

SNCF Reseau

June 17, 2022

This report does not constitute a rating action.

Credit Highlights

Overview

Key strengths

Sole manager of the French rail network, which is not exposed to competition, and fulfils critical social and environmental government objectives.

Fully owned by the French government through Société Nationale SNCF SA, and ownership is nontransferable.

Key risks

Negative cash flow; inflationary pressure could further weigh on margins given the high fixed cost base.

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SNCF Reseau will remain a key element for the central government's policies. In S&P Global Ratings' view, the French government remains committed to providing the company with ongoing and extraordinary support, as shown by that received during the pandemic. Furthermore, we do not expect SNCF Reseau's status and ownership to change.

The company will benefit from the gradual traffic recovery through higher track access fees. We expect rail traffic to normalize and return to its pre-pandemic level in 2023 at the earliest. It will support SNCF Reseau's revenue that relies on track access charges (89% of total turnover in 2019).

Inflation could somewhat weigh on cash flow. We assume higher-than-anticipated building, energy, and staff costs amid high inflation could weigh on the company's margins in the next 12-18 months, although the impact should be limited given that personnel expense will remain contained. SNCF Reseau should also benefit from efficiency measures to mitigate the impact on cash flow.

Outlook

The stable outlook on SNCF Reseau mirrors that on France. Any rating action on France would result in a similar action on SNCF Reseau because we equalize our ratings on the company with those on the sovereign.

Downside scenario

We could lower our ratings on SNCF Reseau if we believe that the likelihood of support from the French government has weakened, as shown by changes to the state's monitoring and control of the company. We could also lower our ratings on SNCF Reseau if we downgraded France.

Upside scenario

We could raise the rating on the company if we raised our rating on France and, in our view, the financial and organizational relationship with the central government continues.

Rationale

We equalize our ratings on SNCF Reseau with those on France. This is because we regard the company as a government-related entity that would benefit from an almost certain likelihood of extraordinary government support if under stress, based on our assessment of SNCF Reseau's:

- Critical role for the government, given its strategic mission of managing and developing the national rail infrastructure on behalf of the French government, owner of the network. We think the company's mission of ensuring mobility and supporting national solidarity and sustainable development remains of crucial importance for the government; and
- Integral link with the French government, which fully owns the company through Société Nationale SNCF SA, and this ownership is nontransferable. The government continues to closely monitor and supervise SNCF Reseau, notably through multiyear performance contracts and by appointing the company's CEO and chairman, as well as most board members (directly and indirectly through Societe Nationale SNCF SA). In our view, the consolidation of SNCF Reseau's debt into France's public debt gives the government an incentive to maintain tight controls over the company's financial position.

We do not assess SNCF Reseau's stand-alone credit profile because we view the likelihood of extraordinary government support as almost certain, and we consider that the likelihood of government support is not subject to transition risk.

The company will continue receiving pandemic support in 2022 and 2023. Given the pandemic's impact on the rail transportation sector, the government decided in September 2020 to provide a €4.1 billion equity injection to SNCF SA which are reinjected as capex grants to SNCF Reseau from 2021–2023 (about 60% of the company's revenue). The company already received about €2.6 billion, with another €800 million tranche in June and a last one in 2023. Moreover, the final tranche of the €35 billion debt takeover mechanism was executed in January 2022. It will significantly improve SNCF Reseau's debt burden and interest costs.

We expect the company will gradually benefit from the traffic recovery, notably led by the lifting of social distancing measures and a strong economic rebound. In 2021, the company's EBITDA bounced back to its pre-pandemic level at €2.1 billion, thanks to higher revenue and limited expenditure growth. Nevertheless, SNCF Reseau expects inflationary pressures to weigh on its cost structure, especially in 2023, and will implement measures to mitigate the impact on its cash flow. In the meantime, and in line with France's recovery package, the company increased substantially its capital expenditure, which exceeded €6.4 billion compared with €5.5 billion in 2020.

We expect SNCF Reseau will remain committed to its target of positive free cash flow from 2024. Thanks notably to the last tranche of the debt relief mechanism and to the government support during the pandemic, we anticipate the company will improve its free cash flow and meet the golden rule target (net debt to operating margin below 6x). It signed a financial contract with the French state (Contrat de performance) and it remains committed to its objectives to decrease its leverage at a more sustainable level while improving operating expenditure efficiency.

Related Criteria

- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015

- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Société Nationale SNCF Outlook Revised To Stable From Negative On Expected Deleveraging; 'AA-' Affirmed, June 15, 2022
- Sovereign Risk Indicators, April 11, 2022. An interactive version is available on www.spglobal.com/sri
- France, Feb. 21, 2022

Ratings Detail (as of June 17, 2022)*

SNCF Reseau

Issuer Credit Rating	AA/Stable/A-1+
Commercial Paper	
<i>Local Currency</i>	A-1+
Senior Unsecured	AA
Senior Unsecured	AA/A-1+

Issuer Credit Ratings History

27-Jun-2019	AA/Stable/A-1+
27-Jun-2017	AA/Negative/A-1+
25-Oct-2016	AA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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