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CREDIT OPINION
12 June 2020

Update

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RATINGS

SNCF S.A.

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 S.A.

Update following 2019 results and the impact of coronavirus

Summary

SNCF S.A.'s (SNCF or SNCF Group) Aa3 issuer rating, which is one notch below the Government of France's (Aa2 stable) rating, reflects our expectation that the company's credit quality will continue to benefit from a high level of support from the French government.

The a3 Baseline Credit Assessment (BCA) reflects the company's solid business profile, underpinned by its (1) large scale and good degree of international diversification, with around one-third of its revenue generated outside of France; (2) large share of revenue from French government-related authorities, which provides some stability to and visibility into its top line; and (3) vertically integrated business model, including the monopolistic railway infrastructure activities and the quasi-monopoly in the domestic passenger railway segment.

The BCA is constrained by (1) the company's high leverage (measured as Moody's-adjusted [gross] debt/EBITDA), which will likely remain above 9.5x in the next 12-18 months, pro forma the €35 billion debt relief from the French State; (2) its weak profitability, as measured by the Moody's-adjusted EBITA margin, which will likely average 4% in the next 12-18 months; and (3) the expected gradual erosion of its market share in the French passenger railways market in 2020 as the French market is liberalising. These weaknesses are exacerbated by the coronavirus pandemic, which has severely hurt the rail transportation sector in France and across Europe, where SNCF operates.

Credit strengths

» High probability of support from the French government

» Large scale and good degree of diversification

» Vertically integrated business model, including the monopolistic railway infrastructure activities and the quasi-monopoly in the domestic passenger railway segment

Credit challenges

» Severe disruptions from the coronavirus pandemic

» High leverage, which is likely to remain above 9.5x in the next 12-18 months

» Highly unionised workforce and exposure to the risk of industrial actions

» High, self-funded capital spending requirements, which will gradually erode liquidity

Rating outlook

The stable outlook of SNCF Group reflects our expectations that the company's rating will continue to benefit from a high level of support from the French government, and that the company's leverage will recover from the current coronavirus-induced disruptions and trend towards 7.0x in the next 12- 24 months.

Factors that could lead to an upgrade

An upgrade of the sovereign rating could result in an upgrade of SNCF's rating.

The BCA is weakly positioned at a3 and an upgrade is unlikely. However, we could consider upgrading SNCF Group's BCA if its:

» Moody's-adjusted EBITA margin increases to more than 8% on a sustained basis

» Moody's-adjusted debt/EBITDA declines below 6.0x on a sustained basis

» Moody's-adjusted retained cash flow (RCF)/net debt reaches 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

SNCF Group's BCA could come under pressure if its:

» Moody's-adjusted EBITA margin falls below 5% on a sustained basis

» Moody's-adjusted debt/EBITDA remains above 7.0x on a sustained basis

» Moody's-adjusted RCF/net debt falls below 10% on a sustained basis

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Key indicators

SNCF Group 1

EUR Millions	Dec-18	Dec-19	Dec-19PF	Dec-20 f	Dec-21 f
Revenue	33,311	35,120	35,120	29,852	34,031
EBITA Margin %	6.7%	6.4%	6.4%	-11.2%	3.8%
EBITA / Average Assets	3.3%	2.4%	2.4%	-3.5%	1.4%
Debt / Book Capitalization	110.7%	113.6%	62.1%	66.4%	67.5%
Debt / EBITDA	13.4x	13.3x	7.3x	169.9x	9.6x
FCF / Debt	-4.9%	-4.4%	-8.0%	-12.3%	-7.0%
RCF / Net Debt	4.5%	4.6%	10.0%	3.3%	7.8%
(FFO + Interest Expense) / Interest Expense [1]	2.8x	3.0x	4.4x	2.5x	4.7x

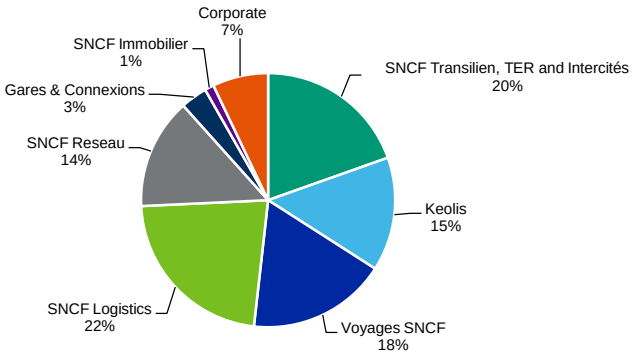
All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's Forecasts (f) are Moody's opinion and do not represent the views of the issuer. Periods are financial year-end unless otherwise indicated. LTM = Last 12 months.
Metrics FY2019PF reflect €35bn debt relief and onwards
Source: Moody's Financial Metrics™

Profile

Since 1 January 2020, SNCF S.A. (SNCF or SNCF Group) has under its control the railway infrastructure activities of SNCF Reseau, and the railway operation and logistics activities of SNCF Voyageurs, Geodis, Keolis and SNCF Rail Freight (please see to the organizational chart in the Detailed credit considerations section below).

The group is one of the world leaders in transport services and logistics, with operating activities in 120 countries and a workforce of around 276,000 people as of 2019. In 2019, the combined group reported consolidated revenue of €35.1 billion and EBITDA (on a Moody's-adjusted basis) of €5.8 billion.

Exhibit 2
Further diversification from January 2020 by incorporating rail infrastructure activities
% of SNCF 2019 consolidated revenue



Based on SNCF Group's 2019 consolidated results.
Source: SNCF annual report

Detailed credit considerations

Passenger and cargo volumes will decline in 2020 because of the coronavirus outbreak

The number of passengers and the cargo volumes have declined since the coronavirus started to spread in France in March 2020. Travel restrictions have significantly limited passenger traffic in France, which likely reduced by 80%-90% in the months of April and May. As some of the company's revenue is linked to costs, through contracts with local authorities, rather than to volumes, we expect the impact on revenue to be lower (compared with that on passenger traffic). Even though coronavirus infections have significantly

decreased in the country, we expect travel to only resume gradually, reflecting the weakened public desire to move around to attend social gatherings and business meetings, to commute and to travel for leisure.

While cargo rail traffic in France was not restricted during the coronavirus lockdowns, we still expect a reduction of around 20% in April-May and 15% for 2020 in cargo traffic, reflecting the slowdown in economic activity in the country and in the rest of Europe.

Assuming a gradual recovery in passenger and cargo traffic during the second half of 2020, we expect SNCF's revenue to decrease by around €5 billion in the year, leading to a significant reduction in its EBITDA and free cash flow (FCF), pushing the company's 2020 financial metrics well below its target ranges for the a3 BCA. We expect this revenue shortfall to be mitigated by a state intervention. We also expect SNCF to step up its ongoing cost-saving program to mitigate the decline in its EBITDA in 2020 and to accelerate the EBITDA recovery in 2021.

Leverage will remain high despite the €35 billion debt relief from the French government

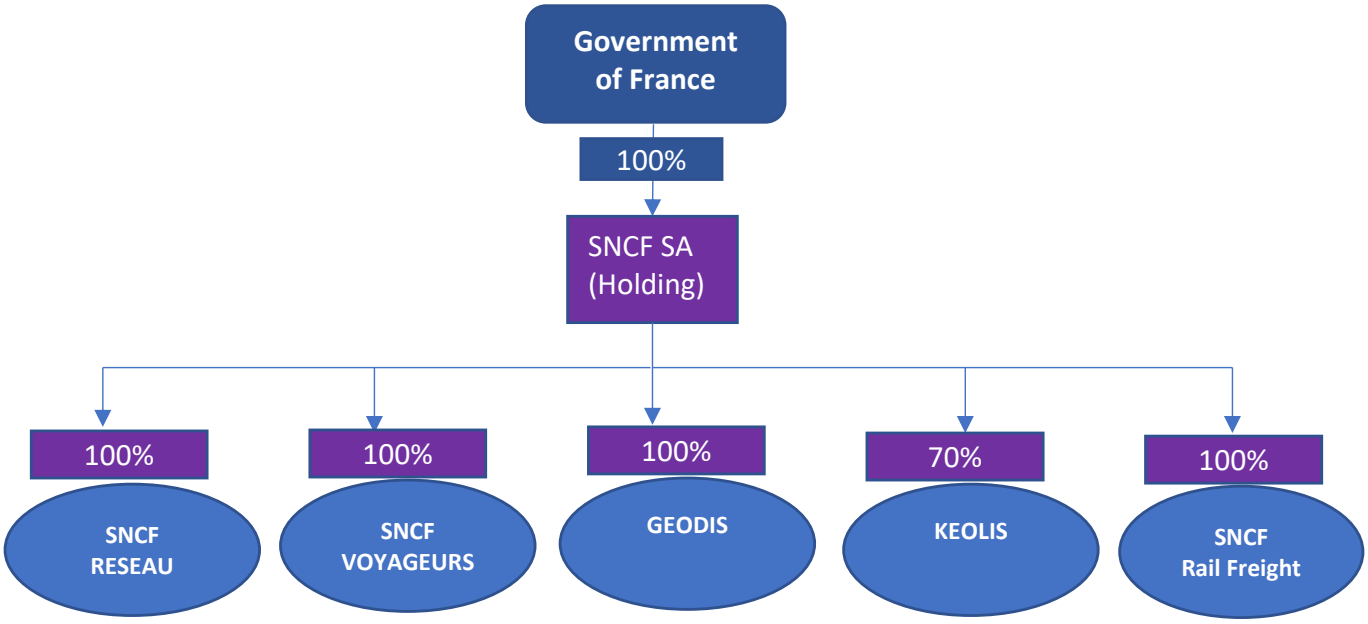
We expect both passenger and cargo traffic to continue to recover in 2021 and to return to 2019 levels by 2022. We expect the company's Moody's-adjusted debt/EBITDA to remain high at 9.6x in 2021 and 8.4x in 2022. Our leverage calculation is pro forma the €35 billion debt relief from the French government. The first phase of the debt relief in the amount of €25 billion has been disbursed in January 2020 and the second phase in the amount of €10 billion will be disbursed in January 2022.

We expect the company's FCF generation to remain negative as capital spending remains high. However, we expect FCF to improve over time and move towards zero by 2022-23 as the company grows its top line and implements ongoing cost efficiencies. We expect leverage to trend towards 7.5x by 2023 as EBITDA recovers and FCF turns positive.

SNCF benefits from the integration of SNCF Reseau's predictable revenue stream

As part of France's railway reform act of June 2018, on 1 January 2020, SNCF Mobilités merged with SNCF EPIC and became SNCF S.A., the holding company of the SNCF Group. From 1 January 2020, SNCF S.A. controls, with 100% ownership, SNCF Réseau, SNCF Voyageurs, a new subsidiary that will combine passenger operations and rolling stock activities of the former SNCF Mobilités, and several other subsidiaries. SNCF S.A. acts as the group's sole issuer in the financial markets, entrusted with raising financing for the entire group. SNCF Réseau's existing debt will remain on the company's balance sheet until its maturity.

Exhibit 3
Corporate structure



Sources: Moody's Financial Metrics™ and company information

SNCF is a vertically integrated group including the monopolistic railway infrastructure activities of SNCF Reseau. SNCF Reseau benefits from the high predictability of revenue and operating cash flow provided by a multiyear service contract with the French government.

The railway reform approved in June 2018 has several other implications for SNCF, including the gradual liberalisation of the French railway market in compliance with European Union directives; the end of the current so-called Cheminot status and certain benefits for some categories of the company's employees; and the reduction in future track access fees increases.

We believe that these changes will over the long-term reshape the French railway sector, but they have, on balance, no immediate impact on SNCF's credit quality.

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

SNCF 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 opening up of the domestic rail services to competition will challenge SNCF's quasi-monopolistic position, which is credit negative. As per the railway reform, the market is open to competition since January 2020 for the regulated regional services (TER), and will open from 2021 for the high speed (TGV) business and intercity services. However, we believe that the opening up of the market is a lengthy process, and potential new entrants are unlikely to start operating in the French market and pose any threat to SNCF's credit profile in the next 12-18 months.

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

We expect the government to provide support to SNCF in compensation for the disruption caused by the coronavirus pandemic and the related restrictions on travel. We understand that SNCF is currently in discussions with the government regarding the different forms of support, which could include a capital increase or a direct compensation for revenue losses, or both.

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

» The BCA of a3 (the 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 the following:

» SNCF's strategic role as the dominant provider of public railway services in France, which are central to the core missions of the state

» Our expectation that the government, which will remain by force of law the sole owner of SNCF, will continue to support the company in case of need

» A track record of strong financial support provided by the government

SNCF's very high default dependence on the French government reflects the large share of SNCF's business derived from France; the high level of group revenue derived from French government-related entities (at around 26%, including public service remit mass-transit activities for French regional and local authorities, and excluding the Keolis business); and the importance of the group's rail passenger and freight transportation network to the French economy.

Environmental, social and governance (ESG) considerations

We take into account the impact of ESG factors when assessing companies' credit quality. In the case of SNCF, the main ESG-related drivers are the following:

Environmental:

» A shift to greener forms of transport supports SNCF's volume growth. Passenger railways tend to be environmentally cleaner and more energy-efficient than other forms of transportation. With most rail lines electrified in France (including roughly all of the main lines) as of December 2019, rail transport produces lower emissions than air, bus or car travel. Passenger railway volumes will be driven by increasing awareness among travellers, as well as government or local authorities' incentives to choose public transportation.

Social:

» The rapid and widening spread of the coronavirus outbreak globally, the deteriorating global economic outlook, falling oil prices, and asset price declines are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. 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.

» Social risks also stem from the company's high exposure to human capital, with 276,350 employees as of December 2019 and a high number of unionised employees. Passenger railways are highly exposed to the risk of collective bargaining and industrial actions. Strikes can have both reputational and financial consequences. The significant social cost of the railway reform and the pension reform in France in the form of repeated industrial actions in 2018-19 had a negative impact on the company's profit in 2018-19 and in the beginning of 2020.[1]

Governance:

» The company's current board of directors was appointed in 2019, including the chairman-CEO. The board includes government representatives, members elected by the state and employees' representatives. We expect the new management team to maintain a degree of continuity with the current strategy of the group. Despite high leverage, the group's financial policy is relatively balanced with a track record of support from the French government.

Liquidity analysis

We expect SNCF's liquidity position to deteriorate as a result of the coronavirus pandemic but remain satisfactory over the next 12 to 18 months. As of the end of December 2019, the company's liquidity consisted of around €7.2 billion of cash and available committed credit lines of €5.8 billion. We expect these liquidity sources, together with a modest operating cash flow generation in 2020, to cover the company's main cash requirements, including the group's intensive investment programme, which we estimate will be around €5.5 billion in 2020 (pre-IFRS16).

We also expect SNCF to maintain its excellent access to the capital markets to refinance its debt maturities and raise additional debt. In addition, our liquidity assessment incorporates our assumption that, in case of need, the company would receive additional support from the government, in the form of timely cash injections.

Methodology and scorecard

We use our Global Passenger Railway Companies (published in June 2017) and Government-Related Issuers (published in February 2020) rating methodologies, to rate SNCF. The BCA is one notch above the forward-looking scorecard-indicated outcome, reflecting our expectation (not factored in the metrics) that SNCF is likely to receive support from the government as a compensation for the current coronavirus disruption.

Exhibit 4

Rating factors

SNCF S.A.

Passenger Railway Industry [1][2]	Current FY 12/31/2019PF		Moody's 12-18 Month Forward View As of 6/3/2020 [3]	
Factor 1 : SIZE (15%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue ($ Billion)	$39.3	Aa	$34	Aa
b) Number of Passenger Transported (PKM billion)	Aa	Aa	Aa	Aa
Factor 2 : MARKET POSITION (40%)				
a) Stability of Operating Environment	Baa	Baa	Baa	Baa
b) Market Characteristics	Aaa	Aaa	Aaa	Aaa
c) Competitive Environment	Aa	Aa	Aa	Aa
Factor 3 : COST POSITION AND PROFITABILITY (15%)				
a) EBITA Margin	6.4%	Ba	3.8%	B
b) EBITA / Avg. Assets	2.4%	B	1.4%	B
Factor 4 : CAPITAL STRUCTURE (15%)				
a) Debt / Book Capitalisation	62.1%	A	67.5%	A
b) Debt / EBITDA	7.3x	B	9.6x	Ca
Factor 5 : CASH FLOW AND INTEREST COVERAGE (15%)				
a) FCF / Debt	-8.0%	B	-7%	B
b) RCF / Net Debt	10.0%	Ba	7.8%	Ba
c) (FFO + Interest) / Interest	4.4x	Baa	4.7x	A
Rating:				
a) Scorecard-Indicated Outcome		Baa1		Baa1
b) Actual Rating Assigned				Aa3
Government-Related Issuer	**Factor**			
a) Baseline Credit Assessment	a3			
b) Government Local Currency Rating	Aa2 / Stable			
c) Default Dependence	Very high			
d) Support	High			
e) Actual Rating Assigned	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 12/31/2019, pro forma the €35 billion debt relief. [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 5

Peer comparison

(in US millions)	SNCF S.A. Aa3 Stable			Deutsche Bahn AG (P)Aa1 Negative			Ceske drahy, a.s. Baa2 Stable		
	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-17	FYE Dec-18	FYE Dec-19
Revenue	$35,965	$39,337	$39,317	$48,985	$52,784	$50,424	$1,460	$1,801	$1,773
EBITDA	$4,127	$6,522	$6,483	$6,318	$6,517	$4,952	$389	$449	$399
EBITA Margin	5.4%	6.7%	6.4%	3.0%	3.1%	2.0%	5.3%	6.0%	5.3%
EBITA / Avg. Assets	4.2%	3.3%	2.4%	2.1%	2.2%	1.4%	2.0%	2.6%	2.3%
FFO + Int Exp / Int Exp	8.0x	2.8x	3.0x	7.9x	7.6x	8.4x	6.6x	7.4x	7.3x
Total Debt/Capital	69.8%	110.7%	113.6%	68.8%	71.2%	71.6%	49.3%	46.6%	48.9%
Debt / EBITDA	5.4x	13.4x	13.3x	5.7x	6.2x	8.0x	4.4x	3.7x	4.6x
FCF / Debt	-1.4%	-4.9%	-4.4%	-6.9%	-3.9%	-6.5%	3.8%	-3.7%	-7.3%
RCF / Net Debt	19.6%	4.5%	4.6%	20.8%	18.4%	15.2%	23.5%	24.6%	22.2%

All figures and ratios are calculated using Moody's estimates and standard adjustments. FYE = Financial year-end. LTM= Last 12 months.
Historical metrics incorporate SNCF Mobilites' perimeter only.
Source: Moody's Financial Metrics™

Exhibit 6

Moody's-adjusted debt breakdown

SNCF S.A.

(in USD Millions)	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-19
As Reported Debt	**22,728.4**	**20,627.7**	**20,539.2**	**24,707.6**	**82,555.6**	**89,335.1**
Pensions	413.8	437.8	495.7	528.4	501.8	504.0
Operating Leases	2,805.3	2,088.9	2,722.1	3,218.5	4,292.8	0.0
Securitizations	0.0	54.3	52.7	145.3	0.0	0.0
Non-Standard Adjustments	-4,283.6	-5,102.3	-4,743.2	-4,790.0	-2,958.5	-3,187.9
Moody's-Adjusted Debt	**21,663.9**	**18,106.4**	**19,066.6**	**23,809.8**	**84,391.8**	**86,651.3**

Historical metrics incorporate SNCF Mobilites' perimeter only.
Source: Moody's Financial Metrics™

Exhibit 7

Moody's-adjusted EBITDA breakdown

SNCF S.A.

(in USD Millions)	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-19
As Reported EBITDA	**3,152.9**	**2,473.7**	**2,745.1**	**3,329.7**	**6,339.1**	**6,468.5**
Pensions	-1.3	13.3	-2.2	-2.3	224.4	254.1
Operating Leases	883.6	711.7	682.7	841.8	1,150.2	0.0
Interest Expense – Discounting	-124.9	0.0	0.0	0.0	0.0	0.0
Securitizations	0.0	2.8	0.8	1.4	0.0	0.0
Unusual	0.0	0.0	0.0	0.0	-1,158.5	-200.4
Non-Standard Adjustments	-9.3	81.1	-52.0	-44.1	-33.1	-39.2
Moody's-Adjusted EBITDA	**3,900.9**	**3,282.5**	**3,374.4**	**4,126.6**	**6,522.2**	**6,483.1**

Historical metrics incorporate SNCF Mobilites' perimeter only.
Source: Moody's Financial Metrics™

Ratings

Exhibit 8

Category	Moody's Rating
SNCF S.A.	
Outlook	Stable
Issuer Rating	Aa3
Senior Unsecured	Aa3
Commercial Paper -Dom Curr	P-1
Other Short Term -Dom Curr	(P)P-1
SNCF RÉSEAU	
Outlook	Stable
Senior Unsecured	Aa2
Commercial Paper -Dom Curr	P-1
Other Short Term -Dom Curr	(P)P-1

Source: Moody's Investors Service

Endnotes

1 Industrial action will reduce short-term earnings of SNCF and RATP, a credit negative, published in January 2020.

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