

Research Update:

Swedish Truck Maker Scania AB (publ.) 'BBB/A-2' Rating Affirmed; Outlook Stable

July 10, 2023

Rating Action Overview

- On April 1, 2023, Scania AB (publ.) sold its financial services activities to parent TRATON as part of TRATON's strategy to start creating a group-wide financial services organization at the parent level.
- As a result, we anticipate that Scania's funding needs will be provided by the group going forward and therefore withdrew our 'bbb+' standalone credit profile (SACP) on Scania.
- Scania is a key operating company for TRATON and heads many of the group's research and development (R&D) areas, which alongside the parent's 100% ownership and Scania's pivotal role for TRATON's strategies and growth ambitions, leads us to continue to view Scania as a core subsidiary of TRATON.
- We therefore affirmed our 'BBB/A-2' long- and short-term issuer credit ratings on Scania, which are fully equalized with those on TRATON.
- The stable outlook on Scania mirrors that on TRATON.

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Rating Action Rationale

Scania's financial services business was sold to TRATON, enabling its parent to start creating a group-wide financial services organization. We anticipate that TRATON will manage the treasury operations with respect to funding of its group while Scania will remain an operating company. Therefore, we expect that TRATON will meet the funding and refinancing needs of its operating subsidiaries, like Scania or MAN, and increasingly manage the financial services and captive business for the whole group. Scania's legacy financial services business will be directly managed and operated by TRATON, while MAN's financial services products are operated by TRATON's parent Volkswagen AG (VW; BBB+/Stable/A-2), and Navistar largely relies on third parties' products. This implies that Scania's consolidated reported debt of Swedish krona (SEK) 125 billion as of March 31, 2023, will decrease in the coming 12-24 months and be incrementally rolled over at TRATON's level.

As a result of the divestment, Scania will be largely an operating subsidiary and mainly focus on

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managing the product business, with negligible independent funding. We therefore withdrew our 'bbb+' SACP on the company. The ratings and outlook on Scania are equalized with those on TRATON. We will not monitor the operating performance and credit metrics of Scania separately going forward, but will analyze and comment publicly on Scania's operating results as part of our surveillance activities for the TRATON group.

We view Scania as a core subsidiary of TRATON and the rating is therefore equalized with that on the parent. This reflects the parent's 100% ownership of Scania's share capital and Scania's pivotal role for TRATON's future R&D strategies and growth ambitions. Scania has a solid position as a premium heavy duty commercial truck maker in Europe and Latin America, with a track record of industry leading and resilient profitability. The TRATON group has clear ambitions to leverage Scania's successful operations and technological know-how. Apart from its financial services operations, TRATON is, for example, rolling out the modularization of components and joint powertrains in the group, mainly via Scania. We believe Scania will remain a key driver of the group's future R&D activities.

Outlook

The stable outlook on Scania mirrors that on TRATON.

Downside scenario

We could lower our rating on TRATON (Scania) following a similar action on its parent VW. However, we view a downgrade as unlikely, given VW's solid headroom under the 'BBB+' rating.

Upside scenario

We could take a positive rating action on TRATON (Scania) following a positive rating action on VW.

Company Description

Based in Södertälje, Sweden, Scania is one of the world's leading heavy truck and bus manufacturers. Although it produces buses, truck operations dominate the business. German original equipment manufacturer TRATON, the truck subsidiary of VW, controls all of Scania's share capital.

In 2022, Scania's industrial business revenue reached about SEK163.3 billion, with 80,238 trucks and 4,994 buses sold. The industrial business' S&P Global Ratings-adjusted EBITDA margin was 10.6%, down from 13.2% in 2021, excluding the depreciation of assets under operating leases.

Issue Ratings - Subordination Risk Analysis

Capital structure

Scania's capital structure consists of senior unsecured debt issued by its subsidiary, Scania CV AB.

The debt, which when consolidated was SEK125 billion at March 31, 2023, has historically been

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dedicated to its financial services operations while the industrial business has been kept debt free. With the recent disposal of its financial services operations to its parent, debt issued at Scania will be transferred to the industrial business. We expect the debt will gradually decrease over the next 12-24 months, and that Scania will receive internal funds from its parent to cover its upcoming maturities.

Analytical conclusions

The debt is rated 'BBB', in line with the long-term issuer credit rating on Scania, since there are no significant elements of subordination risk in the capital structure. This is also supported by the company's low leverage.

ESG credit indicators: E-3, S-2, G-2

Related Criteria

- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology: The Impact Of Captive Finance Operations On Nonfinancial Corporate Issuers, Dec. 14, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed

Scania AB (publ.)

Issuer Credit Rating	BBB/Stable/A-2
Nordic Regional Scale	--/--/K-2
South Africa National Scale	zaAAA/--/zaA-1+

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Ratings Affirmed

Scania CV AB

Senior Unsecured	BBB
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