

**MASTER OF SCIENCE IN
FINANCE**

**MASTER'S FINAL WORK
PROJECT**

EQUITY RESEARCH
GROUPE RENAULT

DUARTE GRANADO BOTELHO AMARO DE OLIVEIRA

NOVEMBER-2020

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SUPERVISOR:

PROFESSOR JOÃO LUIS CORREIA DUQUE

NOVEMBER-2020

Abstract

Group Renault is an international multi-brand group, that manufacturers cars since 1898, and is nowadays selling close to 4 million vehicles in 134 countries.

This main objective of this project is to calculate the true value of Group Renault and make detailed equity research in order to reach a final value. The project follows the guided structure of ISEG's Institute in Finance final work project and according to the structure and recommendations of CFA Institute.

The reason to choose Renault to make a detailed evaluation to the company starts by my interest in the automotive world. It has always brought my curiosity out and is a world where I would like to understand since I can remember, and this equity research proved to be my opportunity.

This report was written on June 30, 2020, in accordance with the public information available at that date, and any information and subsequent events to this date will not be reflected on this valuation.

The target price for 2020-year-end, reached at the end of the report, was of €30,63 with high risk, using the Discount Cash Flow method, representing an upside gain of 35,65%. An alternative valuation method was used, Relative valuation, which got a target price with an upside potential of 26%. The final recommendation is to buy, even considered the high risk related to, not only the industry where it operates, but also the current health-crisis affecting the world. The prospect is of a strong growth in a short-term.

JEL classification: G10; G32; G34.

Keywords: Equity Research; Valuation; Group Renault; Auto Industry.

Resumo

O Grupo Renault é uma entidade internacional, que fabrica automóveis desde 1898, e vende, atualmente, cerca de 4 milhões de veículos em 134 países.

O principal objetivo deste projeto é calcular o verdadeiro valor do Grupo Renault e fazer uma análise detalhada de modo a chegar a um valor final. O projeto segue a estrutura orientada do projeto de trabalho final do Instituto de Finanças do ISEG e obedecendo à estrutura e recomendações do CFA *Institute*.

O motivo da escolha do Grupo Renault para fazer uma avaliação detalhada da empresa, começa pelo meu interesse pela indústria automóvel. É uma indústria que sempre despertou a minha curiosidade e é um mundo que gostaria de entender desde que me lembro, e este relatório provou ser a minha oportunidade.

Este relatório foi elaborado a 30 de junho de 2020, de acordo com as informações públicas disponíveis naquela data, e quaisquer informações e eventos subsequentes após esta data de referência não estarão refletidos nesta avaliação.

O preço-alvo considerado para o final do ano de 2020, calculado ao longo do relatório, é de 30,63 € com um alto risco de investimento, que de acordo com o método de avaliação *Discounted Cash Flow*, representa um potencial ganho de 35,65%. Um método alternativo foi usado, método de avaliação comparável através de múltiplos, atingindo um preço final com um potencial de subida de 26%. A recomendação final é comprar, mesmo tendo em consideração o alto risco, não só pelo setor onde atua, como também pela atual pandemia que atinge o mundo. A perspetiva é de forte crescimento a curto prazo.

Classificação JEL: G10; G32; G34.

Palavras-Chave: Equity Research; Avaliação de Empresas; Group Renault, Indústria Automóvel

Acknowledgements

I considered this project a test to myself. For the ones who know me, this final work project of my academic life wasn't easy and it challenged me in many ways. This accomplishment in my life couldn't have happened without the help and support of a group of people.

To my supervisor, João Duque, for accepting my proposal to be my guidance in this project and for giving me the chance of being guided by one the best professors that came across my academic life.

A big thank you to my family, girlfriend and friends, for always be present there for me and giving me their full positivity and optimism. I couldn't have done it without their guidance and daily support.

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Renault SA

(2020YE Price Target of €30,63 (35,65%), with high risk; recommendation is to Buy)

Research Snapshot

Based on this equity research report on Group Renault, the final recommendation is to **BUY**, at June 30 of 2020. The price target was of €30,63 using the Discount Cash Flow method, representing an upside gain of 35,65%, from its latest closing price of €22,58. The second evaluation method used was the Relative valuation, that generated a slightly more optimistic scenario. The target price was €28,46, concluding also a BUY recommendation, with an upside gain of 26%. Considering the current situation, the world is living caused by the Covid-19 virus, the risk of investing will always be high, due to the uncertainty of the future. What was done in this report, was the consideration of all factors, external and internal, in order to forecast the most accurate outcome considering what the company is trying to do aligned with the current market conditions.

Low	Medium	High
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Group Renault risk assessment reflects a high-risk investment. It is measured by a major health-crisis affecting the world, by the competitive market where it operates and the growth of the electric car market.

Figure 1: Group Renault Historical Stock Prices



Well established player in the automotive market

Group Renault is a carmaker since 1898. This multi brand group operates all around the world, in 134 countries, offering a range of five brands and miscellaneous services, such as, sales financing, maintenance and service contracts. The Group is one of the major investors and key players of the EV market, considered the new trend in the automotive industry. Besides all its presence and operations, Group Renault is part of a unique alliance with Nissan and Mitsubishi Motors, which together, are the biggest producers and sellers of motor vehicles in the world.

New Corporate Strategies to face Covid-19

Considering this new threat of 2020 called Covid-19, as any crisis the world is facing, it showed that the ability of a company to react and adapt to it, determines its success towards the problem. Group Renault, as most of the world, suffered from the impact the pandemic brought, and so, it began to launch some levers for its recovery. The 2022 plan project to reduce fixed costs and focus on productivity instead of volume, the commitment to do even better in the electric market by increasing their know-how, the improvement of its sales financing segment, namely, the RCI Bank, and its liquidity reserves are considered the main levers in order to fight the economic crisis and recover from it.

Electric car market is the path to follow

Since the automotive industry is facing some deep changes, it is important to be aware of the new trends and, most importantly, be the main adapters. As a pioneer and expert in the electric car market, Group Renault is committing to offer every year a wider and complementary choice of energy sources and solutions. Having one of the most sold electric vehicles in the world, the Renault ZOE, Group Renault is presenting hybrid and electric versions of existing models and creating new ones. The company is meeting the customers' expectations that seek versatility and at the same time is responding to the challenges of the energy transition.

Table 1: Group Renault market data

Market Profile	
Closing Price	22,58 €
52-week price range	12,77 € - 29,17 €
Volume	3 211 908
1 Year Target Est.	84,17
Shares Outstanding	272 million
Market Capitalization	8,43 billion €

Source: Yahoo Finance, Student Analysis

Table 2: Group Renault Target Prices

Valuation	Price Target
Current Stock Price (30/06/2020)	22,58 €
DCF	30,63 €
EV/Sales	28,46 €

Source: Yahoo Finance, Student Analysis

Business Description

Group Renault is a French multinational automobile manufacturer and one of the oldest around the world. Headquartered in Boulogne-Billancourt, near Paris, the company mainly focus on producing cars and vans, and historically has manufactured trucks, tractors, tanks, buses and auto rail vehicles. Established in 1898, the original firm, Renault Frères, was founded by three brothers, Louis, Marcel and Fernand, being Renault their family name. They started by winning their first car competitions, in 1899, which built them a path to great success receiving immediately their first orders. The company continued innovating and by the time the first world war broke out, Renault was asked to mobilize thousands of troops and was entrusted with the manufacturing of ambulances, shells, light tanks, trucks and aircraft. From that moment forward, the company kept growing and expanding their factories and its product lines. Throughout the years, Renault has developed collaborative partnerships with several other companies, whether to position itself in other markets, or to strength technological developments or even to reduce vehicle conceptions costs and purchasing expenses – Table 3.

Back to the current days, Group Renault turns into one of the largest manufacturers in the world, where in 2016, became the ninth biggest automaker by production volume. By 2017, the Renault-Nissan-Mitsubishi Alliance (further discussed) reaches the milestone of becoming the world's biggest seller of light vehicles, taking for the first time Volkswagen Group from the top. Group Renault is present in 134 countries, counting with almost 180 000 employees around the world, 40 manufacturing sites with 3.8 million vehicles sold in 2019 – Figure 2.

Renault S.A. business operates in two main business lines in over 134 countries. Its core business is the **automotive segment** which the holding company is responsible for five brands: Renault, Dacia, Renault Samsung Motors, Alpine and LADA. The last one, referred on Renault's financial documents as AVTOVAZ, is a car manufacturer from Russia that became a Group Renault brand on 2017 (Renault's financial statements and documents have the automotive segment divided as including AVTOVAZ and excluding AVTOVAZ). This sector, which represented 93.9% of the revenues in 2019, includes the production, design and distribution of the vehicles deriving from these brands. The Renault S.A. automotive segment was responsible, in 2019, for nearly 3.8 million vehicles sold worldwide, suffering the first decrease on sales since at least 2015 (a decline of around 3,4% comparing to last year). The group operates and sells globally, except in North America, with Europe representing a share of more than 50% of sold vehicles and the rest of the world (mainly China, Russia, Brazil, India and Africa) covering the other 50% - Figure 3. In terms of revenues, there was a decrease from 2018 to 2019 of 3.28% for the second consecutive year, where Renault hadn't a decrease on revenues since 2013 – Figure 4.

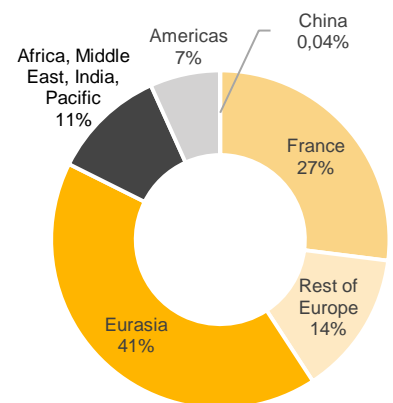
The **service segment** is the Renault S.A. second business line, including sales financing, rental, maintenance and service contracts. So, the parent company owns several subsidiaries to manage all the areas involved after the car's production, such as, RCI Bank, Corporate Sales Division, Renault TECH and Renault Consulting. Although it represents only 5.6% of the revenues sales financing increased by almost 28% from 2017 to 2018. This rise was notably due to the good commercial performance in the last periods – Figure 5.

In 1999, Group Renault and Nissan Motor Co. created a strategic partnership that later started being called as **Renault-Nissan-Mitsubishi Alliance** when Nissan acquired a control interest in Mitsubishi and subsequently the latter became part of the alliance as an equal. This alliance is not a merger neither an acquisition, but three companies that joined together through a cross-sharing agreement, to act in the financial interest of each other while maintaining their own individual identity and culture. The purpose is to increase economies of scale by taking advantage of each one's reach and speed time in the market and jointly develop not only engines and batteries, but focus on sustainability, zero-emission transportation and development of manufacturing in emerging markets. Since its creation, as mentioned before, the alliance became one of the biggest automotive group sellers in the world and more surprisingly, in 2017, made 5.7 billion euros in synergies and a total of almost 11 million vehicles sold worldwide.

Table 3: Group Renault Brief Profile

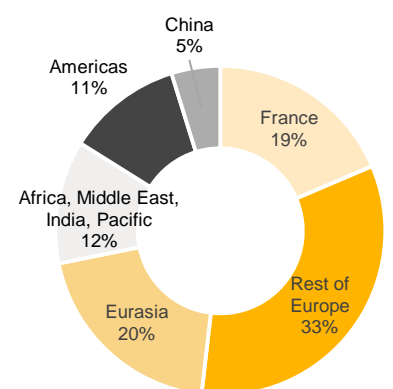
Group Renault's Brief Profile	
Traded as	Euronext. RNO
Industry	Automotive
Founded	1889
Headquarters	Boulogne-Billancourt, France
Products & Services	Automotive vehicles; Financing and Leasing; Equity Investments.
Key People	Jean-Dominique Senard (Chairman) Luca de Meo (CEO) Clotilde Debos (CFO)
Nº of Employees	179 565
Countries Operating	39
Financing Reporting	IFRS Accounting

Figure 2: Employees by Geographical Area



Source: 2019 Company data

Figure 3: Sales by Geographical Area



Source: 2019 Company data

Management and Corporate Governance

Renault S.A., regarding the **ownership structure**, presents as of December 31st, 2018, a total of 295,722,284 shares outstanding with a share capital of 1,126,701,902.04€. The shares are split into several institutions and, of course, are public. The public holds the biggest slice with 62.44% of the shares, while 33.11% belongs to institutions, such as the French State (15.01%), Nissan (15%) and Daimler Pension Trust (3.1%). The remaining capital resides on the employees (2.91%) and on the Treasury Stock (1.54%) – Figure 6.

To achieve its top-level governance, Renault thrives to place great balance between management bodies, supervisory bodies and shareholders. Entering in the field of corporate governance, Renault S.A. is governed by a Board of Directors that compels with several tasks from defining Renault's strategy, plan and its budget to monitoring the quality of the financial information released. Small tasks are also a part of the Board, such as preparing the Annual General Meeting and deciding its agenda. Composed by 19 members, the board elects most of them in the Annual General Meeting where the shareholders may elect a number of their own members according to their percentage of the shares. Renault's executive and supervisory committees, beside the Board of Directors, also include an Executive Committee and a Management Committee, both meeting once a month.

Company Strategies

In 2017, Group Renault presented a new six-year strategic plan called **Drive the Future**. This plan, built on the strong foundation of the previous Group Renault's plan *Drive the Change*, is about delivering strong profitable and sustainable growth by investing in competitiveness, geographic strength and mobility for the future. To increase cost competitiveness Renault will benefit from a product range across all segments to address the needs of more diverse costumers and apply its R&D investment all along the value chain to increase efficiency. Focusing on the customers, the company aims to be a more balanced organization in the world, with a target of annual growth revenues over 70% and an increase of 40% reaching 5 million units sold by the end of the plan. Concerning the future technology and the environment global challenges, Renault aspires to continue leading in electric vehicles providing more connected and autonomous vehicles and mobility services.

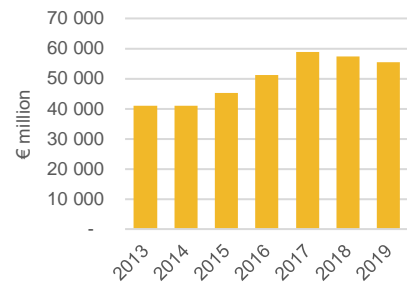
Entering the scope of **environmental** issues, Group Renault's strategic plan, embodied in *Drive the Future*, strengthens its position as pioneer and leader in the realm of sustainable mobility. Identified the challenges, the company has three leadership goals to fight: electric vehicles, the circular economy and driverless vehicles. As implied before, Renault considers electric vehicles the best global solution to the challenges of the environment, thus their new goal regarding this matter became focused on the increase of the supply and acceleration of this new market. Since human activity is rapidly depleting the planet's natural resources, the company started what is called the circular economy which aims to change the life cycle of vehicles by turning waste into resources and by extending the life of its components and materials. Adding to the mobility services, Renault is transforming the urban mobility with the development of new autonomous driverless vehicles that will change traffic flow, safety and pollution.

At last, the Alliance future and goals are also included in Renault's *Drive the Future* plan. The main point to retain is the continuous use of Alliance's leverage on resources and technologies to benefit from economies of scale and synergies. More precisely, they ambition to produce 80% of Group Renault vehicles on common platforms and share R&D investments and technologies within the alliance.

On a more short-term plan, Renault's Group created the **2022 Cost reduction Project**. As the name indicates, the goal is to reduce Renault's fixed costs by 2022 in the amount of more than 2 billion euros. The company, with this new project, aims for a paradigm shift in the company by choosing profitability over volume. The plan is focusing on three areas of the company, that constitutes the biggest opportunity for cost reduction, namely, engineering, SG&A and production – Figure 7.

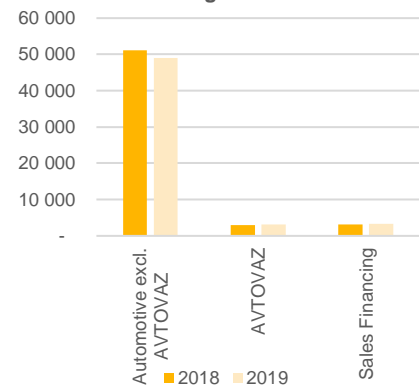
Moving forward to a similar subject, Renault S.A., just like any other big company, builds and invests in its **social responsibility**. The goal is to contribute and change the economy and society, making them more positive, more inclusive, more sustainable and more responsible. The goal is to mobilize. With this, Renault values

Figure 4:
Group Renault Revenues by Year



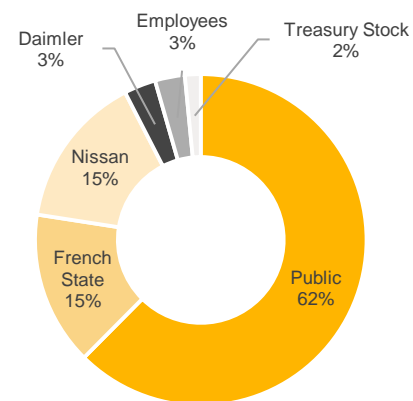
Source: Group Renault Annual Report 2013-2019

Figure 5:
Group Renault Revenues by Segment



Source: 2019 Company data

Figure 6:
Group Renault Ownership Structure, at December 2019



Source: 2019 Company data

a society and a company of inclusion. A place where everyone can find themselves and have means to thrive at their disposal. This vision rests on three commitments, starting with the promotion of cultural, sexual and gender diversity. Social entrepreneurship, where Renault Group invests in mobility projects with a strong social impact to promote access to mobility and professional insertion. And finally training and education, to invest in the people's personal and skill development in order to prepare them for the professions of the future. Other great field present in the company's social responsibility is the sustainable mobility and its environment and road safety concerns attached to it, which was analyzed already in the strategy subject.

Industry Overview

The automotive industry is a 250 billion euros industry playing a critical role in the global economy. The industry is not only about the selling of cars and others motor vehicles but also the designing, manufacturing and repairing of them. This industry counts with the intervention of several players, being one of the most competitive industries in the world. This intense competition leads to a usual low profit margins and a high operational leverage for the automakers. This means expensive raw materials considering the final output and that a change in these inputs adversely affects margins by a significant percentage.

The **COVID-19 pandemic** is an ongoing health crisis that has spread all around the world, affecting and killing hundreds of thousands of people. The outbreak was first identified in December 2019, in China, and the World Health Organization declared it a world pandemic on March 2020. However, the virus is bringing more than just health problems. The pandemic is creating an unprecedented socio-economic crisis, with the World Bank projecting a 110 billion dollar decline in remittances on the year of 2020. According to the International Monetary Fund, the global growth for 2020 is projected to be -4,9%. The COVID-19 pandemic outbreak has heavily impacted the automotive industry. The manufacturers all over the world are facing factory closures, supply chain disruption and a collapse in demand.

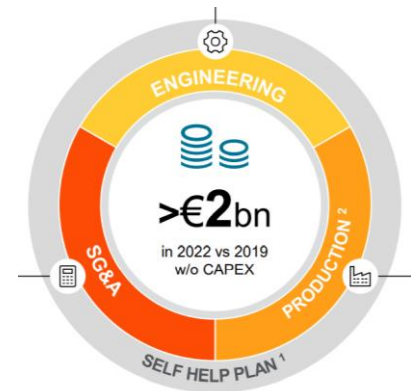
Although the COVID-19 pandemic is the main cause of the big fall projected in all social-economical areas around the world, the automotive industry wasn't already going well before the outbreak.

In 2018, the automotive industry had total sales of 95.6 million vehicles worldwide, 1.71% less than in the previous year. Although the decrease wasn't heavy, that year marked a challenging year for the automotive industry as sales fell for the first time since 2009. The following year, 2019, was marked for an even bigger fall for the automotive industry, with total sales reaching no more than 91.8 million units (decrease of 5.2% compared with last year) – Figure 8.

Leading these figures is **China** with 25.7 million sales, showing a decrease, higher than the average, of 7.5%. China has been growing despite its first ever decrease in a decade in 2018. However, it still accounts for almost one in every three cars sold in the world. Following China is the **European Union** market with 20.8 million sales, keeping up 2018 results with a small increase of 0.27%, followed by the **US** market with a decrease of 3.8% (10.9 million). Moving to smaller markets but still worth pointing out, **Japan**, being the third largest manufacturer in the world, couldn't escape from the world chain and registered a decrease of 0.5% with 9.7 million cars sold. Germany takes back its seat as the fourth largest country producing motor vehicles, outselling India with 4.6 and 4.5 million sales, respectively. With both countries producing less than 2018. In sum, the carmakers may be going through a change in the market and entering a new era in the industry – Figure 9.

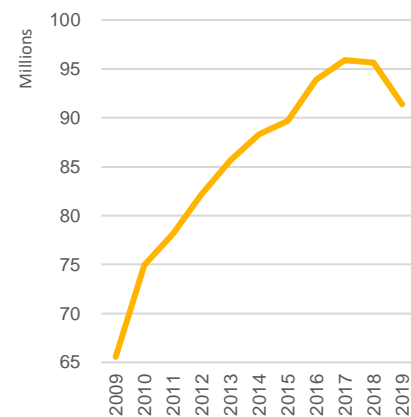
Besides obviously the pandemic created by the virus, this new era is defined by a few key factors like digital technology, change in customer perspective and emotions and economic health and political changes. Starting with China, that holds a 30% market share of global vehicles sales, every decision and change they make has a strong impact in in the world production. Moreover, in the US market, the political election of Donald Trump as a president with the recent Trump-China trade war and the still-inflated Middle East also affected the automotive production in the country. The European Union market, being the second largest producer in the world, is dealing nowadays with several uncertainties with the fallout from Brexit and the introduction of more complex environmental regulations. The high level of CO2 emissions is far

Figure 7:
2o22 Project – Cost reduction Plan



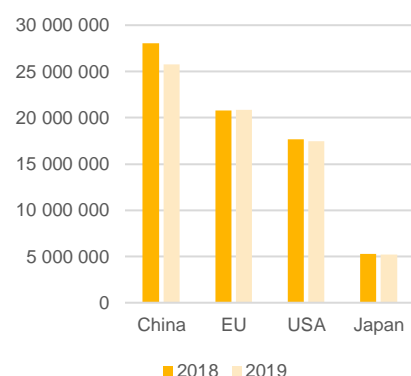
Source: 2019 Company data

Figure 8:
Worldwide Vehicle sold by year



Source: International Organization of Motor Vehicle Manufacturers

Figure 9:
Biggest automotive markets (Units Sold)



Source: International Organization of Motor Vehicle Manufacturers

away from the expected goal for 2021, which is currently at 119g CO₂/km and aims to be 95g CO₂/km and is turning into a huge demand and responsibility for the companies to achieve this mark. Some alternative sources are coming up like mobility companies, such as Uber, that have grown exponentially over the last few years alongside with the now easily rented electric bikes with their low prices in the market and showing how good alternative they can be.

Electric Mobility

Speaking of environment and required changes, the electric car market, in which Renault Group is strongly present and investing, had one of the highest increases among all car categories on the global market. The global electric market was valued at 162.34 billion dollars in 2019 and is projected to reach 802.81 billion dollars by 2027. Although the global sales of passenger’s cars are decreasing more and more, the electric cars market reached 7.2 million units sold in 2019, surpassing by 2.1 million the year of 2018 – already a record year. These vehicles include BEV (Battery Electric Vehicle) and PHEV (Plug-in Hybrid Electric Vehicle), where the difference between the two is that PHEV has both a battery and a normal petrol or diesel engine, while BEV is just an electric vehicle powered by a battery – Figure 10.

This record year of the electric cars was marked by several factors. The infrastructure for electric cars charging continues to expand. The number of publicly accessible chargers increased by 60% in 2019 compared with the previous year, an expansion increasing at a higher rate than the electric vehicles sales growth. Analyzing the electric market by region, China that holds the biggest market share by far (around 50% of the world market), decided to promote the environmental impact these cars would make and consequently gained a lot of visibility by their consumers. The EV market in 2019 in China has risen sharply, with an 32% increase compared to the previous year. The European market is the second largest in the world with a growth of 30% compared to 2018. Moving to the US market, which has grown more than 23%, Tesla finally took off. The brand’s Model 3 is the world’s best-selling electric as it was a major success in North America. Finally, as happened in China but for different reasons, people became more aware of the benefits of driving electric mainly due to the diesel crisis that has been shaking Europe – Figure 11.

Group Renault is also making its environmental path in reducing the carbon footprint, being one of the major players in the EV market. In 2019, Group Renault was the market leader in Europe in the electric light commercial vehicle segment (an increase of more than 25% on sales of electric vehicles compared to 2018), with Zoe being the best-selling electrical vehicle in Europe since 2010. Also, in 2019, the Group began the renewal and extension of its range of electric vehicles, with the launch of at least one new electric vehicle per year until 2022. To summarize, the Group has sold more than 252,000 electric vehicles in Europe and more than 273,550 worldwide.

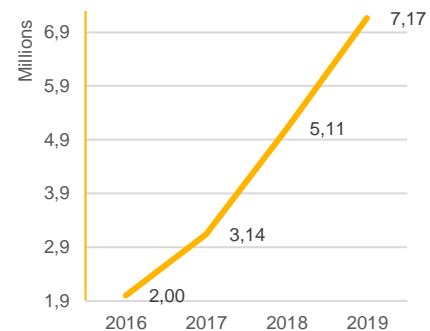
The Covid-19 pandemic is and will also affect the electric car market, although to a lesser extent than it is being affecting the overall passenger car market. It is expected that the electric cars sales will remain broadly at the 2019 levels, accounting for about 3% of global car sales in 2020. This outlook is based particularly in China and Europe, the biggest EV markets in the world, with their future market policies to support electric vehicle deployment, the strengthened and extend of their New Energy Vehicle mandate and their rules and regulations towards vehicle CO₂ emissions standards.

Macroeconomic Variables Analysis

The automotive industry is a capital and knowledge intensive industry that has a strong impact in the world’s socio-economic development and consequently plays a big role in the country’s GDP growth, employment, government policies, development of auxiliary industries, financing conditions and much more. Cars are one of the world’s largest export products and its industry is also a major innovator, investing billions in research, development and production.

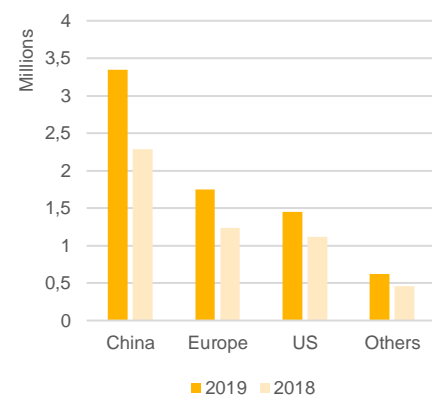
However, there are some macroeconomics variables, such as financing conditions, and its interest rates, fuel prices, consumer’s income level, production factors and even the country’s GDP, that highly influence the automotive industry growth or decline and dictates its cycles.

Figure 10:
Global Battery Electric Vehicles Sold



Source: IEA – Global EV Outlook 2020

Figure 11:
Global Electric Vehicle Marketshare



Source: IEA – Global EV Outlook 2020

Gross Domestic Product

A country's gross domestic product is found to have a positive relationship in the auto market sales. GDP accounts for the consumption, investment, net exports and government expenses and the higher these variables are in a country the more conditions it provides to its population the ability to buy cars. To better understand the process, high-growth economies require better means of transportation and faster mobility which means more production and flow of vehicles and consequently the automotive industry ends benefiting from the cycle.

Financing conditions

The financing services have been helping the automotive industry in a clear positive way, and since the 2008 economic crisis that affected the consumer's disposable income and confidence, the global demand for auto financial services rose. Nowadays, there is a wide attractive range of financial possibilities, englobing leasing contracts/direct lending, from several institutions such as the manufacturers, banks, finance companies or credit unions. The credit conceded by banks since the financial crisis has been low with interest rates at the lowest point in the last four years. So, the automakers are now competing with the traditional financing services and the global demand for auto financial services is reaching record numbers.

Fuel prices

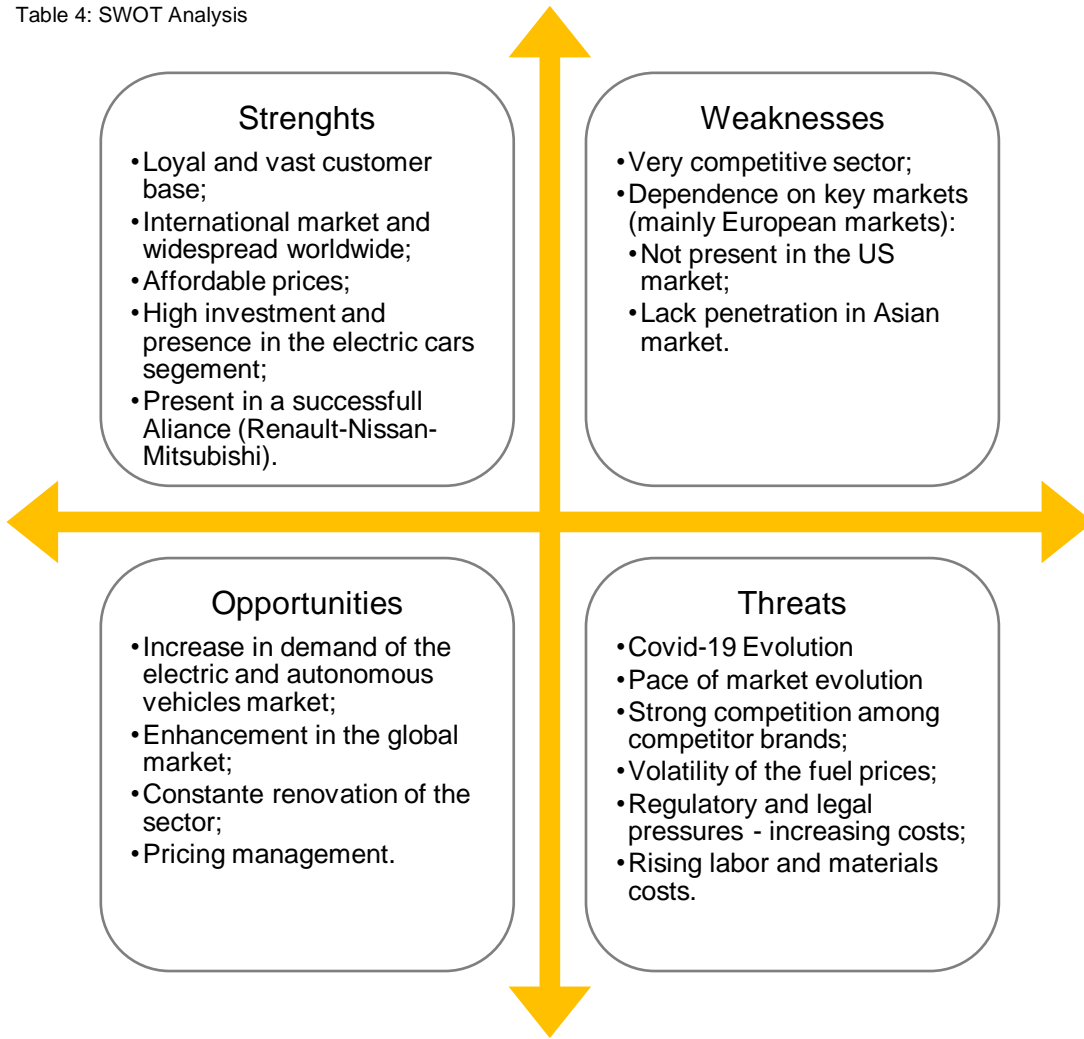
Fuel prices are the driving force in the automotive market since cars are highly dependent on it. Analyzing the historical data of fuel prices over the past fifteen years there can be found a positive correlation between fuel prices and car sales nearly in exact proportions. Digging deeper, when gas prices are high there is a tendency in small vehicles sales to increase proportionally. On the other side, SUVs and pickup trucks are the most affected ones due to their high consumption. Giving a look at the current situation, the SUV and crossover market is increasing its popularity and it can be assumed it's due not only to improved fuel efficiency but the not too aggressive price fluctuations as well.

Production factors

As all companies that operate in the production of goods, there will be raw materials involved. Specifically, in the automotive industry the raw materials are divided into the ones that are bought to the suppliers, such as steel, plastic and glass, and the ones that are bought in the commodities market, such as aluminum, copper and precious metals. The automotive industry is one of the industries that uses more raw materials on its production, representing almost half of the cost of goods sold. This means that the car manufacturers are highly dependent on raw materials and its adaptive and efficient use is an important factor of the companies' success. Therefore, the global price fluctuations of raw materials are an important factor to take in consideration in the industry, since it can increase or lower production costs. There is left labor and machinery costs that also has a considerable weight on the production costs. Therefore, companies are more and more allocating their production plants on Asians countries where labor costs are considerably lower.

SWOT Analysis

Table 4: SWOT Analysis



Porter’s Five Forces – Figure 12

Threat of New Entrants (2)

Group Renault has established itself in the market a long time ago, with performance and cost advantage gained through experience, that gives them a competitive advantage over new threats. The automotive industry is a very expensive and challenging one to get into. The capital needed to enter the industry is high in terms of establishing a mass production and investing in research and development. Legally speaking, the government licenses and the compliance with several regulations is also a requirement, as many others. As a result, the threat for new entrants is low.

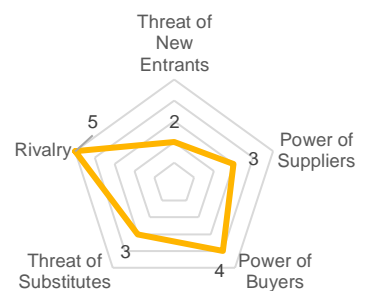
Bargaining Power of Suppliers (3)

The raw materials needed to produce cars are standardized products, less differentiated and have low switching costs. Due to that, there are numerous suppliers on the market willing to provide the components to companies like Renault that offers opportunity to make a business in millions. There is always the matter of the quality of the products of the suppliers, making the list shorter but Renault still has the advantage and negotiation power. So, they are not able to bargain with the company.

Bargaining Power of Buyers (4)

There are a considerable number of Renault’s substitutes in the market which gives the buyers a reasonable bargaining power. This industry is, generally, made of demanding customers considering the expensive purchase they are making. Additionally, the switching cost for them are also low, as they can sell their vehicle and buy a new one in a relatively easy way. For these reasons and others, the bargaining power of buyers is considered high.

Figure 12: Porter’s Five Forces



Source: Student Analysis

Threat of Substitutes Products (3)

The substitutes of cars are mainly other means of public transportation, such as, trains, buses or even motorcycles and bicycles. These means have their limitations in terms of comfort and convenience, but it is increasing the amount of people who is using it as an alternative. Therefore, the threat of substitution is moderate for Renault.

Competitive Rivalry (5)

Renault is in an industry that has a large number of competitors. In the case of Renault, which operates in the medium segment of cars, car manufacturers like Nissan, Peugeot, Ford, Fiat and Seat are considered their direct competitors. All of them are fighting for their market share, trying every year to not lose their positioning and the customers loyalty. It is a market that is always trying to innovate and grow, leading to new mergers and alliances happening constantly between the manufacturers to pool resources for better output. The fixed costs are high with establishing a manufacturing plant and marketing costs amounting to billions of dollars. It is an industry hard to be in, with an incredible complex product and a fierce and extended competition. As a result, competitive rivalry is intense in Renault's operating world.

Investment Summary

Renault S.A. valuation price, as of June 30, 2020, is €30,63 using the Discounted cash flow method (DCF), at 2020YE, with upside potential of 35,65%, representing a **BUY** recommendation with a high risk. Regarding the relative valuation, the final target price is €28,46, giving an identical outcome as the first method used, which is consistent with a BUY recommendation, with an upside potential of 26%.

With the current pandemic the world is living, the automobile market is even more volatile than it was used to be. This equity analysis was evaluated with the knowledge of the current crisis and already some data on its impact. The valuation done was measured with high consideration on that factor, which in other words means, a significant decrease in the business and revenues of the world market for 2020. However, the eventual end of the current pandemic aligned with the current measures, discussed over the report, Group Renault is making to recover, such as, high investment and presence in the EV market and implementation of plan projects to reduce costs (2022 Project), are giving positive prospects of the future of the company.

The forecast of Renault's valuation using the DCF model was with a timeline of 5 years, between 2020 and 2024. The year of 2020 is marked by a year of decreases, from revenues to customer confidence. The following years, as mentioned before, are expected to be of growth, so, the recommendation with high risk to buy is in a way where the company will be able to recover and overcome its results in about 2 to 3 years, and consequently, increase its value.

Valuation

When starting a business valuation, the first step is to choose the valuation method that best fits the analyst purpose considering its assumptions available and made. The method used to determine the equity value of Renault was the DCF (Discount Cash Flow). This model starts with a forecast period of Renault's FCFF (free cash-flow to the firm), the next 5 years in this case, and consequently a normalized terminal period that runs into perpetuity with a constant growth rate. The cash flows of the years 2021 to 2024 will then be discounted, since the price target is 2020-year end, using an adjusted discount rate to arrive to the present value of those projections. The WACC (weighted average cost of capital) will be the rate used to discount the FCFF, from where it will be subtracted by the net debt and finally obtaining the market value of equity of Renault.

For the computation of the model described, an in-depth analysis, not only to the company but also to the market, had to be done. In the next section it will be explained the all process behind the final equity value of Group Renault, including the calculation of the FCFF and all its variables, the growth used for the forecast period and the assumptions for the discount rate (WACC).

Revenues – Figure 13

Renault revenues are divided by three segments, the automotive excluding AVTOVAZ, the AVTOVAZ and the sales financing. The **automotive segment** (AVTOVAZ included) is the biggest responsible for most of the revenues, with 5 brands and representing 93.9% of the total revenue of 2019. Renault revenues were increasing year by year until 2018 and 2019 where it decreased. Although the historical data for the past 5 years shows a positive increase in revenues by an average of 5.54%, it is expected a decline on the global automotive market, as the two previous years of Renault have shown. Renault is and will continue to diversify its product portfolio, especially now considering the emerge of the electric car market where the forecast is favorable. Renault entered strong in the market and ZOE is, on the electric segment, the best-selling car in Europe.

However, the projected revenues cannot be based considering only the facts stated above. To get the **revenue growth of the next 5 years** some assumptions were made, and some variables considered. For the first projected year, the growth rate considered was based on the covid-19 health crisis that is currently being the main cause of the social and economic crisis affecting the world. The IMF in its World Economic Outlook report projected a world GDP growth in 2020 of almost -5% and a decline of around 13% on France's GDP. Additionally, for the data already available for 2020, the automotive industry had a decline of around 24% worldwide on sales. The prospects for the automotive market weren't good already and, even for the electric car market, which was exponentially growing, it is expected the curve to flatten. Taking in consideration the points mentioned above, for the calculation of the future cash flows, in the first year (2020) it was estimated a highly negative impact on Renault's revenue. After this estimated fall, it is expected Renault to get close to its 2019 revenues by 2021, and only exceed them by 2022. So, the growth rate was based on that. For the remaining projected years, until 2024, the growth rate used was based on the historical data from Renault's revenues of the last 5 years, with a more stable growth in a more stable market.

The Nissan accounts included under the equity method in Renault's financial statements are Nissan's consolidated accounts published in compliance with Japanese accounting standards (as Nissan is listed on the Tokyo Stock Exchange), after adjustments for the requirements of Renault's consolidation. Group Renault has included in its income statement a profit or loss from the contribution of associated companies. Big part of this contribution comes from Nissan, where Renault owns 43,7% of the company. For this account in the P&L, it was calculated the projection in a different way than the rest of the accounts, since it is independent from Renault revenues. The growth projected was based on the last 3 years of Nissan's net income, plus the estimated impact caused by covid-19. The remaining 4 years (2021-2024), the growth was based only on Nissan's historical data.

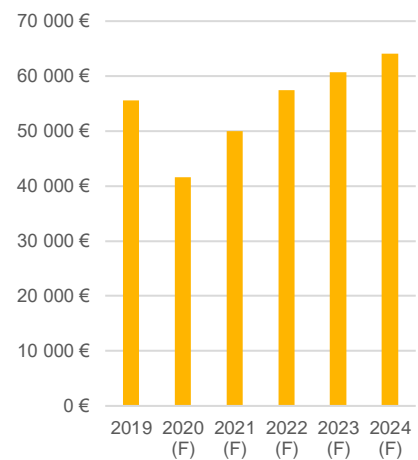
Net Debt

The debt considered for Renault are the total financial liabilities of the automotive segment including AVTOVAZ, and financial liabilities and debts of the sales financing segment, current and non-current at the end of 2019. The net debt is the debt deducted by cash and cash equivalents.

Capital Expenditures (CAPEX)

The automotive industry is considerably based on innovation. The market is very demanding, and the manufacturer need to consistently improve their products. One main example is the new market that is opening and far from explored of the BEV and PHEV vehicles. The electric market is changing the industry and proper investment is crucial. That is why capital expenditure is tremendously important. Capex is related to the amount invested and Renault, based on the historical data of the last 5 years, has been increasing its capex every year. However, with the financial crisis expected to come in the next years due to the covid-19 pandemic, it is expected, for the first time at least in the last 5 years, to happen a decrease in the capex in 2020 for Renault. The prediction for the following years after 2020 were based on historical data, with a stable growth, considering the economy at the time will be recovering.

Figure 13:
Group Renault Revenues
Forecast
(€ millions)



Source: Student Analysis

WACC Assumptions – Table 5

For the computation of the discount rate WACC (Weighted Average Cost of Capital), there is the need to collect an amount of distinct data and some unknown values that should be assumed. This rate is used typically for valuation purposes because it represents the required rate of return that investors expect when and if investing in a company.

In order to get the final WACC, Renault's **cost of equity** was computed to estimate the costs of financing investments through equity or debt. Beginning with the **risk-free rate**, the German treasury bonds with 10 years maturity are the most suitable, however, the yields are currently negative. Since it is not common a negative yield, it was used, in the computation, an average of the 10 years German Bonds of the last 10 years. The rate obtained was 0,15%. The second variable is **Market Risk Premium**, which gives the equity risk of a country where usually Renault has its main operations and value. The value considered was 6.92%, data collected from Aswath Damodaran's calculations of Country Default Spreads and Risk Premiums updated on April 1st, 2020. The last variable to compute cost of equity is the systematic risk, also known as **Beta**. Two levered betas were considered, the first one retrieved from Damodaran 2020, obtaining 1.10 as the beta from auto & truck industry, and the second one was computed by using the unlevered beta (also from Damodaran 2020), the **marginal tax rate** of 34.43% (tax rate in France considered on the financial statement) and the debt to equity ratio. This last one, the one considered, gave a beta of 1.10.

Renault's **cost of debt** was assumed 4.4% based on Aswath Damodaran's computations of cost of capital from the auto & truck industry. The tax margin used of 34.43% is the same as mentioned above.

Adding Renault's equity and debt weight, all the variables are now calculated and assumed in order to compute the WACC, which was determined of 5.07%.

The **terminal growth rate**, with the current covid-19 pandemic installed, is not so easy to come up. All the projections made are very uncertain and no institutions dare to predict far from the current days. A good base for the perpetuity growth rate would be the IMF World Economic Outlook forecast of France's GDP growth of the next few years. However, since projections are an uncertainty, for the terminal growth rate historical data will be used, with an average of the GDP growth of the last years. The GDPs considered will be obviously of France and the European Union, since 66% of Renault sales comes from there. The value obtained was 1,97%.

Relative Valuation Approach

The relative valuation was used as a second valuation method in order to support the results obtained with the DCF model and have a more accurate final output. Several forward multiples were analyzed, and the EV/Sales was the one used. The EV/EBITDA and EV/EBIT multiples were not used since the results of the peers were inaccurate and inconsistent and would affect the stock value of Renault Group. The model achieved a target price of €28,46 representing an upside gain of 26%, a slightly more optimistic scenario than the DCF valuation method. This multiple also states a BUY recommendation.

Peers Selection

In order to choose the right peers of Renault Group, a two-step method was applied. Starting with companies with a similar business structure, with an automotive and finance division. Second, companies with the same target, regarding the customers and the quality and prices of the cars. This analysis led to a peer selection of VW, Ford, Daimler, BMW and PSA – Table 6.

Table 5: WACC Variables

Cost of Equity	
Risk Free Rate	0,15%
Market Risk Premium	6,92%
Levered Beta	1,1
Cost of Equity	7,34%
Cost of Debt	
Cost of Debt	4,40%
Marginal Tax Rate	34,43%
After-tax cost of debt	2,89%
Capital Structure	
Weight of Equity	37,44%
Weight of Debt	62,56%
WACC	4,55%
Terminal Growth Rate	1,97%

Source: Student Analysis

Table 6: Peers Selection

Main Competitors	EV/Sales	EV/EBITDA	EV/EBIT
Volkswagen AG	1,11	5,38	11,44
Ford Motor Company	1,00	17,53	271,57
Daimler AG	1,06	14,64	45,67
PSA Group	0,14	1,27	2,26
BMW	1,42	10,36	18,96
Peer Average	0,95	9,83	69,98
Renault SA	0,92	4,72	24,39

Source: Yahoo Finance and Student Analysis

Financial Analysis

Net-cash position (Financial results)

During the year of 2019, the cash-flows from operations was positive at €153 million. It decreased compared to the previous year but was due to a strong increase in investments, dividends received from RCI and a positive change in working capital requirements. During the first half of 2020, the operational cash-flow took a huge hit, reaching a negative -€6.375 million. This came from investments amounting to €2.543 million and the negative impact of the change in working capital requirement for €3.828 million.

Liquidity

In terms of liquidity, Renault Group's liquidity reserves stood at €15,8 billion as of December 31st, 2019. This liquidity was consisted of €12,3 billion in cash and cash equivalents and €3,5 billion in undrawn committed credit lines. In the first half of 2020, due to health crisis from Covid-19, through a government aid program, the French State gave a €5 billion credit facility agreement and its guarantee.

The RCI Bank & Services, although the falling global automotive market, has been increasing its performance year by year. The financing department of the Group has an available liquidity of an additional €13,5 billion. It consists of undrawn confirmed credit lines, central-bank eligible collateral, high quality liquid assets and available cash.

This liquidity reserve that Renault's Group hold and its increasing performance on RCI Bank & Services, when facing a global economic crisis like the one living in 2020, gives confidence and will help the company turn around its performance as quickly as possible.

Efficiency

To evaluate the efficiency of a car manufacturer, financial results like gross profit and EBITDA margin are a good indicator. It allows to understand the efficiency of production and the company's operating profitability. Renault's Group gross margin has been significantly increasing until 2017, where in 2018 and 2019 decreased and it is expected an even bigger fall. In order to contradict the prediction, through the 2022 cost-reduction plan, the company is trying to, by trimming down diversity, increase gross profit and, consequently, its efficiency – Figure 14.

Profitability

In order to analyze Renault's Group profitability, the financial ratios of return on equity (ROE) and return on assets (ROA) can be used. The ROE measures the company's net profit returned in relation to shareholder equity, meaning, at the end how much will the investors profit. As of the financial results of 2019, Renault's has a ROE of 9,5%, predicted to decrease in the upcoming years due to the Covid-19 crisis, which, in practice, the shareholders will receive less for each dollar of common stockholder's equity. One of the actions plan the company is making is to restore its competitiveness by choosing profitability over volume by reducing its fixed costs – Figure 15.

Investment Risk

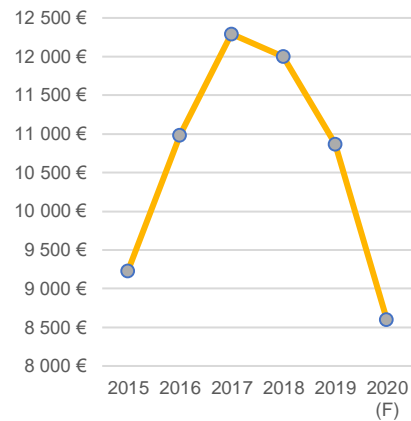
Market Risk | Macroeconomics

The financial market is and will always be a critical factor for the success or failure of any corporation. Since the Renault's Group is highly dependent on the European and Eurasian market, representing more than 50% of its business operations, there is an extra provision for these markets and their growth. Currently, with the Covid-19 the prospects aren't good. The world market is already felling its impact and it's starting to be as one of the biggest crises the world might go through. Additionally, on the European market the Brexit may impact as well. The probability of a market recession is considerably high and, the uncertainty can have catastrophic consequences. The likelihood of occurrence is high.

Market Risk | Sector-specific

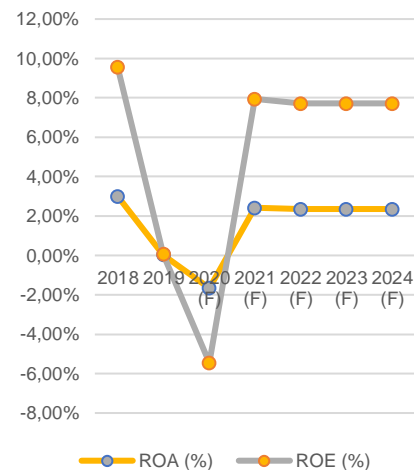
The Renault Group operates in many regions and each one has its own specifications, trends and forecast's. The European market is undoubtedly the main one for Renault

Figure 14: Group Renault Gross Margin Evolution



Source: Company Data and Student Analysis

Figure 15: Group Renault ROA and ROE Evolution



Source: Company Data and Student Analysis

Group, whether in terms of revenue or employees, and it represents a strong economy worldwide but facing now a crisis (caused by the pandemic) that is marked by its uncertainty. The Chinese market has been registering the biggest economic growth in the past years and is the only economy that didn't fall with the current crisis. However, Renault has a very poor presence in China, representing only 4,8% of its sales. The remaining economies where Renault Group is conducting operations, like Eurasia, the Middle East, Americas, among others, are expecting a recession, meaning, the company shouldn't expect an increase in its results based on the overall economies growth.

Market Risk | Shift in Demand

The automotive market is facing a shift in demand with the new trends of mobility, such as car-sharing, car-pooling and electronic private transportations (Uber, Bolt, Free Now, etc.). Self-driving and electric vehicles will also be the new demanded products within the industry, and these new trends will continue to be so. This new reality will change the industry, and it can represent a threat and an opportunity to Renault Group, since it creates opportunities to enter new markets.

Operational Risk | R&D

The chances and uncertainties a company faces while conducting its day-to-day business are considered operational risk. Renault Group has been investing throughout the years on R&D, and more recently has been focusing on responding to the new connected, driverless and electric vehicles. The new environmental regulations, regarding the CO2 emission, particularly in Europe, demands the companies to spend more in order to ensure the engines comply with the new regulations. In the last year, the expenses on innovation suffered a significant decrease explained by the end of an initial cycle of upgrades, but severely accentuated by the Covid-19 pandemic.

Operational Risk | Information and Data protection

Information systems risks, or IT risks, is currently a sensitive and crucial topic for the companies. Several nowadays realities, such as cybercrime, regulations covering the handling of personal data, targeted attacks or malicious activities, may happen and if these risks materialize within a company may affect its earning for a long period of time. To counter this risk, Renault Group uses preventing systems which require several authentication procedures, as well as, it keeps the awareness in its employees of the risk of confidentiality and integrity of the available information. However, it is, and it will always be an unpredictable risk to completely prevent.

Regulatory and Legal Risk | Environmental Regulations

As part of production of automotive vehicles, Renault Group is required, in the various regions its products are located or marketed, to comply with certain regulations that are directly applicable to it. Due to these activities the company is subject to environmental regulations, focusing mainly on emissions into the air, waste management and water and soil impacts.

Financial Risk | Foreign currency and interest rates

Renault Group operates a worldwide business and that implies a high exposure on foreign exchange risk. The company has a management unit specialized for these cases, with the function of undertaking forward exchange operations to hedge loans and borrowings in foreign currencies with its subsidiaries. Regarding interest rates, in order to mitigate the risk, the Renault's interest rate risk management uses two approaches, constitution of liquidity reserves carried out at floating rates and long-term investment obtained at fixed rates.

Financial Risk | Liquidity

Liquidity in the automotive industry is a major financial risk because of the requirement it demands to finance its day-to-day operations and also enough for the investments necessary for future growth. Renault Group is financed mainly with long-term resources, short-term bank loans and securitization of receivables. The borrowings expose it to liquidity risks in the event of extended market closures or tensions over credit availability. Additionally, Renault does a monthly regular review to closely monitor the liquidity reserve it should have in order to maintain enough to finance its operations and development.

Appendixes

Appendix A: Balance Sheet Statement

Appendix A1: Projected Balance Sheet Statement

	2018	2019	2020 (F)	2021 (F)	2022 (F)	2023 (F)	2024 (F)
ASSETS (€ million)							
NON-CURRENT ASSETS							
Intangible assets and goodwill	5 913,00	5 460,72	4 095,54	4 914,65	5 651,85	5 965,02	6 295,54
Property, plant and equipment	14 304,00	14 266,73	10 700,05	12 840,06	14 766,06	15 584,26	16 447,79
Investments in associates and joint ventures	21 439,00	21 005,16	15 753,87	18 904,64	21 740,34	22 944,98	24 216,37
<i>Nissan</i>	<i>20 583,00</i>	<i>20 240,94</i>	<i>15 180,70</i>	<i>18 216,85</i>	<i>20 949,37</i>	<i>22 110,19</i>	<i>23 335,32</i>
<i>Other associates and joint ventures</i>	<i>856,00</i>	<i>764,22</i>	<i>573,16</i>	<i>687,79</i>	<i>790,96</i>	<i>834,79</i>	<i>881,05</i>
Non-current financial assets	928,00	1 321,48	991,11	1 189,33	1 367,73	1 443,52	1 523,51
Deferred tax assets	952,00	978,30	733,73	880,47	1 012,54	1 068,65	1 127,86
Other non-current assets	1 485,00	1 376,52	1 032,39	1 238,87	1 424,70	1 503,64	1 586,96
Total non-current assets	45 021,00	44 408,91	33 306,68	39 968,02	45 963,22	48 510,07	51 198,04
CURRENT ASSETS							
Inventories	5 879,00	5 762,56	4 321,92	5 186,31	5 964,25	6 294,74	6 643,53
Sales Financing receivables	42 067,00	39 103,56	29 327,67	35 193,21	40 472,19	42 714,77	45 081,62
Automotive receivables	1 399,00	1 577,67	1 183,25	1 419,91	1 632,89	1 723,37	1 818,86
Current financial assets	1 963,00	2 032,94	1 524,71	1 829,65	2 104,09	2 220,68	2 343,73
Current tax assets	111,00	80,60	60,45	72,54	83,42	88,05	92,92
Other current assets	3 779,00	3 840,81	2 880,61	3 456,73	3 975,24	4 195,51	4 427,99
Cash and cash equivalents	14 777,00	14 977,74	11 233,30	13 479,96	15 501,96	16 360,93	17 267,50
Total current assets	69 975,00	67 375,89	50 531,92	60 638,30	69 734,05	73 598,05	77 676,16
TOTAL ASSETS	114 996,00	111 784,81	83 838,60	100 606,33	115 697,27	122 108,12	128 874,19
EQUITY AND LIABILITIES (€ million)							
SHAREHOLDERS' EQUITY							
Share capital	1 127,00	1 176,87	882,65	1 059,19	1 218,06	1 285,56	1 356,79
Share premium	3 785,00	3 952,49	2 964,37	3 557,25	4 090,83	4 317,51	4 556,74
Treasury shares	-400,00	-364,75	-273,56	-328,27	-377,52	-398,43	-420,51
Revaluation of financial instruments	236,00	627,35	470,51	564,62	649,31	685,29	723,26
Translation adjustment	-2 826,00	-2 567,64	-1 925,73	-2 310,88	-2 657,51	-2 804,77	-2 960,18
Reserves	30 322,00	27 769,15	20 826,86	24 992,23	28 741,07	30 333,63	32 014,43
Net income – parent-company shareholders' share	3 302,00	3 028,49	2 271,37	2 725,64	3 134,49	3 308,17	3 491,48
Shareholders' share – parent-company	35 546,00	33 621,96	25 216,47	30 259,76	34 798,73	36 726,94	38 762,00
Shareholders' equity – non-controlling interests' share	599,00	475,90	356,93	428,31	492,56	519,85	548,65
TOTAL EQUITY	36 145,00	34 097,86	25 573,40	30 688,07	35 291,29	37 246,79	39 310,66
NON-CURRENT LIABILITIES							
Deferred tax liabilities	135,00	325,71	244,28	293,14	337,11	355,79	375,50
Provisions for pension and similar obligations	1 531,00	1 674,74	1 256,06	1 507,27	1 733,36	1 829,40	1 930,77
Other provisions – long-term	1 603,00	1 529,72	1 147,29	1 376,75	1 583,26	1 670,99	1 763,58
Non-current financial liabilities	6 209,00	6 331,62	4 748,71	5 698,45	6 553,22	6 916,34	7 299,58
Other non-current liabilities	1 572,00	1 593,25	1 194,94	1 433,93	1 649,02	1 740,39	1 836,83
Total non-current liabilities	11 050,00	11 455,04	8 591,28	10 309,54	11 855,97	12 512,91	13 206,26
CURRENT LIABILITIES							
Provisions for pension and similar obligations	56,00	57,23	42,92	51,51	59,23	62,51	65,98
Other provisions – short-term	1 065,00	1 077,19	807,89	969,47	1 114,89	1 176,66	1 241,86
Current financial liabilities	2 463,00	3 901,93	2 926,45	3 511,74	4 038,50	4 262,27	4 498,45
Sales Financing debts	44 495,00	41 268,96	30 951,72	37 142,06	42 713,37	45 080,14	47 578,06
Trade payables	9 505,00	9 725,99	7 294,49	8 753,39	10 066,40	10 624,18	11 212,87
Current tax liabilities	289,00	270,24	202,68	243,22	279,70	295,20	311,56
Other current liabilities	9 928,00	9 930,37	7 447,78	8 937,33	10 277,93	10 847,44	11 448,50
Total current liabilities	67 801,00	66 231,90	49 673,93	59 608,71	68 550,02	72 348,41	76 357,28
TOTAL LIABILITIES	78 851,00	77 686,95	58 265,21	69 918,25	80 405,99	84 861,33	89 563,54
TOTAL EQUITY AND LIABILITIES	114 996,00	111 784,81	83 838,60	100 606,33	115 697,27	122 108,12	128 874,19

Appendix B: Income Statement

Appendix B1: Projected Income Statement

(€ million)	2018	2019	2020 (F)	2021 (F)	2022 (F)	2023 (F)	2024 (F)
Revenues	57 419,00	55 537,00	41 652,75	49 983,30	57 480,80	60 665,84	64 027,36
Cost of goods and services sold	-45 417,00	-44 665,00	-33 055,08	-39 666,10	-45 616,01	-48 143,62	-50 811,28
Gross profit	12 002,00	10 872,00	8 597,67	10 317,20	11 864,78	12 522,22	13 216,08
Research and development expenses	-2 598,00	-2 658,00	- 1 903,71	- 2 284,45	- 2 627,12	- 2 772,69	- 2 926,32
Selling, general and administrative expenses	-5 792,00	-5 552,00	- 4 254,27	- 5 105,13	- 5 870,90	- 6 196,21	- 6 539,54
Other operating income and expenses	-625,00	-557,00	- 217,44	- 260,93	- 300,07	- 316,70	- 334,25
<i>Depreciation, amortization and impairment</i>	<i>3 245,00</i>	<i>3 809,00</i>	<i>2 436,98</i>	<i>2 924,38</i>	<i>3 363,04</i>	<i>3 549,38</i>	<i>3 746,06</i>
EBIT	2 987,00	2 105,00	2 222,25	2 666,70	3 066,70	3 236,63	3 415,97
Net Interests expenses	-353,00	-442,00	- 266,07	- 319,28	- 367,17	- 387,51	- 408,99
Share in net income of associates and joint ventures	1 540,00	-190,00	- 3 004,78	1 282,19	1 353,24	1 428,22	1 507,36
EBT	4 174,00	1 473,00	-1 048,60	3 629,61	4 052,77	4 277,33	4 514,34
Current and deferred taxes	-723,00	-1 454,00	- 345,12	- 1 194,58	- 1 333,85	- 1 407,76	- 1 485,76
Net income	3 451,00	19,00	-1 393,72	2 435,03	2 718,91	2 869,57	3 028,58
Net income - non-controlling interests' share	149,00	160,00	104,56	125,48	144,30	152,29	160,73
Net income – parent-company shareholders' share	3 302,00	-141,00	-1 498,28	2 309,55	2 574,62	2 717,28	2 867,84

Appendix B2: Common-Size Income Statement

(€ million)	2018	2019	2020 (F)	2021 (F)	2022 (F)	2023 (F)	2024 (F)
Revenues	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%
Cost of goods and services sold	-79,10%	-80,42%	-79,36%	-79,36%	-79,36%	-79,36%	-79,36%
Gross profit	20,90%	19,58%	20,64%	20,64%	20,64%	20,64%	20,64%
Research and development expenses	-4,52%	-4,79%	-4,57%	-4,57%	-4,57%	-4,57%	-4,57%
Selling, general and administrative expenses	-10,09%	-10,00%	-10,21%	-10,21%	-10,21%	-10,21%	-10,21%
Other operating income and expenses	-1,09%	-1,00%	-0,52%	-0,52%	-0,52%	-0,52%	-0,52%
<i>Depreciation, amortization and impairment</i>	<i>5,65%</i>	<i>6,86%</i>	<i>5,85%</i>	<i>5,85%</i>	<i>5,85%</i>	<i>5,85%</i>	<i>5,85%</i>
EBIT	5,20%	3,79%	5,34%	5,34%	5,34%	5,34%	5,34%
Net Interests expenses	-0,61%	-0,80%	-0,64%	-0,64%	-0,64%	-0,64%	-0,64%
Share in net income of associates and joint ventures	2,68%	-0,34%	-7,21%	2,57%	2,35%	2,35%	2,35%
EBT	7,27%	2,65%	-2,52%	7,26%	7,05%	7,05%	7,05%
Current and deferred taxes	-1,26%	-2,62%	-0,83%	-2,39%	-2,32%	-2,32%	-2,32%
Net income	6,01%	0,03%	-3,35%	4,87%	4,73%	4,73%	4,73%
Net income - non-controlling interests' share	0,26%	0,29%	0,25%	0,25%	0,25%	0,25%	0,25%
Net income – parent-company shareholders' share	5,75%	-0,25%	-3,60%	4,62%	4,48%	4,48%	4,48%

Appendix C: Cash Flow Statement

	2019	2020 (F)	2021 (F)	2022 (F)	2023 (F)	2024 (F)
Revenues	55 537,00	41 652,75	49 983,30	57 480,80	60 665,84	64 027,36
Cancellation of dividends received from unconsolidated listed investments	-46,00	-34,58	-41,50	-42,72	-50,37	-53,16
Cancellation of income and expenses with no impact on cash						
Depreciation, amortization and impairment	3 809,00	2 436,98	2 924,38	3 363,04	3 549,38	3 746,06
Share in net (income) loss of associates and joint ventures	190,00	-1 072,46	-1 286,96	-1 480,00	-1 562,01	-1 648,56
Other income and expenses with no impact on cash before interest and tax	1 937,00	1 102,09	1 322,51	1 520,88	1 605,16	1 694,10
Dividends received from unlisted associates and joint ventures	4,00	1,85	2,22	2,55	2,69	2,84
Cash flows before interest and tax	5 913,00	4 688,94	5 626,72	6 470,73	6 829,28	7 207,69
Dividends received from listed companies	625,00	559,07	670,88	771,51	814,26	859,38
Net change in financing for final customers	-2 612,00	-2 759,40	-3 311,28	-3 807,97	-4 018,98	-4 241,67
Net change in renewable dealer financing	-659,00	-712,48	-854,98	-983,23	-1 037,71	-1 095,21
Decrease (increase) in Sales Financing receivables	-3 271,00	-3 471,88	-4 166,26	-4 791,20	-5 056,68	-5 336,88
Bond issuance by the Sales Financing segment	3 869,00	3 895,85	4 675,02	5 376,27	5 674,17	5 988,58
Bond redemption by the Sales Financing segment	-4 034,00	-2 746,45	-3 295,74	-3 790,10	-4 000,11	-4 221,76
Net change in other debts of the Sales Financing segment	3 696,00	2 370,46	2 844,55	3 271,23	3 452,49	3 643,80
Net change in other securities and loans of the Sales Financing segment	-428,00	-193,13	-231,76	-266,52	-281,29	-296,88
Net change in financial assets and debts of the Sales Financing segment	3 103,00	3 326,73	3 992,07	4 590,88	4 845,26	5 113,74
Change in capitalized leased assets	-1 059,00	-546,16	-655,39	-753,70	-795,46	-839,54
Change in working capital before tax	1 214,00	259,14	310,97	357,61	377,43	398,34
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE INTEREST AND TAX	6 525,00	4 815,82	5 778,99	6 645,84	7 014,09	7 402,74
Interest received	78,00	57,47	68,96	79,31	83,70	88,34
Interest paid	-368,00	-293,66	-352,39	-405,25	-427,70	-451,40
Current taxes (paid) / received	-636,00	-487,80	-585,36	-673,17	-710,47	-749,83
CASH FLOWS FROM OPERATING ACTIVITIES	5 599,00	4 091,83	4 910,20	5 646,73	5 959,62	6 289,84
Property, plant and equipment and intangible investments	-5 022,00	-3 008,25	-3 609,89	-4 151,38	-4 381,41	-4 624,19
Disposals of property, plant and equipment and intangible assets	31,00	65,62	78,74	90,56	95,57	100,87
Acquisitions of investments involving gain of control, net of crash acquired	5,00	-36,84	-44,21	-50,84	-53,66	-56,63
Acquisitions of other investments	-157,00	-84,74	-101,69	-116,94	-123,42	-130,26
Disposals of investments involving loss of control, net of cash transferred	2,00	1,50	1,80	2,07	2,18	2,31
Disposals of other investments	36,00	235,98	283,17	325,65	343,69	362,73
Net decrease (increase) in other securities and loans of the Automotive segments	-2,00	-6,24	-7,49	-8,62	-9,09	-9,60
CASH FLOWS FROM INVESTING ACTIVITIES	-5 107,00	-2 834,10	-3 400,92	-3 911,06	-4 127,77	-4 356,49
Dividends paid to parent-company shareholders	-1 035,00	-685,07	-822,08	-945,39	-997,78	-1 053,06
Transactions with non-controlling interests	-10,00	-9,53	-11,43	-13,15	-13,87	-14,64
Dividends paid to non-controlling interests	-96,00	-80,56	-96,67	-111,17	-117,33	-123,83
(Acquisitions) sales of treasury shares	-36,00	-74,96	-89,95	-103,44	-109,17	-115,22
Cash flows with shareholders	-1 177,00	-847,73	-1 017,27	-1 169,87	-1 234,69	-1 303,10
Bond issuance by the Automotive segments	1 557,00	1 161,04	1 393,25	1 602,24	1 691,02	1 784,72
Bond redemption by the Automotive segments	-574,00	-1 056,46	-1 267,75	-1 457,91	-1 538,70	-1 623,96
Net increase (decrease) in other financial liabilities of the Automotive segments	-59,00	-357,72	-429,26	-493,65	-521,00	-549,87
Net change in financial liabilities of the Automotive segments	924,00	-253,13	-303,76	-349,32	-368,68	-389,11
CASH FLOWS FROM FINANCING ACTIVITIES	-253,00	-1 100,86	-1 321,03	-1 519,19	-1 603,37	-1 692,21
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	239,00	156,87	188,25	216,48	228,48	241,14
Cash and cash equivalents: opening balance	14 777,00	10 646,53	12 775,84	14 692,21	15 506,31	16 365,53
Increase (decrease) in cash and cash equivalents	239,00	156,87	188,25	216,48	228,48	241,14
Effect of changes in exchange rate and other changes	-34,00	-8,61	-10,34	-11,89	-12,54	-13,24
Cash and cash equivalents: closing balance	14 982,00	10 794,79	12 953,75	14 896,81	15 722,25	16 593,43

Appendix D: Key Financial Ratios

(€ million)	Unit	2018	2019	2020 (F)	2021 (F)	2022 (F)	2023 (F)	2024 (F)
Liquidity Ratios								
Current Ratio	times	1,03	1,02	1,02	1,02	1,02	1,02	1,02
Quick Ratio	times	0,95	0,93	0,93	0,93	0,93	0,93	0,93
Cash Ratio	times	0,22	0,23	0,23	0,23	0,23	0,23	0,23
Efficiency Ratios								
Total Assets Turnover	times	0,50	0,50	0,50	0,50	0,50	0,50	0,50
Inventory Turnover	times	7,73	7,75	7,65	7,65	7,65	7,65	7,65
Trade Receivables Turnover	(x)	41,04	35,20	35,20	35,20	35,20	35,20	35,20
Accounts Payable Turnover	(x)	4,73	4,58	4,33	4,63	4,61	4,56	4,56
Profitability Ratios								
Gross Profit Margin (%)	%	20,90%	19,58%	20,64%	20,64%	20,64%	20,64%	20,64%
EBIT Margin (%)	%	24,89%	19,36%	25,85%	25,85%	25,85%	25,85%	25,85%
Net Profit Margin (%)	%	6,01%	0,03%	-3,35%	4,87%	4,73%	4,73%	4,73%
ROA (%)	%	3,00%	0,02%	-1,66%	2,42%	2,35%	2,35%	2,35%
ROE (%)	%	9,55%	0,06%	-5,45%	7,93%	7,70%	7,70%	7,70%
Capital Structure								
Total Debt to Total Assets	times	0,04	0,04	0,04	0,04	0,04	0,04	0,04
Debt to Equity Ratio	times	0,12	0,13	0,13	0,13	0,13	0,13	0,13
Interest Coverage Ratio	times	8,46	4,76	8,35	8,35	8,35	8,35	8,35

Appendix E: Forecasting Assumptions

Appendix E1: Revenue Growth Projections

	2018	2019	2020	2021	2022	2023-2024	Source
France GDP Growth	1,80%	1,50%	-12,50%	7,30%			World Economic Outlook, June 2020 Update
World Output GDP Growth	3,60%	2,90%	-4,90%	5,40%			World Economic Outlook, June 2020 Update
Group Renault Growth (H12020 / H12019)	-2,30%	-3,28%	-34,30%				Company data (Group Revenues)
Automotive market (Worldwide sales)			-23,00%	10,00%			Statista (Projected worldwide light vehicle sales growth from 2019 to 2021)
Automotive market (Worldwide sales)			-25,00%				International Organization of Motor Vehicle Manufacturers
Average	1,03%	0,37%	-19,94%	7,57%			
Student Growth Projection			-25,00%	20,00%	15,00%	5,54%	

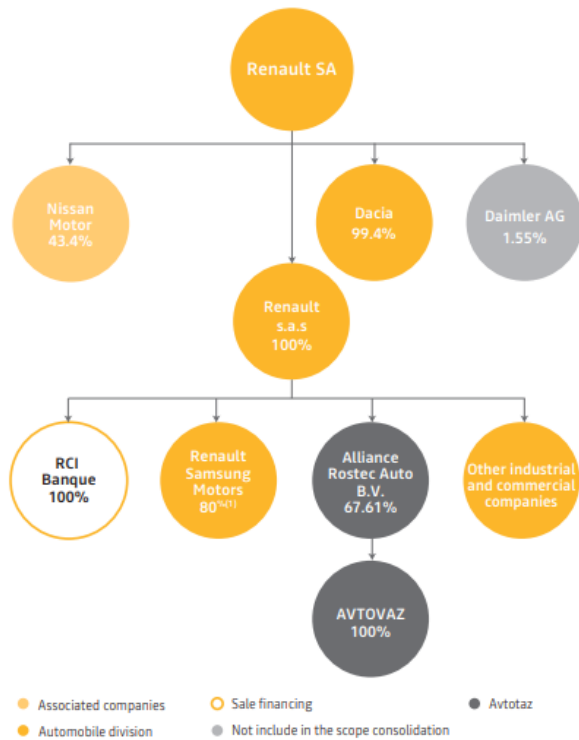
Appendix F: Corporate Structure and Governance

Appendix F1: Overview of the Board of Directors (as of March 1st, 2020)



Appendix F2: Structure of Group Renault

(as a % of shares issued)



(1) Indirect interest by Renault s.a.s.

Appendix G: Discounted Cash Flow Analysis

Appendix G1: Weighted Average Cost of Capital (WACC)

DCF Analysis		Assumptions
Risk Free Rate	0,15%	AAA Eurozone Government 10Y Bonds
Market Risk Premium	6,92%	Aswath Damodaran's calculations as in April 1st, 2020
Levered Beta	1,1	Based on student calculations using net debt to equity, tax rate and unlevered beta as variables
Cost of Equity	7,34%	Based on student calculations using the variables mentioned above.
Cost of Debt	4,40%	Aswath Damodaran's calculations as in January 5th, 2020
Marginal Tax Rate	34,43%	From the statutory income tax rate in France
Weight of Equity	37,44%	Computation formula applied for the forecasting years
Weight of Debt	62,56%	Computation formula applied for the forecasting years
WACC	4,55%	Based on student calculations using the variables mentioned above.

Appendix G2: Free Cash Flow to the Firm (FCFF)

(€ million)	2018	2019	2020 (F)	2021 (F)	2022 (F)	2023 (F)	2024 (F)	Terminal Value/Perpetuity
Marginal taxes	17,32%	98,71%	32,91%	32,91%	32,91%	32,91%	32,91%	32,91%
EBIT*(1-t)	2 469,61	27,15	1 490,86	1 789,03	2 057,38	2 171,39	2 291,70	2 291,70
Depreciation	3 245,00	3 809,00	2 436,98	2 924,38	3 363,04	3 549,38	3 746,06	3 746,06
Change Working Capital		-1 030,01	-286,00	171,60	154,44	65,61	69,24	69,24
Capex		5 022,00	2 921,39	3 505,66	4 031,51	4 254,90	4 490,67	4 490,67
FCFF		-155,84	1 292,45	1 036,15	1 234,47	1 400,26	1 477,85	1 477,85
Discounted FCFF				991,01	1 129,27	1 225,14	1 236,70	1 236,70

Real GDP growth (Annual percent change)	2017	2018	2019	Average
France	2,30%	1,70%	1,30%	1,77%
Europe	2,60%	2,30%	1,60%	2,17%
Growth Terminal value				1,97%

Source: International Monetary Fund

Terminal Value	57 115,09
PV of TV	47 795,24
NPV FCFF	4 582,12
Enterprise Value	52 377,46
Debt	59 039,00
Cash and equivalents	14 982,00
Equity Value	8 320,46
Number of shares (thousands)	271,64
Price target	30,63

Appendix H: Relative Valuation Analysis

Appendix H1: Peers Selection Data

(€ million)

Main Competitors	Country	Enterprise Value	Sales	EBITDA	EBIT	EBT	Income taxes	Marginal taxes
Volkswagen AG	GER	238 860	215 420	44 434	20 880	18 356	4 326	23,57%
Ford Motor Company	USA	139 317	139 219	7 947	513	-640	-724	11,20%
Daimler AG	GER	183 970	172 745	12 566	4 028	3 830	1 121	29,27%
PSA Group	FRA	10 560	74 731	8 320	4 668	4 324	716	16,56%
BMW	GER	144 430	102 015	13 947	7 617	7 118	2 140	30,06%
Renault SA	FRA	51 332	55 537	10 872	2 105	1 473	-1 454	34,43%
Average		143 427	140 826	17 443	7 541	6 598	1 516	22,13%

Appendix H2: Relative Valuation Result

Equity Value (EV/Sales)	Peer
EV/Sales Peer	0,95
Sales Renault	55 537
Firm Value Renault	52 555,48 €
Net Debt	44 057,00
Minority	767
Number of Shares	272
Equity Value Renault	7 731,48 €
Price Target	28,46 €

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Recommendation System

Level of Risk	SELL	REDUCE	HOLD/NEUTRAL	BUY	STRONG BUY
High Risk	$0\% \leq$	$>0\% \ \& \ \leq 10\%$	$>10\% \ \& \ \leq 20\%$	$>20\% \ \& \ \leq 45\%$	$>45\%$
Medium Risk	$-5\% \leq$	$>-5\% \ \& \ \leq 5\%$	$>5\% \ \& \ \leq 15\%$	$>15\% \ \& \ \leq 30\%$	$>30\%$
Low Risk	$-10\% \leq$	$>-10\% \ \& \ \leq 0\%$	$>0\% \ \& \ \leq 10\%$	$>10\% \ \& \ \leq 20\%$	$>20\%$