FitchRatings

Fitch Affirms Renault at 'BBB'; Outlook Stable

Fitch Ratings - Paris - 23 November 2018: Fitch Ratings has affirmed Renault SA's (Renault) Long-Term Issuer Default Rating (IDR) at 'BBB'. The Outlook is Stable.

The rating action reflects our projections that Renault's key credit metrics will remain commensurate with the ratings in the foreseeable future despite our expectation for moderate erosion in profitability and cash generation. We do not expect any direct and immediate impact on Renault's ratings from the potential departure of Carlos Ghosn as CEO of Renault and his dismissal as Chairman of Nissan but it could reshape the relationship between the two entities and derail plans for a merger. This could ultimately put pressure on Renault's ratings if the alliance is dissolved or its structure fundamentally altered to the disadvantage of Renault, including lower dividends and synergies.

RATING ACTIONS

ENTITY/DEBT	RATING		PRIOR
Renault SA	LT IDR BBB ⊙ Affirmed		BBB ⊙
senior unsecured	LT BBB Affirmed		BBB

KEY RATING DRIVERS

Resilient albeit Eroding Profitability: We forecast profitability to come under moderate pressure in the short-term from increased pricing competition and unfavourable foreign exchange and raw materials price developments but for group operating margin, including Avtovaz to remain above 6% through to 2021. The operating margin improved further to 6.6% in 2017, from just over 5% in 2015 and less than 2% in 2012. We also expect further operational measures to support earnings.

Weakening but Positive Cash Flows: We project free cash flow (FCF) to remain positive at around 0.5%-1.5% through to 2021, but expect it to remain constrained by investment and sustained dividend payments. FCF remained consistently positive between 2009 and 2016 at between 1.5% and 2.5% but declined to below 1% in 2017 from higher cash tax and increased dividends and capex.

Strong Credit Metrics: We expect funds from operations (FFO) adjusted net leverage to remain around 0.5x in the next two to three years despite lower FCF in 2019-2021 compared with recent years. Net financial debt has fallen substantially since 2009 as a result of positive FCF and asset sales, while earnings and FFO rebounded in the same period. FFO adjusted net leverage has declined continuously since end-2009, from more than 5.5x, to 0.7x at end-2017, providing the group with more flexibility to weather the sector's next cyclical downturn.

Departure of CEO Ghosn: We expect investigations into Carlos Ghosn in Japan related to his previous role as CEO of Nissan to accelerate his replacement as CEO of Renault. Renault's board has reacted swiftly to the news emanating from Japan and put in place interim governance measures to ensure the continuity of the group's business. Carlos Ghosn has been the architect of the alliance

between Renault and Nissan and a pivotal supporter of its sustainability in its current form. Therefore, his departure as Chairman of Nissan and CEO of Renault could jeopardise any plan to merge the two companies in the next two to three years and lead to a redefined shareholding structure. We believe that it remains in the interest of all partners to continue working together and maintain the alliance's structure but probably under a different form and rebalanced relations.

Benefits from Alliance: While Renault's scale remains modest on a standalone basis, compared with large international peers such as Volkswagen, Toyota and Ford, it can derive substantial synergies from its alliance with Nissan. Furthermore, the addition of Mitsubishi to the alliance will provide further opportunities to share various costs including manufacturing, purchasing and R&D. This is an important advantage in the context of new powertrains and autonomous driving technologies. In addition, dividends received from associates exposed to other markets where Renault is not present provide a diversified source of cash.

Well-placed on Powertrain Developments: We believe that Renault is favourably positioned with regards to emissions targets and the shift to electric powertrain. The Renault-Nissan alliance's decision to invest early in electric vehicles (EVs) is providing the group with a competitive advantage from their multi-year experience in manufacturing EVs and managing the overall supply chain and after-sale service. Renault's higher share in EVs is also helping the group to reach 2020-2021 CO2 emissions targets in Europe.

European Volume Manufacturer: The group derives the majority of its revenue from the less profitable mass-market small- and medium-sized car segments, where competition is fiercest and price pressure is strongest. Renault's sales also retain a bias towards Europe. However, the success of the entry range has been pivotal in compensating for the sales decline of the core Renault models and bolstering group profitability and geographical diversification. We also expect the latter to increase as international markets should outperform Europe, leading the group to derive around 50% of its revenue from outside Europe in the medium-term.

DERIVATION SUMMARY

Renault compares well with global automotive manufacturers at the 'BBB' level. On a standalone basis, Renault is somewhat smaller than General Motors Company (BBB/Stable), Ford Motor Company (BBB/Stable) and Hyundai Motor Company (BBB+/Stable), but Renault's alliance with Nissan Motor Co., Ltd. (recently extended to Mitsubishi Motors) provides it with substantial economies of scale and synergies.

Renault's brand positioning (combining brand value and market share in our Rating Navigator for Automotive Manufacturers) is slightly weaker than US peers'. However, we believe Renault's relative position should incorporate Dacia and Renault, the former not having a high brand value and leading market shares, but enhancing product and geographic diversification as well as healthily contributing to profitability. Compared with Hyundai and Kia Motors Corporation (BBB+/Stable), we see a much closer comparison in terms of competitive position and brand positioning.

Renault's financial profile is broadly comparable with similarly-rated international manufacturers. Its automotive operating and FCF margins are lower than GM's but broadly in line with Ford's, Nissan's and Hyundai's; net leverage is higher than Nissan's and Hyundai's but broadly similar to GM's and Ford's. No country-ceiling, parent/subsidiary or operating environment aspects impact the rating.

KEY ASSUMPTIONS

Fitch's key assumptions within our rating case for the issuer include:
- Industrial operations revenue declining by 2%-3% in 2018, and recovering moderately to low- to mid-single digits in 2019-2021;
- Automotive operating margin (including Avtovaz) declining to just above 4% at end- 2019 and

recovering to above 4.5% in 2021. Group margin remaining between 6% and 6.5% through to 2021;
- Capex on average at around 6.5% of industrial sales between 2018 and 2021; and
- Dividend payment to remain at around EUR1 billion between 2018 and 2021.

RATING SENSITIVITIES

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action
- Group operating margin remaining above 5% on a sustained basis (2017: 6.6%).
- FCF margin comfortably above 2% on a sustained basis (2017: 0.6%).
- Cash flow from operations (CFO)/lease-adjusted debt above 60% (2017: 33%).
- FFO adjusted net leverage below 0.5x (2017: 0.7x).

Future Developments That May, Individually or Collectively, Lead to Negative Rating Action
- Group operating margin falling below 3% on a sustained basis.
- FCF margin below 1% on a sustained basis.
- CFO/lease adjusted debt below 30%.
- FFO adjusted net leverage increasing above 1.5x.
- Material negative changes to the benefits derived from the alliance with Nissan.

LIQUIDITY AND DEBT STRUCTURE

Healthy Liquidity: Liquidity is ample, including EUR11.4 billion of readily available cash and liquid investments for industrial operations at end-2017, according to Fitch's adjustments for minimum operational cash of about EUR1.4 billion and not readily available financial assets. In addition, committed credit lines of EUR3.4 billion at the automotive division and EUR4.9 billion at the sales financing segment, were undrawn and EUR23 million drawn at end-2017, respectively. Renault is maintaining a prudent financial policy including a reported net cash position and liquidity reserves of at least 20% of revenue.

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Applicable Criteria

Corporate Rating Criteria (pub. 23 Mar 2018) (/site/re/10023785)
Corporates Notching and Recovery Ratings Criteria (pub. 23 Mar 2018) (/site/re/10024585)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form (/site/dodd-frank-disclosure/10053009)
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