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## Summary:
# Renault S.A.

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**Summary:**

# Renault S.A.

**Credit Rating:** BB+/Stable/B

## Rationale

The ratings on French automaker Renault S.A. reflect Standard & Poor's Ratings Services' view of its business risk profile as "fair" and of its "intermediate" financial risk profile. The ratings are constrained by the group's focus on the cyclical and highly competitive volume car market, its weak profitability, relative geographic and product concentration, and volatility of cash flow generation in recent years. Factors mitigating these constraints are Renault's resilient market position in the competitive European auto industry and the positive contribution to cash flow made by its captive finance arm RCI Banque (BBB/Stable/A-2) and, through dividends, from its equity associate Nissan (in which Renault holds a 43.4% interest).

### Key business and profitability developments

For the first nine months of 2011, Renault's unit sales increased 3.4% to 2 million vehicles and automotive revenues were up 8.7% year on year. Continuing positive growth to date is the result of growing penetration in emerging markets and of a somewhat improving models mix.

During the third quarter, non-European sales reached 48% of unit sales, up 6 percentage points year on year. Renault notably gained market share in Russia, Turkey, Brazil, and Iran. At the same time, Renault's operating margins remain low. Latest reported earnings numbers at end-June 2011 show the company's EBIT margin averaging 3.0% in first-half 2011, slightly down from 4.0% in first-half 2010. The margin for the automotive division was 1.1%, down from 2.5% in the same period last year.

For 2011, on a full 12-month basis, we expect the impact from supply chain disruptions, raw material price increases, and renewed competitive pressures in Europe to remain manageable for the group. We anticipate that automotive operations will maintain operating margins despite our expectation of declining demand in several European countries this year--including to a moderate degree in France.

In 2012, any improvement in operating performance will be hard to achieve in an economic environment that is likely to be challenging. Stabilizing earnings may already require the group to remain fully focused on cost-saving measures and to achieve further inroads in developing markets. We envisage in our base case scenario that Renault will generate a minimum group EBIT of €0.5 billion in 2012 while noting that high uncertainty surrounds carmakers' earnings forecasts for next year at this time in the cycle. Renault's public guidance includes a 5% consolidated operating margin target for 2013, compared with 2.8% reported at end-December 2010 and 3.0% at end-June 2011.

### Key cash flow and capital-structure developments

At end-June 2011, Renault had about €5.5 billion of net debt, including Standard & Poor's adjustments for operating leases, pension deficit, and deconsolidation of the substantial finance liabilities borne by the group's captive finance subsidiary. Renault's automotive operations reported positive free operating cash flow (FOCF) of €121 million during first-half 2011.

At the end of June 2011, in a favorable overall environment, Renault's credit ratios were fully coherent with its ratings, such as fully adjusted debt to EBITDA of 2.4x, funds from operations (FFO) to debt of 40.7%, and FOCF to debt of 35%. We expect Renault's automotive operations to generate €0.5 billion free cash flow from operations in 2011, thus supporting the company's credit ratios. We rate Renault through the cycle and expect the group to maintain credit metrics in line with its current 'BB+' rating even in trough years, which may be the case in 2012.

### Liquidity

The short-term rating on Renault is 'B'. We view Renault's liquidity profile as "adequate." On June. 30, 2011, Renault reported €8.5 billion of cash and cash-equivalents for the automotive division, of which we consider €1.5 billion to be tied to operations, and had access to €4.0 billion in undrawn bilateral committed credit lines, of which the majority had a maturity in excess of 12 months.

Combined with available cash, these facilities are sufficient to cover the €3.3 billion in industrial debt reported at end-June 2011 as maturing in less than one year.

According to management, the existing bank line contains no financial covenants, and no material adverse change, negative pledge, or cross-default clauses. We also expect Renault's 2011 free cash flow from operations to further support liquidity this year.

The A shares that Renault still holds in Volvo, valued altogether at €1.7 billion at end-June 2011, represent an additional source of financial flexibility for the group.

### Recovery analysis

The issue rating on Renault's unsecured pari passu-ranking debt is 'BB+' and the recovery rating is '3', indicating our view of meaningful (50%-70%) coverage for the unsecured debt of Renault. At our hypothetical point of default in 2015, we calculate a stressed enterprise value of about €12 billion. We cap the recovery rating at '3' due to the unsecured nature of the debt and the less creditor-friendly jurisdiction. For full details of our recovery analysis see "Renault Recovery Rating Profile," published June 8, 2011.

## Outlook

The stable outlook reflects our opinion that Renault is likely to maintain credit ratios that we consider as commensurate with its 'BB+' rating, such as adjusted FFO to debt of about 25% in the medium term, even under a conservative credit scenario. In our base case scenario for 2011-2012, we expect Renault's adjusted FFO to debt to exceed this level. However, we see the need for a cyclical group, such as Renault, to maintain a buffer to be able to withstand large swings in demand and operating cash flow, as has been the case in the recent past, and face new operational challenges. As such, we expect FFO to debt above 20% and debt to EBITDA of less than 4x even in the most difficult years.

We could lower the ratings if Renault's recently positive momentum sharply reverses and, as a result, its industrial operating profitability deteriorates from its already low single-digit level, resulting in FFO to debt of less than 20% for some time. We could also lower the ratings if Renault fails sustainably to maintain positive FOCF in its automotive division.

We could raise the ratings if Renault's operating margin, including that of its core automotive operations, structurally improves toward the mid-single-digit level and Renault's credit metrics stabilize at an improved level,

including through periods of soft demand. In addition, continuing reduction in Renault's dependence on the European market would be beneficial, in our view. We believe that this scenario will likely emerge only in the medium term and would require Renault's successful implementation of its latest strategic plan, including achieving in full its interim targets in terms of aggregate automotive operational free cash flow and consolidated operating margin for 2013.

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