

Research Update:

# French Waste Treatment Authority Sycdom Affirmed At 'A+/A-1' On Sound Budgetary Performance Despite Debt Accumulation

July 8, 2021

## Overview

- Strong budget controls and good management of private-sector operator contracts should allow Sycdom to maintain a strong operating balance despite increasing operating expenditure (opex).
- Nevertheless, COVID-19's widespread impact on the syndicate's activity, increased waste treatment costs, and a large investment program will result in deep deficits after capital accounts and hike its debt accumulation.
- We are affirming our 'A+/A-1' ratings on Sycdom.
- The stable outlook reflects our expectation that the syndicate's sound debt and liquidity management, good budgetary control, and prudent long-term planning will help soften the impact on budgetary results.

## Rating Action

On July 8, 2021, S&P Global Ratings affirmed its 'A+/A-1' long- and short-term issuer credit ratings on French waste treatment authority Sycdom. The outlook is stable.

## Outlook

The stable outlook reflects our expectation that the syndicate's budgetary and liquidity positions are strong enough to withstand COVID-19-related headwinds, although the reduced revenue and increased waste treatment costs will weaken its budgetary performance. We assume Sycdom will continue to implement its sizable investment program through 2023, which will result in large deficits and a substantial increase in the debt burden.

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## Upside scenario

We could raise our ratings if the syndicate significantly improved its operating performance thanks to timely adjustment of tariffs while delivering adequately on its investment plan, and the City of Paris performed in line with our base-case scenario.

## Downside scenario

We could lower the rating if the pandemic's effects are protracted, Sycotom experiences difficulties in materially increasing tariffs, or it invests substantially more than we expect. Under this scenario, the syndicate would record a materially weaker budgetary performance than we envisage in our base-case scenario. A lower likelihood of joint and several extraordinary support from members, including Paris, could also result in a downgrade, for example if Sycotom's governing bodies showed less capacity for consensus-based decision-making.

## Rationale

The COVID-19 pandemic and waste treatment cost increases are delaying the recovery of Sycotom's financial performance and deleveraging while the syndicate implements its ambitious investment program. In 2020, strikes in the first quarter and the pandemic's impact were manageable, although the operation disruption of Sycotom's waste treatment plants during the lockdown and lower garbage collection (6% for the year) resulted in a revenue drop. From 2021, in addition to the pandemic's potential impact on garbage collection, the syndicate will be penalized by the strong increase in the tax on polluting activities (TGAP). We expect it to take measures to partly offset the increased costs, including waste treatment tariffs increase, tight control over opex, particularly when contracts with operators are renewed; optimization of energy sales; and slightly downsizing its large investments, while controlling debt increases. Moreover, liquidity remains very comfortable with a large buffer, which underpins our stable outlook.

## The syndicate covers almost 10% of the country's population

Sycotom is France's largest municipal syndicate for the treatment and recovery of household waste, operating in and around Paris, the economic engine of the country. Its owners are 12 local and regional governments (LRGs), namely the City of Paris (AA/Negative/A-1+), 10 special intercity structures ("Etablissements Publics Territoriaux"), and the intercity of Versailles Grand Parc. Sycotom covers almost 50% of the population of Ile-de-France, which benefits from a very wealthy and diversified economy, with GDP per capita more than 1.5x the national average.

As a municipal syndicate, Sycotom is subject to the same laws ("Code Général des Collectivités Territoriales") as French LRGs, including those governing budgets and accounting. We therefore believe it operates under a predictable and supportive institutional framework, similarly to the one for French cities.

Sycotom's governing body, appointed after the June 2020 local elections, consists of representatives from the 12 French LRG members and, remains with the same budgetary strategy, continuing the ambitious capital expenditure program for 2021-2028 (the program amounts to €1 billion from 2021-2028). We expect Sycotom to maintain a strong capacity for consensus-based decision-making, including on budget strategy and financial planning. In our view, this will strongly support Sycotom as it implements its investment program, which we expect will account

for almost one-third of total expenditure in 2021-2023, while controlling debt increases.

## **Debt will continue to finance the capital expenditure program**

The widespread impact of COVID-19 on Sycotom's activity and garbage collection; increased waste treatment costs; the sharp increase of tax on polluting activities and large investment project will weaken the syndicate's budgetary performance and hike its debt accumulation.

Sycotom is taking measures to partly offset this, including strong control over opex, especially through tight management of private-sector operator contracts, optimization of energy sales, and waste treatment tariffs increase. We understand Sycotom's governing bodies have increased fees (62% of operating revenue in 2020) by 6% in 2021, and a further increase is likely in 2022, to self-finance part of the investment program and compensate for higher payments related to the TGAP. The central government has increased TGAP in the state finance budget 2019. The cumulative additional cost for 2021-2023 is almost €50 million. Sycotom's mitigating budgetary measures should allow it to maintain a strong operating balance of more than 18% of operating revenue on average in 2021-2023, helping contain debt growth.

In line with its long-term investment cycle, the capital expenditure program for 2021-2028 remains ambitious, with a cumulative forecast investment of around €500 million over 2021-2023. This large investment plan will hike Sycotom debt accumulation. We anticipate debt will peak at 234% of operating revenue in 2023. From 2025, the debt burden should decrease gradually once the new investments in waste treatment and recovery plants are gradually complete and the syndicate progressively shifts focus to maintenance only.

We view Sycotom's liquidity as favorable. Although we expect funding needs will remain large through 2023, the syndicate has strong access to external liquidity that it satisfactorily tested during the market turbulence provoked by COVID-19. Sycotom has secured its liquidity through multiyear loans and liquidity lines, allowing a strong debt service coverage ratio. In 2020, the syndicate also for the first time accessed financial markets through green bond issuances (€70 million in total). We understand that Sycotom is willing to continue to issue under its euro medium-term note program to diversify its sources of funding and benefit from attractive yields earned on financial markets. It will continue to favor the use of "green" financing.

Our long-term rating on Sycotom is one notch above its stand-alone credit profile because we see a high likelihood that syndicate members would provide timely and sufficient joint and several extraordinary support to Sycotom if it were in financial distress.

Our view of support is based on our assessment of the syndicate's:

- Critical role for its members, given its essential public policy mandate. Waste treatment and recovery is a core responsibility of the member LRGs, which they delegate to Sycotom. Its role is also essential for the sustainable development goals enshrined in French law ("Loi de transition énergétique pour la croissance verte"). More specifically, the syndicate plays a key role in providing energy to Paris' minority-owned heating utility (Compagnie Parisienne de Chauffage Urbain) via the steam produced by its waste incinerators; and
- Strong link with its members. Because Sycotom is an administrative public agency, its members are, by law, ultimately responsible for its assets and liabilities. Members' oversight is through political representatives that are part of the syndicate's governing bodies. Sycotom's administration is independent from its members and makes its own decisions, including those related to finance.

## Key Statistics

Table 1

### Syctom--Selected Indicators

(Mil. €)	--Fiscal year ended Dec. 31--				
	2019	2020	2021bc	2022bc	2023bc
Operating revenue	391	380	380	409	411
Operating expenditure	345	316	322	329	326
Operating balance	46	65	58	81	85
Operating balance (% of operating revenue)	11.8	17.0	15.3	19.7	20.6
Capital revenue	9	14	35	34	25
Capital expenditure	201	200	200	174	126
Balance after capital accounts	(147)	(121)	(107)	(59)	(17)
Balance after capital accounts (% of total revenue)	(36.6)	(30.7)	(25.9)	(13.3)	(3.8)
Debt repaid	64	30	33	33	36
Gross borrowings	243	155	140	114	78
Balance after borrowings	32	4	0	23	26
Direct debt (outstanding at year-end)	604	729	836	917	959
Direct debt (% of operating revenue)	154.4	191.7	220.1	224.0	233.6
Tax-supported debt (outstanding at year-end)	604	729	836	917	959
Tax-supported debt (% of consolidated operating revenue)	154.4	191.7	220.1	224.0	233.6
Interest (% of operating revenue)	3.6	3.6	3.5	3.8	4.1
National GDP per capita (€)	36,303	34,173	36,495	38,446	39,701

The data and ratios above result in part from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. The main sources are the financial statements and budgets, as provided by the issuer. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario.

## Ratings Score Snapshot

Table 2

### Syctom--Ratings Score Snapshot

Key rating factors	Scores
Institutional framework	2
Economy	1
Financial management	3
Budgetary performance	4
Liquidity	2
Debt burden	4

Table 2

### Syctom--Ratings Score Snapshot (cont.)

Key rating factors	Scores
Stand-alone credit profile	a
Issuer credit rating	A+

S&P Global Ratings bases its ratings on non-U.S. local and regional governments (LRGs) on the six main rating factors in this table. In the "Methodology For Rating Local And Regional Governments Outside Of The U.S.," published on July 15, 2019, we explain the steps we follow to derive the global scale foreign currency rating on each LRG. The institutional framework is assessed on a six-point scale: 1 is the strongest and 6 the weakest score. Our assessments of economy, financial management, budgetary performance, liquidity, and debt burden are on a five-point scale, with 1 being the strongest score and 5 the weakest.

### Key Sovereign Statistics

- Sovereign Risk Indicators, April 12, 2021. Interactive version available at <http://www.spratings.com/sri>

### Related Criteria

Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

### Related Research

- Institutional Framework Assessments For International Local And Regional Governments, April 13, 2021
- France 'AA/A-1+' Ratings Affirmed; Outlook Stable, April 2, 2021
- Local Government Debt 2021: Infrastructure Needs Will Boost Borrowing In Developed Markets, March 25, 2021
- Local Government Debt 2021: French LRG Debt Could Surpass €155 Billion Within A Year, March 25, 2021
- Local And Regional Governments Outlook 2021: Gradual Recovery Will Test Rating Resilience, Dec. 10, 2020

### Ratings List

**Ratings Affirmed**

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**Syctom**

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Issuer Credit Rating A+/Stable/A-1

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Senior Unsecured A+

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at [https://www.standardandpoors.com/en\\_US/web/guest/article/-/view/sourceId/504352](https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352) Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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