Corporate Credit Comment

20 February 2020

Renault (RENAUL) Agencies react to underwhelming results, next stop HY

On the back of the disappointing results Moody's was the first to act, cutting the group by a notch to HY at Ba1 with a stable outlook; the agency decided that ratios will not be consummate with current ratings. S&P closely followed revising the BBB- to rating watch negative, the review will be finalised within three months and a downgrade would be limited to one notch. The downward pressure resulted from a combination of declining volumes, increasing R&D expenses and unfavourable raw material prices, all of which filter through to weaker cash generation and metrics that are not consistent with current ratings, and that agencies don't foresee a recovery in ratios in the mid-term. Apart from operating pressure at Renault, the group also has had to contend with lower contributions from Nissan which cut its dividend after posting a loss in 4Q19; and historically the contribution from stronger rated Nissan was significant part of consolidated group earnings.

The cut by Moody's is a return to junk status after 4 years in IG, and will herald a greater divergence of spreads between Renault and RCI Banque the 100% owned captive financial arm which is currently rated Baa1/BBB and is likely to remain 1/2 notches better rated due to banking methodologies that adjust for advance loss given failure; hence we would not expect to see parallel rating actions maybe just negative outlooks.

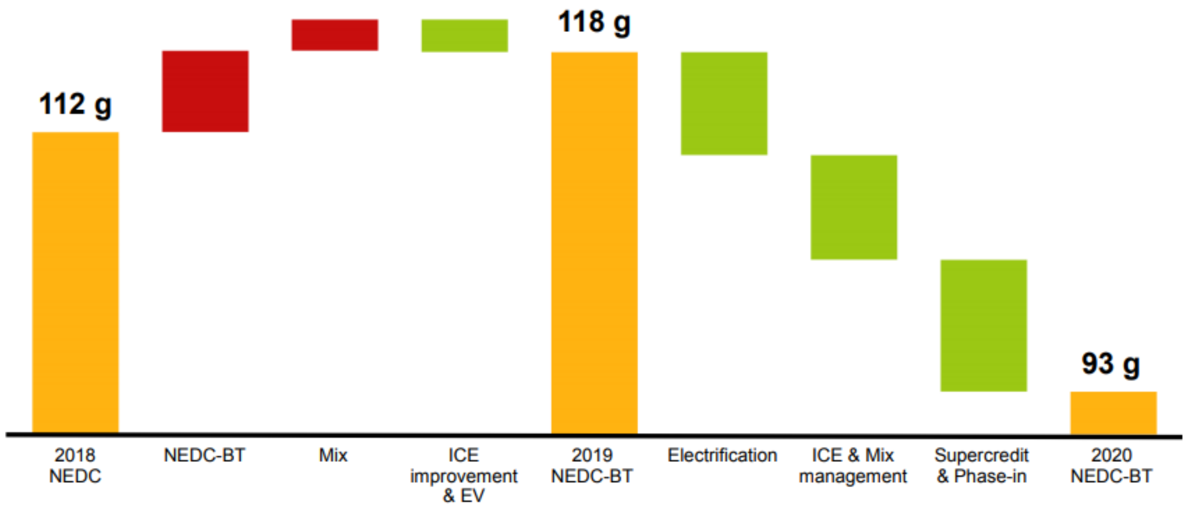
Both Renault and Nissan had a tough time and the Carlos Ghson story doesn't seem to be going away anytime soon, the Nissan quarterly loss was the first in over 10 years, and the Renault financial forecast doesn't envisage a quick recovery. Investors will have to wait for details of group restructuring until the May AGM and with the new CEO not starting until July a change in strategic direction will likely be business for the second half of the year. For now we don't see value in Renault which is likely to settle in the high BB space, we should see greater divergence of Renault and RCI bonds, and we would look for material pickup in the later over VW, FCABNK comparables.

Renault's FY19 results saw unit sales coming in 3.4% lower at 3.8m units, revenues were down a similar amount at €55.5bn, but operating margins fell by a more material €1bn to €2.1bn. It has been a difficult year for automotive sector and Renault was affect like all OEM's, operating margins fell 150bps to 4.8% and the second half of the year was particularly tough with margins at 1.3%. Furthermore the group recorded -€190m from associated companies which includes Nissan, a material reduction from the €1,540m realised in prior year.

Operating cashflow came in €240m lower at €4.1bn and investment remained significant at €4.9bn some €680m higher yoy. Renault did however manage to book €153m in FCF and the group remains in a net financial cash position, though this has declined from €3.1bn to €1.7bn, but liquidity remains healthy at over €15.8bn. RCI

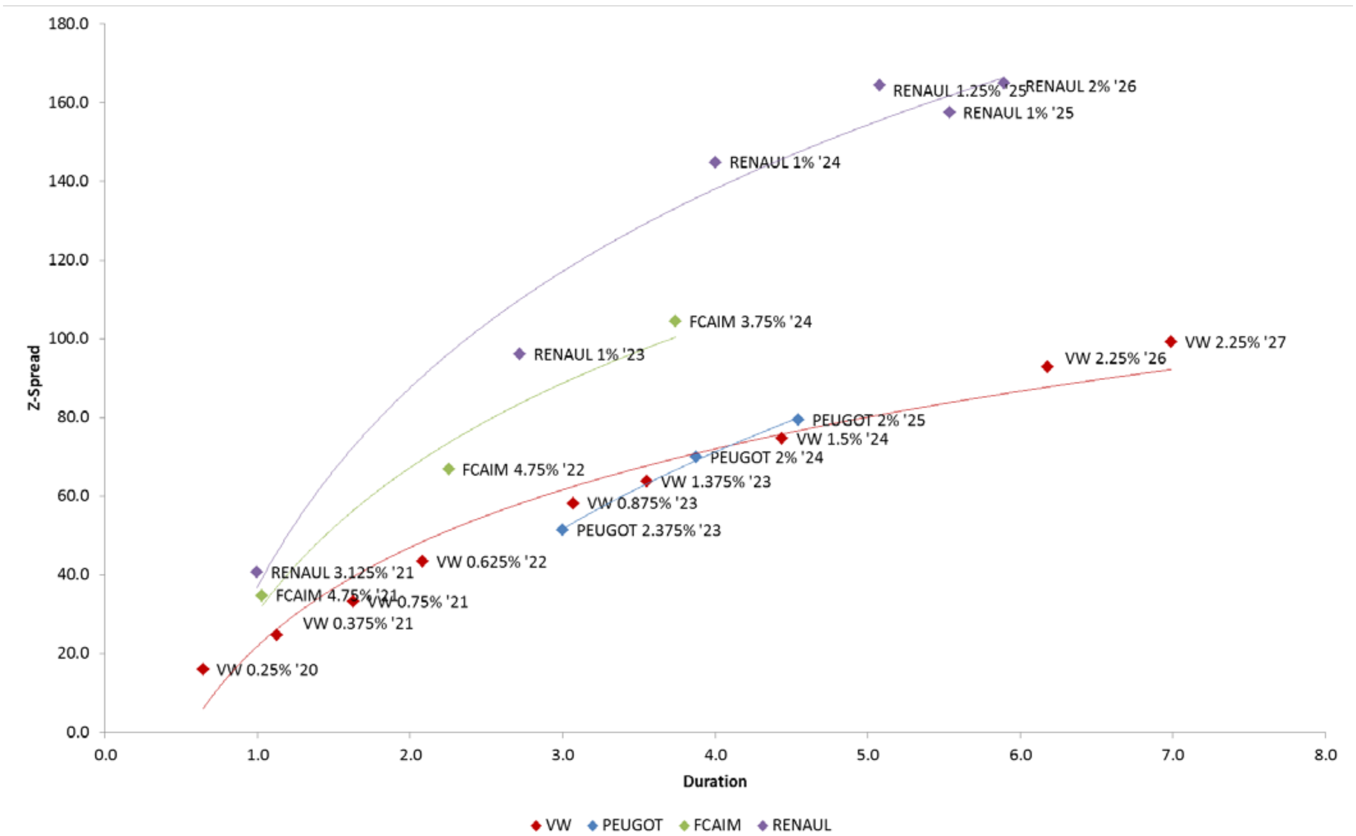
Banque's assets increased to €47.4bn and operating profit remained flat at €1.2bn. Group outlook for 2020 for revenues to be unchanged, and operating margins to decline further to 3-4%, FCF is expected to be positive before restructuring costs.

CHART 1: ROADMAP TO REDUCING EMISSIONS



Source: Company disclosure

CHART 2: TRANSITION INTO HY UNDERWAY



Source: Bloomberg, MUFG

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