MOODY'S
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Credit Opinion: SNCF Mobilités

Global Credit Research - 22 Sep 2015

Paris, France

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Aa3
Senior Unsecured	Aa3
Commercial Paper -Dom Curr	P-1
Other Short Term -Dom Curr	(P)P-1

Contacts

Analyst	Phone
Lorenzo Re/Milan	39.02.9148.1100
Paolo Leschiutta/Milan	
Patrick Mispagel/London	44.20.7772.5454

Key Indicators

[1]**SNCF Mobilités**

	12/31/2014	12/31/2013	12/31/2012	12/31/2011	12/31/2010
Revenue ($ Billion)	**$36.2**	**$35.9**	**$41.4**	**$45.4**	**$40.4**
EBITA Margin	**3.2%**	**3.5%**	**4.7%**	**4.6%**	**2.5%**
EBITA / Avg. Assets	**2.0%**	**2.2%**	**3.4%**	**3.3%**	**1.6%**
Debt / Book Capitalisation	**65.8%**	**67.2%**	**63.4%**	**60.9%**	**65.4%**
Debt / EBITDA	**5.6x**	**5.5x**	**4.7x**	**4.7x**	**6.8x**
FCF / Debt	**0.5%**	**-0.9%**	**-3.2%**	**-0.5%**	**-0.4%**
RCF / Net Debt	**19.8%**	**21.4%**	**17.7%**	**18.7%**	**12.8%**
(FFO + Interest) / Interest	**8.0x**	**11.3x**	**7.6x**	**7.9x**	**6.0x**

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

- Operating performance in 2014 was resilient despite a challenging environment

- The operating performance of SNCF Voyages remains the main concern

- SNCF Mobilités' exposure to domestic railway competition is limited, and market opening will be slow

- Probability of support is `very high', and default dependence is `very high'

- Credit impact from the reform of the French railway system is limited

Corporate Profile

SNCF Mobilités (formerly SNCF) is the national railway operator in France and one of the world leaders in transport services and logistics, with operating activities in 120 countries and a workforce of 250,000 people. The group is a French public entity with autonomous management established under the special status of an `Etablissement Public à Caractère Industriel et Commercial' (EPIC). SNCF Mobilités is fully owned by the holding SNCF, which in turn is fully controlled by the French state. At the end of December 2014, the group generated consolidated revenues of EUR27.24 billion (EUR27.00 billion as of December 2013 pro forma excluding the SNCF Infra division).

Rating Rationale

In accordance with our government-related issuer rating methodology, SNCF Mobilités' Aa3 issuer rating reflects the combination of the following inputs:

- A baseline credit assessment (BCA), which is a measure of the group's standalone financial strength without the assumed benefit of government support, of baa1

- The Aa2 local-currency rating of the French government

- `Very high' support

- `Very high' dependence

SNCF Mobilités' baa1 BCA reflects its solid business profile, underpinned by 1) its large scale with a degree of international diversification, with approximately one fourth of revenues generated outside France; 2) its role as a quasi-monopolist in the domestic passenger railway segment; and 3) the large share of revenue derived from French government-related authorities (approximately 35%, including under public service remit mass transit activities for French regional and local authorities and excluding the management and maintenance of the French railway network, that, following the reform, will be done directly by the owner SNCF Réseau), which provides some stability and visibility of top-line.

However, the group's BCA is constrained by its credit metrics, and low profitability. The group's EBITA margin have been worsening in the last four years from 4.6% in 2011 (as adjusted by Moody's) to 3.2% in 2014, largely due to the deteriorating operating performance of SNCF Voyage division (high speed trains and long distance passenger services). The company is implementing a number of cost-savings and efficiency measures, such as improving the utilization rate of trains. We expect that these measures will allow for some recovery in profitability, although EBITA margins are unlikely to return to pre-crisis levels.

DETAILED RATING CONSIDERATIONS

OPERATING PERFORMANCE IN 2014 WAS RESILIENT DESPITE A CHALLENGING ENVIRONMENT

Like in 2013, SNCF Mobilités' operating performance in 2014 was under pressure, mainly because of the revenue loss caused by a 15-day rail strike in June and the poor performance in the SNCF Voyages divisions (high-speed passenger trains services in France and Europe, long-distance passengers travel with iDbus and distribution with VoyagesSNCF.com). Nonetheless, revenue increased by 1.5% (at constant exchange rates), and the decline in operating profit was very limited, dropping to EUR678 million from EUR721 million in 2013 (pro forma). Free cash flow generation improved slightly. SNCF Mobilités was able to maintain net indebtedness, on a reported basis, stable at EUR 7.4 billion; as a result, leverage metrics remained overall unchanged, with adjusted debt/EBITDA reaching 5.6x from 5.5x in 2013 pro-forma.

Revenue growth in 2014 was driven by the expansion of SNCF Mobilités' international business, represented by Keolis' and SNCF Logistics' activities abroad. Both Keolis (local transport services) and SNCF Logistics (freight transportation and logistics services) generate half of their revenues abroad, and posted respectively a 20.0% and 5.8% revenue increase in international markets in 2014. This helped the group withstand a number of factors that negatively affected operating performance, including (1) a 15-day strike in June 2014 that caused the loss of EUR220 million of revenue and EUR180 million of EBITDA; (2) the increase of value-added tax from 7% to 10% on domestic passenger fares, which further hurt the already weak demand, especially for TGV and intercity services (standard medium & long-distance trains); and (3) an additional increase of track access fees of 5%. On a more positive side, continued cost reduction and efficiency measures have supported profitability, with reported

EUR400 million savings (including the SNCF Infra business unit) achieved in 2013 and 2014. In particular, in the SNCF Logistics business unit, which has been negatively affected by the unfavourable macroeconomic environment in Europe, the implementation of cost-cutting programmes and the reorganisation of the business model have started bearing fruits. The business unit saw a EUR43 million operating profit in 2014, up from a EUR118 million loss in 2013, and an increase in the EBITDA margin to 4.8% in 2014 from 3.7% in 2013.

THE OPERATING PERFORMANCE OF SNCF VOYAGES REMAINS THE MAIN CONCERN

Amid a sluggish macroeconomic environment in Europe, SNCF Voyages' gross profit in 2014 continued to decline, dropping by 13% from the previous year (to EUR680 million from EUR782 million). This reflected mainly the combination of a continued increase in track access charges and declining sales. Especially for TGV France, ticket revenues were severely hit by the increase in value-added tax rate and the rail strike in June. SNCF Mobilités is implementing a number of cost-saving and efficiency measures, such as improving the utilisation rate of trains. We expect that these measures will allow for some recovery in profitability, although EBITDA margins are unlikely to return to pre-crisis levels.

SNCF MOBILITES' EXPOSURE TO DOMESTIC COMPETITION IS LIMITED, AND MARKET OPENING WILL BE SLOW

SNCF Mobilités is the main rail company in France and operates in a particularly favourable operating environment, mainly because the group has a de-facto monopoly in both domestic long-distance and regional transportation passenger rail services, in one of the most important and developed passenger rail markets in the world.

The market opening in France will likely be very slow and driven by the changes in the European regulation. In this respect, the European Parliament drastically changed the original proposal of the European Commission for a new legislation aimed at opening domestic rail passenger services to competition. Although the new legislation is still under discussion, the liberalisation of national railway markets will likely take significantly longer than previously expected, with tender bids for public service contracts to become mandatory only from 2022 and only in some circumstances.

PROBABILITY OF SUPPORT IS `VERY HIGH', AND DEFAULT DEPENDENCE IS `VERY HIGH'

Our assessment of a very high probability of extraordinary financial support from the French government reflects (1) SNCF Mobilités' strategic role as the current dominant provider of public railway services in France that are perceived as central to the core missions of the state; (2) SNCF Mobilités' legal status of EPIC and its 100% ownership by the French State; and (3) strong financial support provided by the government in the past when needed, as evidenced by the 2009 transfer of unfunded pension commitments to a third independent entity, which relieved the group of a significant financial burden.

SNCF Mobilités' `very high' default dependence on the French government reflects (1) the large share of SNCF Mobilités' business derived from France; (2) the high level of group revenues that is derived from French government-related entities (approximately 35%, including under public service remit mass transit activities for French regional and local authorities, and excluding the management and maintenance of the French railway network that, following the reform, will be done directly by the owner SNCF Réseau); and (3) the importance of the group's rail passenger/freight transportation network to the French economy.

CREDIT IMPACT FROM THE REFORM OF THE FRENCH RAILWAY SYSTEM IS LIMITED

The reform of the railway system took effect in January 2015 and entails the establishment of a new group consisting of three entities, all benefitting from an EPIC legal status: (1) an infrastructure manager, SNCF Réseau, which includes the previous Réseau Ferré de France (RFF, the owner of the French railway network), DCF (Direction de la Circulation Ferroviaire) and SNCF Infra (the former SNCF's division dedicated to the management of the infrastructure); (2) an operator, SNCF Mobilités, which takes care of all freight and passenger railways operations previously carried out by SNCF; and (3) a new holding company called SNCF, which strategically coordinates the group activities.

Under the reform, the scope of SNCF Mobilités' activities is narrowing, as part of its activities will be transferred to the newly created holding company and SNCF Réseau. These activities has been already reclassified in SNCF Mobilités accounts as assets held for sale, with a 10% reduction in EBITDA in 2014. As of FY 2014, the assets to be transferred amount to EUR4.09 billion versus EUR3.10 billion in liabilities. As a result, SNCF Mobilités' leverage (adjusted debt/EBITDA) peaked to 5.6x in 2014, a level that remains compatible with its current BCA of baa1.

Liquidity

We consider SNCF Mobilités' liquidity profile to be solid. As of the end of December 2014, SNCF Mobilités had available cash of approximately EUR5.4 billion, and we expect that it will generate operational cash flow around EUR2.5 billion within the next 12 months. In addition to its self-generated liquidity, SNCF Mobilités has access to committed credit lines amounting to EUR780 million at the parent company level at the end of December 2014, of which EUR330 million will remain in place over the next twelve months and until 2018.

SNCF Mobilités' main cash requirements for the next 12 months will be (1) the group's intensive gross investment programme, which we expect will amount to approximately EUR2 billion; and (2) approximately EUR2 billion in debt maturities.

Rating Outlook

The outlook on SNCF Mobilités' rating is stable, reflecting the stable outlook on the sovereign rating.

What Could Change the Rating - Up

We would consider upgrading SNCF Mobilités' rating only if there were an increase in the level of state support available to the group, although we currently do not expect this to occur. We would consider raising SNCF Mobilités' BCA if (1) the group's EBITA margin were to increase to above 5%, (2) its debt/EBITDA ratio were to decrease comfortably below 6x and (3) its RCF/net debt ratio were to approach the mid-teens in percentage terms.

What Could Change the Rating - Down

Government support for SNCF Mobilités is currently at a very high level, and we expect this to remain the case as long as the group's current ownership and legal structure do not change. Any reduction in the expected level of available support would most likely have a negative impact on the rating. While the rating will not necessarily change if there is a change in the level of dependence, the BCA could come under pressure if, inter alia, (1) SNCF Mobilités' EBITA margin decreases below 2.5%, (2) its debt/EBITDA ratio rises above 7x and (3) its RCF/net debt ratio falls below 10%. Any significant deterioration in SNCF Mobilités' BCA and/or liquidity could affect the group's final rating. In addition, a downgrade of the sovereign rating could negatively affect SNCF Mobilités' rating.

Rating Factors

SNCF Mobilités

Passenger Railway Industry Grid [1][2]	**Current FY 12/31/2014**			[3]**Moody's 12-18 Month Forward ViewAs of 9/21/2015**	
Factor 1 : SIZE (15%)	**Measure**	**Score**		**Measure**	**Score**
a) Revenue ($ Billion)	$36.2	Aa		$32 - $35	Aa
b) Number of Passenger Transported (PKM billion)	Aa	Aa		Aa	Aa
Factor 2 : MARKET POSITION (40%)					
a) Stability of Operating Environment	Baa	Baa		Baa	Baa
b) Market Characteristics	Aaa	Aaa		Aaa	Aaa
c) Competitive Environment	Aaa	Aaa		Aaa	Aaa
Factor 3 : COST POSITION AND PROFITABILITY (15%)					
a) EBITA Margin	3.2%	B		3.2% - 3.4%	B
b) EBITA / Avg. Assets	2.0%	B		2.1% - 2.4%	B
Factor 4 : CAPITAL STRUCTURE (15%)					
a) Debt / Book Capitalisation	65.8%	A		68% - 72%	Baa
b) Debt / EBITDA	5.6x	Ba		5.6x - 6.2x	Ba
Factor 5 : CASH FLOW AND INTEREST COVERAGE (15%)					
a) FCF / Debt	0.5%	Baa		-3.5% - 0%	Ba
b) RCF / Net Debt	19.8%	Baa		16% - 19%	Baa

c) (FFO + Interest) / Interest	8.0x	Aa	8x - 8.5x	Aa
Rating:				
a) Indicated Rating from Grid		A3		A3
b) Actual Rating Assigned				Aa3

Government-Related Issuer	Factor
a) Baseline Credit Assessment	baa1
b) Government Local Currency Rating	Aa2/Stable
c) Default Dependence	Very High
d) Support	Very HIgh
e) Final Rating Outcome	Aa3/Stable

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 12/31/2014; Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

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