

CREDIT OPINION

14 November 2024

Update

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RATINGS

SNCF Réseau

Domicile	Paris, France
Long Term Rating	Aa2
Type	Senior Unsecured - Fgn Curr
Outlook	Negative

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 Réseau

Update following outlook change to negative

Summary

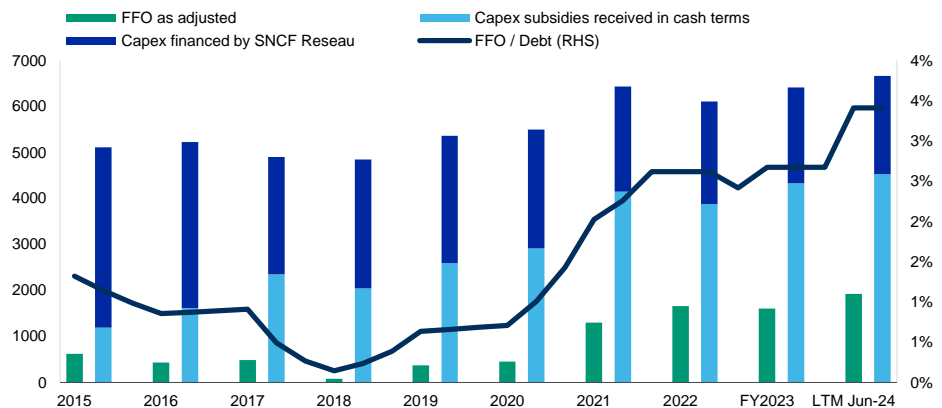
SNCF Réseau's credit profile is aligned with that of the [Government of France](#) (Aa2 negative), reflecting the company's strategic importance to the French government and its long history of receiving direct credit support from the government, which we expect to continue.

The credit profile of SNCF Réseau and the senior unsecured bonds issued under its €55 billion euro medium-term note (EMTN) programme also reflects the essential public service nature of SNCF Réseau's rail infrastructure network; the government's debt relief in the amount of €35 billion, which partially supports repayment of the notes under the EMTN programme as they become due; the company's natural monopoly position; and the high predictability of revenue and operating cash flow provided by a multiyear service contract between the company and the French government.

SNCF Réseau's financial profile is constrained by its high leverage, as illustrated by funds from operations (FFO)/debt of 3.4% for the 12 months that ended 30 June 2024 (4.4% including debt relief), and its Moody's-adjusted free cash flow (FCF), which we expect to remain negative until at least 2026.

Exhibit 1

Leverage remains high despite the increase in FFO



Taking into account the French government's debt relief programme, Moody's adjusted FFO / Debt would be around 4.4% as of LTM Jun-24.

Sources: Company and Moody's Financial Metrics™

Credit strengths

- » Essential public service nature of SNCF Réseau's rail infrastructure network, which is strategically important to the French government
- » Natural monopoly position and multiyear performance contract, which provides revenue and operating cash flow visibility
- » Very high probability of support from the government, illustrated by the debt relief completed in 2020 and 2022, and the coronavirus pandemic support package

Credit challenges

- » Sizeable investment requirements to maintain and renew the extensive French railway infrastructure network, leading to negative FCF until at least 2026
- » High leverage
- » Liquidity to remain dependent on the receipt of government subsidies and investment grants, as well as financial support from [SNCF S.A.](#) (SNCF, Aa3 negative)

Rating outlook

SNCF Réseau's negative rating outlook is in line with that of the Government of France, and it mainly reflects the very strong financial links and relationship between the company and its ultimate owner.

Factors that could lead to an upgrade

We could upgrade SNCF Réseau's debt ratings if the French sovereign rating were to be upgraded, provided support from the state remains intact.

Factors that could lead to a downgrade

We could downgrade SNCF Réseau's debt ratings if France's sovereign rating were to be downgraded or if we perceive a weakening in government support.

Key indicators

Exhibit 2

SNCF Réseau

SNCF Réseau

	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23	LTM June 2024
Debt / Book Capitalization	148.1%	92.3%	89.7%	77.3%	76.2%	75.1%
EBITDA Interest Coverage	1.2x	1.2x	1.7x	1.8x	1.6x	1.9x
FFO / Debt	0.6%	0.7%	2.0%	2.6%	2.7%	3.4%
FCF / Debt	-3.2%	-4.1%	-0.8%	-0.3%	-0.6%	-0.4%

LTM: Last 12 months. All ratios are based on "Adjusted" financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. For definitions of Moody's most common ratio terms, please see the accompanying [User's Guide](#).

Source: Moody's Financial Metrics™

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

Profile

SNCF Réseau is a 100% indirectly state-owned entity, created in 1997, with full ownership of the French rail infrastructure; since 1 January 2020, it has been directly owned by SNCF following the corporate restructuring of SNCF. SNCF Réseau's purpose is to manage, develop and maintain around 28,000 kilometres (km) of railway lines, including more than 2,800 km of high-speed lines on more than 100,000 hectares of land. The entity is financed through charges paid by rail operators for their network usage, and the significant subsidies that it receives from the French state, local governments and the EU.

Detailed credit considerations

SNCF Réseau's credit profile benefits from strong links with the French government

SNCF Réseau's credit profile remains aligned with that of the Government of France, reflecting the long-standing strong links between SNCF Réseau and the government, and the direct credit support from the government. We recently changed the outlook to negative for France (Aa2 negative) due mainly to the reduction in debt affordability and fiscal deterioration as well as the institutional environment that is not conducive to coalescing on policy measures. As a result the outlook was also changed to negative for SNCF Réseau.

According to our methodology for Government-Related Issuers (GRIs), we include certain key state-owned enterprises (SOEs) that are indirectly owned by the government as GRIs, on the basis that: (i) where we consider the supporting government could exert a very high level of control, either directly or through the rated entity's parent, over the governance or financing of the rated entity; and (ii) where we consider the rated entity is strategically important to the supporting government. SNCF Réseau meets both criteria as listed above and is very likely to receive extraordinary support from the Government of France (Aa2 negative), when in need. We therefore classify SNCF Réseau as a GRI and use a top-down approach in assigning SNCF Réseau's rating under the GRI methodology. This means that we do not assign a Baseline Credit Assessment (BCA) and that we base the rating on the ability and willingness of the government to provide timely financial support to the company.

Extraordinary support from the government is illustrated by:

1. the €4.7 billion support package, including the €4.1 billion capital injection and the €0.6 billion support to the railway system, which the government provided in 2021 to compensate for pandemic-related losses and to finance future capital spending
2. the €35 billion debt relief, with a first-phase debt relief in the amount of €25 billion in January 2020 and the final €10 billion completed in January 2022
3. ongoing direct subsidies from the government

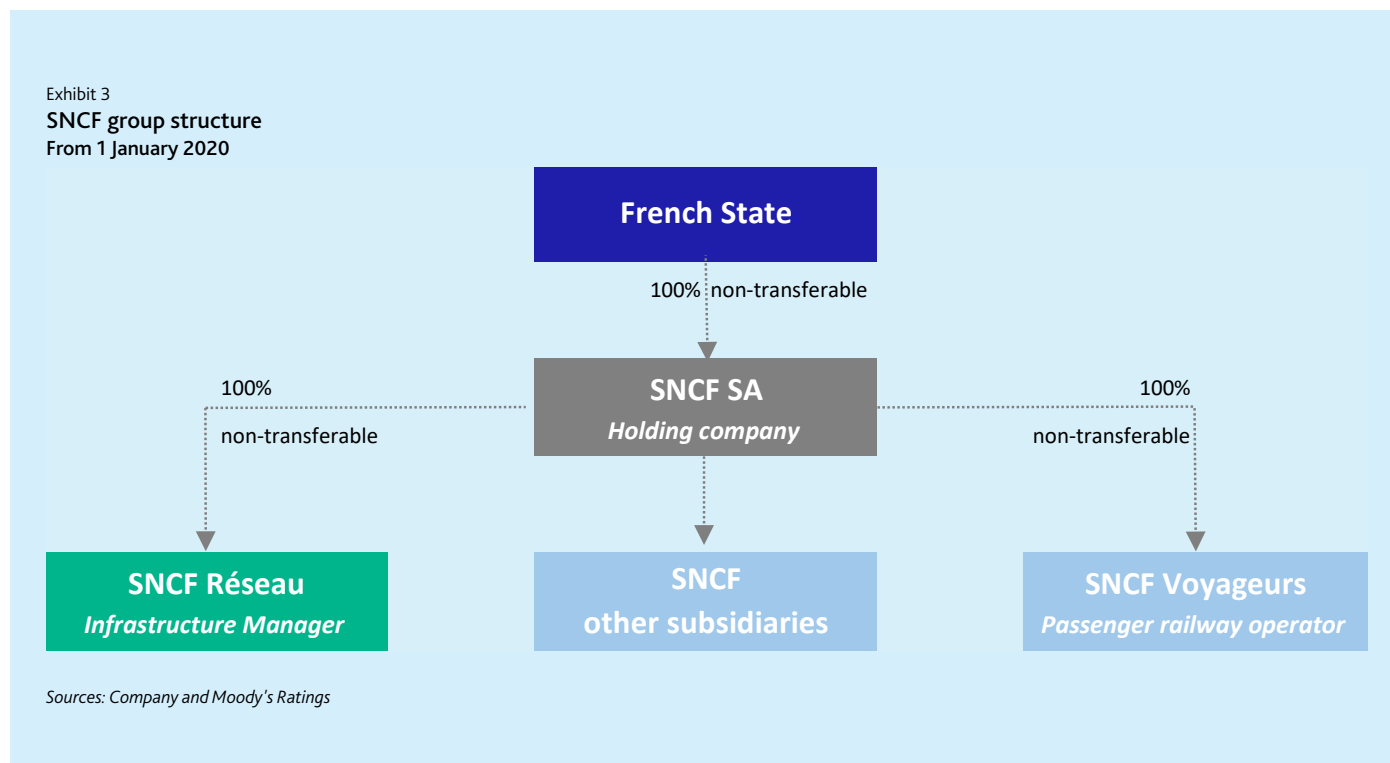
Following the railway reform adopted in 2018, the government has reinvested dividends from SNCF into SNCF Réseau. As SNCF Réseau's substantial investment programme will drive negative FCF for the next three years, we expect the company to remain dependent on public funds through public subsidies and capital spending grants.

SNCF Réseau will continue to benefit from very high government support, given the company's strategic and political importance as France's sole railway infrastructure manager; and the continued 100% ownership by the French state without the option to sell or transfer the shares to any third party (that is, privatisation is not possible). At the same time, the strong relationship between SNCF Réseau and the French government remains characterised by the company's importance to the French economy as the owner and developer of the French rail network, and the close operational links between the company and the French government.

SNCF Réseau's public limited liability status and ownership through SNCF do not reduce state support

From 1 January 2020, SNCF Réseau became a public limited liability company, a wholly owned subsidiary of SNCF, the holding company of the SNCF group. As a public limited liability company, SNCF Réseau's shares cannot be sold or transferred, restricting any future privatisation. Also, since July 2020, SNCF Réseau no longer issues debt directly, and all of its existing debt and ongoing funding requirements are funded by SNCF. SNCF Réseau's existing debt as of 1 January 2020 remains on its balance sheet and is gradually reducing as it matures.

A change in SNCF Réseau's direct ownership or ability to issue debt will not weaken the links between the company and the government, or affect the company's credit profile. As a direct shareholder, SNCF is able to vote on all of SNCF Réseau's decisions, except for regulated activities (mainly tariff policy and investment plans), which remain a prerogative of the state. EU directives about the separation of the infrastructure managers from other railway activities subject to competition will also limit the influence of SNCF in the company. For instance, government subsidies will continue to flow directly to SNCF Réseau without going through its parent entity. The company also receives funds from SNCF through intercompany loans or capital increases to cover its funding needs.



Natural monopoly position and a multiyear performance contract provide visibility into SNCF Réseau's revenue and operating cash flow

SNCF Réseau benefits from a natural monopoly position as the sole owner and manager of the national rail infrastructure network, and is therefore an essential public service provider. While the rail reform legislation will gradually end the monopoly of SNCF passenger train services in France, SNCF Réseau, even as a public limited company, will maintain its natural monopoly because of the lack of possible competitors.

SNCF Réseau's revenue is derived from the significant subsidies it receives from the French state, local governments and the EU, as well as from the charges paid by rail operators for their network usage. Those charges are defined under a multiyear contract (performance plan) signed between the company and the French government, which endorses the full-cost recovery principle and the above-inflation tariff increases applied to rail tolls. This framework is designed to allow SNCF Réseau to repay the financial obligations created by the high-speed lines. The company's monopoly position means that even if certain routes are lost by its parent company to competition its revenue base will remain stable as operating competitors are subject to the same track fees.

Through a decree published in March 2019, the French state established that from 2021, SNCF Réseau determines the level of charges for a period of three years (instead of five years in the past) in collaboration with the regulator Arafer, which liaises between the infrastructure manager and the railway companies, and ensures that tariffs and guidelines are in line with legislation. The inclusion of Arafer in the tariff determination reduces the scope for any unfavourable opinion from the regulator after the contract has been approved — as has been the case in the past.

The €35 billion debt relief programme significantly reduces SNCF Réseau's leverage, but further funding will be required to cover its capital spending

The €35 billion debt relief is equivalent to around 63% of the company's net debt reported in 2020. SNCF Réseau's financial leverage is, therefore, decreasing significantly as a result of the debt relief, moving from Moody's-adjusted net debt/EBITDA of 24.8x in 2020 to around 11.5x on a pro forma basis for the 12 months that ended June 2024. The repayment mechanism is structured using a back-to-back loan structure between the company and the state whereby the French government forgives the company's debt obligations as they become due.

While the debt reduction significantly reduces interest expenses, improving the company's cash flow profile for the next three years, the large investments planned over the next few years will continue to drive negative FCF and require additional funding either directly in the form of government grants, or via SNCF as intercompany loans or capital increases.

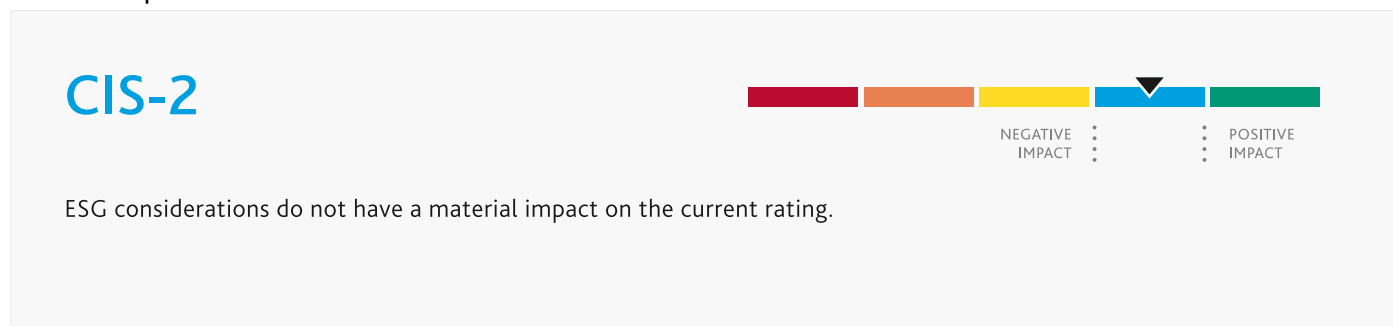
To prevent SNCF Réseau from developing new projects that would increase its debt beyond a certain level, the French legislator set up a "golden rule" where the company was not permitted to raise debt for "development investments" if its net debt/gross profit exceeded 18x. From 1 January 2020, and considering the changed structure and debt relief programme, the French government lowered this threshold to 6x. However, it gives flexibility to the company to progressively attain financial equilibrium and the new ceiling in two stages: a transitional period of six years until 31 December 2026, during which SNCF Réseau should achieve the new threshold and will continue to be prohibited from participating in development investments if the cap is breached; and the second period, starting 1 January 2027, when all capital investments — that is, development and maintenance — will be constrained if the threshold is exceeded. In any case, any new debt related to such development investments would be raised at the parental level, SNCF.

The outstanding notes under the company's €55 billion euro medium-term note (EMTN) programme effectively rank pari passu with French government debt according to the company. This is because the debt relief mechanism is included not only in Budgetary Law but also in a financial contract for the back-to-back loans, signed between the State and SNCF Réseau. All such financial contracts of the French State are pari passu. As such, those loans are pari passu with the other commitments from the French Government.

ESG considerations

SNCF Réseau's ESG credit impact score is CIS-2

Exhibit 4
ESG credit impact score

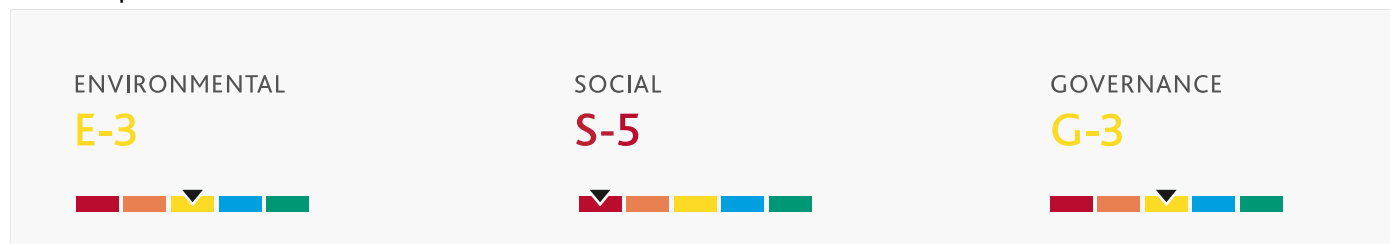


Source: Moody's Ratings

ESG scores and narratives are aligned with those of SNCF S.A.. SNCF's ESG Credit Impact Score reflects the company's government ownership and high level of government support which offsets the ESG risks identified for SNCF in the IPS scores. As a standalone entity without government support, SNCF's credit rating would be impacted by Environmental, Social and Governance risks.

Exhibit 5

ESG issuer profile scores



Source: Moody's Ratings

Environmental

ESG scores and narratives are aligned with those of SNCF S.A.. SNCF's Environmental score (**E-3**) reflects the company's logistics and freight segments which transport natural resources such as coal and metals. SNCF intends to cut direct carbon emissions to zero by 2050.

Social

ESG scores and narratives are aligned with those of SNCF S.A.. SNCF's social risk (**S-5**) is driven by the company's very high fixed cost base related to employees which is difficult to reduce as well as the frequency and expense of industrial action. SNCF is moderately exposed to health and safety, occasional service disruptions, as well as the risk of managing sensitive consumer information which creates data privacy risks.

Governance

ESG scores and narratives are aligned with those of SNCF S.A.. SNCF's governance score (**G-3**) reflects the company's financial policy and concentrated ownership, as the company is 100% owned by the French Government. The company has an appetite for high leverage but practices excellent liquidity management. The company's governance risks are also linked to the sovereign governance score; for France this is positive (G-1).

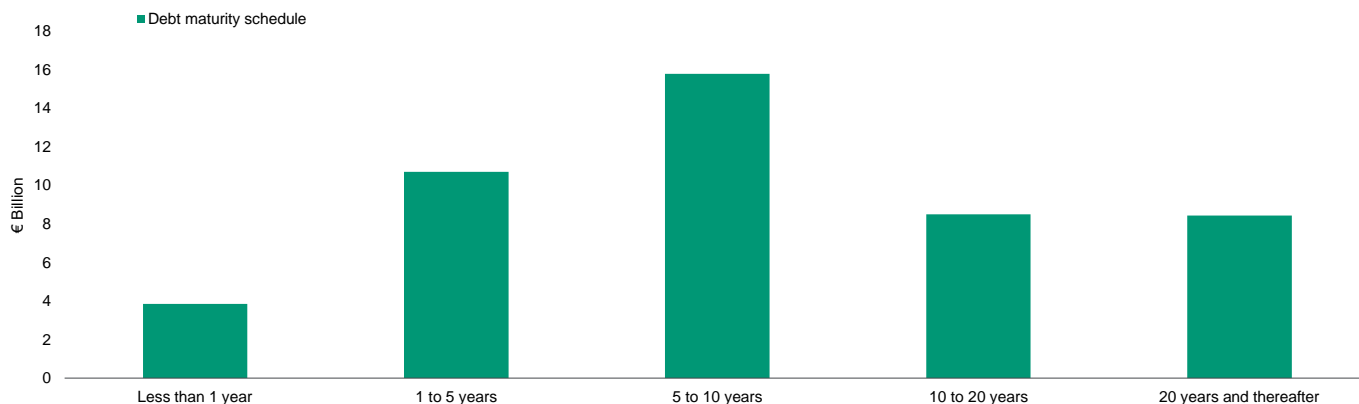
ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity analysis

SNCF Réseau no longer issues debt directly and all of its existing debt and ongoing market funding requirements are provided by SNCFS.A. as well as ongoing state contributions. As a result, we monitor the liquidity profile of SNCF S.A. and its ability to provide liquidity sources to SNCF Réseau. We expect SNCF SA to maintain good liquidity over the next 12 months, supported by its cash position of €8.2 billion as of June 2024; its €8 billion commercial paper programme; and unused commercial paper back-up lines of €3.5 billion renewed annually.

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.

Exhibit 6
SNCF Réseau has a long-dated debt maturity profile
 As of 31 December 2023



As reported. Does not take into consideration the €35 billion debt relief programme.
 Sources: Company and Moody's Ratings

Methodology and scorecard

Given its 100% state ownership and close links with the French government, SNCF Réseau is assessed under our [Government-Related Issuers](#) rating methodology, published in February 2024.

Ratings

Exhibit 7

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

Source: Moody's Ratings

Appendix

Exhibit 8

Peer comparison

(in USD millions)	SNCF Réseau Aa2 Negative			Infrabel Aa3 Negative			ADIF Baa2 Positive		
	FYE Dec-22	FYE Dec-23	LTM Jun-24	FYE Dec-21	FYE Dec-22	FYE Dec-23	FYE Dec-21	FYE Dec-22	FYE Dec-23
Revenue	8,702	9,602	9,986	769	813	946	462	594	787
EBITDA	4,194	3,986	3,731	138	155	171	192	370	618
Total Debt	67,644	66,402	60,568	4,056	3,588	3,691	19,885	17,866	19,420
Cash & cash equivalents	125	93	106	443	557	569	177	157	161
EBIT margin %	28.1%	23.1%	19.0%	13.4%	15.3%	14.4%	-55.2%	-11.9%	18.5%
EBITDA Interest Coverage	1.8x	1.6x	1.9x	1.4x	-4.9x	2.0x	2.0x	2.3x	2.1x
FFO / Debt	2.6%	2.6%	2.7%	0.7%	0.7%	0.7%	-1.3%	-0.4%	0.4%
FCF / Debt	-0.3%	-0.3%	-0.6%	2.7%	3.8%	2.8%	-8.6%	-6.2%	-8.9%
Debt / Book Capitalization	77.3%	76.2%	75.1%	73.5%	73.1%	71.8%	37.8%	36.7%	36.9%

All figures and ratios calculated using Moody's estimates and standard adjustments. FYE = Financial year-end. LTM = Last 12 months.

Source: Moody's Financial Metrics™

Exhibit 9

Adjusted debt breakdown

SNCF Réseau

(in EUR Millions)	FYE Dec-19	FYE Dec-20	FYE Dec-21	FYE Dec-22	FYE Dec-23	LTM Jun-24
As Reported Debt	60,420	66,043	64,038	60,668	57,423	53,849
Pensions	16	28	24	399	421	421
Non-Standard Adjustments	-1,485	-1,500	2,363	2,315	2,267	2,243
Moody's-Adjusted Debt	58,951	64,571	66,425	63,382	60,111	56,513

All figures are calculated using Moody's estimates and adjustments. FYE = Financial year-end. LTM = Last 12 months.

Source: Moody's Financial Metrics

Exhibit 10

Adjusted EBITDA breakdown

SNCF Réseau

(in EUR Millions)	FYE Dec-19	FYE Dec-20	FYE Dec-21	FYE Dec-22	FYE Dec-23	LTM Jun-24
As Reported EBITDA	2,962	3,869	4,659	5,465	5,121	4,936
Unusual	-68	-94	0	-192	0	0
Non-Standard Adjustments	-967	-1,179	-1,205	-1,294	-1,435	-1,487
Moody's-Adjusted EBITDA	1,927	2,596	3,454	3,979	3,686	3,449

All figures are calculated using Moody's estimates and adjustments. FYE = Financial year-end. LTM = Last 12 months.

Source: Moody's Financial Metrics™

Exhibit 11

Adjusted FFO breakdown SNCF Réseau

(in EUR Millions)	FYE Dec-19	FYE Dec-20	FYE Dec-21	FYE Dec-22	FYE Dec-23	LTM Jun-24
As Reported FFO	1,867	1,200	2,059	2,179	2,044	2,351
Capitalized Interest	-208	-131	-228	-230	-141	-128
Alignment FFO	-1,284	-613	-532	-289	-297	-295
Moody's-Adjusted FFO	375	456	1,299	1,660	1,606	1,928

All figures are calculated using Moody's estimates and adjustments. FYE = Financial year-end. LTM = Last 12 months.

Source: Moody's Financial Metrics™

Exhibit 12

Select historical Moody's-adjusted financial data SNCF Réseau

(in EUR Millions)	FYE Dec-19	FYE Dec-20	FYE Dec-21	FYE Dec-22	FYE Dec-23	LTM Jun-24
Income Statement						
Revenue	6,501	6,744	7,612	8,257	8,879	9,232
EBITDA	1,927	2,596	3,454	3,979	3,686	3,449
EBITDA Margin %	29.6%	38.5%	45.4%	48.2%	41.5%	37.4%
EBIT	710	1,137	1,903	2,317	2,051	1,751
EBIT Margin %	10.9%	16.9%	25.0%	28.1%	23.1%	19.0%
Interest Expense	1,582	2,182	2,080	2,226	2,238	1,863
Balance Sheet						
Cash & Cash Equivalents	2,627	257	834	117	84	99
Total Assets	53,740	84,912	120,615	131,440	131,738	129,854
Total Debt	58,951	64,571	66,425	63,382	60,111	56,513
Total Equity	(19,156)	5,384	7,658	18,613	18,718	18,749
Cash Flow						
FFO	375	456	1,299	1,660	1,606	1,928
FFO / Net Debt	0.7%	0.7%	2.0%	2.6%	2.7%	3.4%
Capital Expenditures	2,650	2,543	2,161	2,100	(2,037)	(2,099)
RCF	375	456	1,299	1,660	1,606	1,924
FCF	(1,915)	(2,640)	(553)	(184)	(348)	(204)
FCF / Net Debt	-3.4%	-4.1%	-0.8%	-0.3%	-0.6%	-0.4%
Interest Coverage						
EBITDA / Interest Expense	1.2x	1.2x	1.7x	1.8x	1.6x	1.9x
(FFO + Interest) / Interest Expense	1.2x	1.2x	1.6x	1.7x	1.7x	2.0x
Leverage						
Debt / EBITDA	30.6x	24.9x	19.2x	15.9x	16.3x	16.4x
Net Debt / EBITDA	29.2x	24.8x	19.0x	15.9x	16.3x	16.4x
Debt / Book Capitalization	148.1%	92.3%	89.7%	77.3%	76.2%	75.1%

All figures are calculated using Moody's estimates and adjustments. FYE = Financial year-end. LTM = Last 12 months.

Source: Moody's Financial Metrics™

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