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Research Update:

French Carmaker Renault Downgraded To 'BB/B' On Bleak Auto Demand In 2010; Outlook Stable

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Overview

- We expect auto demand in Europe to remain low in 2010, in line with 2009.
- In 2008, the European market accounted for more than 60% of Renault's unit sales.
- We are lowering our ratings on French automaker Renault S.A. to 'BB/B' from 'BBB-/A-3'.
- The stable outlook reflects our view that, after the weak 2009-2010 period, Renault should be able to strengthen its credit profile.

Rating Action

On June 19, 2009, Standard & Poor's Ratings Services lowered its long- and short-term corporate credit and debt ratings on Renault S.A. to the speculative-grade level of 'BB/B', from 'BBB-/A-3'. The outlook is stable.

At the same time, Standard & Poor's assigned a recovery rating of '3' to the notes already issued under the company's existing €7 billion senior unsecured medium-term note program, indicating Standard & Poor's expectation of meaningful (50%-70%) recovery in the event of a payment default; the debt rating on these notes was also lowered to 'BB' from 'BBB-'.

In a related action, Standard & Poor's lowered its long- and short-term counterparty credit ratings on Renault's fully owned financing subsidiary RCI Banque to 'BBB-' and 'A-3', respectively, from 'BBB' and 'A-2'. The outlook is stable.

Rationale

Renault's downgrade reflects our view that auto demand is likely to remain very low in Europe in 2010, due to the weak economic environment and the payback effect of the incentive schemes that several European countries have adopted to date in 2009. We believe these factors will continue to penalize Renault's profitability.

Renault's financial profile was already hit by the large increase in debt in 2008, and credit measures were weak compared with what we generally consider to be commensurate with a 'BBB-' rating. Now, however, in light of our views on the future path of European auto demand, we believe that the company's financial metrics are likely to deteriorate further and will probably not return in the medium term to levels we consider consistent with the previous rating.

So far in 2009, we have observed that European auto demand plunged in the

first months of the year, though the decrease has become gradually less dramatic in the second quarter. Consequently, the ultimate decline in car registrations in Western Europe in 2009 will probably be less striking than the 15% we were expecting at the beginning of the year. This is due to the positive impact on auto sales of the incentive schemes adopted in several countries. However, we believe that these incentives will probably have a payback effect in 2010, resulting in the postponement until to 2011 of the rebound in demand we expected next year.

We understand that Renault has adopted a number of measures to cope with the current scenario. According to the company's recent indications, stricter cooperation with 44.3%-owned Nissan Motor Co. Ltd. (BBB/Stable/A-2) should generate about €600 million in synergies already in 2009. The 45% cut in production in the last quarter of 2008 and the 38% cut in the first quarter of this year have enabled Renault to reduce its inventories significantly. The announced reduction in capital expenditures and in research and development should, in our view, contribute to Renault's objective of generating some positive free cash flow this year. We are also aware that, in foreign markets, demand will probably rebound in 2010, which could sustain Renault's foreign sales. Notwithstanding these positives, however, we expect Renault's reported industrial financial debt to remain fairly unchanged at year-end 2009 with respect to the year-end 2008 level of close to €8 billion. Weak profitability, the higher cost of debt, and the lack of a significant flow of dividends from Nissan and 21%-owned Volvo (publ), AB (BBB+/Negative/A-2) are likely to contribute, in our opinion, to the deterioration of financial ratios. We foresee a Standard & Poor's adjusted ratio of funds from operations (FFO) to debt that is barely 10% in 2009 and 2010. We understand that Renault will strive to protect its cash flow and to avoid any further increase in its financial debt. Consequently, once auto demand in Europe and the rest of the world returns to levels consistent with the historical trends, we expect that Renault should be in a position to take advantage of this situation and restore a stronger financial profile.

Short-term credit factors

The short-term rating is 'B'. As of Dec. 31, 2008, Renault's industrial liquidity was "tight" in our view, with about €4.2 billion of available committed bank lines (of which €500 million was already drawn) and €1.1 billion of cash and cash equivalents, compared with €4 billion of short-term debt (also at the industrial level). However, in April 2009, the company received from the French state a €3 billion loan with a five-year maturity. This has brought substantial relief, in our opinion, leading to a liquidity position we now consider as "adequate."

We understand that fully owned financing subsidiary RCI Banque was facing significant short-term debt maturities as of Dec. 31, 2008, and had access to €4.5 billion of undrawn committed bank lines and €2 billion of liquidity reserves. We also understand that RCI Banque is eligible for support (if it needs it) through the French government's approved October 2008 rescue plan for French banks.

We note that Renault receives dividends from 44.3%-owned Nissan and has a 21% stake in Volvo. In 2008, the total amount of dividends received amounted

to €688 million. However, we expect both of these companies to discontinue dividend payments, at least for 2009.

Neither Renault's nor RCI's credit lines contain material adverse change clauses, negative pledges, cross defaults, rating triggers, or financial covenants, according to the information we have received from both companies.

Recovery analysis

The various debt instruments issued under Renault's €7 billion senior unsecured Euro Medium-Term Note (EMTN) program are rated 'BB', the same as the long-term corporate credit rating. The recovery rating on all of these debt issues is '3', indicating Standard & Poor's expectation of meaningful (50%-70%) recovery in the event of a payment default.

The relative likelihood of default for these issues compared with investment-grade issues is reflected in the 'BB' corporate credit rating.

We have valued the business as a going concern. Given our view of Renault's good market positions and highly recognized brands, for which we understand there is significant customer demand and a widespread distribution network, we assume that a default would most likely result from operational underperformance, a weakening of liquidity reserves, and impaired operating cash flow generation. Our hypothetical default scenario assumes that the company would voluntarily file for the "sauvegarde" (protection) procedure under French insolvency law when it foresees cash balances dropping below a minimum threshold. At the hypothetical point of default, in 2013, we value the company at about €12 billion.

Recovery prospects for the unsecured noteholders reflect both the estimated value available and accessible to the creditors and our view of the likelihood of insolvency proceedings being adversely influenced by Renault's French domicile. Recovery prospects are underpinned by what we see as Renault's extensive asset base. We have given limited value to the company's equity stakes in Nissan and Volvo. We also assume that the group has what we consider to be a modest level of prior ranking debt claims.

Although we have not seen the documentation, we have assumed that the loan from the French government ranks *pari passu* with the unsecured bonds. We note, however, that recovery prospects could be materially enhanced if Renault's stakes in Nissan and Volvo fetch a higher value than what we have assumed in our hypothetical default scenario. Furthermore, we believe that recovery prospects could be affected either positively or negatively with respect to the indicated range of 50%-70% recovery in the event of payment default, depending on any actions the French government might take as a major stakeholder in the group (15% ownership).

A full recovery report on Renault will be available in the coming days.

Outlook

The stable outlook reflects our view that Renault still has to cope with two years of weaker financial measures than we generally consider as commensurate with the current ratings, but that, afterward, it should be able to restore a stronger financial profile. We believe that the company's Standard &

Poor's-adjusted FFO-to-debt ratio could remain below 10% in 2009 and 2010, whereas we deem more than 20% over the cycle to be commensurate with the current rating category. Standard & Poor's has factored into the current ratings the support of the French state, in case it is needed, to strengthen the group's liquidity. In our view, this potential support contributes to the stable outlook, but does not lead to any notches of enhancement in the ratings.

We could downgrade Renault or revise the outlook to negative if, in contrast to the company's targets, the industrial activities burn what we would consider to be a significant amount of cash this year and financial debt grows. Both occurrences would delay the improvement in financial ratios.

We view an upgrade or outlook revision to positive as highly unlikely in the current scenario.

Ratings List

Downgraded

	To	From
Renault S.A.		
Corporate Credit Rating	BB/Stable/B	BBB-/Negative/A-3
Senior Unsecured	BB	BBB-
Commercial Paper	B	A-3
RCI Banque		
Counterparty Credit Rating	BBB-/Stable/A-3	BBB/Negative/A-2
Certificate Of Deposit	BBB-/A-3	BBB/A-2
Senior Unsecured	BBB-	BBB
Subordinated	BB+	BBB-
Commercial Paper	A-3	A-2
Renault Autofin S.A.		
Commercial Paper*	A-3	A-2
Cofiren Renault et Cie		
Corporate Credit Rating	--/--/B	A-3
DIAC S.A.		
Counterparty Credit Rating	BBB-/Stable/A-3	BBB/Negative/A-2
Certificate Of Deposit	BBB-/A-3	BBB/A-2
Commercial Paper	A-3	A-2
Overlease S.A.		
Commercial Paper*	A-3	A-2
RCI Financial Services Ltd.		
Commercial Paper*	A-3	A-2

New Ratings

Renault S.A.
Senior Unsecured
Recovery Rating 3

*Guaranteed by RCI Banque.

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