FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms SNCF Reseau at 'AA'; Outlook Negative

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Fitch Ratings - Paris - 18 Nov 2021: Fitch Ratings has affirmed SNCF Reseau's Long-Term Foreign Issuer Default Ratings (IDR) at 'AA' with a Negative Outlook. A full list of rating actions is below.

The affirmation reflects Fitch's unchanged views that the state would provide timely support to SNCF Reseau if necessary. This is in line with its strategic role as France's monopolistic railway infrastructure manager and the state's strong control of its activities, leading to the equalisation of its ratings with the sovereign (AA/Negative). The Negative Outlook reflects that on the French state.

KEY RATING DRIVERS

Status, Ownership and Control: 'Very Strong'

SNCF Reseau lost its public establishment legal s
the French railway reform. SNCF Reseau is now a
subsidiary of the holding company societe natior
it remains fully owned by the state through SNCI
SNCF Reseau.

The French state maintains tight control over SN
activities. According to the law of 3 June 2019, tv
appointed by SNCF SA, half of whom are based o
chairman of the board is also proposed by the sta

SNCF Reseau is subject to state supervision through the agency managing state participations (APE), the Ministries of Finance and Transport and to the control of the national court of auditors and general inspectors.

Support Track Record: 'Very Strong'

SNCF Reseau benefits from ongoing and extraordinary support from the state. The repayment of EUR35billion of SNCF Reseau's debt (around 60% of its gross debt at end-2020) and related interest will be covered by the state in the medium term through a mirror mechanism.

As part of the French recovery plan for the railway sector, SNCF Reseau will benefit from EUR4.1 billion from the state in 2021-2023 to compensate for losses linked to the coronavirus pandemic and to finance extra capex outside its plan in 2018.

Fitch also believes that SNCF Reseau could benefit from some of the state's emergency liquidity mechanisms if necessary, including the purchase of short-term bonds. SNCF Reseau is not subject to competition and Fitch sees no restrictions on government support stemming from EU competition law in such a scenario.

Socio-Political Implications of Default: 'Strong'

Fitch views a default of SNCF Reseau as having strong social and political repercussions for the government. SNCF Reseau is in charge of managing the French railway infrastructure, one of the largest networks in Europe, and plays a critical role for the French state. It is a key partner with the state in rail infrastructure development in regional territories in France and to meet environment and sustainable standards in accordance with COP21 targets.

The company manages the movement of 15,000 trains a day and a railway network of 30,000 km with the aim of optimising the networ also responsible for train stations through its gar is a large employer in the country (around 62,00(trade unions.

SNCF Reseau relies on external funding to financ which includes infrastructure maintenance and i default of SNCF Reseau would not lead to an imn France. However, it would significantly impair SN endangering the continued provision of an essen activity.

SNCF Reseau benefits from a monopolistic position. Infrastructure activities are protected by a regulated framework and we see no risk of deregulation.

Financial Implications of Default: 'Very Strong'

Fitch views SNCF Reseau as a proxy funding vehicle for the French state as it was used to finance the development of the railway infrastructure in France. As a result of debt relief, around two-thirds of SNCF Reseau's debt repayments will ultimately be made by the French state through a mirror loan. We therefore consider SNCF Reseau's debt to be closely linked to that of the state and believe that a default of SNCF Reseau would have significant repercussions on the borrowing capacity of the state and of other French government-related entities (GRE).

SNCF Reseau's adjusted debt is high (EUR57 billion at end-2020), representing close to 3% of French central government debt. As of 2020, SNCF Reseau no longer issues on the financial markets as debt is now raised at the holding company level only and then distributed to subsidiaries through inter-group loans. However, we expect that most of SNCF SA's financing needs will be become SNCF Reseau's in the coming years as most of the financing was for investments in rail infrastructure.

Standalone Credit Profile

The 'bbb+' Standalone Credit Profile (SCP) reflects the combination of 'Midrange' revenue defensibility and 'Stronger' operating risk and a Fitch-forecast leverage ratio (net adjusted debt/EBITDA) of close to 10x in the medium term in our rating case.

Revenue Defensibility: 'Midrange'

Fitch views SNCF Reseau's revenue as highly stable with low volatility. They are mainly made up of infrastructure fees (72% of operating revenue in 2020), including access fees (31%), reservation fees (29%) and traffic fees (9%

Access fees are a set amount for subsidised train
French state on behalf of its regions, with no cou
high ratings. Reservation fees and traffic fees are
the former are based on kilometres reserved and
of which have been sharply hit by the coronaviru
and 27%, respectively, in 2020 compared with 20
account in its rating case but not in its qualitative
reservations and traffic to gradually recover to th

Fitch views SNCF Reseau's ability to increase tariffs as limited. Tariffs have to be approved by the French regulator (Autorite de Regulation des Transports). If the regulator refuses, an increase in tariffs can only be made through a state decree. In addition, Fitch believes an increase in tariffs could negatively affect demand. Despite SNCF Reseau's monopoly, trains remain in competition with other modes of transportation (e.g. buses, cars, planes).

Operating Risk: 'Stronger'

SNCF Reseau's main costs are well-identified and have low potential volatility. Staff costs represent the main cost item (49% of operating expenditure in 2020). Flexibility over this item is limited by the share of special-status employees ('cheminots' status), which protects them against layoffs. Although this special status no longer applies to new employees from 2020 onwards, they will continue to represent the majority of SNCF Reseau's staff in the medium term. External purchases and charges represent the second-largest cost item (45%) but tariffs cover most of them.

Fitch believes SNCF Reseau retains some flexibility to scale down or postpone its high capex (EUR6billion in 2020) in case of need. Its monopolistic position means the company is not under pressure from competition to maintain a sustained level of expenditure. SNCF Reseau exercises tight control over expenditure, as required by its performance contract signed with the state.

Fitch sees no supply constraints for SNCF Reseau. Fitch also views the company's mechanisms for capital planning and funding as adequate, reflected by a history of effective management. Its high capex benefits from documented engineering assessment. It is mainly allocated to development projects and maintenance of the railway network.

Financial Profile: 'Midrange'

Fitch expects SNCF Reseau's net adjusted debt/
medium term in its rating case, down from 24x in
mainly to the large debt relief of EUR35 billion fr
already in 2020 and a further EUR10 billion in 20
measures implemented by SNCF Reseau, as requ
French state, and the integration of the profitabl
SNCF Reseau from the former SNCF Mobilites.

SNCF Reseau's leverage decreased to 24 in 2020
EUR25 billion of debt taken over by the state in 2

adjusted debt in 2020 more than offset the 36% drop in EBITDA linked to the lower access charge received during the pandemic. Fitch expects the EBITDA margin to gradually recover to its historical average by 2025, in line with the rebound in railway traffic in France.

Derivation Summary

Fitch views SNCF Reseau as a GRE of the French state and equalises its ratings with those of the sovereign. This reflects a score of 50 points under our GRE Rating Criteria. The 'bbb+' SCP does not affect SNCF Reseau's IDR. The Negative Outlook reflects that on the French state.

KEY ASSUMPTIONS

Our rating case scenario is based on the following assumptions:

- Operating revenue growth of 1.4% a year on average for 2021-2025;

- Operating expenditure growth of 2.2% a year on average for 2021-2025;

- Negative capital balance (capex minus capital revenue) of around EUR2 billion a year for 2021-2025; and

- Average cost of debt of 1.5% for 2021.

Liquidity and Debt Structure

Fitch-defined net adjusted debt totalled EUR28,111 million at end-2020, comprising net reported debt (EUR30,209 million at end-2020) and net derivatives (-EUR2,098 million).

Issuer Profile

SNCF Reseau is the owner and manager of Franc
subsidiary of the vertically integrated group soci

RATING SENSITIVITIES

Factors that could, individually or collectively,
action/downgrade:

A downgrade of the sovereign would be reflectec
Reseau's ratings could also be downgraded if Fitc
support from the French state.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

An upgrade of the sovereign would be reflected in SNCF Reseau's ratings.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

The ratings are credit-linked to those of France.

Best/Worst Case Rating Scenario

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

References for Substantially Material Source Cited as Key Driver Rating

The principal sources of information used in the analysis are described in the Applicable Criteria.

RATING ACTI

ENTITY / DEBT	RATING	
SNCF Reseau	LT IDR	AA Rating
	Affirmed	

	ST IDR	F1+	Affirmed	F1+
	LC LT IDR	AA Rating Outlook Negative New Rating		
	LC ST IDR	F1+	New Rating	
senior unsecured	LT	AA	Affirmed	AA
senior unsecured	ST	F1+	Affirmed	F1+

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Government-Related Entities Rating Criteria (pub. 30 Sep 2020)

Public Sector, Revenue-Supported Entities Rating Criteria (pub. 01 Sep 2021) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

SNCF Reseau	EU Issued, UK Endorsed

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