

Research

French Automaker Renault Outlook Revised To Positive On Improved Credit Metrics; 'BB+/B' Ratings Affirmed

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- French car manufacturer Renault's credit ratios have materially improved over the past few years.
- We are revising our outlook to positive from stable and affirming the 'BB+/B' ratings.
- The positive outlook on Renault reflects our opinion that the company's financial policy will support credit metrics over the next 24 months, and that the company will gradually improve the profitability of its automotive operations.

PARIS (Standard & Poor's) June 5, 2014--Standard & Poor's Ratings Services today revised its outlook on French automotive manufacturer Renault S.A. to positive from stable. At the same time, we affirmed our 'BB+/B' long- and short-term corporate credit ratings on the company.

The outlook revision reflects our view that Renault could maintain strong credit ratios in the next two years while gradually improving its profitability.

Renault has markedly improved its financial profile in recent years. Between 2010--when we raised the company's long-term corporate credit rating to 'BB+'--and 2013, the adjusted funds from operations (FFO)-to-debt ratio climbed to 61% from 31%, thanks to asset disposals and earnings growth. Over that three-year period, the company's adjusted debt contracted to €4.0 billion from €5.7 billion. The automotive division had a €1.7 billion net cash position on a reported basis at year-end 2013. We expect Renault will continue

to generate positive free operating cash flows in 2014 and 2015 owing to supportive operating trends, capital expenditures in line with historical trends, and limited working capital cash outflows. We also assume that the company will maintain a disciplined approach toward shareholder remuneration and acquisitions.

In our opinion, an upgrade would require that Renault continues to improve the profitability of its automotive division, despite recent pressures in international markets. The reported operating margin of the automotive segment rose to 1.3% in 2013 from 0.1% in 2012, on the back of increasing volumes and cost-cutting measures. Even though operations in emerging markets are currently weighing on earnings, we believe that these operations remain fundamentally supportive of Renault's credit quality. In 2014, we assume that Renault will partly offset the depreciation of emerging market currencies with price increases. Regarding Russia, whose importance for Renault should increase due to the company's full consolidation of the Russian automobile manufacturer AvtoVAZ by end-2014, we forecast a limited earnings decline owing to the renewal of the vehicle line-up and the high share of Russian production.

Under our base case, we assume:

- Car sales of global automakers will rise by 4.1% in 2014 and by 5.2% in 2015.
- Sales in European markets will increase by 3.2% in 2014 and by 4.3% in 2015 (see "Global Automakers And Truckmakers Face Moderately Positive Growth Prospects Despite Regional Risks," published on March 28, 2014, on RatingsDirect).
- Volume growth and cost savings will roughly offset negative currency effects in 2014.
- The company's financial policy will remain prudent, with a limited increase in shareholder remuneration and no large debt-financed acquisition.

Based on these assumptions, we arrive at the following credit measures:

- Renault's adjusted EBITDA margin will rise to about 9% in 2014, from 8.3% in 2013, and reach between 9% and 10% by 2015.
- The reported operating margin of Renault's core automotive operations will structurally improve and the consolidated operating margin will continue up toward 5%.
- We see more than a one-in-three likelihood that Renault will maintain an adjusted FFO-to-debt ratio of more than 45% in the next two years.

The positive outlook on Renault reflects our opinion that its financial policy will support credit metrics over the next 24 months and that the company will gradually improve the profitability of its automotive operations. As a result, we expect Renault's adjusted EBITDA margin to move closer to the middle of the 9%-10% range by 2015.

We may raise our ratings on Renault if the company maintains an adjusted FFO-to-debt ratio above 45%. In that case, we would revise our financial risk

profile assessment to "modest" from "intermediate." Such a scenario could unfold if, for instance, Renault moderately increases shareholder remuneration and does not make large debt-financed acquisitions. An upgrade would require that the profitability of automotive operations keeps improving, thanks to productivity gains and the recovery of the European car market.

We could revise the outlook to stable if Renault was unable to preserve an adjusted FFO-to-debt ratio above 45%, as a result of a more aggressive financial policy or a sharp decline in earnings. We would also revise the outlook to stable if the operating margin of automotive operations deteriorated because of declining sales or an inability to contain costs.

RELATED CRITERIA AND RESEARCH

Related criteria

- Key Credit Factors For The Auto And Commercial Vehicle Manufacturing Industry, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013

Related research

- Renault S.A., April 30, 2014
- French Automaker Renault Upgraded To 'BB+' On Completion Of Sale Of Volvo B Shares; Off Watch; Outlook Stable, Nov. 3, 2010

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