

Research Update:

RCI Banque 'BBB/A-2' Ratings Affirmed On High Operating Performance Despite Renault Downgrade; Outlook Remains Negative

October 28, 2019

Overview

- On Oct. 25, 2019, S&P Global Ratings lowered its long-term issuer credit rating on carmaker Renault S.A. to 'BBB-/A-3' from 'BBB/A-2', with a negative outlook.
- However, we are affirming our 'BBB' long-term issuer credit rating on RCI Banque (RCI) because we expect the bank to maintain a stable and solid financial profile, and its revenue is less cyclical than its parent.
- The outlook on RCI remains negative, given uncertainty surrounding Renault group's future strategy and governance, as well as the ultimate financial performance of industrial activities, both of which could have negative contagion effects on RCI, notably regarding funding costs--although to date, operational performance and the bank's market access remain strong.
- A further downgrade of Renault would not automatically entail a downgrade of RCI, if the bank sustains above-average profitability metrics in the next 18-24 months despite a less favorable auto market, while maintaining its funding costs and access.

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Rating Action

On Oct. 28, 2019, S&P Global Ratings affirmed its long- and short-term issuer credit ratings on France-based RCI Banque (RCI) and core subsidiary Diac at 'BBB/A-2'. The outlooks on both entities remain negative. We also affirmed the issue ratings on all rated debt.

Rationale

The affirmation follows a review of RCI after the downgrade of its sole parent, Renault S.A. (BBB-/Negative/A-3). We now rate RCI one notch above its parent, which we have done several times in the past decade, due to the bank's more predictable and stable revenue compared with its more-cyclical parent.

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We have removed from the long-term rating on RCI one notch that we previously included for group support, since it is a core subsidiary of Renault. We now incorporate one notch of uplift above the stand-alone credit profile (SACP) of 'bbb-' to reflect RCI's outperformance of similarly rated peers over a long cycle. This especially includes capital generation capabilities and operating performance. We view RCI's earnings buffer--defined as the capacity for operating earnings to cover normalized losses--as strong, exceeding 2% of our risk-weighted assets over time. We expect it to remain firmly above 2% in the next two years.

In our view, RCI Banque's overall creditworthiness is commensurate with a 'BBB' long-term issuer rating when compared with peers. In recent years, it has continued to improve its market penetration (41% as of year-end 2018, up from 35% as of 2014). The bank is also gradually broadening its business mix toward fees and services, which along with its increased penetration rate, positively supports resilient revenue, and strong profitability. Over the past decade, the bank has shown extremely modest revenue volatility and benefitted from a lean cost structure, with no branches and good pricing power. These features help RCI weather auto cycles well, and generate predictable and strong profits, despite its concentration in auto finance. We also note that part of its funding comprises retail deposits, which are less price sensitive to any deterioration of Renault's creditworthiness than debt issuances. However, RCI's business model and name affiliation do not fully shield the bank from events in the auto sector. This is mainly because we see uncertainty surrounding Renault group's future strategy and governance, including the future of the Renault-Nissan-Mitsubishi alliance, which could have some contagion effects on RCI. In addition, to a lesser extent, we believe the bank may face challenges in sustaining above-average profitability metrics in the next 18-24 months due to pressures on the auto market, and the repercussions on business volumes and funding costs.

We believe RCI is insulated from its 100% owner, Renault, due to France's favorable insolvency laws and its regulated status as a bank, supervised by the European Central Bank and the French regulator. This means there is limited capacity for the parent to repatriate cash flows outside the regulatory perimeter, a high degree of operational independence, and total funding independence. Therefore, we can rate the bank above its parent.

Outlook

The negative outlook indicates that we could lower the ratings on RCI in the coming 18-24 months if the bank's earnings capacity stopped outperforming similarly rated peers. This could be due to pressures on the auto market, or on its funding costs related to Renault's difficulties. The negative outlook also indicates uncertainty surrounding Renault's strategy and governance, and ultimate financial performance, which could have some contagion effect on RCI and its creditworthiness. However, we maintain our view that RCI can be rated above its parent by up to two notches. A further downgrade of Renault by one notch would also not automatically entail a downgrade of RCI.

Downside scenario

Specifically, and irrespective of Renault, we may remove the notch of flexibility and lower the long- and short-term issuer credit ratings to 'BBB-/A-3' if we believe RCI's creditworthiness failed to be higher than that of its parent and contagion risks start to crystallize. This could be the case if tensions within the alliance negatively affect RCI's operations and activities, notably regarding funding costs and strategic focus, or if the pressure we see in the auto market negatively affects its profitability and businesses.

Upside scenario

We would revise the outlook to stable in the next 12-24 months if our view of RCI's stand-alone creditworthiness remains unchanged, including its strong risk-adjusted profitability and capital and stable funding costs, and Renault's company-specific challenges ease, despite the weaker auto sector.

Ratings Score Snapshot

	To	From
Issuer Credit Ratings	BBB/Negative/A-2	BBB/Negative/A-2
SACP	bbb-	bbb-
Anchor	bbb+	bbb+
Business Position	Weak (-2)	Weak (-2)
Capital & Earnings	Strong (+1)	Strong (+1)
Risk Position	Adequate (0)	Adequate (0)
Funding and Liquidity	Below Average and Adequate (-1)	Below Average and Adequate (-1)
Support	0	0
ALAC Support	0	0
GRE Support	0	0
Group Support	0	+1
Sovereign Support	0	0
Additional factors	+1	0

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- 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: 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

- Renault S.A. Downgraded To 'BBB-' On Tougher Market Conditions; Outlook Negative, Oct. 25, 2019
- RCI Banque, Aug. 22, 2019
- Guidance | General Criteria: Group Rating Methodology, July 1, 2019

Ratings List

Ratings Affirmed

RCI Banque

Issuer Credit Rating	BBB/Negative/A-2
Senior Unsecured	BBB
Short-Term Debt	A-2

DIAC S.A.

Issuer Credit Rating	BBB/Negative/A-2
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