

Full Analysis:

SNCF Réseau

07/14/2021

This report does not constitute a rating action.

Major Rating Factors

Key strengths

- Sole manager of the French rail network, is not exposed to competition, and fulfils critical social and environmental government objectives
- Fully owned by the French government through Société Nationale SNCF SA, and ownership is nontransferable.
- Benefits from a €4.1 billion government support plan that should mitigate the impact of the pandemic on its financials.

Key risks

- Despite €25 billion of debt relief implemented in 2020 by the French government, the legacy debt remains large
- Negative cash flows and reliance on central government subsidies to fund a large capital expenditure (capex) program.

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Outlook

The stable outlook on SNCF Réseau mirrors that on France. Any rating action on France would result in a similar action on SNCF Réseau because we equalize our ratings on the company with those on the sovereign.

Downside scenario

Although unlikely, we could lower our ratings on SNCF Réseau if we believe that the likelihood of support from the French government has weakened, as shown by changes to the state's monitoring and control of the company. We could also lower our ratings on SNCF Réseau if we downgraded France.

Upside scenario

We could raise the rating if we raised our rating on France and, in our view, the likelihood of support for the company remained almost certain.

Rationale

We equalize our ratings on SNCF Réseau with those on France. This is because we regard the company as a government-related entity (GRE) that would benefit from an almost certain likelihood of extraordinary government support if under stress, based on our assessment of the company's:

- Critical role for the government, given its strategic mission of managing and developing the national rail infrastructure on behalf of the French government, owner of the network. We think the company's mission of ensuring mobility and supporting national solidarity and sustainable development remains of crucial importance for the French government; and
- Integral link with the French government, which fully owns the company through Société Nationale SNCF SA, and this ownership is nontransferrable. The government continues to closely monitor and supervise SNCF Réseau, notably through multiyear performance contracts and by appointing the company's CEO and chairman, as well as most board members (directly and indirectly through Société Nationale SNCF SA). In our view, the consolidation of SNCF Réseau's debt into France's public debt gives the government an incentive to maintain tight controls over the company's financial position.

We do not assess SNCF Réseau's stand-alone credit profile because we view the likelihood of extraordinary government support as almost certain, and we consider that the likelihood of government support is not subject to transition risk.

Our view of the close links between the central government and SNCF Réseau was confirmed in September 2020 with the announcement of a €4.1 billion supporting package dedicated to the company. This amount will be distributed throughout 2021, with the first tranche of €1.6 billion already paid in February. This stimulus aims to compensate for pandemic-induced losses and higher costs. It will support the company's large capex to maintain and develop the network. We expect the company to receive support until activity goes back to its prepandemic levels. In the meantime, we expect SNCF Réseau will continue to receive state grants to fund its ongoing investment program. Furthermore, the company has committed to maintain unchanged its goal to reach the "golden rule" target (net debt to operating margin below 6x) by 2026. In 2020, the pandemic and associated fall in rail traffic (both in the passenger and freight segments) affected the company, notably via lower revenue from track-access charges. Cash flow from operating activities more than halved compared with that in 2019, while capex receded but remained high.

SNCF Réseau expects the pandemic to continue to hamper its operations since traffic may take some time to recover. In line with the holding company SNCF SA, SNCF Réseau has implemented measures to mitigate

cash shortfalls resulting from the pandemic, including delaying some projects or enhancing its cash management.

We expect the second €10 billion tranche of the central government's debt-relief mechanism to be executed in 2022. In our view, this support will promote deleveraging at the company, and strengthen its financial trajectory in line with the goals set during the 2018 rail reform. In 2020, the first €25 billion tranche was executed. SNCF Réseau's net reported debt (under IFRS) consequently decreased to €29.4 billion from €51.9 billion in 2019.

Related Research

- Research Update: France 'AA/A-1+' Ratings Affirmed; Outlook Stable, April 2, 2021
- Sovereign Risk Indicators, Dec. 14, 2020. An interactive version is available on www.spglobal.com/sri
- Research Update: Société Nationale SNCF SA 'AA-/A-1+' Ratings Affirmed On Announced State Support; Off Watch; Outlook Negative, Oct. 22, 2020

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