

Fitch Affirms PSA and Renault at 'BB+' [Ratings](#)

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Fitch Ratings-London/Barcelona/Frankfurt-22 September 2011: Fitch Ratings has affirmed Peugeot SA's (PSA) and Renault SA's Long-term Issuer Default Ratings (IDR) and senior unsecured notes at 'BB+' and PSA's Short-term IDR at 'B'. The Outlooks on PSA's and Renault's IDRs are Positive and Stable, respectively.

"The environment is undoubtedly becoming more challenging for PSA and Renault, especially in their domestic European market, and uncertainties are growing regarding sales and performance in 2012," says Emmanuel Bulle, Senior Director in Fitch's European Corporates team. "However, both groups are well on track with their cost-savings measures and are in a much better situation than in H208 to face a potential slowdown in sales."

The environment has deteriorated since the summer with declining consumer and corporate confidence in several European markets. The ongoing sovereign debt crisis in Europe, as well as concerns about a potential economic slowdown in other markets prompted Fitch to revise its expectations for PSA's and Renault's revenue, underlying profitability and cash generation in 2012.

These projections are based on Fitch's assumptions that the western European market will be down 0.5% in 2011 and will remain flat to modestly up 0.5% in 2012. This is somewhat worse than the agency's assumptions at the time of the previous Renault and PSA rating action in February 2011 of 1% and 3% growth in 2011 and 2012, respectively.

As a consequence, Fitch now expects PSA's industrial operating margins to be 1.9% in 2011 and 2.7% in 2012, down from 3% and 3.4% in its February rating case. Renault's industrial operating margins are expected to be 0.7% in 2011 and 1.6% in 2012, down from 2% and 2.9%. Net leverage is now expected to be 0.4x for PSA at end-2012 (up from 0.3x projected in February 2011) and 0.6x for Renault (up from 0.5x).

Upgrade potential for PSA has diminished, although Fitch's current projections still point to a possibility for PSA to meet the agency's positive rating guidelines in the next 12-18 months. However, this could be postponed to 2013 in light of the current deterioration of the environment in Europe. PSA's projected key credit metrics are now more in line with Renault's, although Fitch considers PSA's business profile slightly more robust than Renault's.

The ratings of both companies could be upgraded if financial metrics strengthen on a sustainable basis, including net adjusted leverage declining to less than 0.5x and CFO on total adjusted debt improving to more than 40%. Positive rating action could also occur if there was a sustainable increase in market share, combined with improved profitability.

Conversely, a fall in global sales in 2011 and 2012, leading to negative operating margins, and deterioration of key financial metrics, including net adjusted leverage remaining above 1.5x and/or CFO on total adjusted debt remaining below 25%, could be negative for the ratings. Failure to improve geographic diversification in line with current targets could also put pressure on the ratings or lead to a stabilisation of PSA's Outlook.

Despite increasing concerns about sales performance in H211 and 2012, Fitch believes that PSA and Renault are in a better situation than in H208 when sales, operating profit and cash-flow plummeted and financial debt soared. In particular, both groups have made substantial improvements to their cost structures, including reduced fixed costs, leading to a lower breakeven point. Inventories are also at a more reasonable level than at end-2008, when they obliged manufacturers to cut production to limit cash haemorrhage from working capital needs. In addition, both PSA and Renault improved their geographic diversification and are now somewhat less dependent on western Europe. Finally, both groups have higher liquidity levels on their balance sheet and would suffer less from a material and swift cash outflow.

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Applicable criteria, 'Corporate Ratings Methodology, dated 12 August 2011 are available at www.fitchratings.com.

Marc Ladreit de Lacharriere, Fitch's Chairman and member of the board, is also a member of Renault's board. Mr. Ladreit de Lacharriere does not participate in any rating committees, including Renault.

Applicable Criteria and Related Research:

[Corporate Rating Methodology](#)

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