

Research Update:

Scania AB Outlook Revised To Stable From Negative Following Same Action On Its Parent TRATON SE; 'BBB' Rating Affirmed

April 29, 2021

Rating Action Overview

- On April 29, 2021, we revised to stable from negative the outlook on German truck manufacturer TRATON SE (BBB/Stable/--), following a similar action on Volkswagen AG (BBB+/Stable/A-2).
- Since we view Scania as pivotal to TRATON's strategy to gradually integrate the brands it manages, we cap our rating on Scania at the level of that on its parent company TRATON.
- We therefore revised the outlook on Scania to stable from negative, and affirmed our 'BBB/A-2' ratings on the company.
- The stable outlook on Scania reflects the outlook on TRATON.

Rating Action Rationale

The stable outlook reflects that on TRATON, Scania's parent company. We revised our outlook on Scania to stable to reflect the same action on its controlling shareholder TRATON SE (see "TRATON SE Outlook Revised To Stable From Negative Following A Similar Action On Parent Volkswagen AG; Ratings Affirmed," published April 29, 2021, on RatingsDirect).

We cap our 'BBB' rating on Scania at the same level as that on TRATON. We consider Scania to be a core subsidiary of TRATON, reflecting the parent's 100% ownership of Scania's share capital and Scania's pivotal role for TRATON's future strategies and growth ambitions. We therefore equalize our rating on Scania with that on TRATON, notwithstanding its solid 'bbb+' stand-alone credit profile (SACP).

Scania's margins are superior to TRATON's, and showed resilience in 2020, with the group's adjusted net cash position reaching SEK6.6 billion. In 2020, Scania's industrial business achieved an adjusted EBITDA margin of 10.1%, which is about 200 basis points higher than our base case, despite a drop in sales of about 18% (see "Scania AB Outlook Revised To Negative On

PRIMARY CREDIT ANALYST

Marta Bevilacqua
Milan
+ (39)0272111298
marta.bevilacqua
@spglobal.com

SECONDARY CONTACT

Vittoria Ferraris
Milan
+ 390272111207
vittoria.ferraris
@spglobal.com

ADDITIONAL CONTACT

Industrial Ratings Europe
Corporate_Admin_London
@spglobal.com

TRATON's Agreement To Take Full Ownership Of Navistar; 'BBB' Rating Affirmed," published Oct. 22, 2020). For 2021, we expect Scania's adjusted EBITDA margin for its industrial business will reach 12.0%-13.0%, which is still marginally below 2019 levels of 13.5%. We also forecast the industrial business' adjusted free operating cash flow will be about Swedish krona (SEK) 7.5 billion–SEK8.5 billion (about €740 million–€840 million) in 2021, from SEK9.2 billion in 2020. This will continue to support its strong balance sheet and our view that the group will remain in an adjusted net cash position.

S&P Global Ratings believes there remains high, albeit moderating, uncertainty about the evolution of the coronavirus pandemic and its economic effects. Vaccine production is ramping up and rollouts are gathering pace around the world. Widespread immunization, which will help pave the way for a return to more normal social and economic activity, looks to be achievable by most developed economies by the end of the third quarter. However, some emerging markets may only achieve widespread immunization by year-end or later. We use these assumptions about vaccine timing in assessing the economic and credit implications associated with the pandemic (see our research here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

Outlook

The stable outlook on Scania reflects that on TRATON.

Upside scenario

We could take a positive rating action on Scania if we take a similar action on TRATON.

Downside scenario

We regard rating pressure as remote at this stage. However, pressure could emerge if we take a negative action on TRATON's majority owner Volkswagen AG and, at the same time, we revised our assessment of TRATON's SACP downward to 'bbb-' or below.

Company Description

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

In 2020, Scania's industrial business generated revenue of about SEK121 billion and sold 66,899 trucks and 5,186 buses. Scania's industrial business enjoys a debt-free capital structure.

We consider Scania to be a core subsidiary for TRATON, reflecting the controlling ownership of Scania's share capital. This also points to Scania's pivotal role for TRATON in developing the group's long-term growth strategy, aimed at strengthening its market reach, operating profit margins, and consolidated leverage metrics following the recent initial public offering.

Ratings Score Snapshot

Issuer Credit Rating: BBB/Stable/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: Negative (-1 notch)
- Captive finance: Neutral (no impact)

Stand-alone credit profile: bbb+

- Estimated group credit profile: bbb
- Entity status within group: Core (-1 notch from its SACP)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- 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

- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, 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
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Related Research

- TRATON SE Outlook Revised To Stable From Negative Following A Similar Action On Parent Volkswagen AG; Ratings Affirmed, April 29, 2021
- Volkswagen AG Outlook Revised To Stable From Negative On Stronger-Than-Expected Free Cash Flow Generation, April 28, 2021

Ratings List

Outlook Action; Ratings Affirmed

Scania AB (publ.)

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

Scania CV AB

Senior Unsecured	BBB	BBB
------------------	-----	-----

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings 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 © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, 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 Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P 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 (negligent or otherwise), 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 or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. 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 does not act as a fiduciary or an investment advisor except where registered as such. 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. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

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 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 (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.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.