

Tear Sheet:

Renault S.A.

December 11, 2024

Renault is building up rating headroom. With an automotive operating margin of 6.6% in first-half 2024, up from 6.2% in first-half 2023, Renault is set to deliver another record year leveraging on cost reductions and pricing discipline. Unlike many peers in the auto industry, the company has maintained its full-year 2024 guidance after it released its third-quarter revenue, sitting on an order book of about two months with healthy inventory levels of about 528,000 units on Sept. 30, 2024. In addition, Renault operates at a high utilization rate of about 90%, and benefits from a refreshed model line-up. The group's strong commercial performance is evidenced with four Renault group cars ranked among the top 10 performers in Europe, including the Dacia Sandero as the best-selling car for all channels.

For 2024, we now forecast that Renault will post an S&P Global Ratings-adjusted EBITDA margin of 8.0%-8.5% and free operating cash flow (FOCF; excluding the €600 million dividend from Mobilize Financial Services) to automotive revenue of about 3.5%-4.0% for full-year 2024, compared with 7.9% and 4.5%, respectively in 2023. Considering Renault's solid balance sheet with an S&P Global Ratings-adjusted net cash position of about €7 billion, we see such credit metrics as commensurate with an investment-grade rating ('BBB-' or higher).

The tightening of the CO2 emission reduction targets from Jan. 1, 2025, in Europe represents a threat to the current rating upside for Renault. Absent any changes or waivers from the European Commission, Renault will need to raise the share of battery electric vehicles (BEVs) sold in Europe in 2025 from about 11% in 2023 and about 8% in first half 2024. Although Renault's BEV mix required is below the 20%-22% range estimated for the European industry, this could represent a challenge because the demand for BEVs in Europe has slowed since second-half 2023 with range and affordability being at the forefront of consumers' concerns. Failure to meet the required levels could result in fines or the need to buy CO2 credits from other automakers. Nevertheless, Renault has started its BEV offensive with the launch of the Scenic E-Tech (SUV-C) in April 2024, the iconic Renault 5 E-Tech (Car-B) and the new Dacia Spring (Car-A) in October 2024, and the Alpine A290 in November 2024, while the Renault 4 E-Tech (SUV-B) will follow in first-half 2025. The successful launch of these new models will be critical to support the increased share of BEVs in Renault's powertrain mix required to comply with the stricter Corporate Average Fuel Economy(CAFE) regulation. In our base-case scenario, we assume that Renault will comply with the environmental rules and incorporate a modest dilution in our forecasts of its 2025 S&P Global Ratings-adjusted EBITDA margin to 6.5%-7.0% to reflect the lower contribution from BEVs versus internal combustion engine (ICE) powered cars. Downside risks mainly stem from a continuation of soft BEV demand coupled with a launch of competing BEV models.

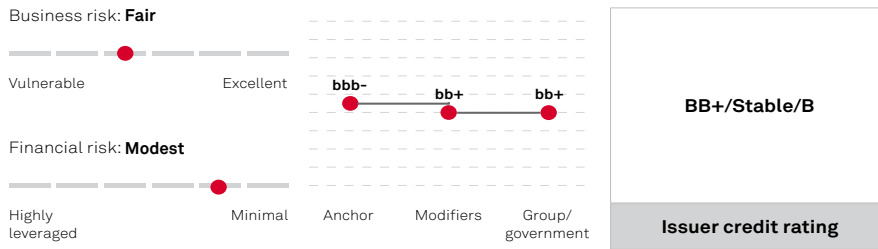
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Ratings Score Snapshot



Recent Research

- Global Auto Outlook: More Players, Less Profit, Oct. 9, 2024
- Autoflash EMEA: Suppliers Feel The Heat Of Low Volumes And Earnings Pressure, July 1, 2024
- Renault S.A., March 18, 2024

Company Description

France-based Renault is the third-largest automaker in Europe by number of cars sold, behind Volkswagen AG and Stellantis. It comprises four complementary brands: Renault, Dacia, Alpine, and Mobilize. Based on full-year 2023 sales, the company's best-selling models include Dacia Sandero, Dacia Duster, Renault Clio, Renault Captur.

Renault formed an alliance with Nissan in 1999 and holds about 35.7% of the shares in Nissan as of September 2024, but we view the role of the alliance diluted in Renault's recent recovery story. Renault's main shareholders are the French government (15%) and Nissan (15%), while the remainder of its shares are free floating. Renault fully owns Mobilize Financial Services (previously RCI), which runs the group's captive finance business.

Outlook

The stable outlook reflects our belief that Renault may withstand a weakening of auto market conditions in Europe without a major deterioration of its credit metrics or liquidity. This is thanks to significant improvements in the company's management of model mix and costs over the past two years supported by market launches in both the electric vehicle (EV) and ICE segments in 2024 and 2025.

Downside scenario

We could lower the rating if we observed a material weakening of Renault's competitive position in Europe, possibly combined with a more severe erosion of auto market conditions, resulting in adjusted EBITDA margin falling below 6% and negative adjusted FOCF. This scenario, although currently unlikely in our view, could materialize as a result of new entrants in the European EV

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space, which would lead to an increase in competition, or material missteps in the deployment of the B- and C-segment EV models that Renault expects to launch from 2024.

Upside scenario

We could raise the rating if Renault established a durable and competitive EV position against intense competition from incumbent and new players in the European market, supported by competitive model launches and the development of a reliable EV supply chain. We would also expect Renault to achieve an adjusted EBITDA margin close to 8% and adjusted FOCF of close to 2% of automotive revenue, in addition to an adjusted net cash position.

Key Metrics

Renault S.A.--Forecast summary

Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026
(Mil. EUR)	2020a	2021a	2022a	2023a	2024e	2025f	2026f
Revenue	40,315	38,700	43,058	48,150	48,000-49,000	49,000-51,000	52,000-54,000
EBITDA (reported)	2,751	4,794	5,723	5,673	6,300-6,800	5,900-6,400	6,200-6,700
Plus/(less): Other	(2,231)	(2,819)	(2,432)	(1,849)	(2,600)-(2,500)	(2,750)-(2,650)	(2,700)-(2,600)
EBITDA	520	1,975	3,291	3,824	3,800-4,300	3,100-3,600	3,500-4,000
Less: Cash interest paid	(352)	(233)	(357)	(342)	(370)-(360)	(365)-(355)	(345)-(335)
Less: Cash taxes paid	(375)	(71)	(143)	(505)	(425)-(420)	(425)-(420)	(425)-(420)
Funds from operations (FFO)	(207)	1,671	2,791	2,977	3,000-3,500	2,400-2,900	2,800-3,300
Capital expenditure (capex)	2,808	1,590	1,501	1,598	1,600-1,650	1,800-1,900	1,900-2,000
Free operating cash flow (FOCF)	(4,389)	(443)	793	2,171	1,500-2,000	1,000-1,500	1,100-1,600
Dividends	21	81	41	166	628	700-800	800-900
Discretionary cash flow (DCF)	(4,454)	(560)	692	1,830	900-1,400	350-450	470-570
Debt (reported)	63,680	61,002	62,849	65,104	59,500-60,000	59,500-60,000	56,800-57,300
Plus: Lease liabilities debt	694	661	622	640	659	678	697
Plus: Pension and other postretirement debt	1,120	1,031	795	896	896	896	896
Less: Accessible cash and liquid Investments	(12,454)	(13,599)	(15,578)	(16,120)	(16,000)-(15,500)	(16,000)-(15,500)	(13,300)-(12,800)
Plus/(less): Other	(47,310)	(44,940)	(48,848)	(53,071)	(53,000)-(52,500)	(53,000)-(52,500)	(53,000)-(52,500)
Debt	5,730	4,154	--	--	--	--	--
Adjusted ratios							
Debt/EBITDA (x)	11.0	2.1	--	--	--	--	--
FFO/debt (%)	(3.6)	40.2	NM	NM	NM	NM	NM
FOCF/debt (%)	(76.6)	(10.7)	NM	NM	NM	NM	NM
Annual revenue growth (%)	(22.6)	(4.0)	11.3	11.8	0.0-2.0	3.0-5.0	3.5-5.5
EBITDA margin (%)	1.3	5.1	7.6	7.9	8.0-8.5	6.5-7.0	6.8-7.3

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. EUR--euro.

Financial Summary

Renault S.A.--Financial Summary

Period ending	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	54,193	52,114	40,315	38,700	43,058	48,150
EBITDA	4,202	3,278	520	1,975	3,291	3,824
Funds from operations (FFO)	3,411	2,513	(207)	1,671	2,791	2,977
Capital expenditure	2,671	3,024	2,808	1,590	1,501	1,598
Free operating cash flow (FOCF)	1,747	(186)	(4,389)	(443)	793	2,171
Discretionary cash flow (DCF)	585	(1,353)	(4,454)	(560)	692	1,830
Debt	8	1,566	5,730	4,154	0	0
Adjusted ratios						
EBITDA margin (%)	7.8	6.3	1.3	5.1	7.6	7.9
Debt/EBITDA (x)	0.0	0.5	11.0	2.1	0.0	0.0
FFO/debt (%)	41,423.5	160.5	(3.6)	40.2	NM	NM
FOCF/debt (%)	21,217.2	(11.9)	(76.6)	(10.7)	NM	NM

Peer Comparison

Renault S.A.--Peer Comparisons

	Renault S.A.	Ford Motor Co.	Volvo Car AB	Nissan Motor Co. Ltd.	Stellantis N.V.
Foreign currency issuer credit rating	BB+/Stable/B	BBB-/Stable/A-3	BB+/Stable/--	BB+/Stable/B	BBB+/Negative/A-2
Local currency issuer credit rating	BB+/Stable/B	BBB-/Stable/A-3	BB+/Stable/--	BB+/Stable/B	BBB+/Negative/A-2
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2023-12-31	2023-12-31	2023-12-31	2024-03-31	2023-12-31
Mil.	EUR	EUR	EUR	EUR	EUR
Revenue	48,150	150,090	35,926	70,619	188,514
EBITDA	3,824	10,319	2,188	4,044	26,053
Funds from operations (FFO)	2,977	8,366	1,535	2,171	22,016
Capital expenditure	1,598	7,379	1,727	2,225	4,417
Free operating cash flow (FOCF)	2,171	5,503	313	2,058	11,147
Discretionary cash flow (DCF)	1,830	681	313	605	4,505
Debt	0	1,872	0	0	0
EBITDA margin (%)	7.9	6.9	6.1	5.7	13.8
Debt/EBITDA (x)	0.0	0.2	0.0	0.0	0.0
FFO/debt (%)	NM	447.0	NM	NM	NM
FOCF/debt (%)	NM	294.0	NM	NM	NM

Environmental, Social, And Governance

Renault has material exposure to environmental risks due to its large share of volume sales in Europe. Outside the region, around 70% of the group's sales are subject to regulations that are similar to the CAFE standards. Together with its alliance partners, Nissan and Mitsubishi, Renault Group met the 2023 carbon dioxide emissions target. CO2 emissions stood at around 108.5 grams per kilometer for Renault Group (as defined under the Worldwide Harmonised Light Vehicles Test Procedure) for its average passenger car fleet in the EU. To meet Its 2025 emissions targets in Europe, Renault brand has committed to raise the share of EVs (passenger cars) in its European mix, including BEVs, plug-in hybrid EVs, and full hybrid vehicles to 65% in 2025, from 41% as of 2023. This could prove challenging in the current market circumstances. We assume the shift will likely constrain profitability over 2025-2026, as Renault acknowledges that its EVs today generate an operating margin below the group's average. Yet, Ampere targets breakeven in 2025 and, in the long term, its operations should be consistent with the targeted group operating margin of 8%.

Social and governance factors do not play a major role in our credit assessment for Renault.

Rating Component Scores

Foreign currency issuer credit rating	BB+/Stable/B
Local currency issuer credit rating	BB+/Stable/B
Business risk	Fair
Country risk	Intermediate
Industry risk	Moderately High
Competitive position	Fair
Financial risk	Modest
Cash flow/leverage	Modest
Anchor	bbb-
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Negative (-1 notch)
Stand-alone credit profile	bb+

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024

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- Criteria | Corporates | General: Methodology: The Impact Of Captive Finance Operations On Nonfinancial Corporate Issuers, Oct. 23, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

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