



NEWS RELEASE

Aug 03, 2020

R&I Changes Outlook to Negative: Renault SA

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

ISSUER: Renault SA
Issuer Rating: A-
Rating Outlook: Negative, Changed from Stable

RATIONALE:

Renault SA is an automaker whose largest shareholder is the French government. It has been in a capital and business alliance with Nissan Motor Co., Ltd. (Issuer Rating: A, Rating Outlook: Negative, Nissan) and also in a three-party alliance with Nissan and Mitsubishi Motors Corp. (Issuer Rating: BBB+, Rating Outlook: Negative). Renault's operating performance declined substantially owing to Covid-19. This, combined with a cost structure issue and a sizable negative contribution from associated companies, worsened its financial base. It has become more likely that earnings improvement will take time and the financial base will remain weaker than the A rating category suggests. R&I has therefore changed the Rating Outlook to Negative.

In 1H (January-June) 2020, Renault recorded a negative operating margin of 1.2 billion euros. The Covid-19 crisis dampened its unit sales by 35% year on year. Sales plunged particularly in Europe, its core market, and the Americas. Meanwhile, its cost burden is increasing due to expenses for environmental regulatory compliance, products enrichment, and advanced technologies, as well as adverse effects of its volume expansion strategy in the past. With the earnings structure deteriorating, its earnings base is becoming less stable. In addition to impairment of assets, Renault posted Nissan's negative contribution of 4.8 billion euros stemming from the company's poor performance. As a result, Renault's net loss ballooned to its largest ever, at approximately 7.4 billion euros. On the financial front, debt in the automotive business has exceeded cash on hand. Equity capital is still high, but decreased significantly.

Renault has product competitiveness especially in compact cars. In its core European market, it has the third largest share for passenger vehicles. Its market position is also high in some emerging countries, such as Russia and Brazil. In terms of sales of electric vehicles, Renault is ahead of rivals in Europe. The cost reduction project it announced in May 2020 calls for a fixed cost reduction of 2 billion euros or more by 2022, and efforts for capacity rightsizing, platform consolidation and headcount optimization are underway. The alliance with Nissan and Mitsubishi Motors will leverage a leader-follower scheme in each field to enhance efficiency. Supported by ample cash on hand, Renault has no problem in ensuring liquidity. The additional 5 billion euro credit facility agreement benefits from a 90% guarantee of the French State.

Following the resumption of production and sales activities in each region, Renault's unit sales in June somewhat picked up, mainly in Europe. The new CEO who took office in July will launch new business reinforcement measures. That said, the business environment is challenging, and there is a risk that the Covid-19 impact will be prolonged. Furthermore, additional restructuring charges and a larger negative contribution from associated companies may exacerbate Renault's financial base. Eyes are on whether the Covid-19 impact will diminish in 2H 2020 to 2021 and this, along with the introduction of new models and cost reductions, will help improve its earnings. Mitigating a deterioration in the financial base is also essential. R&I will examine these factors and incorporate them into the rating.

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.

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R&I RATINGS:

ISSUER:

Renault SA

Issuer Rating

RATING:

A-

RATING OUTLOOK:

Negative, Changed from Stable

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