

**Rating Action: Moody's affirms SNCF Mobilites (to be renamed SNCF SA) ratings following the new financing policy announcement, stable outlook**

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03 Jul 2019

Paris, July 03, 2019 -- Moody's Investors Service, ("Moody's") has today affirmed the Aa3 long term issuer rating of SNCF Mobilites (to be renamed SNCF SA), the Aa3 senior unsecured rating, the (P)Aa3 senior unsecured MTN program rating, the (P)P-1 other short-term program rating and the P-1 commercial paper rating following the announced changes in the corporate structure and in the financing policy of the SNCF group. Concurrently, Moody's has upgraded the baseline credit assessment of SNCF Mobilites to a3 from baa1 reflecting that, from 1 January 2021, the company will have a vertically integrated model which will include the monopolistic railway infrastructure activities of SNCF Reseau (Aa2, positive). The outlook on the ratings remains stable.

A full list of affected ratings is provided towards the end of this press release.

As part of France's railway reform act of June 2018, on 1 January 2020, SNCF Mobilites will merge with SNCF EPIC and become SNCF SA, the holding company of the SNCF group. SNCF Mobilites (or SNCF SA from 1 January 2020) will control with 100% ownership SNCF Reseau, SNCF Voyageurs, a new subsidiary which will combine passenger operations and rolling stock activities of the former SNCF Mobilites, and several other subsidiaries. Effective 1 January 2020, SNCF SA will act as the group's sole issuer on financial markets, entrusted with raising financing for the entire group. SNCF Reseau's existing debt will remain on the company's balance sheet until its maturity.

#### RATINGS RATIONALE

The Aa3 long term issuer rating, one notch below the France sovereign rating, reflects Moody's expectation that the company's credit quality will continue to benefit from a high level of support from the French Government despite a gradual erosion of the company's quasi monopoly in France and the loss of its special legal status (EPIC) starting from the 1st of January 2020. In accordance with Moody's Government-Related Issuers rating methodology, SNCF Mobilites' Aa3 long term issuer rating incorporates a four-notch uplift from the a3 Baseline Credit Assessment (BCA), reflecting the strong relationship between the company and the Government of France (Aa2 positive).

The upgrade of the BCA to a3 from baa1 reflects mainly that, with the changes in the group structure on 1 January 2020, SNCF Mobilites (to be renamed SNCF SA) will become a vertically integrated group including the monopolistic railway infrastructure activities of SNCF Reseau. SNCF Reseau benefits from high predictability of future revenues and operating cash flows provided by multi-year service contract with the French government. The improvement in the company's business profile is partially counterbalanced by the high leverage expected for the combined group of 6.8x measured as Moody's-adjusted (gross) debt/EBITDA for the combined group in 2018 and pro-forma of the EUR35 billion debt relief from the French State.

The a3 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 30%, including under public service remit mass-transit activities for French regional and local authorities, excluding the Keolis business and SNCF Reseau), which provides some stability and visibility into the topline; and (3) the company's vertically integrated business model including the monopolistic railway infrastructure activities and the quasi-monopoly in the domestic passenger railway segment, although this position will erode gradually over time as the market opens up to competition.

The BCA is constrained by (1) the high leverage expected to remain above 7.0x in the next 12 to 18 months and measured as Moody's-adjusted (gross) debt/EBITDA and pro-forma of the EUR35bn debt relief from the French State; (2) the company's weak profitability expected to average 7.5% in the next 12-18 months as measured by Moody's Adjusted EBITA margin, and (3) the expected gradual erosion of market share in the French passenger railways market starting from 2020 as the French market is gradually liberalised. As part of the railway reform, in 2020/2022 the French state will provide a EUR35bn debt relief to SNCF Reseau, and

therefore substantially decrease the leverage of the consolidated group to 6.8x pro-forma of the EUR35bn relief from the current high level of 13.0x measured as Moody's-adjusted (gross) debt/EBITDA in 2018. The proposed mechanism of the debt relief will need to be authorised by the French parliament in the budget act for 2020 in Q4 2019. Once approved, the first phase of the debt relief in the amount of EUR25 billion will be implemented in January 2020 and the second phase in the amount of EUR10 billion in January 2022.

The recent reform has several other implications for SNCF Mobilites including (1) the gradual liberalisation of the French railway market in compliance with EU directives; (2) the end of the current so called Cheminot status and certain benefits of some of the company's categories of employees; and (3) the reduction of future track access fees increases. Moody's believes that the reform will gradually reshape the French railway sector but has, on balance, no immediate impact on SNCF Mobilites' credit quality. However, Moody's notes the significant social cost of the reform in the form of repeated industrial actions which, in 2018, had a negative impact of around EUR600 million on the company's profits. While the risk of labour relation issues has receded now that the reform has been approved, the company has a high number of unionized employees and remains fundamentally exposed to the risk of collective bargaining and industrial actions.

On corporate governance, Moody's expects that the new board of directors of SNCF Mobilites (to be renamed SNCF SA), including the chairman-Chief Executive Officer will be selected before the end of the year. The board of directors will include government representatives, members elected by the state and employees' representatives. The mandate of the current president of the SNCF group, Guillaume Pepy, will end in December 2019.

SNCF Mobilites' liquidity profile is excellent. As of the end of December 2018, the company's liquidity consisted of around EUR5 billion of cash and available committed credit lines of EUR815 million. Moody's expects this liquidity, together with an estimated operating cash flow of around EUR1.6 billion over 2019, to abundantly cover the company's main cash requirements, including the group's intensive investment programme, which Moody's estimates to be EUR2.0 billion-EUR2.3 billion in 2019; and its debt maturities through to the end of 2019. Beyond 2019, Moody's expects that the liquidity of the company will be sized to face the liquidity requirements of the entire group, including those of SNCF Reseau, and will be consistent with the company's high investment grade rating.

#### RATIONALE FOR THE STABLE OUTLOOK

The stable outlook of SNCF Mobilites (to be renamed SNCF SA) reflects Moody's expectation that the company's rating will continue to benefit from a high level of support from the French Government and that the reform of the French railways system and the new group organization will reinforce the company's business model notably through the integration of the monopolistic infrastructure activities of SNCF Reseau and the EUR35 billion debt relief programme.

#### WHAT COULD CHANGE THE RATING UP/DOWN

An upgrade of the sovereign rating is unlikely to result in an upgrade of SNCF Mobilites as, following the railway reform, the company will lose its EPIC legal status in 2020 and its monopolistic position in France.

An upgrade of the BCA is unlikely in the near term given the high leverage, expected to remain above 7.0x in the next 12-18 months period, measured as Moody's-adjusted (gross) debt/EBITDA and pro-forma of the EUR35bn debt relief from the French State. However, Moody's could consider upgrading SNCF Mobilites' BCA if its EBITA margin were to increase to above 8% on a sustained basis, its Moody's-adjusted debt/EBITDA ratio declines below 6.0x on a sustained basis, and its Moody's-adjusted Retained Cash Flow/net debt reaches the mid to high teens, in percentage terms.

Government support of SNCF Mobilites is currently at a high level, and Moody's would expect this to remain the case as long as the company's current ownership does not change. However, any further reduction in the expected level of available support would most likely have a negative impact on the rating. In addition, a downgrade of the sovereign rating would also drive a downgrade of SNCF Mobilites' ratings.

Moody's believes that the BCA could come under pressure if, (1) SNCF Mobilites' EBITA margin decreases below 5%; (2) its Moody's debt/EBITDA ratio remains above 7.0x on a sustained basis; and (3) its Moody's-adjusted Retained Cash Flow/net debt ratio falls below 10% on a sustained basis. Any significant deterioration in SNCF Mobilites' BCA and/or liquidity could affect the company's final rating.

#### LIST OF AFFECTED RATINGS

..Issuer: SNCF Mobilites

Affirmations:

....LT Issuer Rating, Affirmed Aa3

....Commercial Paper, Affirmed P-1

....Senior Unsecured Medium-Term Note Program, 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 Global Passenger Railway Companies published in June 2017, and Government-Related Issuers published in June 2018. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of these methodologies.

#### COMPANY PROFILE

SNCF Mobilites is the French national railway operator and a global leader in passenger and freight transport services and is a 100% state-owned French public entity. In 2018, SNCF Mobilites reported total revenues of approximately EUR31.7 billion and had a Moody's Adjusted EBITDA of EUR3.4 billion.

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