STANDARD & POOR'S
RATINGS SERVICES

Research

Summary:
Scania (publ.) AB

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Summary:

Scania (publ.) AB

Corporate Credit Rating	A-/Positive/A-2

Profile Assessments

BUSINESS RISK	SATISFACTORY	 Vulnerable — Excellent
FINANCIAL RISK	MODEST	 Highly leveraged — Minimal

Parent-Subsidiary Relationship

Volkswagen AG (VW; A-/Positive/A-2) owns a controlling stake in Scania (publ.) AB. 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 are capped by those on the parent, VW.

Rationale

Business Risk: Satisfactory	Financial Risk: Modest
• Leading market positions in Europe and South America in the manufacture of heavy trucks and buses. • An up-to-date product range and the highest degree of component commonality in the global truck industry. • Operations in industries characterized by high volatility and capital intensity.	• A conservative financial policy and a modest financial risk profile. • Very strong profitability relative to peers', and good financial flexibility.

Outlook: Positive

The positive outlook on Swedish heavy truck and bus manufacturer Scania reflects that on VW, in line with Standard & Poor's Ratings Services' parent-subsidiary criteria.

Upside scenario

We could revise the outlook on Scania if we were to revise the outlook on VW.

Downside scenario

A negative rating action on VW could trigger a similar action on Scania. Furthermore, any strategic business decisions from VW, potentially leading to closer cooperation between German subsidiary MAN SE, Scania, and VW's own truck division, could affect Scania's stand-alone credit profile.

Standard & Poor's Base-Case Scenario

Assumptions

- A flat to slightly declining European heavy truck market in 2013, and a recovering Brazilian market compared with 2012.
- An operating margin of about 10% or slightly higher in 2013, and continued, solid, and positive free operating cash flow, resulting in a continued net cash position.

Key Metrics

	2012a	2013e	2014e
Reported operating margin (%)	10.4	11-13	11-14
S&P adjusted FFO/Debt (%)*	N/A	N/A	N/A
S&P adjusted Debt/EBITDA (x)*	N/A	N/A	N/A

*Fully Standard & Poor's adjusted. a--Actual. e--Estimate. N/A--Not applicable.

Business Risk: Satisfactory

Scania is one of the world's leading heavy-truck and bus manufacturers. Although the group's divisions include buses, industrial and marine engines, and services, the truck operations dominate Scania's business. Despite strong growth in South America in recent years, Europe remains the group's major market.

Under our base-case scenario, we expect Scania to record flat sales in 2013 on the back of a continued weak European truck market. This should be mitigated to some extent by a recovering Brazilian market--which accounts for about one-fifth of orders--prompted by a government incentive scheme. We also expect Scania's historically very strong operating profit margin to remain under some pressure because of weaker demand and lower production, but still remain in the range of 10%-12%, which exceeds the industry average.

Financial Risk: Modest

Given that Scania's industrial operations have a solid net cash position we anticipate that Scania's reported credit measures will far exceed those we regard as commensurate with a modest financial risk profile. In its financial services unit, Scania pursues a policy of having dedicated financing that covers estimated funding needs during the subsequent year.

Liquidity: Strong

We view Scania's liquidity as strong because it has a solid net cash position, combined with extensive credit facilities.

Principal Liquidity Sources	Principal Liquidity Uses
• Cash and liquid assets of Swedish krona (SEK) 12.9 billion (about €1.5 billion) at the end of March 2013. • Two committed revolving credit facilities of €1 billion each, one due in 2016, the other due in 2018. To our knowledge, the bank lines are not subject to financial covenants or rating triggers. • Two additional committed lines totaling SEK10 billion, one due in 2017 and the other in 2018. • Our expectation of funds from operations of more than SEK8 billion annually from 2013.	• About SEK12 billion, comprising debt maturing in the coming 12 months, most of which is tied to the financial services operations.

Related Criteria And Research

- Methodology: Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Assumptions: Analytical Adjustments For Captive Finance Operations, June 27, 2008
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- Corporate Criteria--Parent/Subsidiary Links; General Principles; Subsidiaries/Joint Ventures/Nonrecourse Projects; Finance Subsidiaries; Rating Link To Parent, Oct. 28, 2004

Business And Financial Risk Matrix

Business Risk	Financial Risk					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly Leveraged
Excellent	AAA/AA+	AA	A	A-	BBB	--
Strong	AA	A	A-	BBB	BB	BB-
Satisfactory	A-	BBB+	BBB	BB+	BB-	B+
Fair	--	BBB-	BB+	BB	BB-	B
Weak	--	--	BB	BB-	B+	B-
Vulnerable	--	--	--	B+	B	B- or below

Note: These rating outcomes are shown for guidance purposes only. The ratings indicated in each cell of the matrix are the midpoints of the likely rating possibilities. There can be small positives and negatives that would lead to an outcome of one notch higher or lower than the typical matrix outcome. Moreover, there will be exceptions that go beyond a one-notch divergence. For example, the matrix does not address the lowest rungs of the credit spectrum (i.e., the 'CCC' category and lower). Other rating outcomes that are more than one notch off the matrix may occur for companies that have liquidity that we judge as "less than adequate" or "weak" under our criteria, or companies with "satisfactory" or better business risk profiles that have extreme debt burdens due to leveraged buyouts or other reasons. For government-related entities (GREs), the indicated rating would apply to the standalone credit profile, before giving any credit for potential government support.

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