

CREDIT OPINION

1 March 2024

Update

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RATINGS

Tisseo 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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Tisseo Collectivités

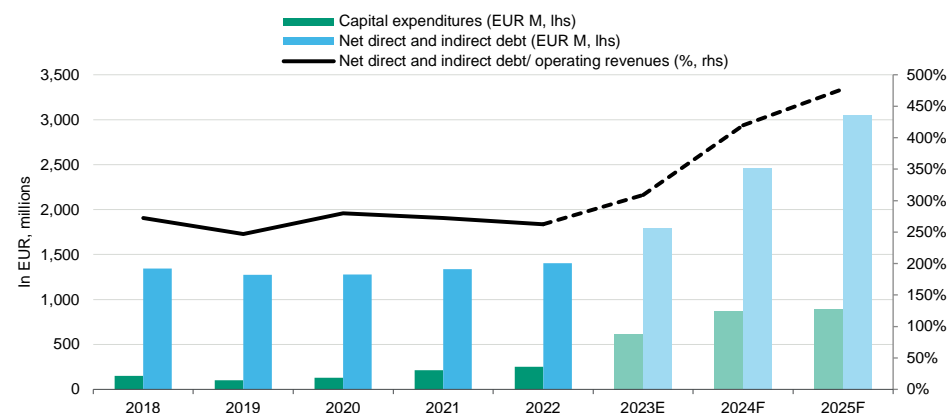
Update to credit analysis

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. 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 a 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 further increase on the back of a large fixed capital investment programme



E = estimate ; F = forecast

Sources: Tisséo Collectivités, Moody's Investors Service

Credit strengths

- » A very strong operating performance
- » 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)-to-operating revenue 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 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

Cost overruns on Tisséo Collectivités' fixed capital investment programme leading to a much higher debt peak and/or a weakening operating performance would put downward pressure on its ratings. Concurrently, a loosening in the commitment of Tisséo Collectivités' executive to use budgetary flexibility if needed as well as a tightening in Tisséo Collectivités' access to external funding would also lead to downward pressure on its ratings. A weakening in Toulouse Métropole's creditworthiness would most likely exert downward pressure on Tisséo Collectivités' ratings.

Key indicators

Exhibit 2

Tisséo Collectivités

	2018	2019	2020	2021	2022	2023E	2024F	2025F
Gross operating balance/ operating revenues (%)	27.1	30.4	23.2	29.0	32.6	30.5	28.0	29.8
Capital spending/ total expenditures (%)	29.5	22.1	27.1	37.9	41.1	60.5	67.2	66.6
Self-financing ratio	0.9	1.7	0.9	0.7	0.8	0.3	0.3	0.3
Financing surplus (requirement)/ total revenues (%)	-2.1	12.6	-2.0	-11.5	-8.7	-65.6	-94.2	-78.7
Interest expenses/ operating revenues (%)	16.0	14.4	17.5	14.4	12.0	9.3	12.7	15.0
Intergovernmental revenues/ operating revenues (%)	21.2	20.0	22.9	21.8	20.3	23.7	24.7	23.7
Tariffs and fees/ operating revenues (%)	19.7	19.8	14.6	16.6	18.8	19.1	20.5	19.9
Net direct and indirect debt/ operating revenues (%)	272.4	246.9	279.7	272.1	262.4	308.9	419.7	477.4

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

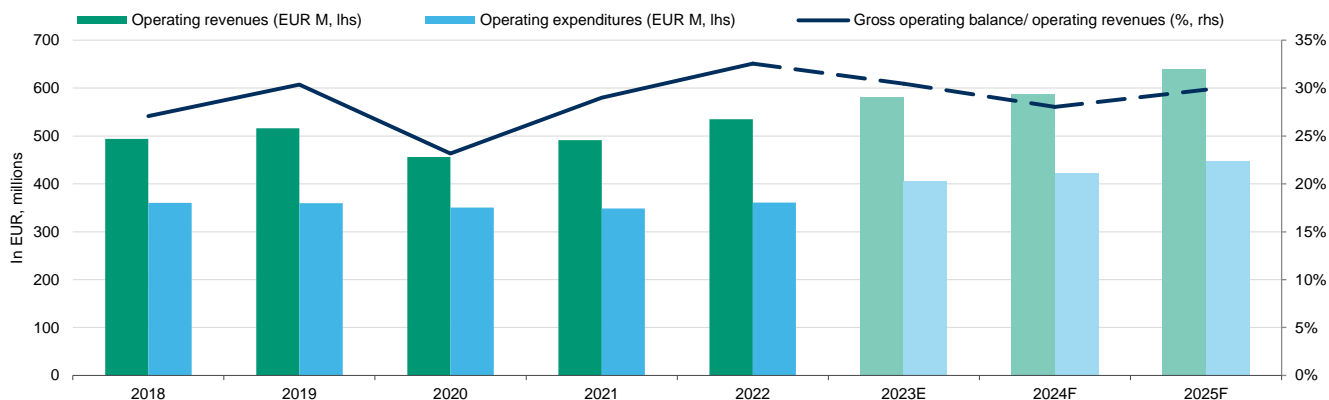
We expect Tisséo Collectivités' operating performance to remain very strong, with a GOB representing a stable 29% of operating revenue in 2023-25 (compared with 33% in 2022 and a 28% average over 2018-2022). Tisséo Collectivités' three main sources of operating revenue will thus benefit from consistent growth rates. 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 move along with France's positive nominal GDP growth per our baseline scenario. Proceeds will, therefore, reach €361 million or 56% of operating revenue in 2025. Fare revenue was €111 million at year-end 2023, recovering at 9% above the 2019 pre-pandemic level and we expect it grow by an average of 7% a year in 2023-2025 on the back of planned increases in public transit supply and already implemented increases in tariffs. Mandatory transfers from the intermunicipality's members, including Toulouse Métropole, the main one, will increase to €151 million by 2025 (or 24% of operating revenue) from €108 million as of year-end 2022. The 12% increase in total operating expenditures will be driven by a 15% growth in costs to operate the public transportation network (representing around 80% of Tisseo Collectivites' operating

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expenditures), before normalizing in 2024 in line with our baseline scenario for price inflation and Tisséo Collectivités' track record of a tight control of operating expenditures — as illustrated by almost flat spending between 2017 and 2021, around €355 million.

Exhibit 3

The GOB ratio will remain very strong until 2024



E = estimate ; F = forecast

Sources: Tisséo Collectivités and Moody's Investors Service

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' credit strength.

As of year-end 2021, local gross domestic product (GDP) per capita represented 107% 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 bounced back more rapidly than expected, because well diversified and benefitting from the location of headquarters and R&D teams and activities — including those of market leaders, such as [Airbus SE](#) (A2 stable), [Thales](#) (A2 stable), 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 (increase of 8.3% over 2013-19, compared with 2.2% for France over the same period) and 734,944 people as of year-end 2019, Toulouse Métropole is the sixth-largest metropolitan area among the 24 in France. The territory is also characterised by very large population 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 recent years, Tisséo Collectivité has a track record of using effectively its budgetary flexibility. To mitigate the impacts of inflationary pressures on operating and capital expenses (CAPEX) and thus comply with its internal targets (including a debt-to-GOB ratio below 18 years), Tisséo Collectivités decided to postpone CAPEX projects in 2022 and transfers from Toulouse Métropole are planned to increase as CAPEX is increasing.

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](#) (Aa2 stable) and [Agence France Locale](#) (AFL, Aa3 stable). As of year-end 2023, public lenders represented 68% of Tisséo Collectivités' outstanding debt, while the remaining was split between highly rated French and foreign commercial banks (30% and 2%, respectively). To meet its growing future needs and further diversify its funding sources, the intermunicipality has launched a €200 million Negotiable European Commercial Paper (NEU CP) programme in 2023, and a €3 billion European Medium-Term Notes (EMTN) programme under which Tisséo Collectivités can issue either regular or green EMTN.

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

As of year-end 2023, Tisséo Collectivités' net direct and indirect debt (NDID) reached an estimated €1.8 billion or 291% of operating revenue, and interest burden represented 11% of operating revenue (taking into account interest rate swaps), much higher than those of its peers we rate. We expect the ratio to remain high in the next two to three years, constraining the rating. This high cost of debt not only reflects the very high debt burden, but also a somewhat complex debt structure and legacy transactions. As of year-end 2023, an estimated 80% of its outstanding debt was at a fixed rate and 8% was made of structured products.

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

By 2025, we expect Tisséo Collectivités' debt burden to increase to 477% of operating revenue (at €3.05 billion) to fund its capital spending. Over 2023-30, we expect Tisséo Collectivités to spend €4 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 €868 million in 2024 and €895 million in 2025 from €251 million in 2022, compared with an average of €127 million over 2016-21.

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, and we expect Tisséo Collectivités' capital subsidies to total €530 million over 2023-30, or 14% of total capital spending over the period. Although this large multiyear capital investment plan should also generate economic and social benefits (including the creation of 3,000 permanent new jobs) between 2023 and 2030, it will be massively funded through debt. Tisséo Collectivités' outstanding debt should reach its highest level around 2028, around €4 billion, representing 2.8x the 2022 outstanding debt.

Extraordinary support considerations

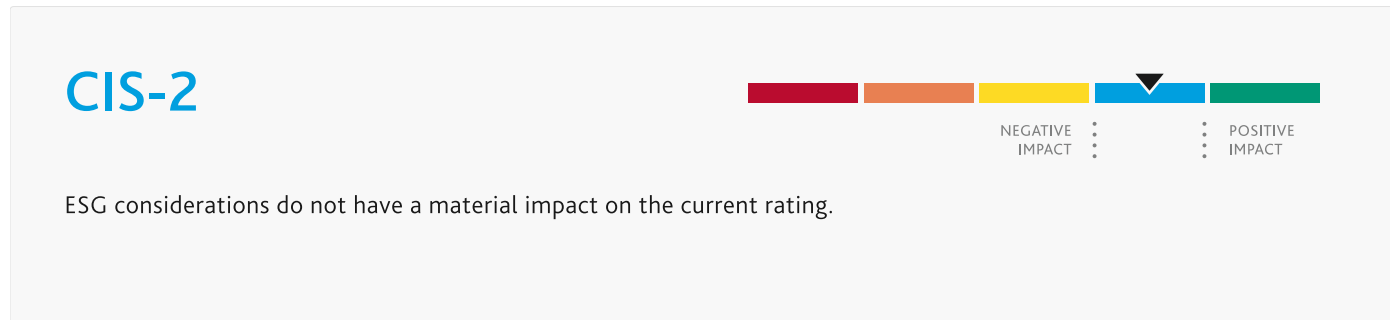
The extraordinary support that is likely to be provided by Toulouse Métropole is strong. Our assessment primarily captures Tisséo Collectivités' strategic role in the Toulouse area as the inter-RLG organising, managing and funding public transportation.

ESG considerations

Tiseo Collectivites' ESG credit impact score is CIS-2

Exhibit 4

ESG credit impact score



Source: Moody's Investors Service

Tiseo Collectivites' ESG Credit Impact Score (**CIS-2**) reflects low exposure to environmental, social and governance risks, as well as strong resilience to shocks thanks to its intrinsic fiscal strength and external support (including central government support in case of major natural disaster).

Exhibit 5

ESG issuer profile scores



Source: Moody's Investors Service

Environmental

Tiseo Collectivites' exposure to environmental risks is generally low across most categories. The one exception which we consider to be moderately negative relates to the territory's exposure to heat stress. Its overall environmental issuer profile score is therefore **E-2**.

Social

Tiseo Collectivites' exposure to social risks is generally low across most categories. The one exception which we consider to be moderately negative relates to the exposure to health and safety, given the scope, complexity and labor-intensiveness of mass transit operations that can drive capital costs. Its overall social issuer profile score is therefore **S-2**.

Governance

Tiseo Collectivites' governance issuer profile score (**G-2**) reflects supportive institutional structure and governance practices, including prudent budgetary practices and sophisticated planning. At the same time, financial management is characterised by a somewhat complex debt structure and a high cost of debt, reflecting legacy transactions.

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

Tisséo Collectivités' a3 BCA is close to the scorecard-indicated BCA of a2. The one-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 6

Tisséo Collectivités

Regional and Local Governments

Tisseo Collectivites

Baseline Credit Assessment – Scorecard	Score	Value	Sub-factor Weighting	Sub-factor Total	Factor Weighting	Total
Factor 1: Economic Fundamentals				2.40	20%	0.48
Economic Strength	3	113.62%	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				5.50	30%	1.65
Operating Margin	1	30.20%	12.5%			
Interest Burden	9	13.48%	12.5%			
Liquidity	5		25%			
Debt Burden	9	262.42%	25%			
Debt Structure	3	10.80%	25%			
Factor 4: Governance and Management				5	30%	1.50
Risk Controls and Financial Management	1					
Investment and Debt Management	5					
Transparency and Disclosure	1					
Idiosyncratic Risk Assessment						4.23 (4)
Systemic Risk Assessment						Aa2
Suggested BCA						a2

Source: Moody's Investors Service, Fiscal 2022.

Ratings

Exhibit 7

Category	Moody's Rating
TISSEO COLLECTIVITES	
Outlook	Stable
Baseline Credit Assessment	a3
Issuer Rating	A2
Senior Unsecured MTN	(P)A2
Commercial Paper -Dom Curr	P-1

Source: Moody's Investors Service

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