

Research

Research Update:

RCI Banque Outlook Revised To Negative Following Similar Action On Parent; 'BBB/A-2' Ratings Affirmed

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Overview

- On Feb. 20, 2019, we revised our outlook on Renault S.A. to negative from stable due to headwinds in the automotive industry and company specific problems that could slow its operating profit generation.
- We consider RCI Banque (RCI) to be a core subsidiary of its 100% parent Renault, and currently incorporate one notch of uplift for potential extraordinary group support into our rating on RCI.
- However, because we consider RCI as insulated from Renault, its issuer credit rating could remain above that of the parent if the strength of its stand-alone credit profile further insulated it from any distress at the parent company level.
- We are revising the outlook on RCI to negative from stable and affirming the 'BBB/A-2' ratings on the bank.
- The negative outlook primarily reflects that on Renault, but also our view that the strategic and governance challenges facing the Renault group could also have a negative effect on RCI's captive finance business.

Rating Action

On Feb. 26, 2019, S&P Global Ratings revised to negative from stable its outlook on France-based auto financier RCI Banque and its core subsidiary DIAC S.A.

At the same time we affirmed our 'BBB/A-2' ratings on RCI and DIAC.

Rationale

Our outlook revision follows a similar action on RCI's parent Renault S.A. on Feb. 20, 2019 (see Renault Outlook Revised To Negative On Weaker Operating Profit Margin And Free Cash Flow," published on RatingsDirect), and reflects our opinion that RCI is a core subsidiary of Renault and that we include one notch of uplift in our ratings on RCI for potential extra ordinary group support. The rating action on Renault reflects our view that headwinds in the automotive industry and company specific problems could slow Renault's operating profit generation.

The negative outlook on RCI and DIAC does not indicate any pressure on the

bank's profitability or own debt market access, but rather potential contagion risks emanating from the parent. Historically, RCI has demonstrated strong resilience against automotive sector and economic downturn, generating more stable revenues than its parent. However, although we believe this will still be the case, thanks to the annuity-like features of RCI's revenues (interest margins from loans spread over several years), we note that the Renault group, including RCI, is currently facing some strategic and governance challenges following the resignation of its CEO and chairman Mr. Carlos Ghosn, who is under arrest in Japan over alleged financial misconduct. Although we understand that Mr. Jean-Dominique Senard, the newly appointed chairman of Renault's board of directors, will continue the previous chairman's mandate to make the Renault-Nissan-Mitsubishi alliance (the Alliance) irreversible, the future structure of the Alliance and how long it will take to establish remains uncertain. These uncertainties could affect all Renault group's activities.

We do note, however, that because we view RCI as insulated from Renault due to France's favorable insolvency laws and RCI's regulatory and legal status, our issuer credit ratings on RCI and DIAC could remain above that on Renault. This would be the case if RCI's standalone assessment further insulates it from potential distress at the parent company level.

Our view of RCI's stand-alone creditworthiness continues to factor in its concentrated business model that focuses solely auto loans financing. This exposes RCI to the cyclical auto sector and the Alliance's operating performance. The bank's creditworthiness is also constrained by its greater-than-average reliance on wholesale sources of funding, although we note it has improved thanks to a deposit base of about one third of its funding.

During the past decade, RCI has demonstrated superior risk-adjusted profitability compared with that of similarly rated banks. While we believe RCI's risk-adjusted profitability will remain high in 2019, as measured by our earnings buffer ratio (pre-provision operating income less S&P Global Ratings' normalized cost of risk less one-off items, divided by S&P Global Ratings' risk-weighted assets), we believe that there is some uncertainty surrounding the group's strategy and governance, including the future of the Alliance, which could, over time negatively affect Renault's and RCI's operations. For the captive finance business, it could translate into higher funding costs.

RCI's earnings buffer ratio was 2.0% in 2017 and most likely above 2.0% at end 2018, according to our estimate, supported by reported net banking income growth in 2018 (+18.6%) much higher than that of operating expenses (+10.2%), and an expected slowdown in our risk-weighted assets growth in 2018. We don't expect any meaningful deterioration of the earnings buffer ratio in the next two years.

Outlook

The negative outlook on RCI and DIAC reflects the negative outlook on Renault, and RCI's position as a core subsidiary of the car maker. RCI has demonstrated its resilience and strong profitability in the past decade, despite the cyclical auto sector, but uncertainty surrounding group's strategy and governance, including the future of the Alliance, could have some contagion effect on RCI. However, we maintain our view that RCI can be rated above its parent, and that a downgrade of Renault would not automatically entail a downgrade of RCI.

We could lower our ratings on RCI and DIAC in the next 12-24 months if, following a downgrade of Renault, we believed RCI's creditworthiness failed to be higher than that of its parent. This could be the case if tensions within the Alliance negatively affected the effectiveness of RCI's operations, notably regarding funding costs and its strategic focus.

We could revise the outlook to stable in the next 12-24 months if our view of RCI's stand-alone creditworthiness remains unchanged, including strong risk adjusted-profitability and capital, despite the weaker automotive sector and company specific challenges. This could happen even while Renault's outlook is negative or if Renault's issuer credit rating is lowered by a notch.

Ratings Score Snapshot

| | To | From |
|----------------------|--------------------|--------------------|
| Issuer Credit Rating | BBB/Negative/A-2 | BBB/Stable/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 | 0 |
| GRE Support | 0 | 0 |
| Group Support | +1 | +1 |
| Sovereign Support | 0 | 0 |
| Additional Factors | 0 | 0 |

Related Criteria

- Criteria - Financial Institutions - General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria | Financial Institutions | Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Research Update: Renault Outlook Revised To Negative On Weaker Operating Profit Margin And Free Cash Flow; Feb. 20, 2019
- Nissan Motor Downgraded to 'A-' On Weak Prospect Of Recovery In Earnings; Outlook Stable; Feb. 21, 2019
- 'BBB/A-2' Ratings Affirmed FCE Bank, RCI Banque, And VW Bank Have Ample Capital And Earnings To Absorb Fines From Italian Competition Authority, Jan. 11, 2019
- RCI Banque, Aug. 23, 2018

Ratings List

Outlook Action; Ratings Affirmed

| | | |
|------------|----|------|
| | To | From |
| RCI Banque | | |
| DIAC S.A. | | |

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| | | |
|------------------------|------------------|----------------|
| Issuer Credit Rating | BBB/Negative/A-2 | BBB/Stable/A-2 |
| Certificate Of Deposit | | |
| Foreign Currency | BBB/A-2 | BBB/A-2 |
| Local Currency | BBB/A-2 | BBB/A-2 |
| RCI Banque | | |
| Senior Unsecured | BBB | BBB |
| Certificate Of Deposit | A-2 | A-2 |
| Commercial Paper | A-2 | A-2 |
| DIAC S.A. | | |
| Certificate Of Deposit | A-2 | A-2 |

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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