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Research Update:

French Rail Operator SNCF Mobilites Outlook Revised To Stable After Same Action On France; 'AA-/A-1+' Ratings Affirmed

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Overview

- On Oct. 21, 2016, S&P Global Ratings revised its outlook on France to stable from negative and affirmed its 'AA/A-1+' sovereign credit ratings.
- We are therefore revising our outlook on French rail operator SNCF Mobilites to stable from negative and affirming our 'AA-/A-1+' ratings.
- The stable outlook reflects the outlook on France.

Rating Action

On Oct. 25, 2016, S&P Global Ratings revised its outlook on French rail operator SNCF Mobilites to stable from negative. The 'AA-' long-term and 'A-1+' short-term issuer credit ratings were affirmed.

Rationale

The outlook revision follows our similar action on France on Oct. 21, 2016 (see "Outlook On France Revised To Stable On Steadying Growth And Fiscal Outcomes; 'AA/A-1+' Ratings Affirmed," published on RatingsDirect).

We consider SNCF Mobilites to be a government-related entity (GRE). In our view, there is an extremely high likelihood that SNCF Mobilites would receive timely and sufficient extraordinary support from the French government in the event of financial distress. This reflects our view that SNCF Mobilites has:

- A very important role for France as the country's incumbent provider of passenger rail services and main railway freight operator; and
- An integral link with the French government, which closely supervises and controls the company. We also understand that SNCF Mobilites' status as a state public agency (Etablissement Public à Caractère Industriel et Commercial; EPIC) makes the French government ultimately responsible for its obligations, including financial debt. SNCF Mobilites cannot go bankrupt and if it were dissolved, all assets and liabilities would be transferred to the French state or a state-designated body. Moreover, if needed, we understand that the state could intervene swiftly, notably through its debt amortization fund (Caisse de la Dette Publique; CDP) that can buy the company's debt, thereby providing continued funding in the event of difficult market access.

We therefore think that SNCF Mobilites executes strategic government policies, and do not see the likelihood of government support as subject to transition risk.

Furthermore, we consider that the French government's limited level of contingent liabilities does not constrain its capacity and willingness to support SNCF Mobilites in a timely manner if the company went into financial distress. More generally, we don't consider the government's general propensity to support the GRE sector to be doubtful.

We continue to assess SNCF Mobilites' stand-alone credit profile (SACP) at 'bbb-' based on:

- Our anchor of 'bbb', based on our satisfactory business risk and intermediate financial risk profile assessments for the company.
- Our negative comparable ratings analysis modifier, incorporating the profitability pressures affecting the company's domestic rail operations, which we expect will persist in the near term.

Liquidity

The short-term rating on SNCF Mobilites is 'A-1+'. As at March 31, 2016, we assess SNCF Mobilites' liquidity as adequate, with sources exceeding uses by around 1.35x over the next 12 months from end-March.

Outlook

The stable outlook on SNCF Mobilites reflects the stable outlook on France. We believe that SNCF Mobilites will retain its very important role for and integral link with France.

Downside scenario

Although unlikely at this stage, we might consider a negative rating action on SNCF Mobilites if we believed that government support for the company could decline, for example, if we saw:

- Adverse changes in SNCF Mobilites' corporate structure or in the national or European regulatory framework, or the company's decreasing public service role for the government;
- Competition in the French rail market developing more rapidly than we currently anticipate, which could weigh on SNCF Mobilites' earnings or profitability; or
- Increasing exposure to competitive markets or markets outside France, for instance, as a result of acquisitions.

We could also lower our ratings on the company if we revise downward our assessment of SNCF Mobilites' SACP by two or more notches. We anticipate that competition in passenger rail transport in France will develop gradually and that it will not endanger SNCF Mobilites' below-average, but improving, profitability. However, the SACP and, in turn, the ratings could come under pressure if SNCF Mobilites experiences weaker profitability and cash flow

generation than we project, especially if the company's weighted-average adjusted funds from operations-to-debt ratio falls below 9%.

Upside scenario

We could raise the rating on SNCF Mobilites if we were to raise the rating on France. As per our rating approach for GREs, if neither the sovereign rating nor our assessment of the likelihood of extraordinary support changes, raising our long-term corporate credit rating on SNCF Mobilites would depend on an upward revision of the SACP to 'a+' (five notches from the present SACP), which we see as highly unlikely.

Related Criteria And Research

Related Criteria

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers - December 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Transportation Infrastructure Industry - November 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments - November 19, 2013
- General Criteria: Group Rating Methodology - November 19, 2013
- Criteria - Corporates - General: Corporate Methodology - November 19, 2013
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue - April 15, 2008
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers - November 13, 2012
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers - May 07, 2013
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating - October 01, 2010

Related Research

- Outlook On France Revised To Stable On Steadying Growth And Fiscal Outcomes; 'AA/A-1+' Ratings Affirmed - October 21, 2016

Ratings List

Outlook Action; Ratings Affirmed

	To	From
SNCF Mobilites Corporate Credit Rating	AA-/Stable/A-1+	AA-/Negative/A-1+

Ratings Affirmed

SNCF Mobilites

Senior Unsecured

AA-

Commercial Paper

A-1+

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