

Research Update:

French Rail Company Société nationale SNCF SA, Previously SNCF Mobilités, 'AA-/A-1+' Ratings Affirmed; Outlook Stable

January 23, 2020

Rating Action Overview

- On Jan. 1, 2020, Société nationale SNCF SA (previously SNCF Mobilités) became the holding company of a unified and integrated rail and transport services group (SNCF Group), fully owned by the French state.
- In our view, the group benefits from an extremely high likelihood of extraordinary support from France, reflecting that the state exercises very tight supervision over the group's strategy and financial standing, as well as the group's very important strategic role for the government.
- Also, we expect the integration of rail services and the efficiency measures promoted by the reform to support the group's cash flow stability, partially offsetting the group's high financial leverage, which we expect to significantly decline from €67 billion as of Dec. 31, 2018, following debt relief from the state of €25 billion in 2020 and €10 billion in 2022.
- We are therefore affirming our 'AA-/A-1+' long- and short-term issuer credit ratings on Société nationale SNCF SA, and affirming our issue rating on the company's debt at 'AA-'.
- The stable outlook reflects the outlook on France as well as our view that the company will retain an extremely high likelihood of extraordinary government support.

Rating Action Rationale

The transformation to a limited-liability company does not change our view of the extremely high likelihood of extraordinary government support. On Jan. 1, 2020, Société nationale SNCF SA (previously SNCF Mobilités) became the holding company of SNCF Group. It is now the sole owner and manager of the rail infrastructure in France and the incumbent provider of passenger rail services through its 100%-owned subsidiaries SNCF Réseau and SNCF Voyageurs, respectively. By law and as per its status, Société nationale SNCF SA cannot transfer its ownership in SNCF Réseau and in SNCF Voyageurs. Although the company is now a public limited-liability company ("société anonyme") and no longer has a state agency status

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("Établissement Public Industriel et Commercial"; EPIC), we believe it continues to benefit from an extremely high likelihood of extraordinary support from the French state if needed. Furthermore, we continue to assess its stand-alone credit profile (SACP) at 'bbb-'.

The French state has tight controls via its non-transferrable 100% ownership of the group. In our view, the French State maintains very tight controls and supervision over the group's strategy and financial standing. The group is fully owned by the French State and such ownership is non-transferrable by law. The state appoints the group's CEO, board chair, and most board members. We also understand that, if necessary, the state will be able to intervene swiftly, extending shareholder loans or capital injections. The state could also use its public debt fund (Caisse de la Dette Publique) to provide funding, for instance in the event of difficult market access. This supports our opinion of an integral link between the group and the government.

The group plays a very important role for the government. We believe SNCF Group has a core social and economic importance for the government since its activities include operating and managing the monopolistic railway network. In addition, Société nationale SNCF SA plays a strategic role of controlling and funding missions for the group. We could reassess the role the group and its holding company play for the government if we observed a pronounced uptick in competition, mainly over passenger transportation. However, we view this scenario as unlikely over the medium term, because we would expect competition to develop only gradually, based on the current structure of the French railway market and our experience in other countries where competition has emerged.

Vertical integration supports higher stability of cash flows. In our view, vertical integration will enhance the group's cash flow stability thanks to the natural monopolistic position played by SNCF Réseau as sole manager of the rail infrastructure network. The integration with SNCF Réseau will also partly offset on a consolidated basis the negative impact that high access charges have had on rail operations, constraining previously sole rail operator SNCF Mobilités profitability over the past years. The group is one of the largest railway players in Europe, comparable in size to German integrated railway operator Deutsche Bahn (turnover of about €30 billion-€40 billion).

Rail reform is expected to stimulate higher operating efficiency for the group. We expect the reform to deliver a more efficient workforce organization and a gradual reduction of labor costs over the long term, given the end of the current special civil-servant status for new employees joining the group after Jan. 1, 2020. Also, the transformation of both the previous SNCF Mobilités' and SNCF Réseau's legal status to limited public companies, in our opinion, will enhance group management's responsibility to maintain healthier and more sustainable credit metrics.

The group's market position is likely to stay strong amid headwinds from competition. Despite our anticipation that the introduction of competition in rail passenger services may erode some of the incumbent market share, for instance on some cash-generative and saturated routes, we expect SNCF Voyageurs to maintain a strong market position.

Government debt relief of €35 billion will significantly improve the group's financial metrics. The group's strengths, in our view, will partially offset its high financial leverage, which stood close to €67 billion as of Dec. 31, 2018, including €15.3 billion as adjusted by S&P Global Ratings at SNCF Mobilités and €51.8 at SNCF Réseau). Our forecasts reflect the sizable debt relief from the French state included in the rail reform (€25 billion in 2020 and €10 billion in 2022). After the debt relief measures are completed, we anticipate Société nationale SNCF SA will achieve a more

sustainable financial leverage, with S&P Global Ratings-adjusted debt to EBTDA of about 6x-7x from 2022.

Social unrest could constrain the group's stand-alone credit profile but we don't anticipate an immediate impact on the rating. Our 'bbb-' assessment of the group's SACP reflects our expectation that Société nationale SNCF SA's S&P Global Ratings-adjusted funds from operations (FFO) to debt will average 10%, if not higher, in 2021-2022, when the debt take over will be completed. Compared with our previous forecasts, nevertheless, we now take into account the impact of 2019 strikes on a proposal of pension reform in France (about €700 million estimated missed revenues, stemming from more than 40 days of strikes). This reduces the headroom in our expected ratios in 2021-2022. We could revise down our SACP on Société nationale SNCF SA by one notch if we deemed the company unable to achieve at least a 10% FFO-to-debt ratio on average on a consolidated basis. That said, given the extremely high likelihood of support, the 'AA-/A-1+' ratings would remain unchanged.

We have withdrawn the preliminary rating on SNCF S.A. (see "French Future Rail Holding Company SNCF S.A. Assigned 'AA-/A-1+' Preliminary Ratings; Outlook Stable," published Oct. 11, 2019).

Outlook

The stable outlook on Société nationale SNCF SA reflects that on France (unsolicited AA/Stable/A-1+). It also reflects our opinion that the group retains an extremely high likelihood of extraordinary support from France in case of need, while maintaining solid traffic volumes and delivering the operating efficiencies promoted by the rail reform. We expect the consolidated group's adjusted FFO to debt to remain at least at 10% on average for 2021-2022, supported by the €35 billion debt relief mechanism from the state and the expected synergies from operating an integrated railway group.

Downside scenario

Although unlikely at this stage, a negative rating action on the sovereign would result in a similar rating action on Société nationale SNCF SA.

We would consider a multi-notch downgrade if we believed that SNCF group's link with or role for the state had weakened. This could stem from reductions of state controls over the company and its strategy, or if the group's public service role of the group for the government. All other things being equal, a negative rating action could also result from a deterioration of the group's SACP to 'bb'. This could materialize, for example, if the group was not able to maintain its FFO to debt comfortably above 9% on average for 2021-2022, combined with a weaker assessment of the group's business strengths. This might happen if the group didn't achieve its key goals of the reform in terms of performance improvement and sustainable financial equilibrium, or if competition were to materialize more aggressively than we currently anticipate.

Upside scenario

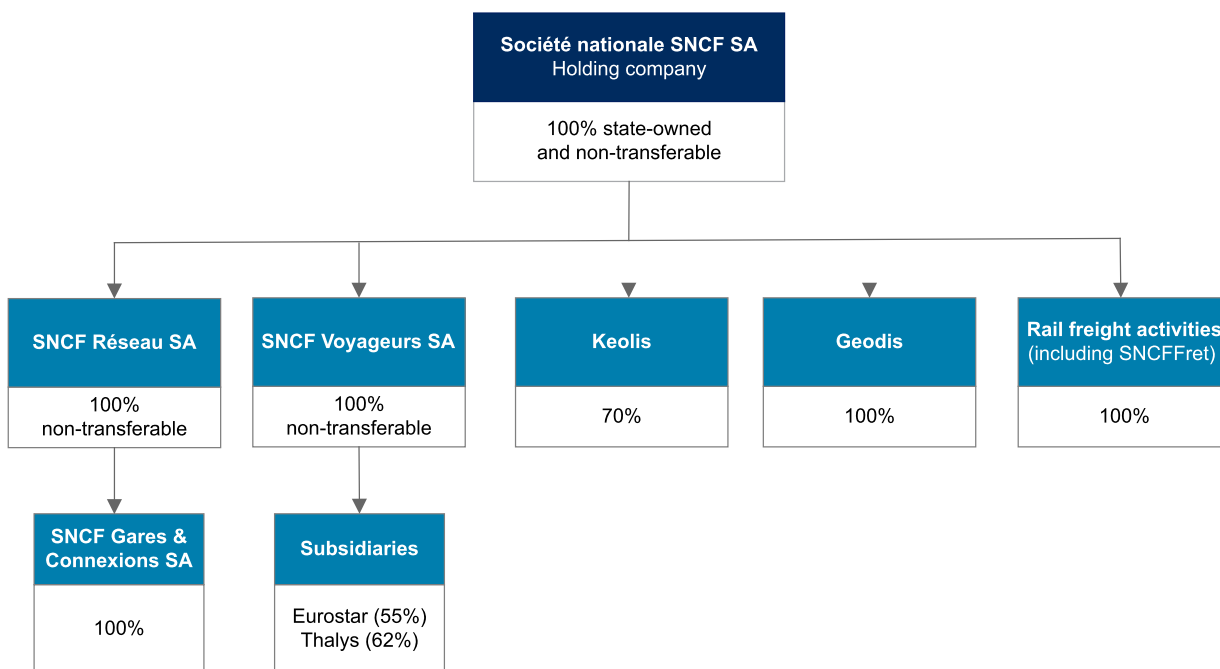
We would raise the rating on Société nationale SNCF SA if we raised the rating on France. This is because if neither the sovereign rating nor our assessment of the likelihood of extraordinary support changes, in order for us to raise our long-term issuer credit rating by one notch, we would need to positively reassess the group's SACP to 'a+' (five notches higher than the current SACP).

We currently see this as highly unlikely.

Company Description

Société nationale SNCF SA is the holding company of French integrated rail and transportation services SNCF Group. Fully owned by the French state, the group is France's incumbent provider of passenger rail services through its 100%-owned subsidiary SNCF Voyageur, and the monopolistic rail infrastructure and train station manager in France through its 100%-owned subsidiary SNCF Réseau. The company also owns rail freight activities, including SNCF Fret and logistic and mass transit transportation worldwide through Keolis and Geodis subsidiaries.

SNCF Group Structure



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Our Base-Case Scenario

Our base-case scenario incorporates the following assumptions:

- Consolidation of SNCF Réseau into Société nationale SNCF SA from Jan. 1, 2020.
- Debt relief of €25 billion debt from the French state in 2020 and €10 billion in 2022, resulting in a positive adjustment to our calculation of the group's debt.
- Consolidated capital expenditure (capex), net of capital subsidies, of about €4.8 billion-€5.5 billion per year.
- Annual dividends of about 60% of net profit up-streamed to the French state, then reinjected

as grants to support SNCF Réseau investment.

Based on these assumptions, we arrive at the following S&P Global Ratings-adjusted credit measures, on average, over 2021-2022:

- FFO to debt of about 10%; and
- Debt to EBITDA of about 6.0x-7.0x.

Liquidity

We assess Société nationale SNCF SA's liquidity as adequate. This reflects the abundant liquidity available, which includes a €3.5 billion undrawn and committed liquidity facilities, as well as the group's ability to swiftly access emergency central government funding in the event of difficult market access. Given its key role and strong links with the French government, we believe the group benefits from solid relationships with banks and high standing in credit markets.

We estimate that Société nationale SNCF SA's liquidity sources for the 12 months ending Dec. 31, 2020, include:

- About €6.3 billion-€6.7 billion of unrestricted cash and cash equivalents;
- Availability of €3.5 billion undrawn revolving credit facilities; and
- Forecast unadjusted cash flows from operations of €2.7 billion.

We estimate the liquidity needs over the same period comprise:

- Debt maturities of about €4.0 billion; and
- Capex, net of capital subsidies, of about €4.6 billion.

Covenants

The company's financial documentation does not include any financial covenants.

Issue Ratings - Subordination Risk Analysis

Capital structure

Société nationale SNCF SA is the holding company of SNCF group and will be the sole issuer of new debt for the group after June 2020. Its direct external debt reflects previous SNCF Mobilités indebtedness (€18.6 billion reported debt as of December 2018) while its consolidated debt will also include the financial indebtedness of all its subsidiaries. This notably reflects SNCF Réseau external debt (€57.7 billion as of Dec. 31, 2018, reduced by €25 billion on Jan. 1, 2020). We understand that newly created SNCF Voyageurs does not have any external debt and we estimate the amount of external debt within other subsidiaries of the group to be limited.

Analytical conclusions

We equalize the issue rating on Société nationale SNCF SA's debt at the level of the issuer credit rating, even though we anticipate that the priority debt ratio will be higher than 50% over the next few years, notably because of SNCF Réseau legacy debt.

We expect the amount of SNCF Réseau's external debt to progressively reduce below 50% after the €35 billion debt relief is completed (€25 billion in 2020 and €10 billion in 2022). This reflects that SNCF Réseau will not issue any new external debt after June 30, 2020, as its investment and refinancing needs will be covered by intercompany loans with Société nationale SNCF SA.

Ratings Score Snapshot

Issuer Credit Rating:	AA-/Stable/A-1+
Business risk:	Strong
Country risk:	Low
Industry risk:	Low
Competitive position:	Strong
Financial risk:	Significant
Cash flow/Leverage:	Significant
Anchor:	bbb
Modifiers:	
Diversification/Portfolio effect:	Neutral (no impact)
Capital structure:	Neutral (no impact)
Financial policy:	Neutral (no impact)
Liquidity:	Adequate (no impact)
Management and governance:	Satisfactory (no impact)
Comparable rating analysis:	Negative (-1 notch)
Stand-alone credit profile:	bbb-
Related government rating:	Unsolicited AA/Stable/A-1+
Likelihood of government support:	Extremely high (+6 notches from SACP)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- 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
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014

- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | Industrials: Key Credit Factors For The Transportation Infrastructure Industry, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- French Future Rail Holding Company SNCF S.A. Assigned 'AA-/A-1+' Preliminary Ratings; Outlook Stable, Oct. 11, 2019

Ratings List

*****SNCF S.A.*****

Ratings Withdrawn

	To	From
SNCF S.A.		
Issuer Credit Rating	NR	AA-/Stable/A-1+

*****Societe nationale SNCF SA*****

Ratings Affirmed

Societe nationale SNCF SA

Issuer Credit Rating	AA-/Stable/A-1+
Senior Unsecured	AA-
Commercial Paper	A-1+
NR--Not rated.	

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