

SNCF Mobilites (/gws/en/esp/issr/80360559)**Fitch Downgrades SNCF Mobilites to 'A+'; off Rating Watch Negative**

Fitch Ratings-Paris-13 July 2018: Fitch Ratings has downgraded SNCF Mobilites' Long- and Short-Term Issuer Default Ratings (IDR) to 'A+' and 'F1' respectively, from 'AA' and 'F1+', and removed the ratings from Rating Watch Negative (RWN). The Outlook is Stable. A full list of rating actions is at the end of this commentary.

The two-notch downgrade reflects the transition of SNCF Mobilites into a limited liability company - fully owned by the state - as the domestic passengers rail transport market opens up to competition. SNCF Mobilites is rated under Fitch's 'Government-Related Entities Rating Criteria' (GRE). The French railway reform's main impact is on the 'Financial Implication of Default' attribute as the loss of the EPIC status reduces, in Fitch's view, the contagion risk of a default by SNCF Mobilites on its financial obligations for the state and other EPIC status entities. Although Fitch still believes SNCF Mobilites would benefit from significant support from the state in case of need, we view the loss of the EPIC status, in the context of market liberalisation, as evidence of loosening state linkage. This in turn is incompatible with the equalisation of ratings.

Fitch also believes that opening up the rail market to competition will allow SNCF Mobilites to be substituted by other operators on certaines domestic lines through tenders, reducing the incentive for the state to prevent a default by SNCF Mobilites on its financial obligations.

The two-notch difference with the sovereign is similar to the notching-down applied to La Poste (A+/Stable/F1) and Deutsche Bahn (AA/Stable/F1+), but remains wider than that applied to SNCF Reseau (AA/Stable/F1+) which is the infrastructure manager and will not be exposed to competition.

KEY RATING DRIVERS

The assessment of the following four rating factors under Fitch's GRE Rating Criteria translates into an overall support score of 30, out of a maximum possible score of 60, and the application of a 'top-down minus two' approach:

Status, Ownership and Control (Very Strong)

The law promulgated by the President on 28 June 2018 establishes that SNCF Mobilites, along with SNCF Reseau (AA/Stable/F1+) and SNCF, will lose its EPIC status and become a limited liability company on 1 January 2020. The law also clearly states in its first article that the state will retain 100% ownership of SNCF, which, in turn, will own 100% of SNCF Mobilites' and Reseau's capital. The capital of the three companies is non-transferable, which Fitch views as a credit positive.

It is yet to be defined how the governance of the new group will be organised, but Fitch is confident the state, as the sole shareholder, will remain closely involved in the management of the group's activities, notably through State Participation Agency.

Support Track Record and Expectations (Strong)

Fitch believes that SNCF Mobilites will continue to benefit from ongoing support from the state and the public sector in general, although the extent of extraordinary support for competitive activities may be capped by European regulation regarding state aid.

As France's main passenger rail transport operator, SNCF Mobilites receives tangible ongoing support

from the public sector. Public service orders contracted with the state, the French regions and SNCF Reseau, amounted to EUR5.6 billion in 2017 (18% of SNCF Mobilites' consolidated turnover). SNCF Mobilites is also compensated by the regions to operate loss-making lines. Furthermore, it receives operating grants and investment support in the form of third-party financing from regional transport authorities, mostly for rolling stock (EUR1.4 billion of public transfers received in 2017 for this purpose).

SNCF Mobilites also benefits from financial receivables from the state, SNCF and SNCF Reseau (EUR2.6 billion at end-2017), which partly repays its financial debt during the same year.

Socio-Political Implications of Default (Moderate)

As a railway operator with moderate and stable debt, Fitch does not believe a default on financial obligations would have a large and immediate impact on SNCF Mobilites' operations, such as activity standstill, as its day-to-day activity is not dependent on access to debt capital markets.

Fitch believes the opening up of the domestic rail passenger market to competition from 2020 for regional trains and from 2021 for long-distance trains will reduce, in the medium term, the state's incentive to prevent a default as substituting the incumbent will be easier, or at least legally feasible.

Fitch, however, notes that competition will only materialise gradually as some multi-year contracts with regions for regional trains run until 2025 and also because barriers to entry on long-distance trains may remain high, as shown by the example of Deutsche Bahn, which remains to this day the sole provider on domestic long-distance routes.

Financial Implications of Default (Strong)

SNCF Mobilites is a large issuer on capital markets through its EUR12 billion EMTN programme, its EUR2 billion ECP programme and its EUR3 billion NeuCP programme. A default on financial obligations would therefore have a direct impact on its cost of financing as market debt constitutes most of SNCF Mobilites' debt.

Fitch believes that a default by SNCF Mobilites on its financial obligations could have contagion effect on the cost of financing for other public companies, first among them being SNCF Reseau, which shares the same shareholder and economic sector and belonging to the same public group SNCF, even though the two companies have completely distinct and independent debt programmes. Fitch believes the state will remain committed to fully supporting SNCF Reseau, which will retain its monopoly over the French railway infrastructure network. Therefore Fitch believes that this contagion risk reinforces the incentive for the state to prevent SNCF Mobilites from defaulting on its financial obligations.

Financial Profile

In 2017, SNCF Mobilites recorded stable consolidated revenue of EUR31.8 billion (up 4.7% at constant scope and exchange rates), driven by higher domestic and international passenger activity and a rebound from 2016, which was affected by bad weather and terrorist attacks. EBITDA also improved to EUR2.7 billion in 2017 from EUR2.3 billion in 2016, as revenue growth offset higher operating expenditure. SNCF Mobilites recorded a net profit of EUR1.2 billion in 2017, compared with EUR0.5 billion in 2016. Over the medium term SNCF Mobilites' intrinsic performance should benefit from the railway reform in line with its objective, as announced by the Prime Minister, to reduce by two-thirds its competitiveness gap with other operators.

SNCF Mobilites has sufficient available cash resources to meet debt service obligations and negative net free cash flow (FCF) over the medium term. At end-2017, the liquidity buffer - including EUR6.4 billion of cash and EUR1.5 billion of receivables from the Caisse de la Dette Publique, EUR0.7 billion from SNCF Reseau and EUR0.4 billion from SNCF Group - covered 2018 and 2019 debt service by

more than 1.5x.

RATING SENSITIVITIES

A rating action on France's sovereign ratings would be reflected in SNCF Mobilites' ratings.

A downgrade could result from a weakening of the state's support through significantly lower assessment by Fitch of strength of linkage or incentive to support , which we view as unlikely in the medium term.

SNCF Mobilites

----Long Term Issuer Default Rating; Downgrade; A+; RO:Sta

----Short Term Issuer Default Rating; Downgrade; F1; RW: Off

----senior unsecured; Long Term Rating; Downgrade; A+; RW: Off

----senior unsecured; Short Term Rating; Downgrade; F1; RW: Off

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Applicable Criteria

International Local and Regional Governments Rating Criteria - Outside the United States (pub. 18 Apr 2016) (<https://www.fitchratings.com/site/re/878660>)

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