

Research

Research Update:

Swedish Heavy Truck Manufacturer Scania 'A-' Rating Placed On Watch Negative After Similar Action On Parent, Volkswagen

Primary Credit Analyst:

Per Karlsson, Stockholm (46) 8-440-5927; per.karlsson@standardandpoors.com

Secondary Contact:

Alex P Herbert, London (44) 20-7176-3616; alex.herbert@standardandpoors.com

Table Of Contents

Overview

Rating Action

Rationale

CreditWatch

Ratings Score Snapshot

Related Criteria And Research

Ratings List

Research Update:

Swedish Heavy Truck Manufacturer Scania 'A-' Rating Placed On Watch Negative After Similar Action On Parent, Volkswagen

Overview

- On Sept. 24, 2015, we placed our 'A' rating on Volkswagen AG (VW), Scania's parent, on CreditWatch negative following the U.S. Environmental Protection Agency's announcement that VW had violated U.S. environmental standards.
- Scania is a highly strategic entity within the VW group, in our view, implying that it cannot carry a higher rating than its owner.
- We are therefore placing our 'A-' long-term rating on Scania on CreditWatch negative.
- We aim to resolve the CreditWatch on Scania within 90 days, once the CreditWatch on VW has been resolved.

Rating Action

On Sept. 25, 2015, Standard & Poor's Ratings Services placed its 'A-' long-term corporate credit rating on Sweden-based heavy truck manufacturer Scania AB (publ.) on CreditWatch with negative implications. We also placed our 'A-' issue ratings on Scania's debt instruments on CreditWatch negative.

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

Rationale

The CreditWatch placement follows a similar action on Scania's owner, Volkswagen AG (VW) on Sept. 24, 2015 (see "Germany-Based Automaker Volkswagen Placed On CreditWatch Negative On €6.5 Billion Charge For Global Recall," published Sept. 24, 2015, on RatingsDirect). We consider Scania to be a highly strategic entity within the VW group, which means that our ratings on Scania are capped by those on VW.

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 outflows 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 expenditure of SEK6 billion-SEK7 billion.

CreditWatch

We aim to resolve the CreditWatch on Scania within 90 days, once the CreditWatch on VW has been resolved, meaning that the resolution is tied to developments at VW.

If the long-term rating on VW were affirmed or lowered by one notch, 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 by more than one notch, 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 ratings analysis: Neutral (no impact)

Stand-alone credit profile: a-

Entity status within group: Highly strategic

Related Criteria And Research

- 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 Ratings, Sept. 22, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Key Credit Factors For The Auto And Commercial Vehicle Manufacturing Industry, 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.) Long-Term Corporate Credit Rating	A-/Watch Neg	A-/Stable

Scania CV AB
Senior Unsecured

A-/Watch Neg A-

Ratings Affirmed

Scania AB (publ.) Short-Term Corporate Credit Rating	--/--/A-2
Nordic Regional Scale	--/--/K-1
South Africa National Scale	--/--/zaA-1
South Africa National Scale	zaAAA/--/zaA-1

Scania CV AB
Commercial Paper

K-1

Additional Contact:

Industrial Ratings Europe; Corporate_Admin_London@standardandpoors.com

Research Update: Swedish Heavy Truck Manufacturer Scania 'A-' Rating Placed On Watch Negative After Similar Action On Parent, Volkswagen

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at 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.

Copyright © 2015 by Standard & Poor's Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.