

CREDIT OPINION

30 March 2021

 Rate this Research

RATINGS

Societe du Grand Paris

Domicile	Paris, France
Long Term Rating	Aa2
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

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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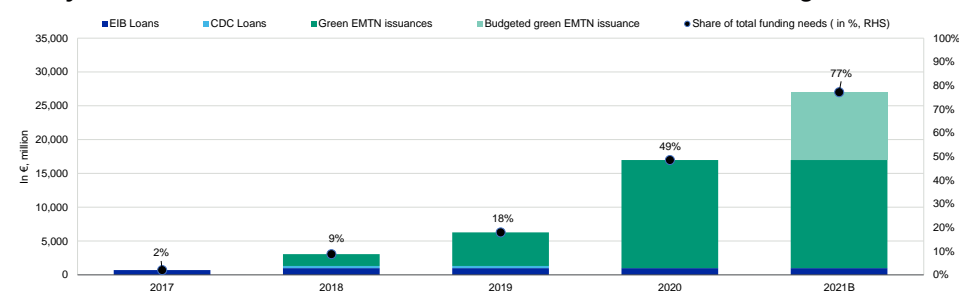
Update to credit analysis

Summary

The credit profile of [Société du Grand Paris](#) (SGP, Aa2 stable) reflects the strong institutional, financial and operational framework that links it very closely to its owner, the [Government of France](#) (Aa2 stable). It also reflects SGP's clear public-policy mandate. SGP is a public entity with a special legal status as an EPIC (Etablissement Public Industriel et Commercial) whose purpose is to develop the infrastructure network in Greater Paris, mainly building the 200-kilometre Grand Paris Express (GPE) automated metro network. Given the project's strategic importance and international visibility, including helping France meet its carbon emission objectives, we consider SGP's rating aligned with that of the sovereign.

Exhibit 1

As of year-end 2021, SGP will have borrowed 78% of its total €35 billion funding needs



B - Budget; debt amounts displayed are cumulative.

Source: SGP, Moody's Investors Service

Credit strengths

- » Very strong and close links with its owner, the French government
- » Key role in the development of Greater Paris
- » SGP's funding strategy is focused on securing needs

Credit challenges

- » Although inherent risks to projects of this scale exist, they are currently not material.

Rating outlook

The stable outlook on SGP's rating reflects that of the sovereign, and the strong institutional, financial and operational links with the central government. It also reflects our expectation that, given the importance of the GPE infrastructure, its size and resulting debt, the strong and close links with the central government will persist.

Factors that could lead to an upgrade

Any upgrade of the rating would require an upgrade of France's sovereign rating. However, this is unlikely given the Government of France's Aa2 rating with a stable outlook.

Factors that could lead to a downgrade

A downgrade of France's sovereign rating will exert some downward pressure on SGP's rating. Any negative significant change affecting the framework under which SGP operates could also hurt the rating.

Key indicators

Exhibit 2

Société du Grand Paris

	2014	2015	2016	2017	2018	2019	2020
Tax revenues	490	508	508	532	566	672	735
Net income (€ million)	393	210	26	-5	-259	-39	-145
Total assets	1,368	1,780	1,986	2,812	4,618	7,711	18,746
Total capital	1,307	1,525	1,572	1,570	1,311	1,473	1,331
Total financial debt	0	0	0	703	3,085	6,037	17,282

Source: SGP, Moody's Investors Service

Detailed credit considerations

The credit profile of SGP, as expressed by its Aa2 stable rating, reflects our assessment of very strong and close links with its owner, the French government.

Very strong and close links with its owner, the French government

Since its creation in 2010, SGP has benefitted from the special legal status as an EPIC. It operates under the joint authority of the ministry in charge of the development of the capital region, the Ministry for Economic Affairs, the Ministry of Transport and the Ministry for Urban Development. SGP's finances and operations benefit from a high degree of central government supervision. The central government bears the ultimate responsibility for all legal measures, frameworks and policies affecting SGP and is, therefore, in a position to preempt any deterioration in the company's finances. SGP's management and organisational structure reflect the central government's influence. Moreover, because of its EPIC status, SGP has no share capital, it cannot go bankrupt and its assets cannot be seized for the nonpayment of claims. Because the state would ultimately be responsible for its financial obligations in the event of insolvency, there is a strong incentive for the central government to intervene at an early stage in the process.

Given this legal framework, we consider the entity a government-related issuer (GRI). From a credit risk perspective, it is not significant to distinguish between SGP's rating and that of the sovereign because of the company's intrinsic institutional, financial and operational ties with the central government. SGP's operations are tightly controlled by the central government, which appoints its management and board of directors — as shown by the nomination of a new president of the board by the central government in March 2021; decides the level of tax revenue; and approves its annual budget, debt levels and future fixed capital investments. As a result, SGP's standalone financial metrics are essentially irrelevant to the credit risk its bondholders face. The viability of SGP's business model can be ensured solely by the central government.

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Key role in the development of Greater Paris

Transport infrastructure is one of the four pillars of the Greater Paris urban development project for the French capital city. SGP has a pivotal role in this development, given its explicit public mandate to build the new automated metro network (GPE). The GPE is intended to double the Paris region's existing metro lines by 2030. Initially drawn up during the centre-right presidency of Nicolas Sarkozy, the project's rapid development under the left-wing government of President François Hollande demonstrates cross-party support for the initiative. In 2017, Emmanuel Macron's government reaffirmed the strategic importance of the project. Therefore, there is a strong political will to complete the project. The diversity of the SGP's board members also demonstrates the profoundly structural and pivotal aspects of SGP's projects: along with the elected officials from the [Ile-de-France Region](#) (Aa2 stable) and local governments, state representatives include directors of very diverse departments of the central administration, including urban development and planning, housing and territorial cohesion, along with departments of transportations and mobilities. It is also recognised by the European Union (EU) as a trans-European transport network hub.

Moreover, the GPE, as a large public transportation project, makes SGP a key stakeholder that will help France reach its carbon emission reduction goal, including the EU's target for 2030¹. Indeed, as highlighted by the EU's Sustainable and Smart Mobility Strategy of 2020 and its Green Deal, developing rail and metro transport infrastructure is an essential tool for fostering the transition towards a zero-carbon emission transports system. Therefore, SGP's strategic importance for the French government as well as our assessment of the reputational risk if SGP were to default, are the most important factors behind SGP's credit profile.

SGP's funding strategy is focused on securing needs

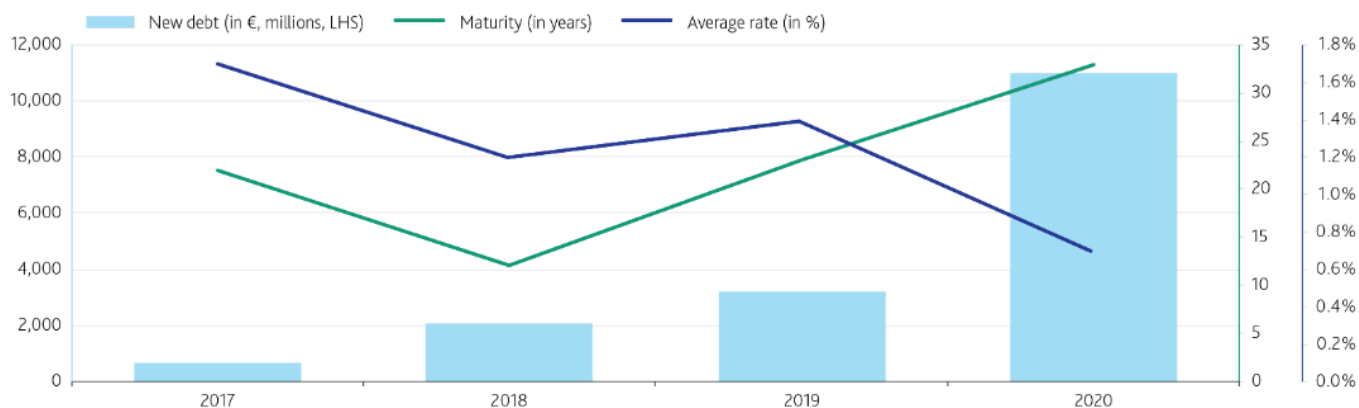
SGP ramped up the pace of its construction projects, with 20 tunnellers operating in 2020, and expects construction to plateau in 2021. Parallel to the progress of its operations, SGP's financing activity in 2020 was highly upbeat, having mobilised significant amounts of debt, enabling SGP to pre-finance nearly half of its total funding needs. The GPE's total fixed capital investment amounts to €35 billion, including around €7 billion of provisions for risks and contingencies (at 2012 prices). In addition, SGP will spend around €3.4 billion on other infrastructure operations that are designed to improve the existing transport network in the Ile-de-France region.

Given the significant scale of the GPE project and its short delivery schedule - the works should be completed and the network should be operational by 2030 - the investment is financed by debt, with a maturity of up to 40 years. At the very beginning, SGP benefitted from public-sector bank financing, consisting of €2 billion from the [Caisse Des Depots et Consignations](#) (Aa2 stable) - which ended and was not renewed - and a further €2.5 billion from the [European Investment Bank](#) (Aaa stable), with €1 billion drawn so far. SGP benefits from an explicit central government guarantee on these bank loans, reflecting the government's support for the entity. The remaining part of the financing, representing more than three-quarters of the total financing requirements, has been and will be raised through financial markets. SGP is the first-ever issuer to have set up a 100% green medium-term note programme, whose limit was increased to €20 billion in 2020 and is likely to be raised to €30 billion in 2021.

SGP's funding strategy is to take advantage of favourable market conditions to secure funding for its upcoming capital expenses as early as possible. With a debt of €17 billion compared with a borrowing limit of €35 billion, SGP already successfully secured half of the total financing needs, because of a record-high issuance total of €11 billion (at maturity over 30 years and an average rate of 0.68%) over 2020. With a cash balance of more than €9.6 billion as of year-end 2020, SGP covers all its financing needs by 2023 and is thus hedged against liquidity and interest rate risks. As of 2021, as planned in SGP's budget and depending on market conditions, we expect SGP to cover nearly 80% of its borrowing needs until 2027 by issuing a maximum of €10 billion of additional debt, which demonstrates the entity's focus on securing its funding needs.

Also, SGP's liquidity position benefits from secure and predictable cash flow. SGP receives its tax revenue on a regular basis. SGP has also been using a €3 billion French commercial paper programme (NEU CP [Negotiable European commercial paper] programme) since 2018, for which the company secures negative interest rates on average.

Exhibit 3

SGP's funding strategy is to take advantage of market conditions to pre-finance its borrowing needs

Source: SGP, Moody's Investors Service

Therefore, SGP's debt stock should reach €35 billion upon the completion of the GPE project, and will then need to be fully amortised by 2070 with SGP's own revenue, in a similar fashion as for [Caisse d'Amortissement de la Dette Sociale](#) (CADES, Aa2 stable), which was established to redeem France's social security deficits. SGP's revenue is generated from three taxes levied in the Ile-de-France region, subject to a limit set in the annual General Budget Law. SGP receives a share of office-space tax (*taxe sur les bureaux*, TSB) receipts, with revenue from this source reaching €544 million in 2020; revenue from a special equipment tax (*taxe spéciale d'équipement*, TSE), which was created in 2010 for the specific purpose of funding the Grand Paris urban project (€117 million in 2020); and a flat-rate tax on network business (*imposition forfaitaire sur les entreprises de réseaux*, IFER), capped at €65 million per year.

The French legislation sets the general framework under which SGP operates, raises revenue and incurs costs. The law that created the Greater Paris urban development project explicitly states that infrastructure funding is to be ensured by the central government. Therefore, we expect the central government to intervene by raising some of SGP's revenue if needed to ensure the long-term sustainability of SGP's funding model — as demonstrated by the increase in tax rates on office spaces in the Paris and Hauts-de-Seine départements in 2020 — although SGP's funding model is not fully immune to external shocks.

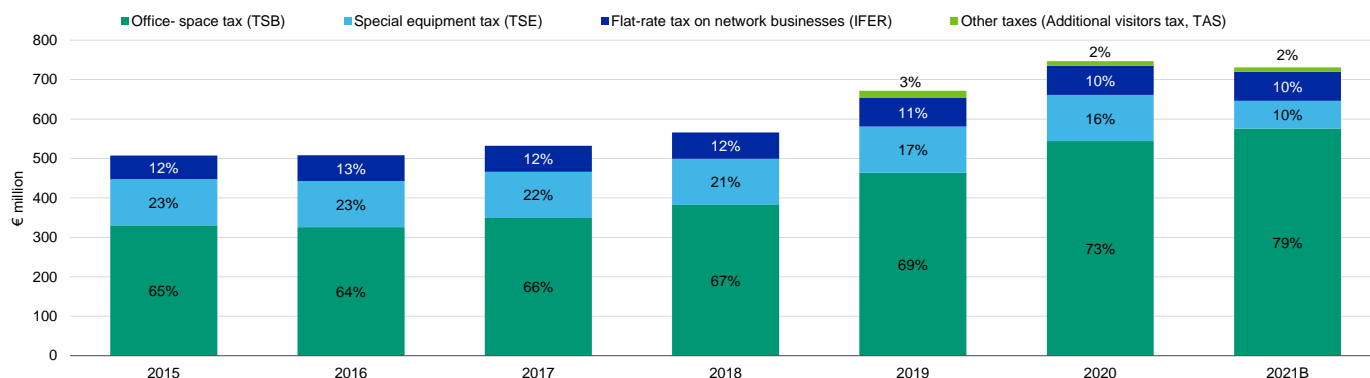
Although inherent risks to projects of this scale exist, they are currently not material

Given the very large scale and long schedule of the GPE, risks are inherent to the nature of the project.

On the financing side, the pandemic-induced crisis proves that the funding model is not immune to risks, but SGP's current funding strategy is a strong mitigant. The concentration of SGP's tax revenue in TSB proceeds (nearly 80% of SGP's tax revenue), which are based on the stock of office spaces, could pose a challenge to SGP's funding model and thus to the central government, in the event that the pandemic-induced crisis permanently affects the tax base.

Exhibit 4

TSB proceeds constitute the bulk of SGP's tax revenue



B - Budget.

Source: SGP, Moody's Investors Service

On the construction side, SGP has been demonstrating its strong ability to manage risks. Despite the pandemic-related lockdown, SGP successfully achieved an unprecedented level of capital expenses, having successfully disbursed €3.6 billion of capital expenses, up 19% from 2019 (amounting to an execution rate of 85% against 77% in 2019). However, in 2020, SGP announced three- to eight-month delays in the delivery of the new metro lines 16 and 17, which were planned to be delivered for the Paris 2024 Olympics. In addition, as the work progresses, SGP may face technical difficulties such as the drilling of tunnels in the Paris soil and in densely populated areas. Sourcing a large number of specialised personnel for this project requires also remains a risk until the project reaches a plateau. Crossrail, a project of similar scale developed by [Transport for London](#) (A1 negative), faced delays and cost increases revealed in the later stages of the construction phase. According to the National Audit Office, the cost increase drivers were technical issues, such as a design changes, and the compensation to contractors because of delays in the work. For SGP, these risks could be mitigated by the recurrent surveillance committees and regular reports on the project status. This increased transparency should help the company identify and remediate shortfalls early.

Also, the legislation creating SGP does not limit the projects that it may participate in. This creates some leeway regarding SGP's mandate and reduces the visibility into its potential financing needs. However, if new projects were to be assigned to SGP, the central government would increase its revenue to compensate. While there is no legal provision for such compensation, the government has adopted this approach in the past.

We also view the changes of president of SGP's board - 5 since its creation in 2010 - as a political risk which could slow down the project.

Although these risks are currently not likely to change our view on the central government support to SGP and are thus not material to the rating, we will continue to closely monitor any development around the progress of the project and its funding.

ESG considerations

How environmental, social and governance (ESG) risks inform our credit analysis of SGP

Environmental risks are not material for SGP's rating. SGP is exposed to the same environmental risks as France, which are low, in line with other advanced economies, despite the increase in extreme climatic events over the past several years. Nevertheless, these risks are not material for the rating, given SGP's strategic role and the support coming from the Government of France.

Social risks are not material to SGP's rating. SGP is exposed to the same social risks as France, which benefits from high-quality education, good housing availability, high quality of health and safety and very high-quality access to basic services. France's demographic pressures are less pronounced than many other European countries, though population ageing is a longer-term challenge. We regard the pandemic as a social risk under our ESG framework. For SGP, the risk mainly lies in delays in the delivery of the infrastructure projects. Nevertheless, these risks are not material for the rating, given SGP's strategic role and the support coming from the Government of France.

Governance risks are material to SGP's rating. The governance framework is intrinsically intertwined with the supporting government, which exerts strong oversight and ultimately takes key decisions.

Further details are provided in the "Detailed credit considerations" section above. Our approach to ESG is explained in our cross-sector methodology [General Principles for Assessing ESG Risks](#).

Rating methodology and scorecard factors

For details about our rating approach, please refer to the [Government-Related Issuers](#) rating methodology, published on 21 February 2020.

Ratings

Exhibit 5

Category	Moody's Rating
SOCIETE DU GRAND PARIS	
Outlook	Stable
Issuer Rating	Aa2
Senior Unsecured -Dom Curr	Aa2
Commercial Paper -Dom Curr	P-1

Source: Moody's Investors Service

Endnotes

- Transport infrastructures are the main driver behind France's increase in low-carbon investments towards its target, thanks to SGP's investment program to a great extent in the recent years (I4CE, [Landscape of climate finance in France, Edition 2019](#), October 2019)

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