

Rating Action: Moody's Public Sector Europe assigns A1/ Prime-1 issuer ratings to the Hospices Civils de Lyon, with stable outlook

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London, 10 October 2017 -- Moody's Public Sector Europe (MPSE) has today assigned an A1 long-term issuer rating and a Prime-1 short-term issuer rating to the Hospices Civils de Lyon (HCL). The rating outlook is stable. MPSE also assigned a Prime-1 short-term debt rating to HCL's €85.0 million Negotiable European Commercial Paper Programme (Neu CP).

"The ratings reflect the strategic positioning of the HCL, its close relationship with the Government of France (Aa2, stable) as well as our expectation of a further improvement in the hospital's financial position in the next two to three years," says Matthieu Collette, Vice President in Moody's Public Sector Europe and lead analyst for HCL

RATINGS RATIONALE

Today's rating action reflects the significant improvement in HCL's financial performance in recent years, which has resulted in improved cash flow margins and a decreased debt burden. The hospital recorded a cash flow margin of 5.4% and a debt-to-total revenue ratio of 47.6% at the end of 2016. This performance was supported by HCL's excellent financial management and its commitment to efficiency. It has a track record of implementing business results oriented strategies, combining cost cutting, medical activities' optimization and new revenue generation.

"The supportive regulatory framework and the very high operational and financial linkages with the central government are key factors in the ratings," said Mr. Collette. In line with other French public hospitals, HCL is funded, regulated, overseen, monitored and controlled by the central government. The highly predictable social security contributions account for a large and stable share of HCL's revenues (72.6% in 2016).

The A1 issuer rating also reflects HCL's high debt stock, which was €836.1 million at YE2016 vs. €952.0 million at YE2011. Despite recent deleveraging, the debt burden remains higher than peers, limiting HCL's financial flexibility.

Based on HCL's multi-year projections, Moody's expects medical activities to grow about 2% per year on average by 2020. Moody's also expects real estate sales to generate €63.5 million of revenue by 2020. MPSE considers that HCL's prudent financial governance and sound control of operating expenditure, evidenced by the implementation of cost-cutting measures, will allow the hospital to continue to reduce its debt levels and bring its direct debt-to-total revenues ratio to around 43.4% by 2020.

The Prime-1 short-term rating reflects HCL's secure liquidity profile supported by predictable and regular cash flows, especially the social security transfers. The hospitals benefit from credit line facilities amounting to €192.0 million as of September 2017, which amply cover its liquidity requirements and are deemed adequate to cover any future issuance under its €85.0 million NEU CP programme.

The HCL are one of the three biggest French public hospitals. As a regional hospital, fully affiliated with the University of Lyon -- HCL is a "Centre hospitalier régional et universitaire"-, HCL plays a key role in providing both routine and highly specialized medical treatments as well as teaching and research. With revenue of €1.8 billion at the end of 2016 (+23.4% over the last 10 years), HCL's scope of operations is large and diversified and its market share significant (35.0% as at YE2016).

What could change the ratings up/down

Given the close operational and institutional links between the Government of France and HCL, an upgrade of France's rating would lead to an upgrade of HCL's rating. A further and continued improvement in financials would also lead to an upgrade.

A downgrade of France's rating would lead to a downgrade of the hospital's rating. A sustained deterioration in financial performance or a significant increase in the debt burden would also lead to a downgrade.

The methodologies used in these ratings were Not-For-Profit Healthcare Rating Methodology published in November 2015, and Government-Related Issuers published in August 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

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