



Fitch Upgrades State of Aguascalientes' Ratings; Outlook Stable

(The following statement was released by the rating agency) MONTERREY, May 28 (Fitch) Fitch Ratings has upgraded Aguascalientes' ratings as follows: --Long-term local currency Issuer Default Rating (IDR) to 'BBB+' from 'BBB'; --Long-term National Rating to 'AA+(mex)' from 'AA(mex)'. The Rating Outlook is Stable. KEY RATING DRIVERS The upgrade of Aguascalientes' ratings reflects its solid operating performance, resulting from strengthening fiscal policies and ongoing monitoring of spending, as well as moderate leverage and sustainability linked to its conservative debt policy. It also considers the dynamism of the local [economy](#) and the fact that the state pension liabilities are fully covered. The high dependence on federal revenues, a common feature of the states in [Mexico](#), constrains the rating. The upgrade reflects Fitch's expectation that Aguascalientes will maintain budgetary discipline and will generate strong operating margins in the following years. Fitch also considers that the Federal Government is in the process of adopting and implementing structural reforms; the most important impact for the Mexican states is expected from the tax reform, mainly through higher resources from the Federation, which will benefit Aguascalientes. The current administration has had an outstanding performance in terms of local revenue collection and relative control of operating expenditure, which explains higher generation of free cash flow from operations (FCFO) and favorable liquidity levels. In the last three years, generation of FCFO has been above 20% of current revenue. According to the budget for 2014 and financial statements to April 2014, Fitch forecasts that FCFO will stay around 20%. At April 30, 2014, the direct debt of Aguascalientes was MXN2,302 million (USD179 million), of which MXN2,147 million were signed with commercial [banks](#) maturing in 2031. The remainder of the balance consists of two loans maturing in November 2016. Moreover, the entity does not have short-term loans or guaranteed financing. Considering that no additional debt is contracted by the state, direct debt and other liabilities classified as debt by Fitch will gradually decrease. Moreover, the state's debt burden ratios remain manageable and liquidity levels absorbed most of the debt. Aguascalientes has a dynamic economy with high generation of jobs and is attractive for foreign investment. The economy is based on a strong manufacturing sector, particularly on a fast-growing automobile industry. In 2012, Nissan Motors announced a USD2 billion investment program in the state. In order to further enhance the state's position as a manufacturing hub, the local administration has committed approximately MXN1,700 million (USD132 million) in order to improve public infrastructure. The state financed 40% of its investment program with two zero-coupon-bond-type bank loans, while the rest was paid out of budget savings. Nissan's investment plan is expected to have an important positive impact on employment, productivity, and on the fiscal revenues of the state. Regarding pension liabilities, Aguascalientes stands in a very favorable position compared to Mexican states and other international governments. According to the last actuarial valuation, the state's pension

liabilities are fully covered for the next 113 years. Additionally, the entity makes annual actuarial studies and works to strengthen the corporate governance of the institute responsible for the payment of pension. The provision of water services is the responsibility of decentralized agencies at the municipal level, so this is not a contingency for state finances. Aguascalientes has very good coverage of drinking water and wastewater, ranking among the top nationally. Aguascalientes' program of investment includes improving the availability of water over the medium term. Aguascalientes benefits from its strategic geographical position and an efficient transport network. The economic activity of the state is characterized by its diversity, with the manufacturing sector making an outstanding contribution. Moreover, Aguascalientes registers stronger socioeconomic indicators than the national average.

RATING OUTLOOK - STABLE The Stable Outlook reflects Fitch's expectation that Aguascalientes will maintain a strong operating performance resulting in healthy debt service ratios.

KEY ASSUMPTIONS AND SENSITIVITIES A new rating action on Mexico's sovereign rating could have a similar impact on Aguascalientes' international rating. An upgrade could occur if Aguascalientes is able to improve its generation of FCFO accompanied by a decrease in leverage. Conversely, a negative rating action could result if FCFO fell far below Fitch's expectation and/or if there were a significant rise in Aguascalientes' direct indebtedness.

Contact: Primary Analyst Ileana Guajardo Director +52 81 8399 9100 Fitch Mexico S.A. de C.V. Prol. Alfonso Reyes 2612 Monterrey, N.L. Mexico Secondary Analyst Martha Gonzalez Analyst +52 81 8399 9100 Committee Chairperson Fernando Mayorga Managing Director +34 93 323 8407 Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com. Additional information is available on www.fitchratings.com

Applicable Criteria and Related Research: 'Tax-Supported Rating Criteria', Aug. 14, 2012, 'International Local and Regional Governments Rating Criteria outside United States' April 23, 2014. Additional Disclosure Solicitation Status [here](#)

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