MOODY'S
RATINGS

Rating Action: Moody's Ratings Affirms Renault's Ba1 rating, changes outlook to positive

09 May 2024

Frankfurt am Main, May 09, 2024 -- Moody's Ratings (Moody's) has today affirmed all ratings of Renault S.A. (Renault or the group) including its Ba1 long-term corporate family rating (CFR), its Ba1-PD probability of default rating (PDR), the (P)Ba1 rating of its senior unsecured EMTN programme and the Ba1 rating of the group's senior unsecured notes. Moody's also affirmed the NP rating of Renault's short term commercial paper and (P)NP other short term program. Concurrently Moody's changed the outlook to positive from stable.

RATINGS RATIONALE

Today's outlook change to positive was prompted by the improvement in Renault's credit metrics last year, in particular profitability, leverage and free cash flow. The positive outlook indicates that a potential upgrade to investment grade is in reach in the next 12-18 months, provided that the company proves that credit metrics can be further improved in a more competitive market environment. An upgrade to investment grade would require the company to maintain its Moody's adjusted EBITA margin, excluding the at-equity contribution of Nissan Motor Co., Ltd. (Nissan, Baa3 stable), in the mid-single digit territory in percentage terms (meaning at least the 4.4% achieved in 2023), decrease its Moody's adjusted leverage to comfortably below 2.75x (2.9x in 2023), sustain positive free cash flow generation and preserve its very good liquidity profile.

Moody's expects market conditions to become more challenging this year, with an intensified competitive environment characterized by an increasing price pressure. The company's product offensive with 10 model launches this year (including five electric), if proved commercially successful, coupled with further progress on the cost structure and organization's efficiency should support top line and margin going forward, despite a more challenging market environment. In particular, an upgrade to investment grade would require the company to catchup with peers in terms of battery electric vehicles (BEV) penetration; the commercial success of the four battery electric models (Renault Scenic, Renault 5, Dacia Spring and Alpine A290) to be launched this year will be instrumental in this regard.

Moreover, the positive outlook factors in the expectation that the company will use the €1.1 billion of proceeds from the sale of Nissan shares to repay gross debt this year, and will continue to prioritize debt repayment before further significantly raising dividends in line with its public commitment to target an investment grade rating. In line with the new alliance agreement defined in January 2023, Renault will sale down its Nissan holdings to reduce its stake in Nissan to 15%. To date, Renault already sold down 310 million shares for a total proceeds of €1.1 billion. A total of 888.6 million Nissan shares remain to be sold for a potential proceed of around €3 billion at today's price. As Renault decreases its stake in Nissan, it mechanically reduces the equity income it receives from Nissan (€797 million received in 2023) and hence its Moody's adjusted EBITA and Moody's adjusted EBITDA. Moody's expects that further sale of Nissan shares will be made in conjunction with gross debt repayment so that the reduction in equity income would not be hurtful to Renault's leverage.

While the 2023 good operating performance benefited from a favorable price and mix environment as demand exceed supply amid supply chain constraints, Moody's believes that the margin expansion and the record free cash flow generation last year are also a consequence of structural performance improvements including fixed and variable costs reduction and increased investment discipline. As a result, Renault's EBITA margin (as adjusted by Moody's and excluding the equity income from Nissan) increased to 4.4% in 2023, up from 3.2% in 2022. The margin improvement coupled with working capital release, measured capex spending and a very modest dividend payout last year resulted in an increase in free cash flow (Moody's adjusted) to €2.6 billion in 2023 up from €1.3 billion in 2022. Finally, the Moody's adjusted debt/EBITDA improved to 2.9x down from 4.3x thanks to margin expansion and debt repayment.

Renault's Ba1 CFR reflects its position as one of Europe's largest car manufacturers, with a solid competitive position in France; 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, very good liquidity and a 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 the 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 has substantial synergy potential although the companies had material challenges to realize this in the past.

The rating also incorporates Renault's history of low profitability; its exposure to the cyclicality of the automotive industry; its high exposure to Europe, which represents more than 70% of the group's unit sales (including France: around 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.

In November 2022, Renault announced that it 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 and hybrid engines (Power), and a unit for sports cars (Alpine). In January 2024, Renault decided to cancel the previously announced IPO of Ampere because of weak equity market conditions combined with stronger than expected cash flow generation at group level that allows Renault to self-fund the €1.5 billion cash burn it forecasts for Ampere during the 2024 to mid-2025 period. HORSE, the entity within Power that develops, produces and supplies hybrid and internal combustion powertrains, will be deconsolidated from Renault group this year and combined with Geely Automobile Holdings Limited's (Ba1 stable) subsidiary specialized in power trains design and production to form a new 50/50 joint venture. The joint venture will effectively supply internal combustion, hybrid and plug-in hybrid engines, transmissions and related technologies to its shareholders as well as other automakers. Since the announcement of the new organizational structure 18 months ago, the group has been through significant organizational changes which Moody's believes entail some degree of execution risk.

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 as evidenced by the Zoé launched in 2013 and later the Twingo. Over the last two years, however, Renault's peers have accelerated their BEV penetration, while Renault has lost some momentum. Last year, Renault sold 151 thousands BEV and 214 thousands hybrids vehicles in Europe. Sales of electrified vehicles outside of Europe are unsignificant for Renault and as a result the BEV share in its global unit sales amounted to 7% which is comparatively lower than most of other European peers. Including BEV and hybrid vehicles, the share of electrified models reached 16% last year. Renault is in a transition phase and expects to grow its BEV share thanks to the upcoming product launches including Scenic, R5, R4 for Renault, Spring for Dacia and a refreshed fully electric line-up for Alpine.

LIQUIDITY

Renault's liquidity profile is very good. At end of December 2023, Renault's principal sources of liquidity consisted of cash and cash equivalents on the balance sheet, amounting to €14.5 billion; current financial assets of around €1.0 billion; and undrawn committed credit lines of €3.3 billion. Including funds from operations, which Moody's expects to be around €4.8 billion in 2024, liquidity sources amount to around

€24 billion.

These provide an ample coverage for liquidity requirements of below €9 billion that could emerge during this year, including short-term debt maturities of around €3.1 billion, expected capital spending of around €3.3 billion (including leases repayment), working cash estimated by Moody's at €1.5 billion or 3% of revenue according to Moody's standard assumption, small working capital needs and €537 million for common dividends.

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

Moody's would consider upgrading the ratings in case (1) the Moody's-adjusted EBITA margin excluding the at-equity contribution of Nissan remains sustainably in the mid-single digits (in percentage terms); (2) Moody's-adjusted Debt/EBITDA decreases comfortably below 2.75x and (3) the company generates positive free cash flow on a sustained basis and preserves its very good liquidity profile. 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 (1) Moody's-adjusted EBITA margin excluding the at-equity contribution of Nissan weakens below 3%; (2) Moody's-adjusted Debt/EBITDA consistently exceeds 3.5x and (3) the company's free cash flow turns negative for a prolonged period. Furthermore, a significant weakening of Renault's liquidity could trigger a rating downgrade.

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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At least one ESG consideration was material to the credit rating action(s) announced and described above. 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_1355824 .

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