

Rating Action: Moody's affirms SNCF's Aa3 ratings; outlook stable

20 Oct 2020

Paris, October 20, 2020 -- Moody's Investors Service ("Moody's") has today affirmed the Aa3 long-term issuer rating of SNCF S.A. (SNCF). Moody's also affirms SNCF's (P)Aa3 senior unsecured MTN rating, the Aa3 senior unsecured rating, the (P)P-1 other short-term program rating and the P-1 commercial paper rating. Concurrently Moody's affirmed the a3 standalone Baseline Credit Assessment (BCA). The outlook remains stable.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

"The affirmation of SNCF's ratings reflects our assessment that the reduction in revenues and EBITDA, stemming from reduced passenger numbers due to the coronavirus, has been to some extent offset by the support package of EUR4.7 billion from the French government, which will reduce net capex for SNCF in 2021 and 2022, in addition to an expected and eventual recovery in 2022 through 2024", says Francesco Bozzano, a Moody's Assistant Vice President - Analyst. "SNCF's BCA is nevertheless weakly positioned at a3 as there is execution risk around the company's ability to improve its leverage towards 7.0x and generate positive free cash flows in the next 24 months, levels commensurate with the a3 BCA and in the context of the company's strong business profile given its strongly leading market position in French rail" added Mr. Bozzano.

SNCF's Aa3 issuer rating combines: (1) its a3 BCA; and (2) Moody's assessment of a high likelihood that the company will receive extraordinary support from the French Government (Aa2 stable) in times of need. This assessment is based on the French government's willingness and very strong ability to provide support to SNCF, given the sovereign's ample financial reserves, as reflected in its Aa2 rating. Such an assessment results in a 3-notch uplift to the company's final rating.

The BCA considers Moody's expectation that coronavirus-related disruptions and its high capex requirement will continue to weigh on SNCF's already weak credit metrics for the rating category despite the EUR4.7 billion support from the French government. Moody's expects SNCF's revenues to decline by 17% and EBITDA by over 80% in 2020 compared to 2019 mainly as a result of a reduction in passenger levels. However, Moody's expects SNCF to recover by 2022 to a level of EBITDA at around 2019 levels thanks to the gradual return to normal passenger and cargo traffic levels and to SNCF's cost saving program.

SNCF's BCA remains supported by: the company's size; geographical diversification and leading global market position; the predictability of the legal framework for railway companies in France; the large share of its revenues, which is derived from French government-related authorities (around 30%, including under public service remit mass-transit activities for French regional and local authorities, excluding the Keolis business and SNCF Réseau); and the company's vertically integrated business model, which includes the company's monopolistic railway infrastructure activities and its quasi-monopoly position in the domestic passenger railway segment, even though this position will erode gradually over time as the market opens up to competition.

Moody's expects the French government will continue to provide timely support to SNCF if the viability of its French rail infrastructure and operation is at risk, owing to its strategic role of guaranteeing a public rail service across France as well as its strategic role as one of the key actors to reach carbon neutrality in France by 2050. The government has also established a greater track record of ongoing and extraordinary support for SNCF as evidenced by the EUR4.7 billion support package, including EUR4.1 billion capital injection and EUR0.6 billion support to the railway system, which it will provide to compensate for losses caused by the coronavirus and to finance future capital expenditure as well as the EUR35 billion debt relief from the state agreed in the 2018 French railway reform.

Despite the government's support measures, Moody's expects SNCF's funded debt to increase by at least EUR3 billion to fund the cash shortfall as a result of the coronavirus. While EBITDA will only recover gradually, the historically high debt, even after the EUR35 billion debt relief, will remain high as the company will need to finance its large capex program in the coming years. As a result Moody's expects the company's leverage to remain close to 7.0x in the next 24 months.

Moody's expects SNCF to maintain good liquidity over the next 12 months, supported by: (1) its cash position of EUR8.5 billion as of June 2020; (2) its EUR8 billion commercial paper programme, of which EUR2.5 bn was drawn in June 2020; (3) EUR3.5 billion of unused committed credit lines; (4) its recovering cash flow from operations, which Moody's expects to be EUR2.8 billion in 2021. Major cash needs include high capital spending, which Moody's estimates will be about EUR5.5 billion (including EUR1 billion IFRS 16 impact) in 2021, net of grants from the French government and around EUR4.6 billion in debt maturities until December 2021.

Moody's also expects SNCF to maintain its excellent access to the capital markets. In addition, the liquidity assessment incorporates our assumption that, in case of need, the company would receive timely financial support from the French government.

The rapid and widening spread of the coronavirus outbreak globally has created a severe and extensive credit shock across many sectors, regions and markets. The passenger railway sector in France has been significantly affected by the shock given its sensitivity to consumer demand and sentiment. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

RATING OUTLOOK

The stable outlook on SNCF's ratings is in line with the stable outlook on the French government's rating, and reflects Moody's expectation that the company's strategic importance to France and strong support from the government, if and when needed, will remain intact. The stable outlook also reflects Moody's expectation that the company's leverage will recover from the current coronavirus-induced disruptions and trend toward 7.0x by 2022 and continue to improve thereafter.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade in SNCF's rating could be considered in case of an upgrade of the French government's rating.

An upgrade of the BCA is unlikely given it is weakly positioned at a3. The BCA could be upgraded if SNCF's leverage, measured by Moody's-adjusted debt/EBITDA, decreases well below 6.0x on a sustained basis, SNCF's operating performance as evidenced by its Moody's-adjusted EBITA margin reaching high single digits on a sustained basis and the company generates positive free cash flow.

A downgrade of France's sovereign rating could result in a downgrade of SNCF's ratings. In addition, Moody's could downgrade the ratings if the likelihood of extraordinary support from the government decreases, or if SNCF's BCA is downgraded and this is not adequately compensated by evidence of stronger government support.

SNCF's BCA could be downgraded if its Moody's-adjusted debt/EBITDA fails to decrease towards 7.0x, SNCF EBITA margin decreases below 5% on a sustained basis, its retained cash flows to net debt fall sustainably below 10%, or its free cash flow fails to improve towards a positive balance. Negative rating action could also materialise if the company's business profile weakens, which could occur if there is a change in its integrated business model.

LIST OF AFFECTED RATINGS

..Issuer: SNCF S.A.

Affirmations:

....Long-term Issuer Rating, Affirmed Aa3

....Commercial Paper, Affirmed P-1

....Senior Unsecured MTN, Affirmed (P)Aa3

....Other Short Term, Affirmed (P)P-1

....Senior Unsecured Regular Bond/Debenture, Affirmed Aa3

Outlook Action:

...Outlook, Remains Stable

PRINCIPAL METHODOLOGY

The methodologies used in these ratings were Government-Related Issuers Methodology published in February 2020 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1186207, and Global Passenger Railway Companies published in June 2017 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1072090. Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of these methodologies.

COMPANY PROFILE

SNCF is a vertically integrated rail and logistics group that owns and operates the French national rail transportation network. SNCF is one of the largest rails and logistics companies in the world. In 2019, SNCF generated EUR35 billion of revenue and EUR5.7 billion of reported EBITDA.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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At least one ESG consideration was material to the credit rating action(s) announced and described above.

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