MOODY'S
INVESTORS SERVICE

Credit Opinion: Renault S.A.

Global Credit Research - 20 Nov 2014

Boulogne-Billancourt, France

Ratings

Category	Moody's Rating
Outlook	Positive
Corporate Family Rating	Ba1
Senior Unsecured	Ba1
Commercial Paper -Dom Curr	NP
Other Short Term -Dom Curr	(P)NP
Companhia de Cr., Financ. e Invest. RCI BR	
Outlook	Stable
Corporate Family Rating -Dom Curr	Ba1
Issuer Rating -Dom Curr	Ba1
NSR LT Issuer Rating -Dom Curr	Aa1.br
RCI Banque Sucursal Argentina	
Outlook	Stable
Issuer Rating -Dom Curr	B1
RCI Banque	
Outlook	Stable
Bank Deposits -Fgn Curr	Baa3/P-3
Bank Deposits -Dom Curr	(P)Baa3/P-3
Senior Unsecured	Baa3
Subordinate -Dom Curr	Ba1
Commercial Paper	P-3
Other Short Term -Dom Curr	(P)P-3

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Key Indicators

[1]**Renault S.A.**

	6/30/2014(L)	12/31/2013	12/31/2012	12/31/2011	12/31/2010
Debt / EBITDA	3.6x	3.7x	3.4x	2.6x	3.6x
Debt / Book Capital	39.7%	37.9%	37.8%	33.6%	39.2%
(Cash & Marketable Securities) / Debt	84.4%	91.4%	84.7%	77.3%	70.3%
EBITA Margin	5.2%	3.4%	4.1%	6.3%	4.9%
NPATBUI / Sales	2.3%	0.5%	0.9%	3.9%	3.1%
EBITA / Avg Assets	3.7%	2.5%	3.1%	5.1%	3.8%
RCF / Debt	14.3%	14.8%	14.2%	18.8%	17.5%
FCF / Debt	1.7%	4.0%	4.0%	8.8%	10.6%
EBITA / Interest Expense	3.2x	2.1x	2.5x	4.5x	2.7x

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Successful model launches support volume growth and market share gains aided by growth in European car markets

Improving geographic mix but near-term volatility expected in certain emerging countries

Low albeit improving profitability of automotive business given intense competition in some parts of Europe

High dependence on alliance with Nissan; additional synergies expected

Limited expected free cash flow given continued investments in product and technology development

Good liquidity with a balanced maturity profile

Corporate Profile

Headquartered in Boulogne-Billancourt, France, Renault S.A. ("Renault") is Europe's third largest car manufacturer. In addition to the Renault brand, the company manufactures cars under the Dacia (Romania) and Renault Samsung Motors (South Korea) brands. Moreover, Renault provides financing to dealers and end-customers through its wholly-owned finance company, RCI Banque (Baa3 stable). In 2013, the company sold 2.63 million vehicles and reported total revenues of EUR40.93 billion. Renault currently holds a 43.4% equity stake in Nissan Motor Co., Ltd (`Nissan', A3 stable).

SUMMARY RATING RATIONALE

Renault's Ba1 ratings reflect (1) its position as one of Europe's largest car manufacturers with a solid competitive position in France and good geographical diversity, (2) its long established alliance with Nissan (A3 stable) in which Renault holds a 43.4% stake and which generates a substantial at-equity income, (3) the success of its latest model introductions (e.g. Clio IV, Captur, Dacia new Logan and the new Sandero) as well as its launches this year (e.g. the revamped Mégane and the new Twingo) and the success of its entry-level range of cars which we believe will help the company continue to increase volumes and gain market share (+0.8% y-o-y to 9.4% in EU + EFTA countries) and (4) its conservative financial policy, healthy liquidity and balanced debt maturity profile.

At the same time, the ratings are constrained by (1) Renault's low, albeit improving, profitability of its automotive business (before contributions from associates) which has suffered from weak market conditions in Western Europe in recent years as well as high production costs, (2) its dependence on Nissan, (3) its high exposure to Europe (including France), the company's single largest market which represented 58% of revenues in 2013, (4) contrasted growth within the European car market, macroeconomic headwinds in certain emerging markets and currency volatility which may hamper the company's earnings growth this year, and (5) expected sustained investments will constrain future free cash flow generation even though the rating recognizes that the free cash flow remained positive in the past few years.

DETAILED RATING CONSIDERATIONS

SUCCESSFUL MODEL LAUNCHES SUPPORT VOLUME GROWTH AND MARKET SHARE GAINS AIDED BY GROWTH IN EUROPEAN CAR MARKETS

Renault managed to regain market share in Europe in the first nine months of 2014 (+0.8% year-on-year to 9.4% in EU + EFTA countries according to the European Automobile Manufacturers Association), which compares favourably with the performance of its other rated peers such as Peugeot SA (PSA, B1 stable, -0.1%), Fiat Chrysler Automobiles (FCA, B1 stable, -0.2%) and General Motors Company (GM, Baa3 secured credit facility rating/Ba1 senior unsecured rating stable, -0.7%). The company's outperformance was fuelled by the success of

its low-cost brand Dacia which increased its market share to 2.8% from 1.9% in 2012.

Renault posted a sales registration increase of 3.3% of which +14.9% in Europe supported by the success of its Clio IV, a model which generated almost 20% of the company's total unit sales in Europe in the first nine months of 2014, as well as its new B cross-over Captur (11% of Renault's European sales in the same period). The Dacia brand grew even faster with sales up 24.3% following the introduction of the new Lodgy, Dokker and the Sandero 2 which are targeting a new customer group given their van character. This new launches, aided by a recovery in European markets, supported further market share gains for both Renault and Dacia brands.

We consider that the successful renewal of Renault's product line-up is a crucial milestone to turn around its automotive segment and we view favourably the company's solid commercial performance which suggests there is a good market acceptance of the new models. Moreover, we positively note that upcoming product launches over the next 2 years in the C & D segments (Espace in early 2015, a new C cross-over in mid-2015, Laguna and Mégane in late 2015 and Scenic in 2016) should help Renault consolidate its market position in Europe. This will support a further improvement in volumes, profit contribution and cash flow generation of its core operations, even though there is likely to be near-term volatility coming from the weakening in economic and/or political conditions in certain emerging markets.

IMPROVING GEOGRAPHIC MIX BUT NEAR-TERM VOLATILITY EXPECTED IN CERTAIN EMERGING COUNTRIES

Renault's historic geographic footprint with a strong focus on the European passenger car market has improved over the past years. Approximately half of Renault's volumes (62% in 2009) and 58% of its revenues (76% in 2009) were generated in Europe in 2013. The improvement in the company's geographic mix was driven by both a sluggish European passenger car demand for the company's model range (including the Dacia brand) which contracted 18% in 2012 before recovering slightly in 2013 (+2.4%) and an increasing success outside of Europe, particularly in Russia, Argentina, Turkey and India. The proportion of international sales has recently slightly reduced with the recovery of European passenger car markets, the success of recent model launches in Europe and the strong headwinds from certain large emerging markets. As such, Europe represented 55% of Renault's volumes and 64% of its revenues in the first half of 2014.

In 2014 we forecast the Western European light vehicle market to expand by 2%, accompanied by continued demand growth outside Europe such as in the United States (+4%) and China (+8%). Even though Renault lacks presence in the growth markets of China and North America, we positively note that it can benefit from the contribution of its operations in other emerging markets such as Russia, or Brazil, amongst others. Moreover, Renault signed in December 2013 a contract for the creation of a joint venture with Chinese car manufacturer Dongfeng Motor (unrated) to build a plant in Wuhan with an initial capacity of 150,000 vehicles per year, starting production in 2016. This in our opinion should allow Renault to significantly increase its future presence in the world's largest vehicle market.

However, we caution that, in the near term, weaker economic conditions and/or political instability in certain markets such as Brazil and Russia, two of Renault's Top 5 markets, as well as currency volatility will constrain sales outside of Europe. In the first nine months of 2014, sales (in terms of units) outside of Europe dropped 8.3% largely driven by Argentina (-31%), Algeria (-24%), Turkey (-20%), Russia (-10%) and Brazil (+0%).

LOW PROFITABILITY OF AUTOMOTIVE BUSINESS GIVEN INTENSE COMPETITION IN SOME PARTS OF EUROPE

Excluding income from associates, Renault's profitability remains fairly low as evidenced by a reported operating margin of 1.9% in H1 2014, 1.3% in 2013 and -0.1% in 2012, which lags behind most of its rated peers. However when including associates (mainly Nissan's at-equity income), Renault's EBITA margin (as adjusted by Moody's) is commensurate with that of its rated peers, at 5.2% in the 12 months to 30 June 2014 (3.4% in 2013), stronger than that of FCA at 2.3%, PSA at -0.4%, GM at 2% and Ford Motor Company (Baa3 stable) at 4.0% but behind that of Volkswagen AG (A3 positive) at 7.4%.

We positively note the improving trajectory of Renault's profitability, which mainly reflects the cost savings achieved under the company's ongoing restructuring program. Looking ahead, we expect Renault to continue to optimise its cost structure and productivity, mostly thanks to more integration with Nissan, which should help reduce manufacturing and logistics costs. Also, its upcoming model launches and the continued cooperation with partners (including Daimler AG, A3 stable) will also raise capacity utilisation in Europe and contribute positively to profits. Lastly Renault is expected to deliver further cost savings under its competitiveness plan implemented in France since 2013.

Nevertheless, we caution that the pricing environment in Europe remains difficult especially within the A and B segments. In addition, we expect trading conditions to remain difficult in Latin America, Africa and Eurasia in the next 12 months and we see continued currency volatility in those regions. These effects will potentially dampen further profit improvements in the near term. Lastly, the success of upcoming product launches, notably in the expensive C & D segments will be instrumental to further profitability improvement.

HIGH RELIANCE ON ALLIANCE WITH NISSAN; ACCELERATED SYNERGIES EXPECTED

Renault currently has a 43.4% stake in Nissan, which is accounted for at-equity. Nissan is well positioned in the North American, Chinese and Japanese car markets. In 2013, Renault's at-equity accounted income represented approximately 125% of the company Moody's-adjusted EBIT which evidences its huge reliance on the performance of Nissan. The dividends received from Nissan, which amounted to EUR406 million in 2013, is also a nice addition to the company's cash flow from operations.

Going forward, we expect Renault to leverage its partnership with Nissan further as the two companies announced in February 2014 new joint projects in the areas of R&D, manufacturing and logistics, purchasing and human resources. Besides strengthening the ties between the two companies, these projects are expected to yield at least EUR4.3 billion annual synergies by 2016 (versus EUR1.5 billion in 2009), of which approximately 45% are likely to benefit Renault which is a credit positive.

LIMITED EXPECTED FREE CASH FLOW GIVEN CONTINUED INVESTMENTS IN PRODUCT AND TECHNOLOGY DEVELOPMENT

In the past several years, Renault has managed to consistently generate a positive free cash flow, partly helped by significant working capital releases, a meaningful reduction in capital expenditure (capex) and a conservative dividend policy. In 2013, Renault's adjusted free cash flow amounted to EUR512 million (EUR531 million in 2012) or 4.0% of adjusted debt in both years.

While we expect Renault to continue to optimise its cost structure and productivity, mostly thanks to more integration with Nissan, which will help reduce manufacturing and logistics costs, we believe that improvements in free cash flow generation is likely to remain limited in the coming years. This reflects expected continued investments in product and technology development and R&D requirements in order to meet stricter CO2 standards. Although we would expect Renault to contain its capex spending (including research and development investments) within the company's limit of 9% of revenues per annum, this represents a limitation on future free cash flow generation.

Structural Considerations

Renault's Ba1 debt rating recognizes that bank debt and trade claims exist at the level of operating subsidiaries and that they are material in size and have structural seniority in Renault's debt structure. Nevertheless, we have not notched this debt, given (i) the investment-grade debt structure of the company, with significant amounts of cash held at the level of Renault S.A.; and (ii) the fact that the Nissan holding - which represents a very material, but also liquid, part of the company's consolidated value for creditors - is located at Renault S.A.

Liquidity Profile

At of 30 June 2014, Renault's principal liquidity sources consisted of (i) cash and cash equivalents on balance sheet amounting to EUR11.3 billion; (ii) availability under undrawn committed credit lines of EUR3.285 billion and (iii) potential cash flow generation from operations over the next 12 months. These cash sources provide good coverage for liquidity requirements that could arise during the next 12 months, which we estimate at above EUR6 billion. These requirements consist of short-term debt maturities of approximately EUR3.3 billion, capital expenditure, working capital funding, day-to-day needs and expected dividend payments.

Rating Outlook

The positive outlook reflects Renault's good prospects for further profitability improvement within the next 12 to 18 months that would narrow the margin gap with Renault's global competitors, reflecting (1) the incremental volume increase helped by a rejuvenated models and growing, albeit slowly, European markets, (2) higher margins expected from upcoming product launches in the C & D segments; (3) additional cooperation with Nissan and other industrial partners, which is expected to yield higher production synergies; and (4) further cost reductions, expected notably as part of the company competitiveness plan in France.

What Could Change the Rating - Up

We could consider upgrading Renault's rating to Baa3 if the company (1) at least maintains its current key market shares; and (2) further increases its operating performance (excluding the contribution from Nissan and AVTOVAZ), with a reported automotive operating margins above 2% on a sustainable basis. This would be reflected by a debt/EBITDA ratio in the 2.5x-3.5x range. In addition, we would expect the company to generate a positive Moody's-adjusted FCF through the cycle of around EUR300-750 million per year.

What Could Change the Rating - Down

Downward pressure on the rating could develop if (1) Renault's competitive position declines in its key markets, reflected in market share losses; (2) the market environment weakens beyond expectations with regards to volumes or prices; (3) the operating performance of Renault's automobile division deteriorates; and/or (4) the Moody's-adjusted FCF is sizeable and negative in the next 12 months.

Other Considerations

MAPPING TO RATING METHODOLOGY

Under Moody's rating methodology for the global automotive manufacturer industry, Renault maps to a Ba1 on the basis of financial data for the 12 months to 30 June 2014, which is in line with the assigned Ba1 rating. The grid-indicated outcome is a point-in-time snapshot based on metrics for 2013 and hence does not take into account the cyclicality of the industry and the product life cycle of car manufacturers.

Rating Factors

Renault S.A.

Global Automobile Manufacturer Industry Grid [1][2]	**Current LTM 6/30/2014**		[3]**Moody's 12-18 Month Forward**	
Factor 1: Market Position and Trend (35%)	**Measure**	**Score**	**Measure**	**Score**
a) Trend in Global Unit Share over 3 Years	Baa	Baa	Baa	Baa
b) Product Breadth and Strength	Baa	Baa	Baa	Baa
Factor 2: Leverage and Liquidity (20%)				
a) Debt / EBITDA	3.6x	Baa	2x - 3x	A
b) Debt / Book Capital	39.7%	A	35% - 40%	A
c) (Cash & Marketable Securities) / Debt	84.4%	Baa	85% - 95%	A
Factor 3: Profitability and Returns (15%)				
a) EBITA Margin	5.2%	Ba	5.5% - 7.5%	Ba
b) NPATBUI / Sales	2.3%	Ba	2.5% - 4%	Baa
c) EBITA / Avg Assets	3.7%	Ba	4% - 5.5%	Ba
Factor 4: Cash Flow and Debt Service (30%)				
a) RCF / Debt	14.3%	Ba	15% - 20%	Ba
b) FCF / Debt	1.7%	B	0% - 4%	B
c) EBITA / Interest Expense	3.2x	Ba	3x - 6x	Baa
Rating:				
a) Indicated Rating from Grid		Ba1		Baa3
b) Actual Rating Assigned		Ba1		Ba1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 6/30/2014(L); Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.