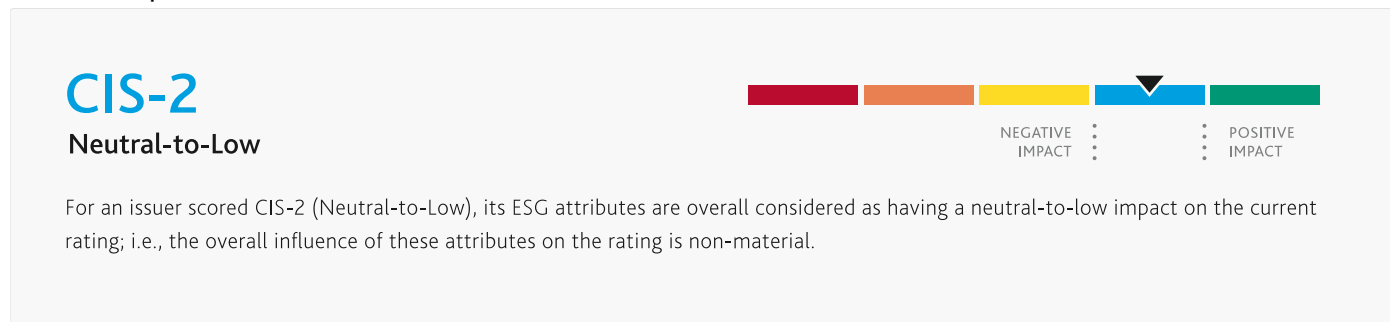
The moderate level of extraordinary support from the French government factored into the rating reflects the various mechanisms put in place by the central government during the global financial crisis to support RLGs as well as the coronavirus supportive measures.

ESG considerations

REGION BOURGOGNE-FRANCHE-COMTE's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 5

ESG Credit Impact Score



Source: Moody's Investors Service

Region Bourgogne-Franche-Comte's ESG Credit Impact Score is neutral to low (**CIS-2**), reflecting low exposure to environmental risks, moderate social risks and very strong governance, as well as strong resilience to shocks thanks to its intrinsic fiscal strength and external support (incl. central government support in case of major natural disaster).

Exhibit 6

ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

Region Bourgogne-Franche-Comte's exposure to environmental risks is neutral to low across most categories. The one exception which we consider to be moderately negative relates to the territory's exposure to drought and flooding given its geography. Its overall E issuer profile score is neutral to low (**E-2**).

Social

Region Bourgogne-Franche-Comte's exposure to social risks is moderately negative (**S-3**), reflecting the population dynamics, including the long-term challenge of ageing population. At the same time, the region benefits from high-quality education, good housing availability, high quality of health & safety and very high-quality access to basic services.

Governance

Region Bourgogne-Franche-Comte's very strong governance profile supports its rating, as exemplified by its budgetary practices and planning, its budgetary flexibility and its financial management. This is captured by a positive G issuer profile score (**G-1**).

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The assigned BCA of aa3 is close to the scorecard-indicated BCA. The matrix-generated BCA of Region Bourgogne-Franche-Comt reflects an Idiosyncratic Risk score of 3 (presented below) on a scale of 1 to 9, where 1 represents the strongest relative credit quality and 9 the weakest; and a Systemic Risk score of Aa2, as reflected in France's Aa2 stable sovereign bond rating.

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

Exhibit 7

Region Bourgogne-Franche-Comte Regional & Local Governments

| Baseline Credit Assessment – Scorecard | Score | Value | Sub-factor Weighting | Sub-factor Total | Factor Weighting | Total |
|--|-------|-------|----------------------|------------------|------------------|-----------------|
| Factor 1: Economic Fundamentals | | | | 6.6 | 20% | 1.32 |
| Economic Strength [1] | 9 | 78.6 | 70% | | | |
| Economic Volatility | 1 | | 30% | | | |
| Factor 2: Institutional Framework | | | | 3 | 20% | 0.60 |
| Legislative Background | 1 | | 50% | | | |
| Financial Flexibility | 5 | | 50% | | | |
| Factor 3: Financial Position | | | | 3 | 30% | 0.90 |
| Operating Margin [2] | 1 | 16.7 | 12.5% | | | |
| Interest Burden [3] | 1 | 0.7 | 12.5% | | | |
| Liquidity | 5 | | 25% | | | |
| Debt Burden [4] | 5 | 73.8 | 25% | | | |
| Debt Structure [5] | 1 | 5.9 | 25% | | | |
| Factor 4: Governance and Management | | | | 1 | 30% | 0.30 |
| Risk Controls and Financial Management | 1 | | | | | |
| Investment and Debt Management | 1 | | | | | |
| Transparency and Disclosure | 1 | | | | | |
| Idiosyncratic Risk Assessment | | | | | | 3.12 (3) |
| Systemic Risk Assessment | | | | | | Aa2 |
| Suggested BCA | | | | | | a1 |

[1] Local GDP per capita as % of national GDP per capita

[2] Gross operating balance/operating revenues

[3] Interest payments/operating revenues

[4] Net direct and indirect debt/operating revenues

[5] Short-term direct debt/total direct debt

Source: Moody's Investors Service; Fiscal 2020.

Ratings

Exhibit 8

| Category | Moody's Rating |
|---------------------------------------|----------------|
| REGION BOURGOGNE-FRANCHE-COMTE | |
| Outlook | Stable |
| Issuer Rating -Dom Curr | Aa3 |
| Senior Unsecured MTN -Dom Curr | (P)Aa3 |
| Commercial Paper -Dom Curr | P-1 |

Source: Moody's Investors Service

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