FitchRatings

Fitch Affirms Polish City of Katowice at 'A-'; Outlook Stable

Fitch Ratings-Warsaw/London/Moscow–24 July 2015: Fitch Ratings has affirmed the Polish City of Katowice's Long-term foreign and local currency Issuer Default Ratings (IDR) at 'A-'. Fitch has also affirmed the city's National Long-term rating at 'AA+(pol)'. The Outlooks are Stable.

The affirmation reflects Katowice's sound operating performance, which we expect to be maintained in the medium term.

KEY RATING DRIVERS
The ratings also factor in our expectations that Katowice's direct debt will be stable, based on the city's policy of financing investments mainly with its own resources. Although this leads to the absorption of the city's significant cash reserves, Katowice generates operating balances that provide the city with more than sufficient liquidity to ensure smooth debt service.

We expect in our unchanged base case scenario that Katowice's operating performance will remain solid, due to prudent budgeting and continuing rationalisation in operating spending. We forecast operating margin to be stable at 13% in 2015-2017. Projected operating balances averaging PLN200m annually in 2015-2017, which compare with the average balance of PLN172m in 2010-2014, should be sufficient to cover 5x the city's debt servicing (including debt repayments and interest).

For 2015-2017 we forecast Katowice to spend on average PLN350m annually, or about 20% of total expenditure, similar to 2010-2013. The city will spend capex mainly on roads and public transport, on environmental protection and sport facilities. Pressure to raise debt should be low as the city aims to finance investments entirely from capital revenue (mainly EU capital grants), cash reserves and from the current balance in 2015-2017. In 2014, capex peaked at PLN584m or 31% of total expenditure, due to the completion of major infrastructure investments.

Katowice's direct debt is likely to stabilise at 45% of current revenue in 2015-2017 and total PLN660m by 2017 (2014: PLN674m and 46% of current revenue), according to our projections. We assume that the city will complete all remaining large investments in 2015 for which it has already secured financing. The debt-to-current-balance ratio (debt payback ratio) should remain healthy at a moderate 3.5 years, well below the city's debt maturity of 20 years.

We expect the city's liquidity to remain satisfactory in the medium term, although Katowice will continue to use its cash reserves to finance investments. In 2014, PLN150m of cash reserves were absorbed by capex. We project cash reserves to decline to about PLN80m by 2017, from PLN223.3m at end-2014, but should still cover annual debt service by 2x.

RATING SENSITIVITIES
Katowice's ratings could be upgraded if the city improves its operating performance with an operating balance of above 15% of operating revenue on a sustained basis and if it maintains a debt payback ratio of below three years (2014: 3.7 years).

Conversely, sharper-than-expected deterioration in the city's debt payback ratio to above eight years, due to a sustained weakening in the operating margin or a significant rise in the city's direct debt to above 70% of current revenue, could result in a negative rating action.

KEY ASSUMPTIONS
Fitch expects the city to continue its efficient operating expenditure control and to manage the budget prudently in the medium term.

Fitch assumes that the city will continue to receive EU funds to co-finance its investment programme.

Contact:
Primary Analyst
Dorota Dziedzic
Director
+48 22 338 62 96
Fitch Polska S.A.
16 Krolewska Street
Warsaw 00-103

Secondary Analyst
Maurycy Michalski
Director
+48 22 330 67 01

Committee Chairperson
Vladimir Redkin
Senior Director
+7 495 956 99 01

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@fitchratings.com. Malgorzata Socharska, Warsaw, Tel: +48 22 338 62 81, Email: malgorzata.socharska@fitchratings.com.

Additional information is available on www.fitchratings.com.

Applicable Criteria
'Tax-Supported Rating Criteria', dated 14 August 2012, and 'International Local and Regional Governments Rating Criteria outside United States', dated 18 May 2015, are available on www.fitchratings.com.

Additional Disclosure Solicitation Status