Bulletin:

Renault's €6.7 Billion Cash Burn In First Half Tops Peers', Reduces Rating Headroom

July 30, 2020

PARIS (S&P Global Ratings) July 30, 2020--S&P Global Ratings said today the French automaker Renault S.A. (BB+/Negative/B) reported lower volume losses (-34.9%) over the first half of 2020 than its main French peer Peugeot S.A. (PSA; -45.7%), but its cash spending was almost double, at €6.7 billion compared with €3.6 billion at PSA. In our view, the weak results further reduce the company's rating headroom and call for strong execution of cost-cutting as well as cash-preservation measures in the next 12-18 months to achieve our current rating base-case assumptions for 2021-2022.

Despite high cash burn in first-half 2020, liquidity is not an immediate concern, with liquidity sources of about €16.8 billion, including the €5 billion credit line guaranteed by the French state. We expect Renault will recover in the second half of 2020, thanks to a supportive order book, including its e-tech hybrid cars hitting the market, and reflecting Renault's capacity to fully seize opportunities offered by an incentivized French market. However, the first-half performance represents a deviation from our base case for Renault. We now see a risk of higher negative free operating cash flow (FOCF) in 2020 than our previous expectations of negative €2 billion-€3 billion, and a clearly negative auto operating margin for 2020, compared with break even previously expected. We will monitor the plan to be announced by newly appointed CEO Luca de Meo. The plan will lay the foundation for refocusing the business on value and away from volume, a strategic approach that already worked for competitor PSA.

We could lower our rating on Renault in 2021 if we viewed it unlikely that the group would be able to achieve an S&P Global Ratings-adjusted EBITDA margin of about 6% in 2022 and FOCF to debt of more than 15% in 2022.

This report does not constitute a rating action.

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