

CREDIT OPINION

31 July 2018

Update

 Rate this Research

RATINGS

SNCF Mobilites

Domicile	Paris, France
Long Term Rating	Aa3
Type	LT Issuer Rating
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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SNCF Mobilites

Update following the railway reform

Summary

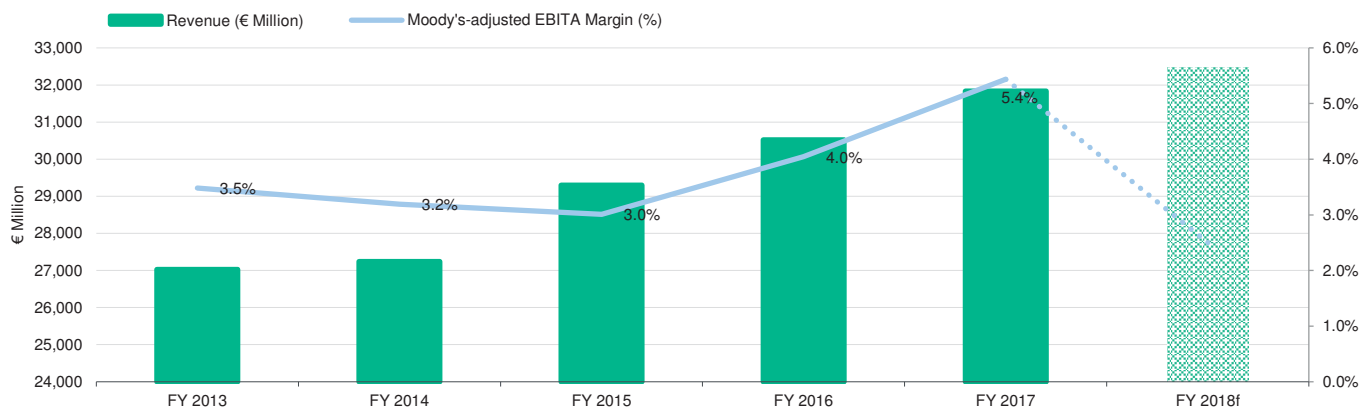
In accordance with our Government-Related Issuers rating methodology, [SNCF Mobilites'](#) Aa3 issuer rating incorporates a four-notch uplift from the baa1 Baseline Credit Assessment (BCA), reflecting the strong relationship between the company and the [Government of France](#) (Aa2 positive). SNCF Mobilites will change its legal status in 2020 from "établissement public industriel et commercial" (EPIC) to "société nationale à capitaux publics". However, we expect that the government, which will remain the sole owner of SNCF Mobilites, will continue to support the company in case of need.

SNCF Mobilites' baa1 BCA is currently weakly positioned as the company will incur a substantial loss of approximately €600 million caused by repeated strikes this year which we estimate will decrease the company's profitability and increase its leverage to 6.5x in 2018, as measured by Moody's adjusted (gross) Debt to EBITDA, a level that is weak for the current BCA. As the reform has now been approved, we expect strikes to be confined to 2018 and the company's leverage to revert to 5.5x or below from 2019 onwards. SNCF Mobilites' BCA remains constrained by the company's weak profitability, owing mainly to the poor operating performance of some Train à Grande Vitesse (TGV or high-speed trains) lines, the intercity services and the freight division and by the expected gradual erosion of market share starting from 2020 as the French market is gradually liberalized.

The BCA reflects the company's solid business profile, underpinned by (1) its large scale and good degree of international diversification, with around one third of its revenue generated outside France; (2) the large share of its revenue derived from French government related authorities (around 26%, including under public service remit mass-transit activities for French regional and local authorities, and excluding the Keolis business), which provides some stability to and visibility into the top line; and (3) the company's role as the incumbent quasi-monopoly in the domestic passenger railway segment, although this will gradually reduce over time.

Exhibit 1

SNCF Mobilités' profit margins will largely weaken in 2018 due to repeated strikes Revenue and Moody's-adjusted EBITA margin



Moody's Forecasts (f) are Moody's opinion and do not represent the views of the issuer. Periods are Financial Year-End unless otherwise indicated.

Source: Moody's Financial Metrics™

Credit strengths

- » High probability of support from the French government
- » Large scale and good degree of diversification
- » Company's role as the incumbent quasi-monopoly in the domestic passenger railway segment, although this will gradually reduce over time
- » Strong liquidity

Credit challenges

- » Profitability is low by international standards and further depressed in 2018 by repeated strike actions
- » Increasing competition from alternative modes of transportation and future rail competition leads to continued pressure on margin and passenger volumes
- » High, self funded, capex requirements will gradually erode liquidity

Rating outlook

The stable outlook of SNCF Mobilités reflects our expectation that the company's rating will continue to benefit from a high level of support from the French Government and that the next steps of the reform of the French railways system will not result in an impairment of the business and financial profiles of the company.

Factors that could lead to an upgrade

- » An upgrade of the sovereign rating is unlikely to result in an upgrade of SNCF Mobilités as, following the railway reform, the company will lose its EPIC legal status in 2020 and its monopolistic position in France.
- » We could raise SNCF Mobilités' BCA if:
 - » Moody's-adjusted EBITA margin increases to more than 5%
 - » Moody's-adjusted debt/EBITDA declines to 5.5x or below on a sustained basis

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- » Moody's-adjusted retained cash flow (RCF)/net debt remains in the mid-to-high teens in percentage terms

Factors that could lead to a downgrade

- » A downgrade of the sovereign rating
- » Any evidence of a further reduction in the perceived level of government support
- » A significant deterioration in the company's BCA
- » A significant deterioration in liquidity

The BCA could come under pressure if:

- » Moody's-adjusted EBITA margin decreases below 2.5%
- » Moody's-adjusted debt/EBITDA rises above 7.0x
- » Moody's-adjusted RCF/net debt falls below 10%

Key Indicators

Exhibit 2

SNCF Mobilités' Key Indicators

EUR Millions	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18(f)
Revenue	27,030	27,243	29,296	30,517	31,831	32,468
EBITA Margin %	3.5%	3.2%	3.0%	4.0%	5.4%	2.5%
EBITA / Average Assets	2.2%	2.0%	2.1%	3.1%	4.2%	1.9%
Debt / Book Capitalization	67.2%	65.4%	66.8%	69.0%	69.7%	68.8%
Debt / EBITDA	5.5x	6.1x	5.6x	5.9x	5.4x	7.0x
FCF / Debt	-0.9%	0.5%	-0.8%	-5.9%	-1.0%	-4.5%
RCF / Net Debt	21.4%	19.9%	17.7%	13.9%	19.8%	14.4%
(FFO + Interest Expense) / Interest Expense	11.3x	8.0x	7.9x	6.2x	8.0x	6.7x

All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's Forecasts (f) or Projections (proj.) are Moody's opinion and do not represent the views of the issuer. Periods are Financial Year-End unless otherwise indicated. LTM = Last 12 Months.

Source: Moody's Financial Metrics™

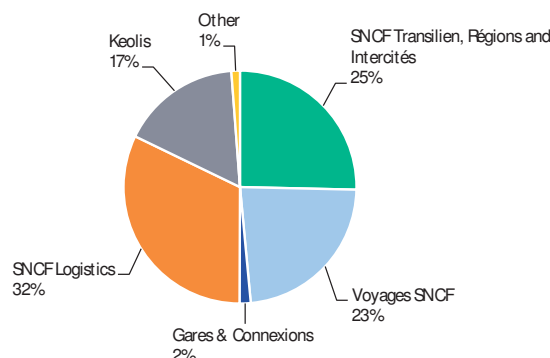
Profile

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 around 200,000 people. SNCF Mobilités is a French public entity with autonomous management, established under the special status of an 'établissement public à caractère industriel et commercial'. SNCF Mobilités is under the control of the holding company SNCF, which is also the parent company of the French railway network [SNCF Réseau](#) (Aa2 positive) and is fully owned by the French state.

SNCF Mobilités has four business units: Mobility for commuter transport (Transilien, TER regional rail and Keolis), Long-distance rail (High speed rail and Bus transport services), SNCF Gares & Connexions (management and development of stations) and SNCF Logistics (freight transport and logistics worldwide). As part of the railway reform, SNCF Gares & Connexions, which represents approximately 2% of the company's revenues, will move to [SNCF Réseau](#).

In 2017, SNCF Mobilités reported consolidated revenue of €31.8 billion (€30.5 billion in 2016) and EBITDA (on a Moody's-adjusted basis) of €3.7 billion (€3.0 billion in 2016).

Exhibit 3
SNCF Mobilités' Revenue Breakdown by Business Sub-segment
 2017



Source: SNCF Mobilités' 2017 annual report

Detailed credit considerations

Reform of the French railways sector has, on balance, no immediate impact on SNCF Mobilités' credit quality

On 14 June 2018 the French government approved a reform of the national railways sector, with direct implications on both largest companies of the wide SNCF Group, namely the transport services operator SNCF Mobilités and the railways infrastructure manager [SNCF Réseau](#) (Aa2 positive). The reform focuses on: (i) the opening of the domestic passenger railway market to competition, in compliance with the EU directives on market liberalization contained in the Fourth Railway Package (FRP); (ii) change in the legal status from "Etablissement public industriel et commercial" (EPIC) to Societe Nationale a Capitaux Public, while however maintaining 100% state ownership; (iii) end of the so-called Cheminot Status and certain benefits of some of the company's categories of employees; (iv) the reduction of future track access fees increases and (v) sustainability of the overall SNCF Group's financial model, via a reduction in SNCF Réseau's financial indebtedness. For further details regarding the specific implications on SNCF Réseau please refer to the credit opinion published 8 June 2018, [Update following key developments in the French rail reform, supporting our recent change in outlook to positive](#).

We reduced our assumption for SNCF Mobilités of extraordinary support from the State, from very high to high reflecting the company's change in legal status to Societe Nationale a Capitaux Public in 2020. However, we expect that the government will continue to support SNCF Mobilités which will remain 100% owned by the state through SNCF Holding SA and its shares will be non-transferable or -sellable.

The gradual market liberalization weighs on the company's credit quality as it will lead to a gradual erosion of its quasi-monopoly in the French market. On the other hand, the end of the Cheminot status and the reduction of future track access fees will benefit the company's profitability in the long term. Therefore, on balance, the reform doesn't have any immediate impact on SNCF Mobilités' credit quality.

However, certain aspects of the reform, such as the future corporate structure and governance of SNCF Mobilités and of the entire SNCF group (including also SNCF Réseau and SNCF Holding), are not yet known. Such details will be subsequently set out in legal decrees in the coming months and we will evaluate then any potential impact on the company's rating and outlook.

Weak margins remain a credit concern, further weakened by repeated strikes in 2018

After a gradual year-on-year improvement to 5.4% in 2017 from 3% in 2015, we expect SNCF Mobilités' profitability (measured as Moody's-adjusted EBITA margin) to halve in 2018 as the company will incur a substantial loss of approximately €600 million caused by repeated strikes this year.

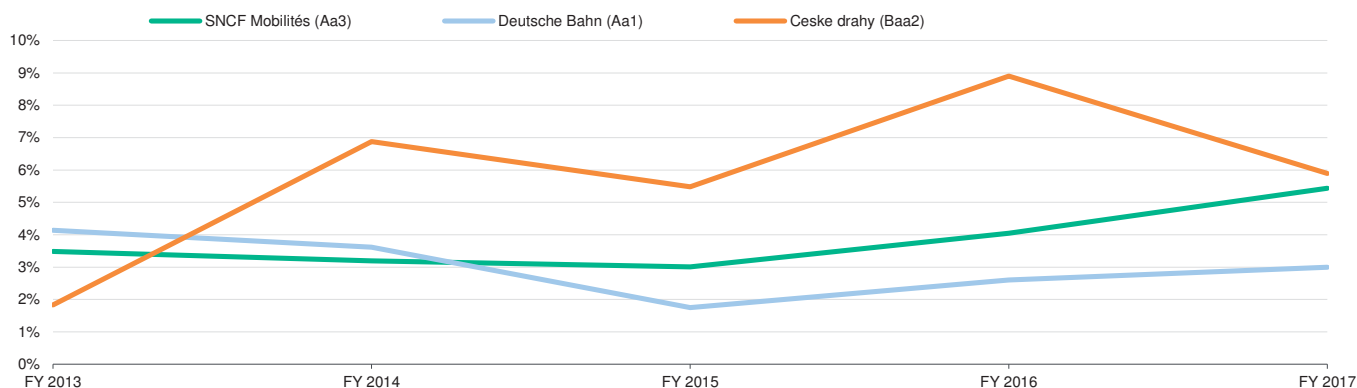
Besides the repeated strikes, the gradual improvement in profitability in recent years has been driven by a recovery in travellers' confidence and traffic volume, as well as by SNCF Mobilités' more aggressive sales policy, which has enabled the company to regain some market share in the TGV business by offering passengers special fares for high-speed trains. Alongside improved market conditions, the company

is also benefitting from its ongoing cost-savings programme and the renegotiated service contract at better terms with the French state for certain long-distance trains (the 'Trains d'Équilibre du Territoire' service agreement for 2016-20).

SNCF Mobilités' profitability levels are low by international standards. In our view, even with lower track access fee increases, Moody's-adjusted EBITA margin is unlikely to grow close to the high single digits in percentage terms because the competitive landscape will remain challenging owing to increasing and aggressive competition from long-distance buses, car sharing and low-cost flights, which will continue to strain prices and erode volume while rail market liberalisation could add further pressure in the longer-term.

Exhibit 4

SNCF Mobilités' EBITA margin is weaker than that of its peers Moody's-adjusted EBITA margin



Source: Moody's Financial Metrics™

Leverage metrics will leave the BCA weakly positioned in 2018

We expect the approximately €600 million strikes-related losses in 2018 to increase the company's leverage to 6.5x in 2018, as measured by Moody's adjusted (gross) Debt to EBITDA, a level that is weak for the current BCA.

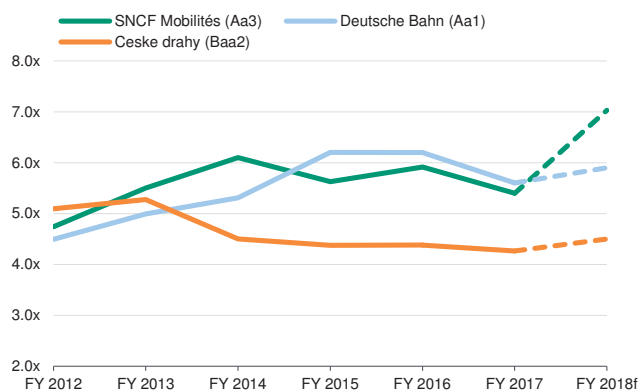
SNCF Mobilités' leverage decreased to 5.4x in 2017, from 5.9x in 2016, on the back of improved operating performance. As the reform has now been approved, we expect strikes to be confined to 2018 and the company's leverage to revert to 5.5x or below from 2019 onwards. Similarly, we expect Moody's-adjusted RCF/net debt to remain at around mid to high teens in percentage terms from 2019, after reducing to around 14% in 2018.

SNCF Mobilités' free cash flow generation remained negative in 2017 (around €200 million deficit, as adjusted by Moody's) but it was stronger than in 2016 (€1 billion deficit), due to the significant improvement in operating cash flows that more than offset higher gross capital spending in the year, at around €2.2 billion compared to €2.0 billion in 2016. We expect SNCF Mobilités' free cash flow to deteriorate in 2018 before further improving from 2019.

Our debt calculations exclude around €3.2 billion of debt that is backed by financial credits towards SNCF, SNCF Réseau and the French state, and include €3.1 billion of our standard adjustments for operating leases and pension liabilities.

Exhibit 5

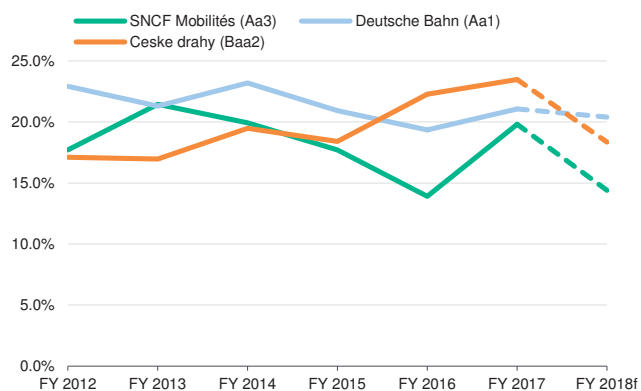
SNCF Mobilités' Financial Leverage Will Peak in 2018 Moody's-adjusted Debt/EBITDA



Source: Moody's Financial Metrics™

Exhibit 6

RCF/net Debt Improved Modestly and Remains Lower than that of its Peers Moody's-adjusted RCF/net Debt



Source: Moody's Financial Metrics™

SNCF Mobilités' quasi-monopoly in the domestic passenger rail services will be challenged by future plans for market liberalisation, but opening up the market to competition will be slow

SNCF Mobilités is the main railway company in its domestic market 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 developed passenger rail markets in the world.

However, the liberalization of the domestic rail services to competition will challenge SNCF Mobilités' current quasi-monopolistic position, which is credit negative. Based on the railway reform, the market will open to competition in 2020 for the regulated regional services (TER) and from 2021 for the TGV business and intercity services. However, we believe that market opening will entail a lengthy process and we believe it is unlikely that potential new entrants will start operating in the French market and pose any threat to SNCF Mobilités' credit profile before 2022.

Current probability of support is high and default dependence is very high

In accordance with our Government-Related Issuers rating methodology, SNCF Mobilités' Aa3 issuer rating reflects a combination of the following inputs:

- » The BCA of baa1 (BCA is a measure of the group's standalone financial strength without the assumed benefit of government support)
- » The Aa2 local-currency rating of the French government
- » High probability of support
- » Very high default dependence

Our current assessment of a 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, which are central to the core missions of the state;
2. our expectation that, although the company will change its legal status from "établissement public industriel et commercial" (EPIC) to "société nationale à capitaux publics" in 2020, the government, which will remain the sole owner of SNCF Mobilités, will continue to support the company in case of need; and
3. the strong financial support provided by the government in the past when needed, as illustrated 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 revenue that is derived from French-government-related entities (at around 26%, including under public service remit mass-transit activities for French regional and local authorities, and excluding the Keolis business), and (3) the importance of the group's rail passenger and freight transportation network to the French economy.

Liquidity analysis

We consider SNCF Mobilités' liquidity profile excellent. As of the end of December 2017, the company's liquidity consisted of around €6.4 billion of cash - which reflected the debt capital market activity of the Group during 2017 - and available committed credit lines of €815 million at the parent company level, and €600 million at the subsidiary level. We expect this liquidity, together with an estimated operational cash flow of around €2 billion over the next 12 months, to abundantly cover the company's main cash requirements, including (1) the group's intensive investment programme, which we expect to be €2.0 billion-€2.3 billion in the next year; and (2) around €900 million of debt maturities through the end of 2018.

Methodology and Scorecard

We use the Global Passenger Railway Companies rating methodology (published in June 2017) to rate SNCF Mobilités. The company's BCA of baa1 is one notch lower than the rating methodology grid outcome, based on 2017 results and our 12-18 month forward view.

Exhibit 7

Rating Factors

Passenger Railway Industry Grid [1][2]			Current FY 12/31/2017		Moody's 12-18 Month Forward View As of 7/26/2018 [3]	
Factor	Measure	Score	Measure	Score	Measure	Score
Factor 1 : SIZE (15%)						
a) Revenue (\$ Billion)	\$36.0	Aa	\$36 - \$37	Aa	\$36 - \$37	Aa
b) Number of Passenger Transported (PKM billion)	Aa	Aa	Aa	Aa	Aa	Aa
Factor 2 : MARKET POSITION (40%)						
a) Stability of Operating Environment	Baa	Baa	Baa	Baa	Baa	Baa
b) Market Characteristics	Aaa	Aaa	Aaa	Aaa	Aaa	Aaa
c) Competitive Environment	Aa	Aa	Aa	Aa	Aa	Aa
Factor 3 : COST POSITION AND PROFITABILITY (15%)						
a) EBITA Margin	5.4%	Ba	2.5% - 5%	B	2.5% - 5%	B
b) EBITA / Avg. Assets	4.2%	Ba	1.9% - 4%	B	1.9% - 4%	B
Factor 4 : CAPITAL STRUCTURE (15%)						
a) Debt / Book Capitalisation	69.7%	A	68% - 69%	A	68% - 69%	A
b) Debt / EBITDA	5.4x	Ba	5.3x - 7x	B	5.3x - 7x	B
Factor 5 : CASH FLOW AND INTEREST COVERAGE (15%)						
a) FCF / Debt	-1.0%	Ba	-4.5% - 0.2%	Ba	-4.5% - 0.2%	Ba
b) RCF / Net Debt	19.8%	Baa	14% - 19%	Baa	14% - 19%	Baa
c) (FFO + Interest) / Interest	8.0x	Aa	6.7x - 8.4x	Aa	6.7x - 8.4x	Aa
Rating:						
a) Indicated Rating from Grid		A3		A3		A3
b) Actual Rating Assigned		Baa1		Baa1		Baa1
Government-Related Issuer						
Factor						
a) Baseline Credit Assessment		Baa1				
b) Government Local Currency Rating		Aa2 / Positive				
c) Default Dependence		Very high				
d) Support		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 12/31/2017; 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. Source: Moody's Financial Metrics™

Appendix

Exhibit 8

Peer Comparison Table

	SNCF Mobilités Aa3 Stable		Deutsche Bahn AG (P)Aa1 Stable		Česke drahy, a.s. Baa2 Stable	
	FYE Dec-16	FYE Dec-17	FYE Dec-16	FYE Dec-17	FYE Dec-16	FYE Dec-17
(in US millions)						
Revenue	\$33,766	\$35,965	\$45,535	\$48,985	\$1,362	\$1,460
EBITDA	\$3,374	\$4,125	\$5,614	\$6,318	\$394	\$397
EBITA Margin	4.0%	5.4%	2.6%	3.0%	7.7%	5.9%
EBITA / Avg. Assets	3.1%	4.2%	1.8%	2.1%	2.8%	2.2%
FFO + Int Exp / Int Exp	6.2x	8.0x	7.7x	7.9x	6.2x	6.6x
Total Debt/Capital	69.0%	69.7%	71.2%	68.6%	52.5%	49.3%
Debt / EBITDA	5.9x	5.4x	6.2x	5.6x	4.4x	4.3x
FCF / Debt	-5.9%	-1.0%	-0.6%	-6.9%	-1.6%	3.8%
RCF / Net Debt	13.9%	19.8%	19.3%	21.1%	22.3%	23.5%

All figures and ratios calculated using Moody's estimates and standard adjustments. FYE = Financial Year-End. LTM = Last 12 Months.

Source: Moody's Financial Metrics™

Exhibit 9

Moody's-adjusted debt breakdown

SNCF Mobilités

(in EUR Millions)	FYE Dec-12	FYE Dec-13	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17
As Reported Debt	20,184.0	17,835.0	18,783.0	18,989.0	19,473.0	20,576.0
Pensions	319.0	311.0	342.0	403.0	470.0	440.0
Operating Leases	2,819.0	2,291.7	2,318.3	1,923.0	2,580.8	2,679.9
Non-Standard Adjustments	-4,487.0	-2,567.0	-3,540.0	-4,697.0	-4,497.0	-3,989.0
Moody's-Adjusted Debt	18,835.0	17,870.7	17,903.3	16,618.0	18,026.8	19,706.9

All figures are calculated using Moody's estimates and standard adjustments

Source: Moody's Financial Metrics™

Exhibit 10

Moody's-adjusted EBITDA breakdown
SNCF Mobilités

(in EUR Millions)	FYE Dec-12	FYE Dec-13	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17
As Reported EBITDA	3,357.0	2,672.0	2,373.0	2,228.0	2,481.0	2,947.0
Pensions	-2.0	-2.0	-1.0	12.0	-2.0	-2.0
Operating Leases	802.0	654.0	665.0	641.0	617.0	745.0
Interest Expense – Discounting	-131.0	-70.0	-94.0	0.0	0.0	0.0
Non-Standard Adjustments	-54.0	-5.0	-7.0	73.0	-47.0	-39.0
Moody's-Adjusted EBITDA	3,972.0	3,249.0	2,936.0	2,954.0	3,049.0	3,651.0

All figures are calculated using Moody's estimates and standard adjustments

Source: Moody's Financial Metrics™.

Ratings

Exhibit 11

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

Source: Moody's Investors Service

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