

# **FITCH RATES SOCIETE DU GRAND PARIS 'AA'; OUTLOOK STABLE**

Fitch Ratings-Paris-28 September 2018: Fitch Ratings has assigned Societe du Grand-Paris (SGP) Long-Term Issuer Local and Foreign Currency Default Ratings (IDR) of 'AA' with a Stable Outlook and a Short-Term Foreign Currency IDR of 'F1+'. Fitch has also assigned 'AA'/F1+ ratings to SGP's EUR5 billion EMTN programme and a 'F1+' rating to SGP's EUR3 billion commercial paper programme (Neu CP).

Fitch classifies SGP as a government-related entity (GRE) of the French state (AA/Stable/F1+) under its GRE criteria, and equalises SGP's ratings with those of the sovereign. In Fitch's view, SGP is very strongly linked to the French state and the latter has a strong incentive to support SGP. Accordingly, we believe that the French state would provide SGP with timely extraordinary support in case of need.

SGP is the entity in charge of the completion of the 200 kilometres Grand Paris Express (GPE) automated metro network. The project aims to double the Paris region's existing metro lines by 2030, and its total cost is currently estimated at close to EUR40 billion. According to the government's plan, debt would peak in 2030 at around EUR35 billion and would progressively amortise until 2070. However, Fitch notes this objective is unlikely to be met with the current allocated tax revenue and scope of the project.

## **KEY RATING DRIVERS**

SGP's rating equalisation with the sovereign reflects Fitch's following assessment of the rating factors as follows:

### **Status, Ownership and Control: Very Strong**

SGP has the special legal status of "Etablissement public industriel et commercial" (EPIC) under French law. It is not subject to bankruptcy laws, and if SGP were to be dissolved, its assets and liabilities would be transferred to the state or to another public entity designated by the state.

EPIC status also implies both full ownership from the French state and close monitoring by the French government. The French state exercises direct control over SGP, which is ensured by majority representation of the state on the Supervisory Board (11 out of 21 voting members) and the nomination of the Executive Board by state decree. Budgets must be approved by a financial controller appointed by the state and are subject to the control of a public accountant. Audits are carried out by the Ministry of Finance and the Ministry of Transport, and SGP is also subject to the ultimate control of the state's supervisory bodies.

Strategic decisions on the project and its financing are taken at the government's level. The parliament is also involved as it must approve the nature and the level of the tax items that are earmarked for SGP through the finance bill.

### **Support Track Record and Expectations: Very Strong**

The French state supports SGP by dedicating every year a share of three specific tax items to the project: the office-space tax (TLB), the special equipment tax (TSE), and the tax on network businesses (IFER). Their combined proceeds amounted to EUR532 million in 2017, representing 99% of SGP's operating revenue.

However, current tax revenue will not be sufficient to meet the expected total cost of the project and the full repayment of its debt by 2070. A recent parliamentary report, named "Rapport Carrez",

has recommended the transfer of additional tax revenue to SGP. Fitch expects that the French state will take measures to improve the project's financial viability.

As an EPIC, SGP also has access to all of the state's emergency liquidity support mechanisms, including the purchase of short-term bonds by the Minister of Finance or the State Debt Fund (Caisse de la dette publique; CDP). There are no legal or regulatory restrictions on government support in such a scenario.

Our assessment also reflects the law of 16 July 1980, which in Fitch's view, makes the French state liable for the debt of its EPICs, including SGP. We do not view the law as tantamount to a guarantee, but we believe it constitutes another form of support to EPICs.

Finally, the French state has agreed to guarantee the funding packages to SGP from Caisse des depots et consignations (CDC; AA/Stable; EUR1 billion) and from the European Investment Bank (EIB; AAA/Stable; EUR2.5 billion; EUR700 million of which was raised in 2017).

#### Socio-political Implications of Default: Moderate

SGP is the agent for implementing a strategic project for the French state. Although it applies to a regional area, it is viewed as being of national interest under the French law, due to the significant weight that Ile-de-France's region has for the French economy (around 30% of GDP). The project's objective is to stimulate growth, and to increase French GDP by EUR100 billion over the long term. SGP also plays a significant role in the preparation for the Paris 2024 Olympics.

Our assessment reflects SGP's mission, which consists of delivering a long-term project and does not cover the management of an essential public service or the fulfilment of a government's core activity. Accordingly, we believe that a default of SGP would not have direct social consequences. However, it would postpone the calendar of new network deliveries, with significant political repercussions.

#### Financial Implications of Default: Very Strong

Fitch views SGP as a proxy for state funding. The state uses SGP as a financing vehicle for government projects via specific and pledged taxes dedicated to this purpose. As a result, we believe that a default of SGP would have direct consequence on funding cost for the sovereign. Further, SGP's debt is consolidated in French general government debt.

A default of SGP could also have a contagion effect on other French GREs, especially other EPICs, as investors could lose faith in the French state's ability or willingness to support these entities.

#### Operations

Fitch has not assessed the stand-alone credit profile (SCP) to SGP at this stage as the scope of its revenue may change in the short-term and also due to the close financing and operational links between SGP and the French state. However, we expect debt sustainability ratios to be low in the long term, with net debt-to-EBITDA exceeding at least 40x, making support from the French state even more necessary.

In a "business-as-usual" scenario (i.e. current estimated cost of the project and current sources of revenue), the objective of amortisation before 2070 is unlikely to be met. The cost of debt would likely be structurally higher than SGP's EBITDA, and debt could become perpetual. In such a scenario, we would expect the state to directly assume SGP's debt.

The recently published 'Carrez Report' has recommended that EUR250 million a year of pledged tax revenue be added to the project. In such a scenario, the risk of the debt becoming perpetual

would be significantly lower and, in Fitch's view, repayment by 2070-2080 would be more feasible.

On top of the contracted funding packages SGP has launched a EUR3 billion Neu CP programme and a EUR5 billion EMTN programme. Issues from these programmes, however, will not benefit from an explicit guarantee from the state. SGP aims to issue programme bonds by year-end.

#### RATING SENSITIVITIES

Changes to France's sovereign ratings would be mirrored in SGP's ratings. A downgrade could result from weaker linkage or/and incentive to support factors. This could result in lower expected financial support from the French state.

#### Contact:

Primary Analyst  
Pierre Charpentier  
Associate Director  
+33 1 44 29 91 45  
Fitch France S.A.S.  
60, rue de Monceau  
75008 Paris

Secondary Analyst  
Christophe Parisot  
Managing Director  
+33 1 44 29 91 89

Committee Chairperson  
Guido Bach  
Senior Director  
+49 69 768076 111

Media Relations: Athos Larkou, London, Tel: +44 20 3530 1549, Email:  
athos.larkou@fitchratings.com.

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

#### Applicable Criteria

Government-Related Entities Rating Criteria (pub. 07 Feb 2018)

<https://www.fitchratings.com/site/re/10019302>

International Local and Regional Governments Rating Criteria - Outside the United States (pub. 18 Apr 2016)

<https://www.fitchratings.com/site/re/878660>

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