FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms SNCF SA at 'A+'; Outlook Negative

Thu 18 Nov, 2021 - 05:13 ET

Fitch Ratings - Paris - 18 Nov 2021: Fitch Ratings has affirmed societe nationale SNCF SA's (SNCF SA) Long-Term Issuer Default Rating (IDR) at 'A+' with a Negative Outlook.

The affirmation reflects Fitch's unchanged view that the state would provide timely support if necessary, leading to SNCF SA's ratings being credit-linked with those of France (AA/Negative). The Negative Outlook reflects that on the state.

KEY RATING DRIVERS

Status, Ownership and Control: 'Very Strong'

Fitch views the 100% state ownership and the legal provision preventing the state from selling its shares as supportive of SNCF SA's ratings. This is because it illustrates the state's ongoing involvement in the railway group and offsets its commercial law status and associated bankruptcy risk. The state exercis
operational and financing activities through its c
directors as well as through the Ministries of Tra

SNCF SA's private-law nature does not entail an
sponsor, but Fitch considers that the proximity o
government functions and the public service nat
a liability transfer to the state in case of need.

Support Track Record: 'Strong'

The state's commitment to support the national railway group is highlighted by the 2020's EUR4.05 billion equity injection into the group to offset Covid-19-related losses, as well as the EUR35 billion debt relief dedicated to the infrastructure manager SNCF Reseau (AA/Negative). Fitch also believes that the proximity with the state and regular monitoring by the State Shareholding Agency would make timely support likely. This factor's assessment is capped at 'Strong' due to EU regulation on state aid as a material share of SNCF SA's businesses is now fully exposed to competition.

Socio-Political Implications of Default: 'Moderate'

Fitch estimates that a default by SNCF SA on its financial obligations would have a moderate impact on the state. Fitch estimates that a default would not prevent trains from operating, due to the availability of inter-modal substitutes (individual cars, buses, and even teleworking) and that liberalisation of domestic passenger rail transportation may lead to the availability of a direct substitute. However, Fitch believes the political implications could be important as SNCF SA is central to the government's (and European) drive for more sustainable mobility solutions. A highly unionised workforce could also construe a default as an absence of state support with possible political implications.

Financial Implications of Default: 'Strong'

A default by SNCF SA on its financial obligations could have a significant impact on the availability and cost of funding for other French government-related entities (GRE). SNCF SA is a large issuer on the domestic and international capital markets and a default could lead, through contagion, to a higher cost of funding for other French state-supported GREs.

Standalone Credit Profile

Fitch assess SNCF SA's Standalone Credit Profile (SCP) at the lower of its competitive activities (bbb) and the infrastructure manager S
European ban on cross-subsidising between the

SNCF SA's 'bbb' SCP reflects the weaker SCP of c
characterised by 'Midrange' revenue defensibilit
expected net debt-to-EBITDA of close to 5x in ou

Revenue Defensibility: 'Midrange'

This assessment reflects SNCF SA's very strong r
the company derives about two-thirds of its reve

demand's correlation with the business cycle. It also factors in the supportive regulatory regime for public service contracts (PSC) with regional authorities compensating SNCF SA for the transport services provided through a stable history of operating grants.

At end-2020, 57% of SNCF SA's competitive activities' operating revenue came from passenger transportation. This included 45% from proximity trains under PSC with French regions, which bear most of the traffic risk and cover most of the costs, and 12% from high-speed trains, which is a commercial activity fully funded by the sale of tickets.

Freight transportation and logistics make up 33% of SNCF SA's revenue, mostly through its subsidiary, Geodis. Geodis derives most of its revenue from international markets, while the French market represented only 36% of its 2019 turnover. This activity is cyclical, linked to global trade flows, but is also characterised by a flexible cost structure, which limits EBITDA fluctuations.

Operating Risk: 'Midrange'

The assessment for operating costs reflects the limited volatility and flexibility of SNCF SA's main cost items. Staff costs represent the main cost at 44% of operating costs, a stable share over the past five years. Flexibility for this item is limited by the share of special-status employees ('cheminots' status). The second-largest single cost item (16% of total costs) is the access charge paid mostly to SNCF Reseau to use the tracks. The annual increase of the access charge on the high-speed train and freight access is capped at the inflation rate, giving SNCF SA some visibility over the trajectory of its revenue.

SNCF SA's cost structure is also characterised by material capex in the near term, notably for rolling stock as it prepares for the liberalisation of the French market.

Financial Profile: 'Midrange'

SNCF SA's competitive activities should be able t
close to 5x in our rating case scenario, after a sha
pandemic. This is close to the historical average c

SNCF SA's competitive activities' leverage ratio c
(2019: 3.8x), reflecting an 18% drop in revenue (l
operating expenditures were down 10%, leading
3% (from 11% in 2019).

The first half of 2021, characterised by another lockdown in France in April, remains weak. Fitch expects activity to really start recovering in 2H21, driven by the widespread vaccination in France in summer 2021 and the absence of further domestic travel restrictions.

Fitch expects SNCF SA's competitive activities' EBITDA margin to stabilise at 10% over its rating-case horizon, based on prudent macroeconomic assumptions. This will be mostly driven by a gradual return to pre-crisis passenger traffic levels at end-2023. It also incorporates SNCF SA's strong commitment to contain its costs and a sustained level of net capital expenditure, of about EUR4 billion-EUR5 billion per year at the consolidated level.

SNCF SA will also benefit from the sale of its stake in Ermewa for EUR2.15 billion in 2022, leading to an expected reduction in net adjusted debt of about EUR3.2 billion.

Fitch expects net debt allocated to the competitive activities to remain stable at between EUR12 and EUR13 billion over the rating horizon.

Derivation Summary

Fitch views SNCF SA SNCF SA as a GRE of France and rates it two notches below the sovereign. This reflects a score of 30 points under our GRE criteria. The SCP is 'bbb' and at more than four notches away from the sovereign rating, it does not affect the IDR.

Short-Term Ratings

SNCF SA's 'F1+' Short-Term IDR is derived using the top-down approach used to rate the group. Public finance issuers rated on a top-down basis are assigned the highest possible Short-Term IDR, capped at the supporting government's short-term rating.

KEY ASSUMPTIONS

Our rating case is based on the following assump
competitive activities:

-Operating revenue growth of 2.5% a year on ave
passenger traffic to pre-crisis levels over the nex

-Operating expenditure growth of 2.0% a year or

-Negative capital balance of around EUR1.0 billic

Issuer Profile

SNCF SA is the holding company and sole debt issuing entity of the French national integrated railway group. Fully owned by the French state, it was created on 1 January 2020 to regroup the infrastructure manager SNCF Reseau and the operator SNCF Mobilites.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

Weaker Support Factors: A downgrade could result from a weakening of the links between the French state and SNCF SA, or a weakening of SNCF SA's importance for the French state, which Fitch views as unlikely at the moment.

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

Change in Sovereign Rating: Rating action on the sovereign would be reflected in SNCF SA's ratings.

Stronger Support Factors: An upgrade could result from a strengthening of the links between the French state and SNCF SA, or from an improvement of SNCF SA's SCP to 'a-'.

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

SNCF SA's ratings are credit-linked to those of Fr

Best/Worst Case Rating Scenario

International scale credit ratings of Sovereigns, F
issuers have a best-case rating upgrade scenario
rating transitions, measured in a positive directic
rating horizon; and a worst-case rating downgrac
percentile of rating transitions, measured in a ne
three years. The complete span of best- and wor
rating categories ranges from 'AAA' to 'D'. Best- a
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.

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

societe nationale SNCF SA	EU Issued, UK Endorsed

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