

Research

Research Update:

Swedish Heavy Truck Manufacturer Scania 'K-1' Nordic Scale Rating Put On Watch Neg; 'A-' Ratings Remain On Watch Neg

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Overview

- On Oct. 12, 2015, we lowered our rating on Volkswagen AG (VW), Scania's parent, to 'A-' following the U.S. Environmental Protection Agency's announcement that VW had violated U.S. environmental standards, and kept the rating on CreditWatch Negative, indicating that we may lower the long-term ratings by up to two notches.
- Scania is a highly strategic entity within the VW group, in our view, implying that it cannot be rated higher than its owner.
- We are therefore placing our 'K-1' Nordic regional scale rating on Scania on CreditWatch negative and keeping our 'A-' long-term global scale rating on Scania on CreditWatch Negative.
- We are affirming our 'A-2' short-term global scale rating on Scania.
- We aim to resolve the CreditWatch within 90 days, once we have resolved the CreditWatch on VW.

Rating Action

On Oct. 13, 2015, Standard & Poor's Ratings Services placed its 'K-1' short-term Nordic regional scale rating on Sweden-based heavy truck manufacturer Scania AB (publ.) on CreditWatch with negative implications. We kept our 'A-' long-term corporate credit rating and our 'A-' issue rating on Scania and its debt on CreditWatch with negative implications.

At the same time, we affirmed the 'A-2' short-term corporate credit rating on Scania.

Rationale

We placed the Nordic regional scale rating on CreditWatch with negative implications after we put Scania's owner, Volkswagen AG (VW), on CreditWatch negative on Oct. 12, 2015 (see "German Automaker Volkswagen Ratings Lowered To 'A-/A-2' On Governance; L-T Ratings Remain On Watch Neg On Ongoing Risks"), stating that we could lower our rating on VW by up to two notches.

If we were to lower the rating on VW by two notches, we would also lower the rating on Scania by two notches, given that we consider Scania to be a highly strategic entity within the VW group, which means that our ratings on Scania are capped by the rating on VW. A two-notch downgrade of Scania would also

imply, according to our matrix, that we would lower the short-term regional scale rating on Scania to 'K-2'.

Liquidity

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

Principal liquidity sources:

- Cash and liquid assets of Swedish krona (SEK) 10.8 billion (about €1.15 billion) as of June 30, 2015.
- About SEK38 billion in undrawn fully committed credit facilities, including a three-year €1 billion revolving credit facility (RCF), signed by Scania CV AB and VW in July 2015.
- Our expectation of funds from operations of more than SEK10 billion annually in 2015 and 2016.

Principal liquidity uses:

- A total of SEK23.5 billion, including debt maturing in the next 12 months. Most of these expenditures are tied to Scania's financial services operations, but because we expect them to be matched by inflows from the same operations, we remove them from our calculations. This could change, however, if for any reason a material duration mismatch were to occur.
- Annual capital expenditures of SEK6 billion-SEK7 billion.

CreditWatch

We aim to resolve the CreditWatch on Scania within 90 days, once we have resolved the CreditWatch on VW. That means that the resolution of the CreditWatch on Scania is tied to developments at VW.

If we affirm the long-term rating on VW at 'A-', we would likely affirm our ratings on Scania, since we assess Scania's stand-alone credit profile at 'a-'.

However, if we lowered our long-term rating on VW, we would lower our long-term rating on Scania to the same level.

Ratings Score Snapshot

Corporate Credit Rating: A-/Watch Neg/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)
- Financial policy: Neutral (no impact)
- Liquidity: Strong (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: a-

Entity status within group: Highly strategic

Related Criteria And Research

Related Criteria

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Standard & Poor's National And Regional Scale Mapping Tables, Sept. 30, 2014
- National And Regional Scale Credit Ratings, Sept. 22, 2014
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Key Credit Factors For The Auto And Commercial Vehicle Manufacturing Industry, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012

Ratings List

CreditWatch Action

	To	From
Scania AB (publ.) Corporate Credit Rating		
Nordic Regional Scale	--/Watch Neg/K-1	K-1
Scania CV AB Commercial Paper*	K-1/Watch Neg	K-1

Ratings Affirmed

Scania AB (publ.)

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Corporate Credit Rating --/--/A-2
South Africa National Scale zaAAA/--/zaA-1

Ratings Remain On CreditWatch

Scania AB (publ.)

Corporate Credit Rating A-/Watch Neg

Scania CV AB

Senior Unsecured* A-/Watch Neg

*Guaranteed by Scania AB (publ.).

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