

## Province Of Mendoza's Proposed Senior Unsecured Notes For Up To ARP5.5 Billion Assigned 'B' Rating

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SAO PAULO (S&P Global Ratings) May 31, 2017—S&P Global Ratings today assigned its 'B' issue-level rating on the Province of Mendoza's proposed senior unsecured notes for up to Argentine Pesos (ARP) 5.5 billion. The province will use the proceeds to make debt service payments, which we expect to reach 10.3% of Mendoza's operating revenue in 2017, and to fund the annual operating deficit. We don't view this additional debt as harmful to the province's financial profile, and we expect that its moderate debt burden will continue to support Mendoza's credit profile.

Adding the potential ARP5.5 billion issuance to our estimate for the province's 2017 year-end debt stock, along with other issuances and amortizations, we calculate that the province's total debt stock will reach ARP31.8 billion by December 2017. Although Mendoza's debt will increase in nominal terms from ARP26.1 billion in 2016, debt relative to operating revenue will fall to around 49% from nearly 54%. This stems from our expectations that still high inflation will compensate for the impact of new net borrowings and currency depreciation, which we expect to be less than in 2016, on Mendoza's operating revenues.

The foreign currency rating on the province is the same as our 'B' global scale long-term issuer credit rating on Argentina. Mendoza, like most Argentine local and regional governments (LRG), doesn't meet the criteria to have a higher rating than the one on the sovereign, mostly because the

province's liquidity isn't sufficient to cover all of its debt obligations.

Mendoza, like all LRGs in Argentina, still operates under a very volatile and unbalanced institutional framework, in our view. However, we believe that there's a positive trend on the predictability of the outcome of potential reforms and pace of implementation. We expect moderate reforms of the distribution of federal tax revenues to the LRGs. Also, in our view, a more consistent support from the federal government has allowed LRGs to measure its short- and longer-term impact on their finances. We view favorably the constructive dialogue between the federal and subnational governments to solve the current institutional, administrative, and budgetary challenges. As a result, a stronger institutional framework could improve LRGs' credit quality in the next few years.

At the same time, Mendoza's individual credit profile is constrained by its rigid operating spending structure, limited room to increase revenues, volatile budgetary performance, and continued operating deficits and deficits after capex, and the lack of cash reserves. On the other hand, the province's debt burden and low contingent liabilities support Mendoza's credit quality.

The stable outlook on Mendoza reflects our view of an increasing dialogue between Argentina's LRGs and the federal government to address various fiscal and economic challenges that are expected to remain in the short to medium term. If we were to raise our T&C assessment and the foreign currency rating on the sovereign over the next 12 months, we could also upgrade Mendoza. Such an upgrade would have to be accompanied by continued strengthening in Argentina's institutional framework for LRGs or in Mendoza's individual creditworthiness. Conversely, we could lower the ratings on Mendoza if Argentina's economic performance deteriorates consistently over the next couple of years, eroding the province's revenue base beyond our expectations. Also, failure to refinance existing debt in foreign and local currency as well as unwillingness to service debt obligations could prompt us to lower ratings within the next 12-18 months. We could also lower our ratings on Mendoza if Argentina's T&C assessment weakens or if we were to lower the sovereign local or foreign currency ratings.

#### RELATED CRITERIA

- Criteria - Governments - International Public Finance: Methodology For Rating Non-U.S. Local And Regional Governments, June 30, 2014
- Criteria - Governments - International Public Finance: Methodology And Assumptions For Analyzing The Liquidity Of Non-U.S. Local And Regional Governments And Related Entities And For Rating Their Commercial Paper Programs, Oct. 15, 2009
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

#### RELATED RESEARCH

*Province Of Mendoza's Proposed Senior Unsecured Notes For Up To ARP5.5 Billion Assigned 'B' Rating*

- Seven Argentinean Local And Regional Governments Upgraded To 'B' From 'B-' Following The Sovereign's Upgrade, April 4, 2017
- Public Finance System Overview: Argentine Local And Regional Governments , Aug. 20, 2015

RATINGS LIST

Province of Mendoza  
Issuer credit rating                    B/Stable/--

Rating Assigned

Province of Mendoza  
Sr. Unsec. Notes                        B

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.globalcreditportal.com](http://www.globalcreditportal.com) and at [www.spcapitaliq.com](http://www.spcapitaliq.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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