MOODY'S

Rating Action: Moody's upgrades Renault's ratings to Ba1 from Ba2, outlook stable

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Frankfurt am Main, August 02, 2023 -- Moody's Investors Service ("Moody's") has today upgraded the long-term corporate family rating (CFR) of Renault S.A. (Renault or the group) to Ba1 from Ba2. Concurrently, Moody's has upgraded the group's probability of default rating (PDR) to Ba1-PD from Ba2-PD, the rating of the senior unsecured EMTN programme to (P)Ba1 from (P)Ba2 and the ratings of the group's senior unsecured notes to Ba1 from Ba2. The outlook on the ratings remains stable.

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

"The rating upgrade reflects Renault's continued improvement in profitability, driven by positive pricing and product mix effects, and the strong free cash flow generation, which allows Renault to reduce debt, including the full reimbursement French State guaranteed loan in the first half of 2023." said Matthias Heck, a Moody's Vice President -- Senior Credit Officer and Lead Analyst for Renault. "The stable outlook reflects the expectation that margins can be sustained at levels commensurate with a Ba1 rating, while Renault's debt/EBITDA will stay at more comfortable levels of around 2.75x-3.5x, notwithstanding the ongoing challenging macroeconomic environment and the execution risks linked to the new strategic plan." added Mr. Heck.

RATINGS RATIONALE

In the first half of 2023, Renault's automotive revenues increased by 27%, a strong outperformance on vehicle unit sales (+13.2%), driven by price effects (+8.8 percentage points) and mix effects (+3.5 percentage points). Concurrently, Renault's reported automotive sales margin increased to historically high levels of 6.2% in 1H 2023, after 2.1% in 1H 2022 and 4.2% in 2H 2022. Even excluding the positive one-off valuation effect related to project Horse (€275 million), the sales margin improved considerably to 5.1%. Renault's margin improvements were driven by price and mix effects, that overcompensated cost increases, especially for raw materials. The mix effects stem from sales growth due to recent model launches in the upper segments, and customer demand for higher trims. Renault's company-defined operational free cash flow in the automotive segment increased to €1.8 billion in 1H 2023, from nearly €1.0 billion in 1H 2022.

On 29 June, Renault already increased its reported group operating margin target (including financial services) to "7% - 8%" for 2023, compared to previously "superior or equal to 6%" and 7.6% actually achieved in 1H 2023. The company also expects its automotive free cash flow to exceed €2.5 billion, compared to the initial expectation of more than €2.0 billion. Renault's increased targets for 2023 indicate the significant progress in terms of the group's so-called "Renaulution" plan, which includes a reported group operating margin of more than 8% in 2025, and a free cash flow of more than €2 billion on average for the years 2023-25. Moody's notes this progress of the execution of the strategic plan by the new management, which is improving its credibility and track record. As a result, Renault's overall governance risks have improved to more moderate levels, so Moody's changed Renault's Governance Issuer Profile Score to G-3 from G-4.

Moody's notes that the global market environment for automakers has been favourable in the first half of 2023, with around 10% higher light vehicle sales, and a particular strong recovery in Europe (+17%). Moody's expects a more stable volume development in the second half, leading to full year unit sales growth of 5.7%. Moody's also cautions that margins of automakers globally might suffer from a weakening consumer sentiment, once the current high order backlog has been worked out. Renault's recent new model launches in the upper segments, and the demand for higher trimmed versions, should, however, allow the company to improve its profitability against the expected global market trend.

On a Moody's adjusted basis, the rating agency expects Renault's EBITA margins to improve to more than 6% in 2023, after 4.4% in 2022. Excluding the contribution from Nissan Motor Co., Ltd. (Baa3 stable, Nissan), Moody's expects Renault's margins to increase to around 5%, from 3.2% in 2022. Due to the higher profits and the repayment of the €1.0 billion state guaranteed loan in the first half, Moody's expects that Renault's debt/EBITDA (Moody's adjusted) will decline to around 3.0x in December 2023, well below the 4.3x at the end of December 2022.

Renault's CFR of Ba1 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 evident 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 with its commercial brand Mobilize Financial Services, whose dividend payments contribute to Renault's industrial cash flows, and the 15% ownership of French government, which supported Renault with a €4 billion state guaranteed loan during the pandemic. Lastly, its long-established and recently rebalanced strategic alliance with 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 history of very low profitability, which has only recently recovered to levels commensurate with the Ba1, and which we expect to sustain going forward; its exposure to the cyclicality of the automotive industry; its high exposure to Europe, which represented more than 70% of the group's unit sales in the first half of 2023 (including France: 25%); the limited integration level of Renault's alliance with Nissan and Mitsubishi; 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).

Execution risk around the transition to electric vehicles continues to be significant. The global automotive industry remains at an early stage of a significant long-term transition to reduce carbon emissions by improving fuel efficiency and shifting to fully electric vehicles. Key risks for automakers, including Renault, include a loss of market share, inability to earn adequate profits and returns on electric vehicles, as well as inability to manufacture vehicles due to potential constraints in the supply of critical materials.

That said, Renault has early developed and produced electric vehicles in Europe. In the first half of 2023, it sold nearly 74 thousand BEVs in Europe, a share of 9.2% of its vehicles sold in the region. With a volume growth of just 13% in the first half, Renault's momentum, however, lags somewhat behind most other European automakers, which have recently expanded their BEV product portfolio. Moreover, Renault's BEV share in its global unit sales amounted to just 6.8% in the first half of 2023, after 8.1% in 2022, which indicates that it has recently lost its early mover advantage and now ranks broadly in line with other rated European automakers.

Given the still early stage of transformation, Renault is exposed to high carbon transition risk and also overall high environmental risks, which are reflected in Renault's Environmental Issuer Profile Score of E-4 (changed from E-3). Moody's believes, however, that Renault has taken positive steps to navigate the transition, including its plan to contribute its internal combustion engine and hybrid powertrain business into a 50/50 joint venture with Geely, followed by a potential strategic investment of Aramco.

RATIONALE FOR THE STABLE OUTLOOK

The stable rating outlook reflects the expectation that Renault's operating profit margins can be sustained in a range of 3% to 6% (Moody's adjusted EBITA, excluding Nissan contribution; 4% to 7% including Nissan), as Renault should benefit from price and margin effects, notwithstanding the ongoing challenging macroeconomic environment and the execution risks linked to the new strategic plan. The stable outlook also reflects the expectation, that Renault will be able to generate meaningful positive free cash flows in the high three-digit million Euro amounts (Moody's adjusted, after restructuring and dividends) at least, and keep Moody's adjusted Debt / EBITDA within a range of 2.75x – 3.5x over the next 12 to 18 months.

LIQUIDITY

Renault's liquidity profile is good. As of 30 June 2023, Renault's principal sources of liquidity consisted of cash and cash equivalents on the balance sheet, amounting to €13.5 billion; current financial assets of €1.4 billion; and undrawn committed credit lines of €3.3 billion. Including funds from operations, which Moody's expects to exceed €4.5 billion over the next 12 months, liquidity sources amount to more than €22 billion.

These provide good coverage for liquidity requirements of well below €9 billion that could emerge during the next 12 months, including short-term debt maturities of around €3.4 billion, expected capital spending of around €3.0 billion, day-to-day needs (around €1.5 billion) and potential dividend payments for 2023.

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

Moody's would consider upgrading the ratings in case of (1) Moody's-adjusted EBITA margin excluding the at-equity contribution of Nissan sustainably in the mid-single digits (in percentage terms); (2) Moody's-adjusted Debt/EBITDA below 2.75x and (3) sustained positive FCF generation. A rating upgrade to Baa3 would also require more visibility of Renault's plan to open core activities to strategic and financial investors, including the use of proceeds consistent with the company's commitment to achieve an investment grade rating. Moreover, a rating upgrade would require continued progress in the company's BEV penetration in line with its major European peers.

Renault's ratings could be downgraded in case of (1) Moody's-adjusted EBITA margin excluding the at-equity contribution of Nissan below 3%; (2) Moody's-adjusted Debt/EBITDA to consistently exceed 3.5x and (3) negative FCF for a prolonged period. Furthermore, a significant weakening of Renault's liquidity could trigger a rating downgrade.

LIST OF AFFECTED RATINGS

..Issuer: Renault S.A.

Upgrades:

.... LT Corporate Family Rating, Upgraded to Ba1 from Ba2

.... Probability of Default Rating, Upgraded to Ba1-PD from Ba2-PD

....Senior Unsecured Medium-Term Note Program, Upgraded to (P)Ba1 from (P)Ba2

....Senior Unsecured Regular Bond/Debenture, Upgraded to Ba1 from Ba2

Affirmations:

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

....Commercial Paper, Affirmed NP

Outlook Actions:

....Outlook, Remains Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Automobile Manufacturers published in May 2021 and available at https://ratings.moodys.com/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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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on https://ratings.moodys.com.

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