

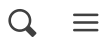
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Business

Alstom cash flow warning erases \$3 billion from train maker's value

By [Olivier Sorgho](#) and [Danilo Masoni](#)

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[1/2] A logo of Alstom is seen at the Alstom's plant in Semeac near Tarbes, France, February 15, 2019. REUTERS/Regis Duvignau [Acquire Licensing Rights](#)

Oct 5 (Reuters) - Alstom's ([ALSO.PA](#)) shares plunged by as much as 38% in Paris on Thursday after the maker of France's iconic TGV trains slashed its full-year free cash flow (FCF) target, fuelling concerns over its debt levels as interest rates rise.

The shares were heading for their worst one-day drop in over 20 years as of 1140 GMT, down 37%, which wiped some 3 billion euros (\$3.16 billion) from Alstom's market value.

On Wednesday evening, the company [cut](#) its full-year FCF guidance, pointing to order delays and a production ramp-up that weighed on cash.

The group said it now expects a cash outflow of 500-750 million euros over the full year, after a preliminary first-half outflow of 1.15 billion euros, well above the consensus for a 152 million euro outflow cited by Jefferies.

"Some time ago when interest rates were at zero, making no cash was not a big issue for a company. Now it is and the market has no mercy," said Angelo Meda, portfolio manager at [Banor SIM](#) in Milan.

Deutsche Bank analysts meanwhile said they saw the news as a "major blow to management's credibility," adding they now expect Alstom to end the full-year with net debt of 3 billion euros, about 1 billion higher than previously expected.

The group was not immediately available for comment on Thursday.

The cost of insuring Alstom's debt against the risk of default shot to its highest since last November, according to data from S&P Global Market Intelligence. Its biggest outstanding bond - a fixed coupon due in 2029 - also slumped, sending its yield to a record of 4.917% on Tradeweb.

Traders meanwhile voiced concerns that Alstom could lose its investment grade rating and noted that investor confidence in its management could be brought into question.

Citi analysts were less concerned about liquidity, but said "the past track record on cash means cash improvement is now very much a 'show me' story".

Alstom has been building inventory to cover a backlog of orders that had accumulated over the last couple of years, but on Wednesday warned of "weaker than expected" half-year orders, adding that its Aventura programme in Britain had been delayed.

JP Morgan analysts, who see the drop in the shares as a potential buying opportunity, said in a note the issues were "transitory in nature," and pointed to Alstom confirming its full-year margin outlook and mid-term targets as positives.

(\$1 = 0.9508 euros)

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