

Jun 03, 2022

R&I Affirms A-, Negative: Renault SA

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

ISSUER: Renault SA
Issuer Rating: A-, Affirmed
Rating Outlook: Negative

RATIONALE:

Renault SA (Renault) is an automaker in which the French government invests as the largest shareholder. The company has been developing its business under a number of brands including Renault and Dacia. It has been in a capital and business alliance with Nissan Motor Co., Ltd. (Issuer Rating: A, Rating Outlook: Negative), which evolved into a three-party alliance following the participation by Mitsubishi Motors Corp. (Issuer Rating: BBB+, Rating Outlook: Stable). The three parties have been cooperating broadly through shared strategies such as platform sharing and vehicle electrification etc.

In 2021, Renault restored the operating profits and a positive free cash flow, as a result of the fixed-cost reduction which the company achieved earlier than the initial plan and the change of commercial policy, focusing on pricing. However, in the wake of Russia's invasion of Ukraine in early 2022, uncertainties are growing about the business environment surrounding the company. There is a risk of slowdown in the progress of efforts toward continued enhancement of earning capacity and improvement of financial base, both of which are high on the agenda for the company. Based on this recognition, R&I has affirmed the Issuer Rating at A-, with the Rating Outlook remaining Negative.

In 2021, Renault posted an operating income of 1.6 billion euros. Although the number of units sold decreased due to the impact of the COVID19 pandemic and the shortage of semiconductors, the sales figures have recovered owing to the improvement of product mix and the revised sales prices. In addition, the fixed cost reduction of over 2 billion euros also contributed to the earnings. For 2022, the company projects an operating margin ratio at around 3% as well as a positive free cash flow, after factoring in the suspension of Russian operation. Renault sold its stake in Avtovaz, a Russian subsidiary with a top market share in Russia, and also sold 100% of Renault Group's shares in Renault Russia. While Renault plans to post a loss on reappraisal of the Russia-related assets, R&I assumes that the direct impact on the financial base resulting from it would likely be limited.

Ranked third in the passenger vehicle market in Europe, a core market for the company, Renault boasts a high level of product competitiveness, especially in the category of compact cars. It plans to improve the competitiveness and the earning capacity by enriching the product lineup of medium-size models of the "C" segment. It also plans a further cost reduction through optimization of production capacity and through sharing of platforms and components. The financial base needs improvement to match the rating's suggestion, in light of a certain amount of net debt remaining in the automobile business. The sales-finance subsidiary is continuing to contribute to the overall profits and has an extra capability of paying out dividends to the automotive business. In general, there is no problem in ensuring the liquidity. As a pioneer in commercialization of BEV (Battery Electric Vehicle), Renault boasts the abundance of technologies through years of accumulation. It is planning to set up a new company dedicated to the BEV business.

Despite the progress the company has made toward improvement in revenue and expenditure structure, the risk factors in the external environment are increasing. Attention should be paid to the rising prices of energies and other natural resources as well as the problem of semiconductor shortage, not to mention the worldwide trend of automotive demand including that of Europe. The deterioration of the financial base as a result of a significant stagnation in earnings could trigger a stronger downward pressure on the rating. From the viewpoint of sustaining the current rating, it is critically important for Renault to reduce the net debt in the automotive business by ensuring profits and cash flows through

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production recovery and improvement in sales price etc. R&I also keeps a close eye onto the moves taken by the company relating to the alliance with Nissan Motor and Mitsubishi Motors.

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.

https://www.r-i.co.jp/en/rating/about/rating_method.html

R&I RATINGS:

ISSUER:	Renault SA
	Issuer Rating
RATING:	A-, Affirmed
RATING OUTLOOK:	Negative

Japanese Yen Bonds No.20	Issue Date	Maturity Date	Issue Amount (mn)
	Jul 06, 2017	Jul 06, 2022	JPY 26,600
RATING:	A-, Affirmed		

Japanese Yen Bonds No.22	Issue Date	Maturity Date	Issue Amount (mn)
	Jul 03, 2018	Jul 03, 2023	JPY 18,300
RATING:	A-, Affirmed		

Japanese Yen Bonds No.23	Issue Date	Maturity Date	Issue Amount (mn)
	Jul 06, 2021	Jul 06, 2023	JPY 40,000
RATING:	A-, Affirmed		

Japanese Yen Bonds No.24	Issue Date	Maturity Date	Issue Amount (mn)
	Jul 06, 2021	Jul 05, 2024	JPY 110,000
RATING:	A-, Affirmed		

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