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## Research Update:

# French Rail Operator SNCF Outlook To Negative After Similar Action On France; 'AA-/A-1+' Ratings Affirmed

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## Research Update:

# French Rail Operator SNCF Outlook To Negative After Similar Action On France; 'AA-/A-1+' Ratings Affirmed

## Overview

- On Oct. 10, 2014, Standard & Poor's revised its outlook on France to negative from stable and affirmed its unsolicited 'AA/A-1+' sovereign credit ratings.
- In accordance with our criteria for rating government-related entities, we are therefore revising our outlook on rail operator Société Nationale des Chemins de Fer Français (SNCF) to negative from stable and affirming our 'AA-/A-1+' ratings.
- The negative outlook reflects that on the sovereign and indicates that we could lower our long- and short-term ratings on SNCF if we downgrade France.

## Rating Action

On Oct. 14, 2014, Standard & Poor's Ratings Services revised its outlook on French rail operator Société Nationale des Chemins de Fer Français (SNCF) to negative from stable. The 'AA-' long-term and 'A-1+' short-term corporate credit ratings were affirmed.

## Rationale

The rating actions follow the revision of our outlook on France (unsolicited rating AA/Negative/A-1+) on Oct. 10, 2014 (see "France Outlook Revised To Negative; 'AA/A-1+' Ratings Affirmed," published on RatingsDirect).

In accordance with our criteria for rating government-related entities, including SNCF, we believe that there is an extremely high likelihood that SNCF would receive timely and sufficient extraordinary support from the French government in the event of financial distress.

Our opinion of an extremely high likelihood of government support reflects our view that SNCF:

- Plays a very important role for the French government; and
- Has an integral link with the French government.

The ratings on SNCF also reflect our assessment of its 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 SNCF's domestic rail operations, which we expect will persist in the near term.

## Outlook

The negative outlook reflects that on the sovereign and indicates that we could lower our long- and short-term ratings on SNCF if we downgrade France.

We might also consider a negative rating action on SNCF if we reevaluate our view of government support. We could do this if we saw:

- Adverse changes in SNCF's corporate structure or in the national or European regulatory framework, or a 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's earnings or profitability; or
- Increasing exposure to competitive markets or markets outside France, for example, as a result of acquisitions.

A downward revision of our assessment of our SACP on SNCF by two or more notches might also lead us to lower our ratings on the company. We anticipate that competition in passenger rail transport in France will develop gradually and that it will not endanger SNCF's below-average, but improving, profitability. The ratings could come under pressure, however, if SNCF experiences weaker profitability and cash flow generation than we anticipate, especially if the company's weighted-average adjusted funds from operations-to-debt ratio falls below 9%.

## Related Criteria And Research

### Related Criteria

- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Methodology And Assumptions: Liquidity Descriptors for Global Corporate Issuers, Jan. 2, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Key Credit Factors For The Transportation Infrastructure Industry, Nov. 19, 2013
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

## **Related Research**

- Outlook Revised To Negative On Several French Entities Following Similar Action On France, Oct. 14, 2014
- France Outlook Revised To Negative; 'AA/A-1+' Ratings Affirmed, Oct. 10, 2014
- Societe Nationale des Chemins de Fer Francais, May 15, 2014

## **Ratings List**

Ratings Affirmed; Outlook Action

	To	From
Societe Nationale des Chemins de Fer Francais		
Corporate Credit Rating	AA-/Negative/A-1+	AA-/Stable/A-1+
Senior Unsecured	AA-	
Commercial Paper	A-1+	

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