



## Rating Action: Moody's changes Renault's outlook to stable from negative, affirms the Ba2 ratings

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18 Nov 2022

Frankfurt am Main, November 18, 2022 -- Moody's Investors Service ("Moody's") has today changed the outlook on Renault S.A.'s (Renault or the group) ratings to stable from negative. Concurrently, Moody's affirmed the 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.

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

"The outlook change to stable reflects Renault's improved profitability in the first half of 2022, and the expectation of further improvements driven by the execution of the strategic plan Renaulution." said Matthias Heck, a Moody's Vice President -- Senior Credit Officer and Lead Analyst for Renault. "The affirmation of the Ba2 rating is based on the expectation Renault's credit metrics will improve to comfortable levels required for the current rating category in 2023, notwithstanding the increasingly challenging macroeconomic environment and the execution risks linked to the new strategic plan." added Mr. Heck.

### RATINGS RATIONALE

At its capital market day on 8 November 2022, Renault provided an update of its strategic plan Renaulution, which was initially announced in January 2021. According to the plan, the company will change its organizational structure, and break up its automotive activities into a unit for electric vehicles and software ("Ampere"), a unit for cars and light commercial vehicles with internal combustion engines (ICEs) and hybrid engines ("Power"), and a unit for sports cars ("Alpine").

The new structure will be gradually implemented from 2023 on, and will improve funding options within the group, generally a credit positive, although benefits will be somewhat offset by a more complicated governance structure. In this respect, Renault will bring its ICE business into a 50/50 JV with Zhejiang Geely Holding Group Company Limited (Geely Holding) and Geely Automobile Holdings Limited (Geely Auto, Baa3 negative) and considers an IPO of Ampere whilst remaining a strong majority shareholder.

As part of the capital markets day, Renault also increased the financial targets of the Renaulution plan. This includes a group operating margin of more than 8% in 2025, compared to initially more than 5%, and a free cash flow of more than €2 billion on average for the years 2023-25. The increased targets illustrate that Renault is making faster progress in the execution of the strategic plan than initially expected, driven by continued efficiency measures, positive pricing effects and the launch of new models.

In the first half of 2022, Renault's automotive revenues were flat (+0.3% versus 1H 2021, excluding Russia), while the automotive margin increased to €420 million (2.1% margin)

compared to a loss of €145 million in 1H 2021. The profit and margin improvements were driven by price and mix effects, that overcompensated cost increases, especially for raw materials. Concurrently, Renault increased its group operating margin target (including financial services) to "above 5%" for 2023, compared to previously "around 3%". In the third quarter of 2022, Renault's positive trend continued, with 21.7% automotive revenue growth (excluding Russia), despite 2.4% lower global unit sales. The revenue growth was driven by a combination of volume and price effects, which each contributed around half of the growth.

On a Moody's adjusted basis, Renault's EBITA margins improved to 2.9% in the last twelve months to June 2022, from only 1.3% in 2021. Excluding the contribution from Nissan Motor Co., Ltd. (Baa3 stable, Nissan), Renault's margins increased to 1.5%, versus 0.4%. At the end of June 2022, Renault's debt/EBITDA (Moody's adjusted) declined to 4.2x, from 5.7x at the end of December 2021.

On 29 September 2022, Moody's changed its outlook on the global automotive industry to negative from stable. It now expects global light vehicle sales to be about flat (-0.7%) versus 2021 and climb 5.7% in 2023. Nevertheless, 85.5 million units expected for 2023 will remain well below the pre-pandemic peak of 95 million units. The negative industry outlook reflects a weakening macroeconomic environment and weakening consumer demand, driven by high price inflation and higher interest rates. At the same time, stress on global supply chains will improve but stay elevated. Despite headwinds from this more challenging sector environment, Moody's expects that Renault will benefit from a volume recovery in its key markets, which previously underperformed, and should therefore be able to improve its metrics within the next 12-18 months compared to still low current levels.

The stable rating outlook reflects the recent improvement of Renault's operating profit margins and the corresponding positive impact on its main credit metrics. Over the next 12-18 months, Moody's expects the positive trend to continue, as Renault benefits from price and margin effects and attempts to restore its competitive position. More specifically, Moody's expects Renault to improve its operating profit margins to around 2% (Moody's adjusted EBITA, excluding Nissan contribution; 3% including Nissan), generate positive free cash flows in the high three-digit million Euro amounts (Moody's adjusted, after restructuring) at least, and reduce Moody's adjusted Debt / EBITDA to around 4x by the end of 2022. For 2023, Moody's expects margins to improve further by around 100 to 150 basis points and the repayment of the final €1.0 billion state guaranteed loan, leading to a corresponding improvement in leverage to around 3.5x. With this, metrics should become more comfortably in line with expectations for the Ba2.

#### RATINGS RATIONALE FOR AFFIRMING THE Ba2

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 execution of the 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 cyclicity 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 has been 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).

## LIQUIDITY

Renault's liquidity profile is good. As of 30 June 2022, Renault's principal sources of liquidity consisted of cash and cash equivalents on the balance sheet, amounting to €12.4 billion; undrawn committed credit lines of €3.4 billion; current financial assets of €1.6 billion. Including funds from operations, which Moody's expects to exceed €4 billion over the next 12 months, liquidity sources amount to more than €21 billion.

These provide good coverage for liquidity requirements of nearly €9 billion that could emerge during the next 12 months, including short-term debt maturities of around €4.2 billion (including €2.0 billion state-guaranteed credit loans, of which Renault will repay another €1.0 billion in 2H 2022, and the remainder in 2023), expected capital spending of around €2.5 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.

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

....Other Short Term, Affirmed (P)NP

....Commercial Paper, Affirmed NP

Outlook Actions:

....Outlook, Changed To Stable From Negative

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Automobile Manufacturers published in May 2021 and available at <https://ratings.moodys.com/api/rmc-documents/72240>. Alternatively, please see the Rating Methodologies page on <https://ratings.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 on <https://ratings.moodys.com/rating-definitions>.

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