

Research Update:

# French Waste Treatment Authority Syctom Outlook Revised To Positive On Debt Management; 'A+/A-1' Ratings Affirmed

November 5, 2019

## Overview

- In our opinion, Syctom continues to benefit from a consensus-based decision-making strategy, good budgetary control, and prudent long-term planning.
- During 2019, Syctom has strengthened its debt and liquidity management.
- We are therefore revising our outlook on Syctom to positive from stable and affirming our 'A+/A-1' ratings.

## Rating Action

On Nov. 5, 2019, S&P Global Ratings revised its outlook on France-based metropolitan waste treatment and recovery authority Syctom to positive from stable. At the same time, we affirmed the 'A+' long-term and 'A-1' short-term issuer credit ratings on Syctom.

## Rationale

Syctom is France's largest municipal syndicate for the treatment and recovery of household waste. As an administrative public agency, Syctom's owners are 12 local and regional governments (LRGs), namely the City of Paris (AA/Stable/A-1+), 10 special intercity structures ("Etablissements Publics Territoriaux"), and the intercity of Versailles Grand Parc. Syctom covers 47% of the population of Ile-de-France, which benefits from a very wealthy and diversified economy, with GDP per capita above €60,000, 1.7x the national average.

As a municipal syndicate, Syctom is subject to the same laws ("Code Général des Collectivités Territoriales") as French LRGs, including those governing budgets and accounting.

Our long-term rating on Syctom is one notch above its stand-alone credit profile (SACP) of 'a' as we view that there is a high likelihood that syndicate members will provide timely and sufficient extraordinary support to Syctom if it is in financial distress.

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In our view, Sycotom's governing bodies, comprising representatives from its 12 French LRG members, have shown a strong capacity for consensus-based decision-making, including on budget strategy and financial planning. In our view, this will strongly support Sycotom in implementing its large investment program, which will account for 42% of total expenditure during 2019-2021 and amount to almost €1.3 billion over 2018-2025, while controlling debt increases.

After eight years of deleveraging, Sycotom's debt started to increase in 2018. We anticipate debt will peak at 237% of operating revenue in 2022, before decreasing from 2023, in line with Sycotom's long-term investment cycle. Strong budget controls and good management of private-sector operator contracts should allow Sycotom to maintain a strong operating balance of close to 13% of operating revenue during 2019-2021, helping contain debt growth. Moreover, we understand Sycotom's governing bodies will increase tariffs on fees (63% of operating revenue in 2018) from 2021, in order to self-finance part of its investment program and compensate for higher payments related to the general tax on polluting activities (called "TGAP"). The central government has decided to increase tariffs on TGAP in the state finance bill from 2019.

We view Sycotom's liquidity as favorable. We expect funding needs to increase largely from 2019 but Sycotom has secured its liquidity through multi-year loans and liquidity lines, allowing a strong debt service coverage ratio. We also understand that Sycotom is willing to access financial markets to diversify its sources of funding.

Our view of a high likelihood that its members would provide timely and sufficient joint and several extraordinary support in the event of financial distress is based on our assessment of Sycotom's:

- Critical role for its members, given its essential public policy mandate. Waste treatment and recovery is a core responsibility of the member LRGs, delegated to Sycotom. Sycotom's role is also essential for the sustainable development goals enshrined in French law ("Loi de transition énergétique pour la croissance verte"). More specifically, Sycotom 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 Sycotom's governing bodies. Sycotom's administration is independent from its members and it makes its own decisions, including those related to finance.

## **Outlook**

The positive outlook reflects stronger debt and liquidity management. In 2019, Sycotom has been able to secure its liquidity position and reduce its exposure to complex derivatives.

## **Upside scenario**

Therefore, we could raise our ratings in the next two years, if Sycotom is able to maintain very strong operating performance while delivering adequately on its investment plan, and continue its consensus-based decision-making strategy after the March 2020 local elections.

## **Downside scenario**

Alternatively, we could revise the outlook to stable in the next two years if Sycotom was unable to

structurally improve its budgetary performance due to less capacity for consensus-based decision-making. A weakening likelihood of joint and several extraordinary support from members, including Paris, could also result in a negative rating action even if Syctom were to improve its SACP.

## Key Statistics

Table 1

### Syctom Selected Indicators

(Mil. €)	2017	2018	2019bc	2020bc	2021bc
Operating revenues	348	381	381	379	412
Operating expenditures	275	317	328	335	356
Operating balance	73	64	53	45	56
Operating balance (% of operating revenues)	21.0	16.8	13.9	11.7	13.7
Capital revenues	5	8	9	30	39
Capital expenditures	95	173	236	300	215
Balance after capital accounts	(18)	(101)	(174)	(226)	(119)
Balance after capital accounts (% of total revenues)	(5.0)	(25.8)	(44.8)	(55.2)	(26.5)
Debt repaid	22	46	64	33	33
Gross borrowings	0	62	244	259	152
Balance after borrowings	(40)	(85)	5	0	0
Direct debt (outstanding at year-end)	409	425	605	830	950
Direct debt (% of operating revenues)	117.7	111.5	158.8	218.9	230.4
Tax-supported debt (outstanding at year-end)	409	425	605	830	950
Tax-supported debt (% of consolidated operating revenues)	117.7	111.5	158.8	218.9	230.4
Interest (% of operating revenues)	4.9	4.3	4.4	4.5	4.4
Local GDP per capita (single units)	58,325	60,222	61,791	63,002	64,330
National GDP per capita (single units)	34,377	35,180	36,065	36,846	37,701

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. dc--Downside case represents some but not all aspects of S&P Global Ratings' scenarios that could be consistent with a downgrade. uc—Upside case represents some but not all aspects of S&P Global Ratings' scenarios that could be consistent with an upgrade. N/A--Not applicable. N.A.--Not available. N.M.--Not meaningful.

## Ratings Score Snapshot

Table 2

### Syctom Ratings Score Snapshot

Key rating factors	Scores
Institutional framework	2

Table 2

### Syctom Ratings Score Snapshot (cont.)

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

### 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: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

### Related Research

- Sovereign Risk Indicators, Oct. 10, 2019. An interactive version is also available at <http://spratings.com/sri>.
- Default, Transition, and Recovery: 2018 Annual International Public Finance Default And Rating Transition Study, Aug. 19, 2019
- Public Finance System Overview: French Cities, Intercities, And Municipal Syndicates, July 30, 2018
- Institutional Framework Assessments For International Local And Regional Governments, Nov. 6, 2018

### Ratings List

**Ratings Affirmed; Outlook Action**

	To	From
<b>Sycotom</b>		
Issuer Credit Rating	A+/Positive/A-1	A+/Stable/A-1

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. 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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