FitchRatings

25 Sep 2019 | Affirmation

Fitch Affirms Societe du Grand Paris at 'AA'; Outlook Stable

Fitch Ratings-Paris-25 September 2019:

Fitch Ratings has affirmed Societe du Grand-Paris's (SGP) Long-Term Local- and Foreign-Currency Issuer Default Ratings (IDR) at 'AA' with a Stable Outlook and Short-Term Foreign Currency IDR at 'F1+'. Fitch has also affirmed the 'AA'/'F1+'ratings on SGP's EUR10 billion EMTN programme and 'F1+' rating on SGP's EUR3 billion commercial paper programme (Neu CP).

Fitch classifies SGP as a government-related entity (GRE) of the French state (AA/Stable) 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 close to EUR35 billion and would progressively amortise until 2070.

Key Rating Drivers

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

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 was 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 level. 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 a share of three specific tax items to the project every year: the office-space tax (TLB), the special equipment tax (TSE), and the tax on network businesses (IFER). The combined proceeds were EUR566 million in 2018, representing 92% of SGP's operating revenue (Fitch-adjusted). Additional tax revenue were dedicated to SGP by the 2019 Finance Bill. This will improve the project's financial viability and should help SGP respect its amortisation objectives.

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; EUR1 billion of which was raised at end-2018).

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 has 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.

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 SGP's Standalone Credit Profile (SCP) as it mainly acts as a pass-through entity for the French state.

The additional tax revenue pledged by the Finance Bill for 2019 will help SGP cope with the 2070 amortisation target. However, this objective will remain sensitive to two macro-economic assumptions: GDP growth, which will indirectly drive SGP's revenue, and interest rates, which will drive a large share of SGP's current expenditure in the medium term.

On top of the contracted funding packages SGP uses a EUR3 billion Neu CP programme and a EUR10 billion EMTN programme. However, issues from these programmes will not benefit from an explicit guarantee from the state.

RATING SENSITIVITIES

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

Societe du Grand Paris; Long Term Issuer Default Rating; Affirmed; AA; RO:Sta
----; Short Term Issuer Default Rating; Affirmed; F1+
----; Local Currency Long Term Issuer Default Rating; Affirmed; AA; RO:Sta
----senior unsecured; Long Term Rating; Affirmed; AA
----senior unsecured; Short Term Rating; Affirmed; F1+

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Applicable Criteria

Government-Related Entities Rating Criteria (pub. 25 Oct 2018)

Rating Criteria for International Local and Regional Governments (pub. 13 Sep 2019)

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