

Dec 10, 2019

R&I Affirms A-, Stable: Renault SA

Rating and Investment Information, Inc. (R&I) has announced the following:

ISSUER: Renault SA
Issuer Rating: A-, Affirmed
Rating Outlook: Stable

RATIONALE:

Renault SA (Renault) is an automaker with the French government being the largest shareholder, and operates with multiple brands including Renault and Dacia. It has been in a capital and business alliance with Nissan Motor Co., Ltd. (Issuer Rating: A+, Rating Outlook: Negative) for years and also in a three-party alliance with Nissan Motor and Mitsubishi Motors Corp. (Issuer Rating: BBB+, Rating Outlook: Stable).

The business environment is worsening in Europe and some emerging countries. For FY2019 (the year ending December 2019), Renault is expected to report a decline in revenues and a slight fall in operating margin stemming from costs for environmental regulatory compliance. That said, it maintains a relatively robust earnings base thanks to the competitive advantage of its mainstay compact cars and diversified sales regions. The company will likely ensure a certain level of earning capacity, benefiting from new model launches and continuous cost reduction efforts. Its automotive business is in a net cash position. Reflecting these factors, R&I has affirmed the rating at A- with a Stable Rating Outlook.

As regards compact cars, its mainstay product, Renault has strength not only in models for developed markets but also in entry range models for emerging markets. In addition, the carmaker has worked to expand the lineups of sport utility vehicles and medium-large vehicles. Renault and Nissan Motor have been developing and launching models based on jointly developed Common Module Family (CMF) platforms. In 2019 Renault launched the first CMF-based model in the B segment, and intends to continue to increase CMF-based models.

While the European market represents about 50% of total sales volume, Renault operates extensively in emerging markets as well. In 2019, sales volume has been affected by an economic slowdown in Europe, withdrawal from Iran, weak demand in Turkey and Argentina, etc. Sales to partner companies have also been falling. However, Renault holds a large share of the European market thanks to its strong competitiveness in the region, which underpins overall operating profits. In Russia, its subsidiary Avtovaz commands the top market share and secures profits at the operating level. In China, business expansion through a joint venture is still underway. Renault does not operate in the U.S.

The European Union will tighten CO2 emission limits for passenger vehicles from 2020. Renault is ahead of rivals in terms of sales of electric vehicles (EVs) in Europe and plans to further expand the lineups of EVs and hybrid vehicles. In the fields of advanced technologies, such as electrification, autonomous driving and connected solutions, it will continue to work with alliance partners, Nissan Motor and Mitsubishi Motors.

Although the business environment for the automobile industry is challenging, Renault expects to reap further benefits from new model launches and price improvements. Given this, coupled with a plan to step up efforts to enhance cost efficiency, the company will likely achieve a certain level of earning and cash flow generating capacities. Going forward, R&I will examine details of the revised medium-term plan and measures to shore up low-margin regions.

In the automotive business, which does not include sales financing, the company saw a decrease in net cash in 1H 2019 but projects a positive free cash flow for 2H 2019. The sales financing business has high earning capacity and sound asset quality. Sufficient liquidity is ensured as well. The overall financial base is thus solid. Renault has been under judicial investigation in France since 2017 concerning diesel emissions. It is uncertain at present how the results of the investigation will affect its future earnings and

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financial positions.

Mr. Carlos Ghosn, who had led the alliance, resigned over alleged misconduct. Since this year, Renault has adopted a management structure where the chairman of the board does not concurrently serve as a CEO. At Nissan Motor, a new CEO took office. In the automotive industry undergoing structural changes, companies are aggressively pursuing alliance and integration opportunities. Stabilizing the alliance and creating more synergies are important factors for Renault to maintain its competitiveness. R&I will keep a close eye on developments in the framework of the alliance.

The primary rating methodologies applied to this rating are provided at "R&I's Basic Methodology for Corporate Credit Ratings" and "Passenger Vehicles". The methodologies are available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.

https://www.r-i.co.jp/en/rating/about/rating_method.html

R&I RATINGS:

ISSUER: Renault SA
Issuer Rating
RATING: A-, Affirmed
RATING OUTLOOK: Stable

Japanese Yen Bonds No.19	Issue Date	Maturity Date	Issue Amount (mn)
	Jul 06, 2017	Jul 06, 2020	JPY 63,400

RATING: A-, Affirmed

Japanese Yen Bonds No.20	Issue Date	Maturity Date	Issue Amount (mn)
	Jul 06, 2017	Jul 06, 2022	JPY 26,600

RATING: A-, Affirmed

Japanese Yen Bonds No.21	Issue Date	Maturity Date	Issue Amount (mn)
	Jul 03, 2018	Jul 02, 2021	JPY 39,100

RATING: A-, Affirmed

Japanese Yen Bonds No.22	Issue Date	Maturity Date	Issue Amount (mn)
	Jul 03, 2018	Jul 03, 2023	JPY 18,300

RATING: A-, Affirmed

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