

## Research Update:

### Swedish Truck And Bus Maker Scania Outlook Revised To Pos On Similar Action On Parent Volkswagen; Affirmed At 'A-/A-2'

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# Swedish Truck And Bus Maker Scania Outlook Revised To Pos On Similar Action On Parent Volkswagen; Affirmed At 'A-/A-2'

## Overview

- On Aug. 27, 2012, we revised our outlook on German auto manufacturer Volkswagen AG (VW) to positive from stable.
- In our view, VW's Swedish subsidiary, Scania (publ.) AB has a satisfactory business risk profile and modest financial risk profile.
- We are revising our outlook on Scania to positive from stable and affirming the 'A-/A-2' and 'zaAA+/zaA-1' ratings.
- The positive outlook on Scania reflects that on VW, in line with our parent-subsidiary criteria.

## Rating Action

On Sept. 10, 2012, Standard & Poor's Ratings Services revised its outlook on Sweden-based truck and bus manufacturer Scania (publ.) AB to positive from stable. At the same time, the 'A-' long-term and 'A-2' short-term corporate credit ratings, and the 'zaAA+' long-term and 'zaA-1' short-term South Africa national scale ratings were affirmed.

## Rationale

The ratings on Scania reflect the group's "satisfactory" business profile and "modest" financial risk profile, according to our criteria.

The ratings are supported by Scania's very strong profitability in the global truck industry. However, they also reflect the strong cyclicity of the group's operating earnings. The group's truck and bus businesses benefit from leading market positions, up-to-date product lines, and the highest degree of component commonality in the global truck industry.

Volkswagen AG (VW; A-/Positive/A-2) owns a controlling stake in Scania. We therefore apply a top-down approach to rating Scania, in line with our parent-subsidiary criteria. We assess Scania's stand-alone credit profile at 'a-'. The corporate credit ratings and outlook are capped by those on the parent, VW.

Under our base case, we expect Scania to record declining sales in 2012, owing to a shrinking European heavy truck market that has been hampered by slowing economies. In addition, we anticipate a weaker market in Brazil this year

because of a slowing macro environment and introduction of new emissions legislation. We also expect Scania's very strong operating profit margin (14% reported in 2011) to come under some pressure because of weaker demand and lower production.

However, Scania has demonstrated strong production flexibility and solid after-market and service revenues. We therefore expect the EBIT margin to remain in the range of 10%-12%, which still exceeds the industry average. According to our base-case scenario, Scania should be able to produce funds from operations (FFO) of Swedish krona (SEK) 10 billion-SEK12 billion in 2012 (€1.2 billion-€1.4 billion), somewhat lower than the SEK13 billion reported for 2011. We expect the company to remain in a net cash position.

## **Liquidity**

The short-term ratings are 'A-2' and 'zaA-1'. We consider Scania's liquidity and financial flexibility to be "strong" as defined in our criteria. As of June 30, 2012, the company's industrial unit reported liquidity sources consisting of:

- Cash and liquid assets of SEK7.6 billion (about €860 million), of which we consider SEK6.8 billion to be excess cash;
- Two committed revolving credit facilities of €1 billion each, one due 2016, the other extended to 2017 as of April 2012. To our knowledge, the bank lines are not subject to financial covenants or rating triggers;
- Two additional committed lines totaling SEK10.0 billion, both due in 2017; and
- Our expectation of FFO of more than SEK10 billion annually from 2012.

These sources compare with expected near-term liquidity uses totaling SEK16.5 billion, comprising debt maturing in the coming 12 months.

For its financial services unit, Scania pursues a policy of having dedicated financing that covers estimated funding needs during the subsequent year.

## **Outlook**

The positive outlook on Scania reflects that on VW in line with our parent-subsidiary criteria. Accordingly, we could revise the outlook on Scania if we were to revise that on VW.

A negative rating action on VW could trigger a similar action on Scania. Furthermore, VW's strategic business decisions, such as those leading to potentially closer cooperation among German subsidiary MAN SE (A-/Positive/A-2), Scania, and VW's own truck division could affect Scania's stand-alone credit profile.

## Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Key Credit Factors: Criteria For Rating The Global Automaker Industry, Oct. 1, 2010
- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- Captive Finance Operations, April 17, 2007
- Corporate Criteria--Parent/Subsidiary Links; General Principles; Subsidiaries/Joint Ventures/Nonrecourse Projects; Finance Subsidiaries; Rating Link To Parent, Oct. 28, 2004

## Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Scania (publ.) AB Corporate Credit Rating	A-/Positive/A-2	A-/Stable/A-2

Ratings Affirmed

Scania (publ.) AB South Africa National Scale	zaAA+/--/zaA-1
Scania CV AB Senior Unsecured* Commercial Paper*	A- K-1

\* guaranteed by Scania (publ.) AB

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Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's 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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