

Aguascalientes, State of ([/gws/en/esp/issr/80442355](https://www.fitchratings.com/site/pr/1023835))



Fitch Affirms the State of Aguascalientes LC IDR at 'BBB+'; Outlook Remains Negative

Fitch Ratings-Monterrey-18 May 2017: Fitch Ratings has affirmed the State of Aguascalientes' ratings as follows:

- Long-Term Local Currency Issuer Default Ratings (IDR) at 'BBB+', Outlook Negative;
- Long-Term National Rating at 'AA+(mex)', Outlook Stable.

The affirmation reflects Fitch's expectation that Aguascalientes will maintain budgetary discipline and strong operating performance resulting in healthy debt service ratios. The IDR is capped by the sovereign rating and the Negative Outlook reflects that of the sovereign rating ('BBB+' Outlook Negative).

KEY RATING DRIVERS

The rating affirmation reflects Aguascalientes' still strong operating performance, resulting from strengthening fiscal policies and ongoing monitoring of spending, as well as low leverage and high sustainability linked to its conservative debt policy. It also considers the dynamism of the local economy, the fact that state pension liabilities are fully covered and the strengthening of the corporate governance of the institute responsible for such liabilities. The high dependence on federal revenues, a common feature of the states in Mexico, constrains the rating.

At the end of March 2017, the direct debt of Aguascalientes was MXN1.871 billion (USD100 million), all with commercial banks maturing in 2031. The entity does not have short-term loans or guaranteed financing. Considering that no additional debt is contracted by the state, direct debt and other liabilities classified as debt by Fitch are expected to decrease gradually. As a result, the state's debt burden ratios remain manageable and liquidity levels covered most of the debt.

Additionally, the state has contracted two zero coupon bond type bank loans with the national development bank and whose balance at March was MXN1.034 million (USD55 million). Funds were used in public infrastructure related to an investment in the automotive industry that is expected to positively impact the region. According to the terms of loan, Aguascalientes is responsible for payment of interest but principal will be covered in a single payment at maturity (20 years), with redemption of the zero coupon bond. For this reason, Fitch does not consider the balance of these loans in the level of direct debt but interest payments are computed in the indicator of debt service.

The current administration took office in December of 2016 through an orderly transition. Its policies regarding local revenue collection, relative control of operating expenditure and definition of mechanisms against possible contingencies, are in line with that expected by Fitch in last year review. The later has resulted in higher generation of free cash flow from operations (FCFO, operating balance) and favourable liquidity levels in the first quarter of this year. According to the budget for 2017 and financial statements as of March 2017, Fitch forecasts that FCFO will stay around historical levels.

Aguascalientes has presented a strong liquidity position in 2012-2016. At the end of December 2016, the state registered a liquidity balance equal to 8% of total revenues; also its accounts payables present a controlled evolution, with no use of short-term credit lines.

Regarding pension liabilities, Aguascalientes stands in a very favourable position compared to other Mexican states. According to the last actuarial valuation, the state's pension liabilities are fully covered for the next 112 years. Additionally, the entity makes annual actuarial studies, works to strengthen the corporate governance of the institute responsible for the payment of pension and changed the regulatory framework to strengthen the sustainability of the fund. By decree the institute created Investment and Risk Committees with independent consultants, also modified its investment policies.

The provision of water services is the responsibility of decentralized agencies at the municipal level, so this is not a contingency for state finances. Aguascalientes has very good coverage of drinking water and wastewater, ranking among the top nationally. Aguascalientes' program of investment includes improving the availability of water over the medium term.

Aguascalientes benefits from its strategic geographical position and an efficient transport network. The state has a dynamic economy with high generation of jobs and is attractive for foreign investment. According to the administration, economic development will impact in the next few years. The economy is based on a strong manufacturing sector, particularly on a fast-growing automobile industry. In the last two years, Nissan Motors and Daimler announced a USD3.3 billion investment program in the state, which are in progress and are expected to start operations entirely during this year. Moreover, Aguascalientes registers

stronger socioeconomic indicators than the national average.

RATING SENSITIVITIES

The Rating Outlook for the international rating is Negative. Consequently, Fitch's sensitivity analysis does not currently anticipate developments with a high likelihood of leading to a positive rating change. Continued weak macro-economic environment as evidenced by a downgrade of the sovereign rating could result in a downgrade of the international rating of Aguascalientes.

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Date of Relevant Rating Committee: May 16, 2017

Additional information is available on www.fitchratings.com

Applicable Criteria

International Local and Regional Governments Rating Criteria - Outside the United States (pub. 18 Apr 2016)

(<https://www.fitchratings.com/site/re/878660>)

Metodología de Calificaciones en Escala Nacional (pub. 27 Mar 2017) (<https://www.fitchratings.com/site/re/896229>)

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