FitchRatings

FITCH AFFIRMS RENAULT AT 'BB+'; OUTLOOK REVISED TO POSITIVE

Fitch Ratings-London/Barcelona/Warsaw-18 September 2013: Fitch Ratings has affirmed Renault SA's (Renault) Long-term Issuer Default Rating (IDR) and senior unsecured rating at 'BB+'. The Outlook on the Long-term IDR has been revised to Positive from Stable.

The Outlook revision reflects the relative resilience of Renault's profitability and underlying cash generation in a difficult and adverse environment, notably for volume manufacturers, and particularly in the group's domestic market. We believe that Renault could be upgraded to 'BBB-' in the next 12 to 18 months if group operating margins trend towards 3%, including automotive profitability trending towards 2% combined with positive free cash flow (FCF), in line with our current base case. We will also assess the group's ability to generate consistent funds from operations (FFO) and to demonstrate that improving leverage is coming from underlying operations rather than asset sales and positive changes in working capital, which can be reversed.

KEY RATING DRIVERS

Relative Resilience of Profitability

Renault's operating margin declined further to 1.8% in 2012 from 2.6% in 2011, but automotive operations were about breakeven in an adverse environment. Fitch expects a gradual strengthening of group margins towards 3% by 2014/2015 and of automotive margins towards 1.5%. The cost base benefited from increased synergies with Nissan, cost-cutting measures and increased production outside western Europe.

Improved Credit Metrics

Net financial debt has fallen substantially since 2009 as a result of positive FCF and asset sales, while EBITDA and FFO rebounded in the same period. Fitch assumes Renault's FFO adjusted net leverage will remain broadly unchanged at 0.3x at end-2013, after decreasing from 1x at end-2010 and 4.8x at end-2009, and cash from operations (CFO) on adjusted debt will stabilise around 34% at end-2013 in line with end-2012, before rebounding to about 40% at end-2014.

Weak but Improving Mix

Renault's sales are concentrated in Europe, with a bias to weaker Southern markets such as Spain, Italy and France, where the eurozone debt crisis has had the most impact on new car sales. This remains the case, despite ongoing and successful diversification. Renault also derives the majority of its revenue from the less profitable small- and medium-sized car segments, where competition is fiercest and price pressure is strongest.

Entry-Level Models Success

The success of the growing Dacia brand is pivotal in compensating for the sales declines of the core Renault models, and also favours geographical diversification. In addition, profitability of the entry range is higher than the automotive average and therefore bolsters group operating profit.

Relationship With Associates

Nissan Motor Co., Ltd's (BBB/Stable) latest performance plan calls for increased FCF generation and a higher dividend payment to Renault, its 43.4%-shareholder. However, the group intends to redistribute all of the dividends received from its associates, therefore limiting the benefit for Renault's creditors. Renault should also benefit from a gradual recovery of JSC AvtoVAZ (B-/Stable), but Fitch believes that this will only happen in the medium term.

RATING SENSITIVITIES

Future developments that may, individually or collectively, lead to negative rating action include

- Negative operating margins, coming notably from falling global sales
- Deterioration of key financial metrics, including net adjusted leverage remaining above 1.5x and

CFO/adjusted debt below 25%

Future developments that may, individually or collectively, lead to positive rating action include
- Sustainable improvement in financial metrics, including net adjusted leverage below 0.5x and CFO on total adjusted debt above 40%
- Sustainable increase in market shares, combined with improved profitability, in particular, group operating margin trending towards 3% and auto operating margins trending towards 2% combined with positive FCF

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Applicable criteria, 'Corporate Rating Methodology: Including Short-Term Ratings and Parent and Subsidiary Linkage' dated 5 August 2013 is available at www.fitchratings.com

Note to Editors: Marc Ladreit de Lacharriere, Fitch's Chairman and member of the board, is also a member of Renault's board. Mr. Ladreit de Lacharriere does not participate in any rating committees, including Renault.

Applicable Criteria and Related Research:
Corporate Rating Methodology: Including Short-Term Ratings and Parent and Subsidiary Linkage
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=715139

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