

**Rating Action: Moody's affirms Renault's Ba2 ratings, outlook negative**

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Frankfurt am Main, April 06, 2022 -- Moody's Investors Service ("Moody's") has today affirmed Renault S.A.'s (Renault or group) corporate family rating (CFR) of Ba2, the probability of default rating of Ba2-PD, the rating of the group's senior unsecured EMTN programme of (P)Ba2 and the ratings of the group's senior unsecured notes of Ba2. The outlook remains negative.

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

"The affirmation of Renault's ratings reflects the return of Renault's margins to slightly positive levels since 2021, expected further improvements, in line with the company's strategic plan through 2025 and the group's good liquidity.", said Matthias Heck, a Moody's Vice President -- Senior Credit Officer and Lead Analyst for Renault. "The negative outlook reflects the weak positioning of Renault in the Ba2 rating category on the back of still slim margins, the time-consuming execution period until the strategic plan results in material improvements in financial metrics and the suspension of the company's operations in Russia. The rating hence remains vulnerable to any negative macroeconomic developments.", added Mr. Heck.

**RATINGS RATIONALE**

Renault Ba2 CFR reflects its position as one of Europe's largest car manufacturers, with a solid competitive position in France and good geographical diversity; the recent new model launches, with an advanced positioning in the area of hybrid and battery electric models; the new strategic plan called "Renaulution", which aims to improve profitability and cash generation with first signs of success; and its prudent financial policy, good liquidity and balanced debt maturity profile. The rating also reflects Renault's ownership of RCI Banque, whose dividend payments contribute to Renault's industrial cash flows and finally its ability to delever, and the 15% ownership of French government, which supported Renault with a €4 billion state guaranteed loan during the pandemic. Lastly, its long-established strategic alliance with Nissan Motor Co., Ltd. (Nissan) and Mitsubishi Motors Corporation (Mitsubishi) has substantial synergy potential although the companies had material challenges to realize this in the past.

The rating also incorporates Renault's low profitability and its exposure to the cyclical nature of the automotive industry; its high exposure to Europe (including France), which represented more than half of the group's unit sales in 2021 and where economic development will be more materially impacted by the conflict between Russia and the Ukraine; the still limited integration level of Renault's alliance with Nissan and Mitsubishi and its dependence on the contribution to its earnings and cash flow from Nissan's dividends, which has weakened considerably since 2019; and the ongoing high need for investment spending (capex and R&D) into alternative fuel and autonomous driving technology, which will constrain future free cash flow (FCF). We take into consideration the high management turnover in the recent years, a negative from a governance perspective.

On March 23, 2022, Renault announced the suspension of its industrial activities in Russia (9.9% of Renault's total consolidated revenues in 2021). This includes Renault's manufacturing plant in Moscow and the assessment of options with regards to Renault's stake in Avtovaz, the leading automaker in Russia. Consequently, Renault reduced its operating margin target for 2022 to around 3% from previously more than 4%, and its free cash flow expectation to positive from previously more than €1 billion. Concurrently, Renault reiterated its focus on executing its Renaulution strategic plan.

The suspension of Renault's activities in Russia is a setback for Renault's plan to improve profitability. In 2021, AVTOVAZ (Renault stake: 67.69%) contributed €249 million or close to 50% to Renault's automotive operating margin of €505 million. It was also more profitable (8.7% return on sales) compared to Renault's other automotive business (0.6% return on sales). In addition to AVTOVAZ, the suspension of Renault's Moscow plant will weaken Renault's profits and return on sales by an undisclosed amount. We understand, however, that Renault's activities in Russia are self-contained, that Renault has not guaranteed local debt in Russia, and that Renault will not inject cash into the country. This means that at least AVTOVAZ's debt (€1.1 billion as of December 2021) will fall away, if Renault finally discontinues its activities in Russia. Moody's also expects that the reduction of Renault's free cash flow expectation predominantly relates to Russia, while the expected cash flow generation of its other operations is largely unaffected.

Renault's leverage is high but expected to improve into Moody's expected range for the Ba2 and become comfortably positioned from 2023. In February 2022, Renault announced the repayment of €2 billion of the French state-guaranteed loan (including €1 billion early repayment) in 2022. Together with expected moderate EBITDA improvements of Renault's non-Russian business, Moody's expects Renault's leverage (Moody's adjusted debt / EBITDA) to improve to approximately 4.0x in 2022 (5.7x in 2021), and towards 3.0x in 2023, in line with the range of 3x-4x Moody's expects for the Ba2. The potential de-consolidation of Renault's operations in Russia (including Renault's non-guaranteed local debt) would not have a material impact on Renault's leverage.

For the full year 2022, Moody's expects Renault's EBITA margins (including and excluding Nissan, Moody's adjusted) to be at the level of 2021 (1.3%, and 0.4%, respectively), assuming that Renault's Russian activities will be discontinued operations. For 2023, Moody's expects a positive margin development. However, without the Russian activities, it might take Renault one additional year to improve its margins (excluding Nissan) to at least 2.0%, which Moody's considers as the minimum for the Ba2 rating.

#### RATIONALE FOR THE NEGATIVE OUTLOOK

The negative rating outlook reflects the continued weakness in Renault's main credit metrics over the next 12-18 months as it implements its restructuring plan and attempts to restore its competitive position. Despite gradual improvements, it remains challenging for Renault to improve its operating profit margins to 2% (Moody's adjusted EBITA, excluding Nissan contribution), generate positive free cash flows in the mid- to high three-digit million € amounts (Moody's adjusted, after restructuring) and reduce Moody's adjusted Debt / EBITDA to below 4x by the end of 2022.

#### LIQUIDITY

Renault's liquidity profile is good. As of 31 December 2021, Renault's principal sources of liquidity consisted of cash and cash equivalents on the balance sheet, amounting to €13.9 billion; undrawn committed credit lines of €3.4 billion; current financial assets of €1.0 billion. Including funds from operations, which Moody's expects to exceed €3 billion over the next 12 months, liquidity sources amount to more than €21 billion.

These provide good coverage for liquidity requirements of around €10 billion that could emerge during the next 12 months, including short-term debt maturities of around €4.0 billion (including €3.0 billion state-guaranteed credit loans, of which Renault plans to repay €2.0 billion in 2022), expected capital spending of slightly below €2 billion, and day-to-day needs (around €1.5 billion).

#### FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Renault's ratings could be downgraded in case of (1) an inability to restore Moody's-adjusted EBITA margin excluding the at-equity contribution of Nissan towards 2% by 2022; (2) Moody's-adjusted Debt/EBITDA to consistently exceed 4.0x and (3) FCF to remain materially negative for a prolonged period. Furthermore, a significant weakening of Renault's liquidity could also trigger a further rating downgrade.

Although an upgrade within the next 24 months is not likely, Moody's would consider upgrading the 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 percentage terms); (2) Moody's-adjusted Debt/EBITDA were to decrease below 3.0x and (3) FCF generation were to become sustainably positive.

#### LIST OF AFFECTED RATINGS:

..Issuer: Renault S.A.

#### Affirmations:

.... LT Corporate Family Rating, Affirmed Ba2

.... Probability of Default Rating, Affirmed Ba2-PD

....Senior Unsecured Medium-Term Note Program, Affirmed (P)Ba2

....Senior Unsecured Regular Bond/Debenture, Affirmed Ba2

#### Outlook Actions:

...Outlook, Remains Negative

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Automobile Manufacturers published in May 2021 and available at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1275604](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1275604) . Alternatively, please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

## REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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