

Renault

Ticker Site BiG	RNO
Ticker BiGlobal Trade	RNO
Ticker BT24	RNO
Ticker BiG Power Trade	RNO
P/E Ratio 2019E	5.72
P/BV Ratio	0.26
EV/EBITDA	9.31

Source: Bloomberg;

Price and Performance (Values in EUR)

Price	30.35
52 week high	64.20
52 week low	30.19
YTD	-28.1%
Average daily volume (un)	1,482,955
Market Capitalization (mn)	8,974
Beta	1.06
Dividend	1.10
EPS (Bloomberg Est.)	-0.52

Source: Bloomberg;

Analysts Consensus (last 3 months)

Buy	9
Hold	11
Sell	5

Source: Bloomberg;

Financial Data

Sales (EUR mn)	55,537
EBITDA (EUR mn)	5,914
Number of Employees	183,002
ROA	-0.1%
ROE	-0.4%
D/E	657.9%
Dividend Yield	3.62%

Source: Bloomberg;

Notes:

All quotes were updated in Bloomberg at 10h07 of February 19th, 2020.

Relevant Information:

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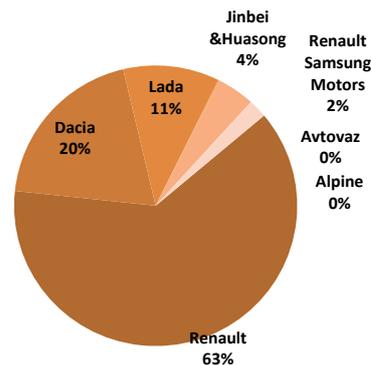
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Renault (Ticker: RNO FP)
Description

Renault is an European auto maker of the brands Renault, Dacia, Alpine, Jinbei & Huasong and Lada, and has an alliance with Nissan and Mitsubishi. Its subsidiary, RCI Banque, is specialized in giving auto loans to Renault clients.

Renault trades in the French stock market with a market capitalization of EUR 9bn and employs more than 180,000 people.

2019 unit sales


Source: Company Data;

Investment Case

Downturn in auto cycle: Sales of cars are declining, either because of slowdown in economic conditions, or due to the transition towards electric vehicles. Most of car companies have been financing sales through its financial subsidiary and accumulate a considerable amount of financing receivables in the balance sheet. The problem with these is that companies need now a high amount of investment towards electric and autonomous vehicles and have money tied in these receivables, forcing the company to raise debt. As cyclicity hits, and companies are unable to rapidly adapt its fixed costs, margins and profits will suffer as happened to Renault in 2019.

Conflicts with Nissan Alliance: The alliance was created with the purpose of sharing costs however due to the problem related with Carlos Ghosn the alliance is at risk. At the same time, sales of Nissan are dropping rapidly while costs pressure margins leading to already a negative contribute to Renault income in 2019. Renault has yet to provision the stake it has in Nissan on the Balance Sheet.

Emerging market exposure: 49% of Renault unit sales are outside Europe and the majority of those are in Emerging Markets. Russia (12%) is the biggest market of Renault outside Europe, followed by Turkey, Brazil, India and China. Iran and Argentina however represented a decline in sales in 2019 due to sanctions and economic instability.

Electric vehicles: Renault launched the model ZOE, which is a full electric vehicle with a range of 300km (WLTP) and a price around GBP 20,000 in UK which is not a huge difference vs the Clio price which is around GBP 17,000. In 2019 sales of ZOE increased by 23% to around 62,447 units, representing still a fraction of total Renault sales (1,6%).

Income Statement (EUR mn)	2019	2018	2017	2016
Revenues	55537	57419	58770	51243
Cost of product sales	44665	45417	46477	40256
General and administrative costs	5552	5792	5849	5335
Research & Development	2658	2598	2590	2370
Operational Costs	52875	53807	54916	47961
EBIT	2662	3612	3854	3282
Interest	311	308	369	284
Others	-688	-670	-183	-38
Share in net income of associate	-190	1540	2799	1638
EBT	1473	4174	6101	4598
Taxes	1454	723	891	1055
Net Income	19	3451	5210	3543
Earnings per share	-0.52	12.24	18.87	12.57

Source: Company Data

Free Cash Flow (EUR mn)	2019	2018	2017	2016
Operational	5599	6285	5702	4389
Net Income	19	3451	5210	3543
Depreciation and amortization	3809	3245	3046	2840
Bonds financial services	3103	3593	5738	5298
Financial Services receivables	-3271	-3756	-5505	-5915
Change in working capital	1214	551	-112	-239
Leased products	-1059	-519	-622	-705
Others	1784	-280	-2053	-433
Investment	-5107	-4662	-3632	-1907
Capex	-4984	-4305	-3448	-3053
Investments in securities and others	-123	-357	-184	1146
Financial	-253	-953	-1707	-2845
Debt change	983	440	-391	-1934
Share buybacks	-36	-41	-226	-102
Dividends	-1131	-1121	-1049	-809
Others	-69	-231	-41	0
Change in cash flows	239	670	363	-363
Foreign currency impact	-34	50	-159	83
Cash at end of period	14982	14777	14057	13853

Source: Company Data

Balance Sheet (EUR mn)	2019	2018	2017	2016
Assets	122171	114996	109943	102452
Cash & Equivalents	14982	14777	14057	13853
Receivables from sale financii	45374	42067	39334	34358
Trade receivables	1258	1399	1753	1900
Property Plant & Equipment	16900	14304	13582	12988
Inventories	5780	5879	6328	5813
Intangible Assets & Goodwill	6949	5913	5240	4989
Investments in associates	21232	21439	19811	19026
Other Assets	9696	9218	9838	9525
Liabilities	86840	78908	76501	71528
Short term Debt	50245	46958	45187	41289
Long term Debt	8794	6209	5401	4943
Payables	9582	9505	9904	9533
Provisions	2717	2725	2429	2566
Pension liabilities	1700	1587	1635	1771
Other liabilities	13802	11924	11945	11426
Total Shareowner's Equity	35331	36088	33442	30924
Total Equity and Liabilities	122171	114996	109943	102452

Source: Company Data

Income Statement

In 2019 Renault was greatly impacted by the withdrawal from Iran due to sanctions, the decline in sales of Argentina and Turkey due to economic slowdown and the decline of profits from Nissan. In China it also registered a decline of 17% in sales. The decline in revenues led to a decline in margins as the company couldn't adjust fast enough its costs. For 2020 the company anticipates revenues in line with 2019.

Top 15 markets (units)	2019	2018	2017	Growth 2019
France	698,723	689,788	673,852	1.3%
Russia	508,647	497,266	448,270	2.3%
Germany	247,155	235,609	228,046	4.9%
Italy	220,403	208,580	215,901	5.7%
Spain	183,264	189,480	185,760	-3.3%
Turkey	85,055	115,842	178,646	-26.6%
Brazil	239,174	214,822	167,147	11.3%
Iran	0	101,347	162,079	-100.0%
UK	109,952	103,607	115,262	6.1%
Argentina	<70,000	114,348	115,243	-38.8%
India	88,869	82,368	112,489	7.9%
South Korea	86,859	90,369	100,537	-3.9%
Belgium Luxembourg	90,989	88,663	88,547	2.6%
China	179,494	216,699	72,137	-17.2%
Morocco	70,281	75,418	70,536	-6.8%
Total 15 markets	2,950,120	3,024,206	2,934,452	-2.4%

Source: Company Data;

Free Cash Flow

Contrasting with its competitors BMW and Daimler, Renault is able to generate enough operating cash flow to pay for capex, and possibly reduce debt. However for 2020 the company decided to decrease the dividend from EUR 3.55 to EUR 1.10.

RCI Banque financing performance	2019	2018	2017	2016
Number of financing contracts (thousands)	1,798	1,799	1,771	1,564
New financing (€bn)	21.4	20.9	20.6	17.9
Average productive assets (€bn)	47.4	44.4	39.6	33.3

Source: Company Data;

Balance Sheet

Renault's net debt is around EUR 44bn and it has around EUR 15bn in cash and equivalents to face liquidity needs. Surprisingly, despite the slowdown in profits and economic condition of Nissan, the amount in assets form investments in associates has not declined significantly. An impairment to this amount is likely.

Renault Nissan Alliance

This alliance was supported by Carlos Ghosn and its objective was to share production facilities knowledge and investments in order to facilitate the evolution of the companies towards new trends such as the transition to electrified vehicles and save costs by creating synergies. The alliance is now being discussed by the executive teams of both companies after the recent arrest of Chairman Carlos Ghosn. However according to Ghosn, his arrest was a plot to end the alliance.

Carlos Ghosn situation: Ghosn was arrested in Japan for allegedly understating his income from the alliance and transferring personal trading losses to the alliance companies. Ghosn affirmed he is innocent and that this is a plot by Nissan to try to break the alliance. SEC is already investigating the issue and whether the companies involved will be liable to penalties for lack of governance or control over the payments and compensation. Ghosn has already stepped down from his position in both companies. Renault nominated Michelin's CEO Jean-Dominique Senard as Chairman.

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Comparative Analysis

Name	Country	Market Cap (mn)	Currency	P/E 2020E	YTD	1 Yr. Price Δ	NetDebt/ EBITDA	Margin EBITDA
FIAT CHRYSLER AUTOMOBILES NV	BRITAIN	19,106	EUR	4.5	-7.3%	4.1%	-0.3	8.9
TATA MOTORS LTD-SPON ADR	INDIA	7,380	USD	47.6	-13.3%	-3.1%	2.5	8.5
FORD MOTOR CO	UNITED STATES	31,957	USD	6.9	-13.3%	-8.7%	-0.6	7.9
GENERAL MOTORS CO	UNITED STATES	49,172	USD	5.6	-6.0%	-13.0%	-0.1	14.5
TESLA INC	UNITED STATES	158,040	USD	105.7	105.2%	180.9%	3.3	10.4
PEUGEOT SA	FRANCE	17,400	EUR	5.3	-9.7%	-10.8%	-0.9	10.5
BAYERISCHE MOTOREN WERKE AG	GERMANY	41,742	EUR	8.0	-11.7%	-9.1%	4.0	13.7
VOLKSWAGEN AG	GERMANY	85,571	EUR	6.0	-1.3%	16.5%	-0.2	16.5
DAIMLER AG-REGISTERED SHARES	GERMANY	45,265	EUR	8.5	-14.3%	-16.2%	-0.9	7.9
RENAULT SA	FRANCE	8,974	EUR	5.7	-28.1%	-48.5%	7.1	10.6
Average exc. RNO				22.0	3.14%	15.63%	0.8	11.0

Source: Bloomberg; BiG Research

Risks

Further downgrades of rating: Moody's announced a downgrade to "junk" and S&P has already the rating on Watch Negative. Fitch also has a negative outlook.

Rating		
Agency	Rating	Outlook
S&P	BBB- *-	n.a.
Moody's	Ba1	STABLE
Fitch	BBB	NEG

Source: Bloomberg;

Iran: Due to sanctions imposed by US, Renault had to suspend its activity in the country where it had sold in 2017, around 162,000 units (4% of total units sold).

Graph



Source: BiGlobal Trade (partner Saxo Bank); BiG Research

Calendar

April 30th, 2020: Ex-date dividend

July 26th, 2020: 1H20 earnings

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