Research Update:

Société Nationale SNCF SA 'AA-/A-1+' Ratings Affirmed On Announced State Support; Off Watch; Outlook Negative

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(***Editor's Note:*** *We republished this article on Oct. 22, 2020, to correct the maturity date of the revolving credit facility mentioned in the Liquidity section. A corrected version follows.)*

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Rating Action Overview

- In response to the COVID-19-related losses in rail revenue, the French Government announced a €4.7 billion state support package to the rail sector as part of the Plan France Relance, which includes a €4.1 billion capital injection to Société Nationale SNCF SA (SNCF SA), the holding company of SNCF Group.
- The amount and mechanism of the support reinforce our view of an extremely high likelihood of extraordinary government support, and helps the group pursue the deleveraging targets set by the rail reform implemented on Jan. 1, 2020.
- That said, a full recovery, particularly in the long distance and high-speed segment, may not materialize until 2023, so we expect SNCF SA to feel pressure on its credit metrics.
- We are therefore affirming our 'AA-/A-1+' long- and short-term ratings on SNCF SA and our 'AA-' ratings on its senior unsecured debt. We are removing them from CreditWatch negative, where we placed them on July 7, 2020.
- The negative outlook indicates that there is downside risk on our forecasts and we could lower the ratings by one notch if FFO to debt does not trend well above 6% by 2022, due to, for example, more severe COVID-19 losses than we currently anticipate, insufficiently compensated by government support.

Rating Action Rationale

The announced state support to the rail sector reinforces our view of an extremely high likelihood of extraordinary support to SNCF group. The support package includes a €4.1 billion capital increase to SNCF SA, the holding company of the rail integrated group. We expect this amount to largely absorb the impact of COVID-19-induced traffic decline on SNCF group cash flows, enabling the group to continue pursuing the deleveraging path envisaged by the rail reform. We also see the support provided to SNCF as an indication of the group's important role in achieving the environmental objectives set by the French government.

The proceeds of the capital injection will be transferred to the subsidiary SNCF Réseau and, in our view, the support benefits the entire group. The support is notably important to SNCF Réseau since it has structurally negative cash flows and relies entirely on funding by the holding company to cover its liquidity needs. There is no requirement of approval under the European Commission's state aid rule because it is the sole manager of the rail infrastructure network and is not exposed to competition.

The support package continues the tone set by the June 2018 rail reform. The reform requires the group to achieve break-even free cash flow generation by 2022 and implement a deleveraging path that is now targeting by 2023 financial leverage of 6x, under SNCF metric calculations. Furthermore, SNCF Réseau--which had a €51.9 billion debt outstanding as of end-2019--will not issue additional external debt after June 30, 2020 as per the reform. We also expect the support to largely compensate SNCF Réseau for the lack of distributions by the rail operator of the group, SNCF Voyageurs, due to the pandemic, which are normally upstreamed to support investment on the rail network.

Downside risks stemming from the pandemic may persist and continue to weigh on the group's credit metrics. We see potential for authorities to renew the mobility restrictions in France and implement localized lockdowns. This could lead to harsher traffic decline and slow recovery beyond our previous projections, particularly on the long distance and high-speed rail segment. (For more details, see "European Rail Operators Are On A Slow Train To Recovery," published Oct. 22, 2020.) We have therefore revised our revenues forecasts, particularly on Voyages SNCF, which has been the most severely hit by the traffic decline. In the first half 2020, Voyages SNCF's revenue dropped 59% compared with the same period last year. We assume a 40%-45% revenue contraction in 2020, versus our previous estimate of a 30%-35% decrease in this segment. We now anticipate revenue from long-distance, high-speed, and international traffic could bounce back to 2019 levels in 2023 at the earliest. This is mitigated by regional services, where about two-thirds of revenues are unaffected by traffic decline, and by Geodis logistic activities and Keolis local transportation business, which have proved more resilient than we anticipated (revenue contractions of 11% and 1%, respectively, in the first half 2020, versus negative 20% under our previous forecasts). Given the group's largely fixed cost base, we anticipate SNCF SA's reported EBITDA could remain suppressed at 35%-40% below the 2019 level in 2021 and the full recovery to pre-pandemic levels could stretch to 2023, alongside revenues, compared with 2022 previously expected.

Metrics are tight and may weaken further over the next few years if recovery takes longer than we expect and the setbacks during that time are not sufficiently compensated by state support. Our stand-alone credit profile (SACP) on SNCF SA remains unchanged at 'bbb-'. This is based on our expectation that funds from operations (FFO) to debt will significantly strengthen, reaching 9% from 2022 onwards, and the financial leverage of the group will reduce, on the back of €10 billion additional debt relief in 2022 and €4.1 billion recently announced capital injection. We consider credit metrics in 2021 and particularly 2022 to be more representative of the group's future credit quality. This is because they incorporate the large debt-relief measures the French government approved as part of its rail reform: €25 billion on Jan. 1, 2020, and €10 billion on Jan. 1, 2022. Nevertheless, we still see downside risk on our forecasts. We will continue to closely monitor how the pace of recovery and cash flow generation affect the trend in ratios remaining commensurate with an investment grade SACP. This would hinge on S&P Global Ratings-adjusted debt to EBITDA trending to 6x-7x in 2022-2023 from 12x in 2019, and FFO to debt moving to 9.0% by 2022 from 4.4% in 2019.

Outlook

The negative outlook reflects the uncertain pace, timing, and shape of rail passenger recovery over the next months. Despite the approved government support, the group's creditworthiness may hurt if mobility restrictions, consumer attitudes, and the economic backdrop amid COVID-19 fallout continue to delay passenger recovery. Our ratings take into account the recent approved €4.1 billion support from the state to the group to compensate part of its COVID-19-related losses.

Downside scenario

We could lower the rating to 'A+' if, absent any revision of the extraordinary likelihood of extraordinary government support, the group cannot withstand COVID-19 impacts, leading to a deterioration of its SACP by two notches to 'bb'. This could materialize, for example, if the group cannot maintain FFO to debt well above 6% by 2022.

We could also lower the ratings by one notch to 'A+' if we were to lower the sovereign rating on France to 'AA-'.

Finally, we could revise down the SACP by one notch if the group is not able to strengthen its FFO to debt trending above 9% by 2022. This would not prompt us to lower the rating on the group, however.

Upside scenario

We could revise the outlook to stable if the operating environment normalized after the effects of the pandemic subside and we have greater clarity on the economic and traffic recovery prospects. In addition, an outlook revision to stable would depend on SNCF SA sustaining an adjusted FFO-to-debt ratio above 6%.

We would raise the rating on SNCF SA if we raised the rating on France. If neither the sovereign rating nor our assessment of the likelihood of extraordinary support changes, a one notch upgrade would need hinge on the group's SACP strengthening to 'a+' (five notches higher than the current level). We currently see this as highly unlikely.

Company Description

SNCF SA is the holding company of French integrated rail and transportation services SNCF Group. Fully owned by the French government, the group is France's incumbent provider of passenger rail services through its 100%-owned subsidiary SNCF Voyageur (29% of total gross profit in 2019), and the monopolistic rail infrastructure and train station manager in France through its 100%-owned subsidiary SNCF Réseau (36% of total gross profit in 2019, including its subsidiary Gares&Connexions). The company also owns rail freight, logistics, and mass-transit transportation activities, respectively through Geodis, SNCF Fret, logistic subsidiaries (17% of total gross profit) and Keolis (11% of gross profit).

Liquidity

We assess SNCF SA's liquidity as adequate, based on our expectation that sources will cover uses by more than 1.2x over the 12 months to June 30, 2021. In our view, given its key role and strong links with the French government, the group benefits from a high standing in credit markets, solid relationships with banks, and ability to swiftly access emergency central government funding in the event of difficult market access.

We estimate the following liquidity sources for the 12 months to June 30, 2021:

- About €8 billion of unrestricted cash and cash equivalents, reflecting the proceeds of about €4 billion bond issuances completed in 2020 so far;
- An undrawn revolving credit facility of €3.5 billion, committed until 2024, and about €400 million-€500 million of other committed lines;
- Expected capital injection from the government under the Plan France Relance to cover COVID-19-related losses;
- The state's contribution of about €2.2 billion-€2.3 billion to cover debt service under a €25 billion debt-relief mechanism in place since Jan. 1, 2020.

We estimate the following liquidity uses over the same period:

- Debt maturities of about €4.5 billion-€4.6 billion;
- Capex of about €4.0 billion-€4.5 billion, net of investment grants;
- Negative FFO of about €600 million;
- Working capital of €150 million-€200 million; and
- No dividend distributions because of expected losses on rail passenger business.

Covenants

SNCF SA doesn't have any financial covenant in its financial documentation. Nevertheless, some subsidiaries, such as Keolis and Eurostar, have external debt that includes certain financial covenants. We do not anticipate an acceleration of such debt and estimate that SNCF SA has sufficient liquidity if needed.

Issue Ratings--Subordination Risk Analysis

Capital structure

SNCF SA is the holding company of SNCF group and the sole issuer for the group after June 2020. Its total external consolidated debt (about €68 billion as of Dec. 31, 2019) notably includes SNCF Réseau's large external debt of about €54 billion, which benefits from €25 billion of debt relief on Jan. 1, 2020, and €10 billion on Jan. 1, 2022. Other subsidiaries have limited external debt (about €2.8 billion), including Keolis, logistic companies, and Eurostar.

Analytical conclusions

We equalize our issue rating on SNCF SA's debt with 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's legacy debt.

We expect the amount of SNCF Réseau's external debt will progressively reduce below 50% after the €35 billion debt relief is completed and refinancing needs will remain covered by the holding company, SNCF SA.

Ratings Score Snapshot

Issuer Credit Rating:	AA-/Negative/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: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Related Research

- European Rail Operators Are On A Slow Train To Recovery, Oct. 22, 2020

Ratings List

Affirmed; CreditWatch/Outlook Action

	To	From
Societe nationale SNCF		
Issuer Credit Rating	AA-/Negative/A-1+	AA-/Watch Neg/A-1+
Societe nationale SNCF		
Senior Unsecured	AA-	AA-/Watch Neg
Commercial Paper	A-1+	A-1+/Watch Neg

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.