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Credit Opinion: Renault S.A.

Global Credit Research - 26 Feb 2016

Boulogne-Billancourt, France

Ratings

Category	**Moody's Rating**
Outlook	Stable
Issuer Rating	Baa3
Senior Unsecured	Baa3
Commercial Paper -Dom Curr	P-3
Other Short Term -Dom Curr	(P)P-3
Companhia de Cr., Financ. e Invest. RCI BR	
Outlook	Stable
Corporate Family Rating -Dom Curr	Ba1
Issuer Rating -Dom Curr	Ba1
NSR LT Issuer Rating	Aa1.br
RCI Banque Sucursal Argentina	
Outlook	Stable
Issuer Rating -Dom Curr	B1
RCI Banque	
Outlook	Stable
Bank Deposits	Baa1/P-2
Senior Unsecured	Baa1
Subordinate MTN -Dom Curr	(P)Ba1
Commercial Paper	P-2
Other Short Term -Dom Curr	(P)P-2

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Key Indicators

[1]**Renault S.A.**

	12/31/2015	**12/31/2014**	**12/31/2013**	**12/31/2012**	**12/31/2011**
Debt / EBITDA	**2.4x**	**3.2x**	**3.5x**	**3.2x**	**2.5x**
(Cash & Marketable Securities) / Debt	**107.5%**	**100.5%**	**96.7%**	**90.7%**	**82.4%**
Operating margin (before share of income from associates)	**2.9%**	**1.2%**	**-1.2%**	**-0.6%**	**1.5%**
EBITA Margin	**7.2%**	**5.1%**	**3.3%**	**3.9%**	**yasmi**
NPATBUI / Sales	**5.6%**	**3.7%**	**0.5%**	**0.9%**	**3.9%**
EBITA / Avg Assets	**5.4%**	**3.8%**	**2.5%**	**3.0%**	**5.1%**
RCF / Debt	**19.5%**	**17.0%**	**16.0%**	**15.6%**	**20.3%**
FCF / Debt	**7.6%**	**7.1%**	**4.2%**	**4.3%**	**9.3%**
EBITA / Interest Expense	**5.9x**	**3.9x**	**2.2x**	**2.7x**	**4.7x**

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

- Ongoing recovery in European car markets and renewal of model range support volume growth and market share gain

- Geographic profile somewhat focused on Europe, near-term volatility expected in certain emerging countries

- Increasing profitability of Renault's automotive business though still lagging behind that of main competitors

- High reliance on alliance with Nissan; accelerated synergies expected

- Expected continued positive free cash flow and improving credit metrics

- Robust liquidity with a balanced maturity profile

Corporate Profile

Headquartered in Boulogne-Billancourt, France, Renault S.A. (`Renault') is Europe's third largest car manufacturer. In addition to the Renault brand, the company manufactures cars under the Dacia and Renault Samsung Motors (South Korea) brands. Moreover, Renault provides financing to dealers and end-customers through its wholly-owned finance company, RCI Banque (Baa1 stable, baa3). In 2015, the company sold 2.80 million vehicles and reported total revenues of EUR45.33 billion. Renault currently holds a 43.7% equity stake in Nissan Motor Co., Ltd (`Nissan', A3 stable). Nissan and the French government hold an equal stake of 15% each in Renault.

SUMMARY RATING RATIONALE

Renault's Baa3 rating reflects (1) its position as one of Europe's largest car manufacturers with a solid competitive position in France and satisfactory geographical diversity, (2) its long established strategic alliance with Nissan (A3 stable) which generates substantial synergies and at-equity income, (3) the ongoing renewal of its model range across all segments with additional launches in the C and D segments in 2016, and the success of its entry-level range of cars which we believe will help the company continue to increase volumes, (4) the continued success of cost reduction initiatives which leverage the benefits of increasing volumes of new vehicle sales to enhance margins, and (5) its prudent financial policy, healthy liquidity and balanced debt maturity profile.

At the same time, the ratings are constrained by the company's operating profit margins which, while improving, are still lagging behind that of other rated peers (before contributions from associates). The rating factors in the progress made by Renault in order to improve its profitability as evidenced by a higher Moody's-adjusted margin of its automotive division of 2.9% in 2015 (1.2% in 2014). This margin nevertheless remains below that of other investment-grade rated global automotive manufacturers. We expect Renault will further improve this level of profitability in 2016 towards 3.5% supported by a positive sales momentum in the European market (excluding Russia), ongoing cost efficiency measures as well as the launch of new models in the C and D segments. The successful execution of these launches should enable the company to benefit from better margins on a broader portion of its product offering.

Furthermore, the rating incorporates (1) Renault's dependence on the contribution to its earnings and cash flows from Nissan, (3) its high exposure to Europe (including France), the company's single largest market, (4) contrasted global industry conditions with very weak conditions in Brazil and Russia and some currency volatility which may hamper the company's earnings growth this year, and (5) expected sustained investments will constrain future free cash flow generation even though the rating recognizes that Renault's free cash flow has remained consistently positive in the past few years, also supported by sizeable dividend income from its stake in Nissan.

DETAILED RATING CONSIDERATIONS

ONGOING RECOVERY IN EUROPEAN CAR MARKETS AND RENEWAL OF MODEL RANGE SUPPORT VOLUME GROWTH AND MARKET SHARE GAINS

Renault increased slightly its market share in Europe (approximately 58% of the company's new registrations in 2015) by 0.1 point to 9.6% (EU15 + EFTA countries according to the European Automobile Manufacturers Association), which compares favourably with the performance of its other rated peers such as Volkswagen AG (A3 negative, -0.7 point to 24.8%), Ford Motor Company (Ford, Baa2 stable, flat at 7.2%) and General Motors Company (GM, Baa3 secured credit facility rating/Ba1 senior unsecured rating positive, -0.4 point to 6.7%) and Peugeot S.A. (PSA, Ba3 positive, -0.3 point to 10.4%). The company's outperformance was aided by the continued success of its Clio 4, B cross-over Captur and Dacia models as well as the launch of well received new models such as the New Espace and new Kadjar SUV.

We consider that the successful renewal of Renault's product line-up is a crucial milestone to enhance the resilience of its automotive segment and its profitability, and we view favourably the company's improving commercial performance in Europe which suggests there is a good market acceptance of the new models.

Moreover, we positively note that upcoming product launches, in the C & D segments in particular (Talisman and new Mégane in H1-2016 and Scenic in H2-2016) should help Renault consolidate its market position in Europe. This will support a further improvement in volumes, profit contribution and cash flow generation of its core operations, even though there is likely to be near-term volatility coming from weak operating conditions in Brazil and Russia.

GEOGRAPHIC PROFILE SOMEWHAT FOCUSED ON EUROPE, NEAR-TERM VOLATILITY EXPECTED IN CERTAIN EMERGING COUNTRIES

Renault is predominantly present in Europe, but also has exposure to Africa and the Middle East, Eurasia, Latin America and Asia Pacific. Europe remains by and large the principal contributor to the company's volumes though (approximately 58% in 2015) with France being the company's single largest market (22%).

The proportion of international sales has reduced slightly recently reflecting the recovery of European passenger car markets, the success of recent model launches in Europe and the strong headwinds in certain large emerging markets such as Brazil (6.5% of Renault's sales in 2015) and in Russia (4.3%). At this juncture, we expect the positive sales outlook in Western Europe for 2016 will more than offset weakness in certain of its emerging markets.

Renault is not present in the US and only modestly in China. We anticipate Renault will grow its volumes in China in the next 18 months though as it starts selling locally produced models out of its new plant in Wuhan (initial capacity of 150,000 vehicles per year), a project undertaken jointly with Chinese car manufacturer Dongfeng Motor (unrated). Two new crossovers including the Kadjar will be sold in China which we believe will translate into accelerated growth for Renault because the SUVs are very successful with Chinese buyers.

INCREASING PROFITABILITY OF RENAULT'S AUTOMOTIVE BUSINESS THOUGH STILL LAGGING BEHIND THAT OF MAIN COMPETITORS

Renault's profitability increased in 2015 with the reported operating profit margin of its automotive division growing to 3.5% compared to 2.2% in 2014 (excluding the at-equity income from Nissan and before restructuring expenses). Similarly, on a Moody's-adjusted basis, Renault's operating margin (excluding the contribution from associates and joint ventures) stood at 2.9%, up from 1.2% in 2014.

This achievement was supported by continued cost reduction efforts and a volume increase (including sales to partners), fuelled by new registrations in Europe, which more than offset the negative effects of Renault's limited product mix as it ran down stock of ageing models ahead of its planned renewal of certain of core models in the C and D segments, as well as increasing regulatory costs.

We acknowledge Renault's commitment to pursue its efforts at building a more efficient and sustainable cost structure through ongoing cost reductions, as well as synergies achieved through its alliance with Nissan and, to a lower extent, Daimler AG (A3 positive). For instance, Moody's expects that the use of common platforms, which started in the C and D segments for Renault in 2015 with the new Espace, will gain traction in the next few years, thus supporting a more competitive unit cost per vehicle.

The Moody's-adjusted EBITA margin used in our rating methodology includes Nissan's sizeable at-equity income but it does not capture the share of Nissan's revenue hence it is inflated at 7.2% in 2015 (5.1% in 2014). Excluding the at-equity income in Nissan, we caution that Renault's Moody's-adjusted operating margin still lags behind those of some of its rated peers such as GM at 3.2% and Ford at 4%.

We expect Renault will further improve its profitability in 2016 supported by a positive sales momentum in the European market (excluding Russia), ongoing cost efficiency measures as well as the launch of new models in the C and D segments. The successful execution of these launches should enable the company to benefit from better margins on a broader portion of its product offering.

HIGH RELIANCE ON ALLIANCE WITH NISSAN; ACCELERATED SYNERGIES EXPECTED

Renault currently has a 43.7% stake in Nissan, which is accounted for at-equity. Nissan is well positioned in the North American, Chinese and Japanese car markets, thereby adding additional geographic diversification to Renault's home markets. The share of income from Nissan is an important contributor to Renault's earnings. In 2015, Nissan's at-equity income amounted to EUR2.0 billion compared to EUR2.1 billion in Renault's operating profit. Moreover, the dividends received from Nissan, which amounted to EUR547 million in the full year 2015 are also adding positively to the company's cash flow from operations and help fund to a large extent Renault's dividends to its shareholders (EUR599 million in 2015).

Going forward, we expect Renault will continue to leverage its partnership with Nissan as the integration has been enhanced since 2014 with new joint projects in the areas of R&D, manufacturing and logistics, purchasing and human resources, which are gaining increasing traction. Besides strengthening the ties between the two companies, these projects are expected to yield at least EUR4.3 billion of annual synergies by 2016 (versus an estimated EUR4.1 billion in 2015 and EUR3.8 billion in 2014), of which a little less than half will benefit Renault which supports the company's efficiency and credit quality.

A December 2015 agreement with the French government to amend the terms of the alliance should ensure that the partnership between Renault and Nissan will continue to provide both companies with competitive advantages and support their ratings through cost savings and operational benefits. By limiting the French government's influence on strategic matters, we believe the agreement has reduced the risk of a disruption to the alliance.

EXPECTED CONTINUED POSITIVE FREE CASH FLOW AND IMPROVING CREDIT METRICS

We acknowledge that Renault has consistently delivered a positive free cash flow, partly helped by significant working capital releases, a capital expenditure (capex) at around EUR2 billion on average, a prudent dividend policy and a sizeable dividend contribution from Nissan.

In 2015, Renault's Moody's-adjusted free cash flow amounted to EUR0.9 billion (slightly up year-on-year) aided by higher profitability and a large working capital inflow. Free Cash flow represented 7.6% Moody's-adjusted debt (7.1% in 2014).

We expect Renault's free cash flow generation will remain positive in 2016, despite sustained investments in product and technology development and R&D requirements in order to meet stricter emissions standards. At the same time, we would expect Renault to contain its capex spending (including research and development investments) within the company's limit of 9% of revenues per annum (around 8% in 2015 and 7.4% in 2014).

Moreover, Renault's Moody's-adjusted debt-protection ratios benefited from a slight reduction in the company's indebtedness as of 31 December 2015 and higher profitability such that its Moody's-adjusted (gross) debt/EBITDA decreased to approximately 2.4x (3.2x at year-end 2014) and its retained cash flow/debt increased to around 19.5% (17.0% in 2014).

Liquidity Profile

Renault has a robust liquidity profile. At of 31 December 2015, Renault's principal sources of liquidity consisted of (1) cash and cash equivalents on the balance sheet amounting to EUR11.6 billion; (2) undrawn committed credit lines of EUR3.3 billion and (3) expected positive free cash flow generation in 2016.

These cash sources provide good coverage for liquidity requirements that could arise during the next 12 months, which we estimate at above EUR8.5 billion. These requirements consist of short-term debt maturities of approximately EUR4.2 billion, capital expenditure, working capital funding, day-to-day needs and expected dividend payments.

Rating Outlook

The stable outlook reflects our expectation that Renault will remain committed to further improving its operating margin towards its self-imposed target of above 5% by 2017 (including financial services) aided by a successful execution of its revamped model range, further cost efficiencies and continued positive sales growth in Europe.

What Could Change the Rating - Up

We could consider an upgrade if Renault were able to increase its profitability aided by a successful execution of its strategy in the C and D segments and further cost efficiencies, whilst demonstrating continued resilience in challenging markets such as Russia and Latin America. An upgrade would also require that Renault executes successfully on its expansion plans in China, and more generally enhances its geographic profile over time, maintains balanced financial policies and a solid liquidity profile.

Quantitatively, upward pressure on the ratings could materialize if Renault achieves then maintains a reported operating profit from its automotive division at or above 5% (excluding the share of income in Nissan), a Moody's-adjusted debt/EBITDA ratio sustainably below 2x and a continuously positive Moody's-adjusted free cash flow above EUR500 million.

What Could Change the Rating - Down

Downward pressure on Renault's ratings could build if its strategy of building a consistently profitable model range and infrastructure were to be unsuccessful or if the company were to face declining market shares in key markets. More aggressive financial policies causing a deterioration in the company's financial profile and/or liquidity could also trigger a downgrade.

Downward pressure on the ratings could materialise if the company's reported operating profit from its automotive division were to remain sustainably in the low-single-digit range (in percentage terms), its Moody's-adjusted debt/EBITDA ratio were to increase towards 3.5x or free cash flow were to remain negative for a prolonged period of time.

Other Considerations

MAPPING TO RATING METHODOLOGY

Under Moody's rating methodology for the global automotive manufacturer industry, Renault maps to a Baa1 on the basis of financial data for 2015, which is two notches above the assigned Baa3 rating. The grid-indicated outcome is a point-in-time snapshot, hence it does not take into account the cyclicality of the industry and the product life cycle of car manufacturers. It also does not capture the downside risks on earnings from currently challenging market conditions in some of Renault's emerging markets.

Moreover, we note that some of the metrics used in our grid such as EBITA margin and NPATBUI/sales are somewhat inflated by the fact that Nissan's contribution is included in the profit but not in the sales. It is also captured in our leverage metric.

Rating Factors

Renault S.A.

Global Automobile Manufacturer Industry Grid [1][2]	**Current FY 12/31/2015**		[3]**Moody's 12-18 Month Forward View**	
Factor 1: Market Position and Trend (35%)	**Measure**	**Score**	**Measure**	**Score**
a) Trend in Global Unit Share over 3 Years	Baa	Baa	Baa	Baa
b) Product Breadth and Strength	Baa	Baa	Baa	Baa
Factor 2: Leverage and Liquidity (20%)				
a) Debt / EBITDA	2.4x	A	1.5x - 2x	A
b) Debt / Book Capital	31.8%	Aa	24% - 30%	Aa
c) (Cash & Marketable Securities) / Debt	107.5%	A	110% - 120%	A
Factor 3: Profitability and Returns (15%)				
a) EBITA Margin	7.2%	Baa	8% - 9.5%	Baa

b) NPATBUI / Sales	5.6%	A	6.5% - 7.5%	A
c) EBITA / Avg Assets	5.4%	Baa	6.5% - 7.5%	A
Factor 4: Cash Flow and Debt Service (30%)				
a) RCF / Debt	19.5%	Ba	24% - 29%	Baa
b) FCF / Debt	7.6%	Ba	4% - 7%	Ba
c) EBITA / Interest Expense	5.9x	Baa	7x - 10x	A
Rating:				
a) Indicated Rating from Grid		Baa2		Baa1
b) Actual Rating Assigned		Baa3		Baa3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 12/31/2015; Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

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