Rating Action: Moody’s downgrades Renault's ratings to Ba1 with a stable outlook

18 Feb 2020

Frankfurt am Main, February 18, 2020 -- Moody's Investors Service, ("Moody's") has today downgraded Renault S.A.'s (Renault) long-term ratings to Ba1 and its short-term ratings to non-prime. The outlook remains stable.

The downgrade to Ba1 was triggered by Renault's substantially weakened operating performance reported for the year 2019 to a level no longer commensurate with the Baa3 rating category. Based on the company's 2020 guidance anticipating a further decline in the group's operating margin and the continuing weakness of the market environment, we do not expect that Renault will be able to restore healthy operating margin levels in the medium term.

A full list of the affected ratings can be found at the end of this press release.

RATINGS RATIONALE

The operating profitability of Renault's automotive segment has eroded substantially over the last two years, following a period of successive margin improvements supported by ongoing cost-efficiency measures and strong revenue growth. Resulting from a combination of declining volumes, increasing R&D expenses and unfavourable raw material price developments, Renault's automotive operating income margin has deteriorated to 1.7% in 2019 from 3.3 % in 2018 (4.7% in 2017) and is significantly below our expectations for the Baa3 rating category.

Moody's anticipates that Renault's automotive operating income margin will decline further to below 1.0% in 2020 and remain under pressure for an extended period. The cost to comply with CO2 regulation in the European Union (EU) and the ongoing electrification of Renault's fleet will have further dilutive effects on profitability. Moody's expects that the material required capital expenditures to weather these challenges will continue to absorb large amounts of cash leading to a substantially negative free cash flow (Moody's definition) of around €2 billion in 2020. In previous years, partly through rigid working capital management, Renault generated consistently positive free cash flows before turning to negative €0.5 billion in 2019.

In addition to the weakness in Renault's operating performance, the at-equity contribution from its investments in Nissan Motor Co., Ltd (Nissan, A3 negative) has also declined sharply. Historically, Nissan's earnings contribution accounted for more than half of Renault's EBITA (as defined by Moody's) on average and has been a supportive factor for Renault's credit metrics.

Moody's also considers the challenges related to Environmental, Social and Governance factors, including the megatrends in the automotive industry towards alternative fuel vehicles and autonomous driving. We expect that Renault, as it is the case for its peers, will be required to make sizeable investments over the coming years to cope with these challenges, particularly in run-up to the upcoming stricter CO2 emissions regulation within the EU in 2020/21. While we consider the company's plans to achieve compliance with the stricter emissions regulation as feasible, we caution that the powertrain mix of its vehicle sales is not entirely in Renault's control and to some degree dependent on consumer acceptance of its electrified model lineup.

STABLE OUTLOOK

The stable outlook anticipates that Renault will be able to restore its operating profitability as measured by the Moody's-adjusted EBITA margin (excluding Nissan contribution) to above 2% within the next 12-24 months and maintain its Moody's-adjusted Debt/EBITDA ratio below 4.0x. The stable outlook also anticipates a continuation of Renault's prudent financial policy, good liquidity profile and balanced debt maturity profile.

The stable outlook further reflects Moody's expectation that Renault's business setup has the capacity to contend with the long-term cyclicality within the global light vehicle markets and its challenging landscape as a result of heavy investment requirements for (1) alternative propulsion technologies; (2) driverless vehicles; (3) connectivity as well as (4) regulations relating to vehicle safety, emissions and fuel economy.
WHAT COULD CHANGE THE RATINGS DOWN

Although an upgrade is not likely in the near term, Moody's would consider upgrading Renault's ratings in case of (1) Moody's-adjusted EBITA margin excluding the at-equity contribution of Nissan sustainably increasing towards the mid-single digits (in percent terms), (2) Moody's-adjusted Debt/EBITDA were to decrease below 3.0x, or (3) FCF generation were to become sustainably positive.

Downward pressure on Renault's ratings could arise in case (1) of inability to restore Moody's-adjusted EBITA margin excluding the at-equity contribution of Nissan to above 2%, (2) Moody's-adjusted Debt/EBITDA were to consistently exceed 4.0x, or (3) FCF were to remain materially negative for a prolonged period. Further, a more aggressive financial policy or weakening of Renault's liquidity could also trigger a downgrade.

LIQUIDITY

Renault's liquidity profile is good. As of 31 December 2019, Renault's principal sources of liquidity consisted of (1) cash and cash equivalents on the balance sheet, amounting to €12.3 billion; (2) undrawn committed credit lines of €3.5 billion; (3) current financial assets of €1.2 billion; and (4) expected positive funds from operations over the next 12 months. These cash sources provide good coverage for liquidity requirements that could arise during the next 12 months. These requirements consist of short-term debt maturities of around €1.3 billion, capital expenditure of around €4.5 billion, working capital funding, day-to-day needs and expected dividend payments.

LIST OF AFFECTED RATINGS:

..Issuer: Renault S.A.

Downgrades:

....Other Short-Term, Downgraded to (P)NP from (P)P-3

....Senior Unsecured Medium-Term Note Program, Downgraded to (P)Ba1 from (P)Baa3

....Commercial Paper, Downgraded to NP from P-3

....Senior Unsecured Regular Bond/Debenture, Downgraded to Ba1 from Baa3

Reinstatements:

.... LT Corporate Family Rating, Reinstated to Ba1

.... Probability of Default Rating, Reinstated to Ba1-PD

Withdrawal:

.... LT Issuer Rating, Withdrawn, previously rated Baa3

Outlook Actions:

....Outlook, Remains Stable

Moody's has decided to withdraw the ratings for its own business reasons. Please refer to the Moody's Investors Service Policy for Withdrawal of Credit Ratings, available on its website, www.moodys.com.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Automobile Manufacturer Industry published in June 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

CORPORATE PROFILE

Headquartered in Boulogne-Billancourt, France, Renault S.A. (Renault) is Europe's third-largest car manufacturer by unit sales. In addition to the Renault brand, the company manufactures cars under the Dacia, Renault Samsung Motors (South Korea), Alpine and Lada (Russia) brands. In 2019, the company sold close to 3.8 million vehicles and reported total revenue of €55.5 billion. Renault currently holds a 43.4% equity stake in
Nissan Motor Co., Ltd.

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