

Research

Summary:

Scania (publ.) AB

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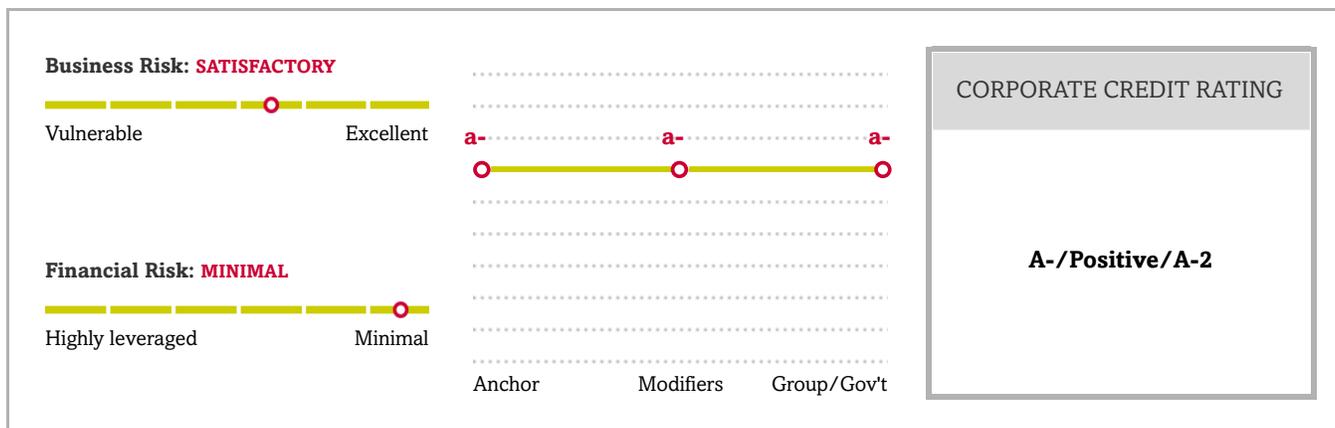
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Summary:

Scania (publ.) AB



Rationale

Business Risk: Satisfactory	Financial Risk: Minimal
<ul style="list-style-type: none"> • Leading market positions in Europe and South America in the manufacture of heavy trucks and buses. • An up-to-date product range and the highest degree of component commonality in the global truck industry. • Operations in industries characterized by high volatility and capital intensity. • Very strong profitability relative to peers'. 	<ul style="list-style-type: none"> • A conservative financial policy and a modest financial risk profile. • Good financial flexibility. • Strong cash flow generation, even at weaker points of the cycle. • Very low debt level, close to nil.

Outlook: Positive

The positive outlook on Swedish heavy truck and bus manufacturer Scania AB reflects that of Standard & Poor's Ratings Services' on its main owner, Volkswagen AG (VW) in light of its current bid to take-over full ownership in the company. Prior to its bid, VW controlled 62.6% of the shares in Scania representing 89.2% of the voting rights; VW is bidding on the remaining stake with an objective of ultimately holding 100% ownership in Scania.

Upside scenario

We could revise the rating on Scania if we revise the rating on VW, notably if VW is successful in its full-ownership take-over attempt.

Downside scenario

A negative rating action on VW could trigger a similar action on Scania. The outlook could also change from positive to stable if VW's current ongoing offer to acquire the remaining shares in Scania does not materialize, and VW was instead to meaningfully lower its interest stake in Scania, which could result in a revision of our group status. We believe this latter scenario is not very likely.

Standard & Poor's Base-Case Scenario

Assumptions	Key Metrics		
<ul style="list-style-type: none"> We project 1.0% GDP growth for the eurozone (European Economic and Monetary Union) in 2014, 2.7% in South America, and 5.4% in Asia-Pacific. We forecast low-single-digit growth in revenues in 2014 and 2015, reflecting increasing deliveries in key markets, and only moderate price increases. For 2014 we forecast capital expenditure (capex) of about SEK6 billion-SEK 7 billion (excluding customer finance operations). This reflects our view that the ongoing investment in a new truck cabin will push capex up, compared with previous periods. 	2013A	2014F	2015F
	8.1	8-8.5	7.5-8
	N.M.	Above 100%	Above 100%
	N.M.	Below 0.5x	Below 0.5x
A--Actual. F--Forecast. N.M.--Not meaningful.			

Business Risk: Satisfactory

Our assessment of Scania's business risk profile as "satisfactory" reflects the company's leading market positions in Europe and Latin America in the manufacture of heavy trucks and buses. Scania ranks as one of the largest heavy-truck producers globally, behind Daimler AG, and AB Volvo. It has a market-leading position in South America,

notably in Brazil. A key operational strength is the company's advanced modular production system in the truck industry, which means that Scania uses the lowest number of individual parts for different vehicle specifications. This allows Scania to tailor vehicles to individual customers' needs, but still benefit from economies of scale. Furthermore, Scania has an up-to-date product range and lines and offers a wide range of bus and coach products from chassis to fully built buses. These benefits translate into very high profitability measures, also compared with peers. For full year 2013 operating profit stood at 8.1% and we don't expect any major deviation from this ratio in 2014 and 2015. We don't expect the operating margin to fall to less than 4%-5% at the bottom of the cycle, also reflecting Scania's focus on the owner-operator market (lower need for discounting) and the efficiency resulting from the modular concept.

Financial Risk: Minimal

Our assessment of Scania's financial risk profile as "minimal" takes into account the group's conservative financial policy, robust credit ratios and prudent liquidity goals. Furthermore, Scania has a strong ability to generate positive free operating cash flow (FOCF) through the cycle, and the cash flow stream has been steady for a number of years with positive FOCF generation through the cycle. Since 2010 Scania's adjusted debt has been close to nil.

If VW's outstanding offer to acquire full ownership in Scania is accepted, Scania would likely be further integrated in the larger group; and our credit assessment for Scania's credit metrics would in that case strictly mirror our view of VW. In the event that VW is unsuccessful in its attempt, we expect Scania's credit ratios to remain very robust in the coming years, albeit we couldn't exclude a gradual debt built up, however limited. This follows mainly increased capex spending for the development of a new cabin. In 2014 and 2015 we expect capex spending of about SEK6 billion-SEK7 billion in our base case. Nevertheless we expect credit ratios such as funds from operations (FFO) to debt and debt to EBITDA to remain well in line with Scania's current "minimal" financial risk profile on a stand-alone basis.

Liquidity: Strong

We assess Scania's liquidity as "strong," based on our projections that the group's ratio of potential sources of liquidity to use will exceed 1.5x in each of the coming two years.

Principal Liquidity Sources	Principal Liquidity Uses
<ul style="list-style-type: none"> • Cash and liquid assets of SEK12.5 billion at March 31, 2014; • Two committed revolving credit facilities of €1 billion each, one due 2016, the other due 2018. To our knowledge, the bank lines are not subject to financial covenants or rating triggers; • Two additional committed lines totaling SEK10.0 billion, due in 2017 and 2018; and • Our expectation of FFO of more than SEK7 billion annually in 2014 and 2015. 	<ul style="list-style-type: none"> • We expect near-term liquidity uses totaling SEK16.5 billion, comprising debt maturing in the coming 12 months. The majority of these are tied to the financial service operations, and we also expect them to be matched by inflow from the financial service unit; • Capex of about SEK6 billion-SEK7 billion; and • Dividends of about SEK3.8 billion payable in the second quarter 2014. <p>In its financial services unit, Scania pursues a policy of having dedicated financing that covers estimated funding needs during the subsequent year.</p>

Group Influence

Until now, we have viewed Scania as "strategically important" to VW which controls 89.2% of the voting rights and 62.6% of the shares in Scania. However, as a result of the current bid, whose maturity has been extended once and is now open until May 16, 2014, the situation is evolving rapidly. If VW is successful in its attempt to gain full control in Scania, we could likely change the group status to "core."

Ratings Score Snapshot

Corporate Credit Rating

A-/Positive/A-2

Business risk: Satisfactory

- **Country risk:** Low
- **Industry risk:** Moderately high
- **Competitive position:** Strong

Financial risk: Minimal

- **Cash flow/Leverage:** Minimal

Anchor: a-

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)

- **Liquidity:** Strong (no impact)
- **Financial policy:** Neutral (no impact)
- **Management and governance:** Strong (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : a-

- **Group credit profile:** a-
- **Entity status within group:** Strategically important (no impact)

Related Criteria And Research

Related Criteria

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Key Credit Factors For The Auto And Commercial Vehicle Manufacturing Industry, Nov. 19, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Business And Financial Risk Matrix						
Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

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