

Research

Research Update:

RCI Banque Outlook Revised To Stable On Resilient Operating Performance; 'BBB/A-2' Ratings Affirmed

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Overview

- We are now more confident that RCI Banque can maintain its superior risk-adjusted profitability relative to peers' on the back of its parent Renault's improving operating performance and more supportive operating environment.
- Renault's sound prospects also reduce risks for RCI's creditworthiness, in our view.
- We are therefore revising our outlook on RCI and its core subsidiary DIAC S.A. to stable from negative, and affirming our 'BBB/A-2' ratings.
- The stable outlook reflects our view that over the next two years RCI's capital position will remain strong, as indicated by a risk-adjusted capital ratio above 10%, and that its operating profitability will continue to benefit from resilient net interest margins and business volumes.

Rating Action

On May 27, 2016, S&P Global Ratings revised its outlook on France-based auto financier RCI Banque and its core subsidiary, DIAC S.A., to stable from negative. At the same time, we affirmed our 'BBB/A-2' long- and short-term counterparty credit ratings on both entities.

Rationale

The outlook revision mainly reflects our view that RCI's operating performance will remain resilient over the next two years, since we expect the recovery of the European car market to continue. This in turn will likely translate into continued outperformance relative to captive auto finance peers, based on our measure of risk-adjusted profitability. Moreover, in our view, the positive outlook on our rating on RCI's parent, Renault S.A. (BBB-/Positive/A-3), further reduces risks to RCI's creditworthiness.

A combination of positive business momentum observed at the parent, Renault, along with RCI's pricing power, should support RCI's net interest margin and loan growth. As a result, we expect RCI to continue outperforming its auto captive finance peers on the basis of the earnings buffer ratio, which is our measure of the extent to which a bank's earnings cover its normalized losses through the business cycle. RCI's earnings buffer stood at a robust 2.1% at

year-end 2015. We reflect this expectation of sustained outperformance by incorporating a one-notch uplift in our long-term rating on RCI.

The ratings on RCI remain constrained by our view of the company's funding profile. We expect total deposits to continue representing about one-third of outstanding loans (32% at year-end 2015). We continue to view RCI's deposits as potentially less stable than that of a commercial bank.

The ratings continue to factor in our view of RCI's weak business position in line with that of other captive auto finance peers, strong capital and earnings, adequate risk position, below-average funding, adequate liquidity, and insulation from its parent, which allows us to rate RCI above Renault.

Outlook

The stable outlook reflects our view that, over the next two years, RCI's risk-adjusted capital (RAC) ratio will remain above 10% and its operating profitability will continue to benefit from resilient net interest margins and business volumes. We expect this to translate into sustained outperformance relative to peers, based on our measure of risk-adjusted profitability.

Downside scenario

We could lower the long-term rating if, in particular, we perceived a decline in the earnings buffer below 150 basis points or if our projected RAC ratio declined below 10% for a long period.

Upside scenario

An upgrade of RCI is unlikely because we believe a higher assessment of RCI's stand-alone credit profile (SACP) is a remote scenario; it would require a fundamental shift in RCI's capital or funding strategy. Likewise, an upgrade of RCI is unlikely in case of a one-notch upgrade of parent Renault, since it is unlikely by itself to result in an improvement of RCI's SACP.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	BBB/Stable/A-2	BBB/Negative/A-2
SACP	bbb-	bbb-
Anchor	bbb+	bbb+
Business Position	Weak (-2)	Weak (-2)
Capital and Earnings	Strong (+1)	Strong (+1)
Risk Position	Adequate (0)	Adequate (0)
Funding	Below average (-1)	Below average (-1)
Liquidity	Adequate	Adequate

Support	0	0
ALAC Support	0	
GRE Support	0	0
Group Support	0	0
Sovereign Support	0	0
Additional Factors	+1	+1

Related Criteria And Research

Related Criteria

- Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- Group Rating Methodology, Nov. 19, 2013
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Commercial Paper I: Banks, March 23, 2004

Ratings List

Ratings Affirmed; Outlook Action

	To	From
RCI Banque		
DIAC S.A.		
Counterparty Credit Rating	BBB/Stable/A-2	BBB/Negative/A-2
Certificate Of Deposit		
Local Currency	A-2	A-2
RCI Banque		
Senior Unsecured	BBB	BBB
Commercial Paper	A-2	A-2

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed

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