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TRATON SE

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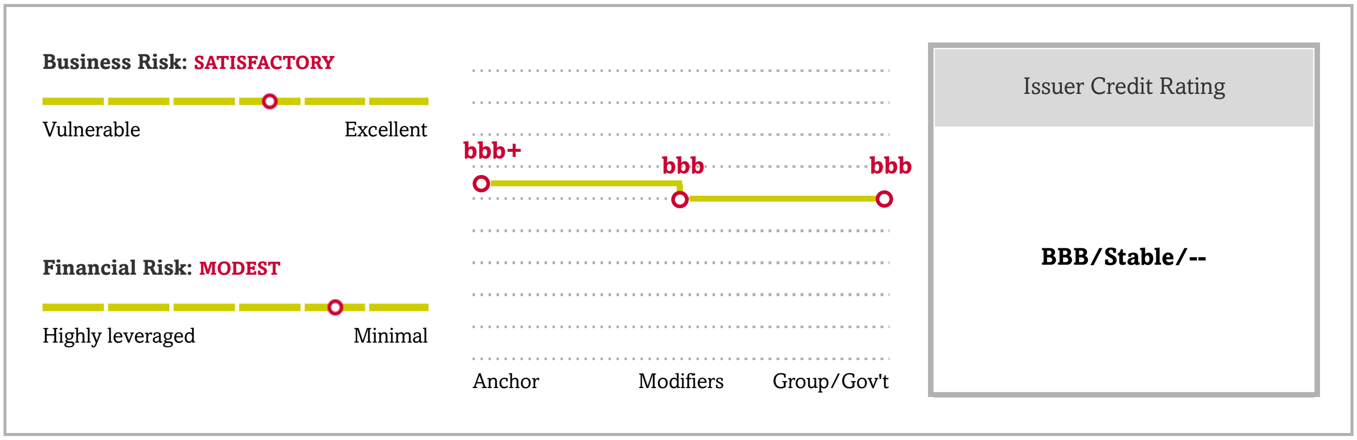
Table Of Contents

TRATON SE



Credit Highlights

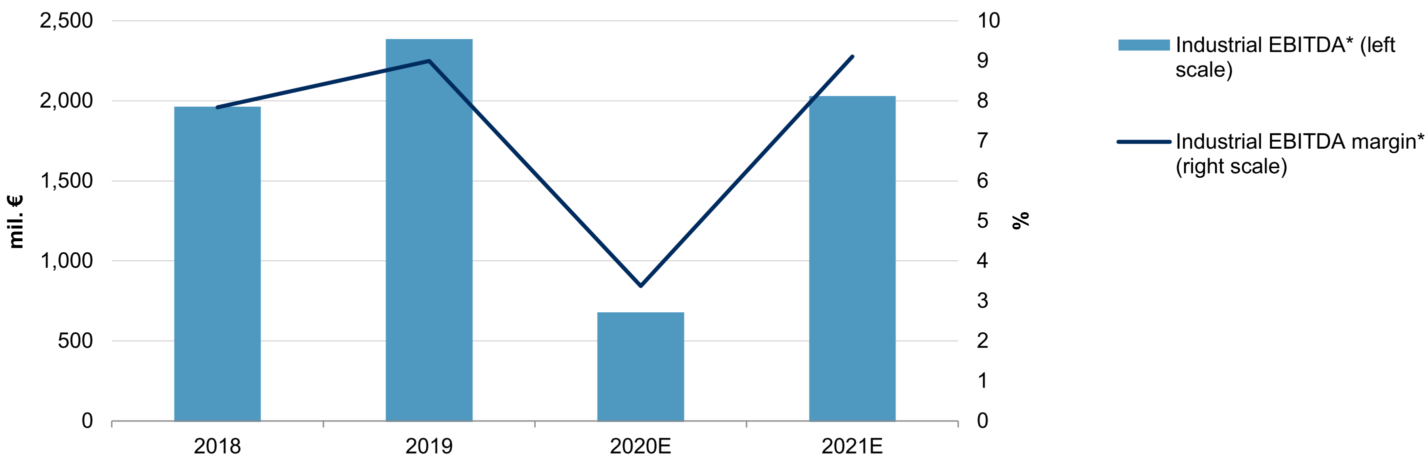
Overview

Key strengths	Key risks
Leading truckmaker in Europe and South America, with market shares of about 30% in both regions. Key brands include Scania, MAN, and VWCO, which have the newest truck line on the market compared with its main peers	TRATON's strategy to integrate its brands, which entails execution risks that could delay expected synergies, in our view. Our base-case scenario includes no material synergies until 2023, as the main synergies relate to joining engine and chassis platforms, which take more time to implement
TRATON started an extensive program to use similar powertrain components across its brands with long-term synergies of up to €700 million and targets a reported return on sales over-the-cycle of 9%, up from 7% in 2019. The new common base engine (CBE) will be launched in 2021. The Powertrain accounts for up to 65% of the total manufacturing cost of a truck	Volatile credit metrics due to high exposure to the economic cycle and meaningful operating leverage. The COVID-19 pandemic but also the parallel production at MAN will put profit margins under unprecedented pressure in 2020. We therefore expect break-even or even slightly negative reported operating profit for the industrial business in 2020, from €1.7 billion in 2019 (6.6% margin) provided that over second-half 2020 the market recovers from COVID-19
Our view of TRATON as a highly strategic subsidiary for its parent company and 89.7% owner, Volkswagen AG, to which it has close links in terms of financing, IT services, and purchasing limiting therefore the downside risk for the rating	M&A appetite, which could support the company's penetration in new geographies. However, credit metrics would materially suffer, leading us to revise the stand-alone credit profile. TRATON has made a nonbinding tender offer to acquire Navistar, which would put further significant strain on credit metrics. However, this is not part of our base-case scenario, given the uncertainty on timing and pricing
Our belief that the group's financial policy--to run its industrial business in a net cash position under normal circumstances-- will sustain TRATON's stand-alone financial performance in the medium term. This should translate into an S&P Global Ratings-adjusted FFO-to-debt ratio well above 60% from 2021	

TRATON SE's industrial business credit metrics will weaken materially in 2020, but recover in 2021 in our base case. We expect adjusted EBITDA margin will fall to about 3% from 9% in 2019 (see chart 1), causing adjusted FFO to debt to fall to about 30% in 2020 from 200% in 2019, provided that capex for 2020 is at about €1 billion. We believe that TRATON's operating performance will be particularly affected by lower demand owing to the global recession from the pandemic. In addition, MAN is still in a parallel production phase of deploying new trucks, which is holding back margins, and the company has disbursed in February 2020, €1.4 billion in cash because of terminating the domination and profit and loss transfer agreement (DPLTA) with its parent Volkswagen. Based on that, in our base-case scenario, we expect only break-even or even slightly negative reported operating profit for the industrial business, down from €1.7 billion in 2019. This implies that the loss reported by MAN will be balanced by Scania's operating performance, assuming some recovery in the second half from first-half 2020 lows. For 2021, we expect a marked increase in units sold, supporting a recovery of operating profit margins back to 2019 levels of 6.6%. At the same time, we expect that TRATON's industrial FFO-to-debt ratio will increase above 60% by 2021, sustained by positive free operating cash flow (FOCF) and improving market conditions.

Chart 1

TRATON SE--Industrial EBITDA Under Unprecedented Pressure In 2020, But Improving In 2021

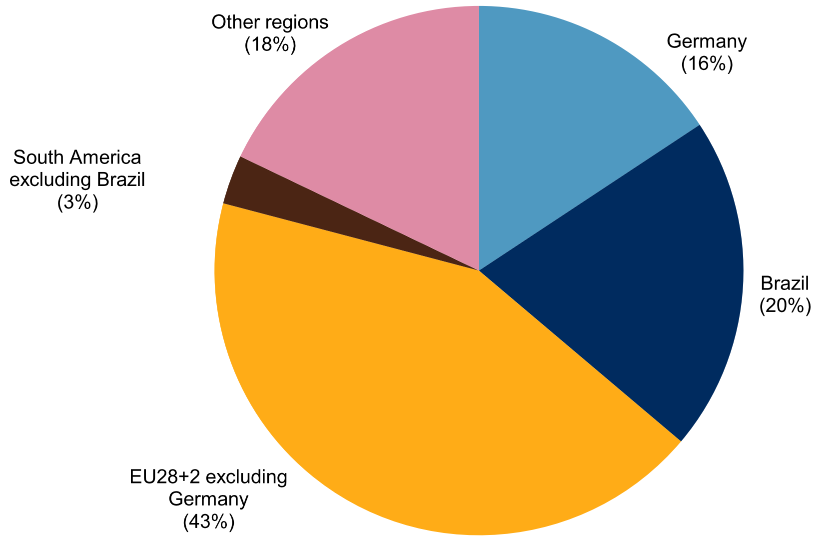


*S&P Global Ratings-adjusted. Source: S&P Global Ratings. E--Estimate.

TRATON's diverging brand performance and cash flow generation weighs on leverage metrics. In 2019, the company sold 242,219 units, up 4% from 2018, about equally split between Scania and MAN. In first-quarter 2020, orders were down 16% year on year to 54,000 units, and units sold were down 20% to 46,000. Although TRATON's market reach and brand positioning are solid for both its main brands, we understand that about 80% of operating profits came from Scania in 2019. In first-quarter 2020, the company's reported industrial operating profit margin declined to 2.4% from 7.3% in first-quarter 2019. The uneven margin and cash flow contribution of Scania and MAN will eventually become even more prominent in full-year 2020, because we expect operating losses at MAN and operating profit margins of about 4% at Scania. To face the COVID-pandemic, with most countries in which it operates (see chart 2) having been under lockdown and facing supply shortages, TRATON halted its production for about five weeks in March-April 2020. First-quarter operating profit was partially affected by COVID-19 and partially by MAN's parallel production.

Chart 2

TRATON SE--Total Units Sold In 2019 Reached 242,219, Up 4% From 2018



Source: S&P Global Ratings.

Mergers and acquisitions could materially alter the group's leverage beyond COVID-19, while the integration of its brands still entails execution risk. Earlier this year, TRATON announced its proposition to squeeze out MAN's minority shareholders. It holds 94.36% of MAN's share capital, while the remainder is free float. MAN's annual general meeting has been postponed, which creates uncertainty of the decision and timing. In our base-case scenario, the transaction occurs in 2021, resulting in a cash out of about €450 million. The company's also holds 16.7% of NAVISTAR's share capital and has made a nonbinding tender offer to acquire the shares outstanding for $35 per share, or about $3 billion. Although we see the transaction increasing TRATON's market reach in North America, where it is currently not present, we acknowledge NAVISTAR's leverage (about $5 billion of S&P Global Ratings-adjusted industrial debt at Oct. 31, 2019) would put further significant negative pressure on TRATON's credit metrics. Given the offer's nonbinding nature and the uncertainty regarding the timing and price, we excluded it from our base-case scenario, so have not considered the potential transaction in our rating and outlook on the company.

We consider TRATON a highly strategic entity of VW (BBB+/Negative/A-2), reflecting its strong ties with the parent company and our expectation that VW's stake in the company will not decrease below 75% for the foreseeable future. We believe that VW, which holds an approximately 89.7% stake in the company, regards TRATON as a very important strategic asset and there are still close operational links between TRATON and its parent company. In 2019, it contributed about 17% of VW's consolidated top line. Moreover, TRATON has access to VW's purchasing platforms and both MAN and VWCO's financial services are provided through VW's captive operations. Furthermore, in 2019 VW has granted TRATON a permanent €3 billion revolving credit facility.

Outlook: Stable

The stable outlook reflects our expectation that TRATON will successfully execute its margin and cash flow preservation measures and pursue a conservative financial policy, ensuring adjusted FFO to debt of about 30% at year-end 2020 and above 60% at year-end 2021.

Downside scenario

We could lower the rating if we were to downgrade VW while revising downward our SACP on TRATON. The latter could follow a drop in adjusted FFO to debt well below 60% with no prospect of near-term recovery.

Upside scenario

Ratings upside could arise if the company's operating performance improves. This would be on the back of meaningful progress under its integration plans translating to a strengthening of industrial adjusted EBITDA margin to at least 10% and FOCF to debt of about 25%.

Our Base-Case Scenario

Assumptions

- Real GDP growth in the eurozone will contract 7.3% in 2020 before 6.2% growth in 2021, from 1.2% growth in 2019. Brazil's real GDP will contract 4.3% in 2020, before 3.3% growth in 2021, from 1.1% growth in 2019. Despite evidence of a recovery in China, under our revised macroeconomic assumptions, we think that real GDP in Asia-Pacific will likely see just 0.7% growth in 2020 and then 6.3% in 2021, after 4.8% for 2019.
- Based on this, heavy-duty truck sales in Europe are likely to decline 30%-40% this year, depending on the speed of recovery in second-half 2020. For 2021, we expect pronounced growth of 15%-25%, but not enough to fully cover 2020 volume losses. For South America, we expect heavy-duty trucks unit sold to fall by 10%-20% from about 18% growth in 2019, while for 2021 we see growth consolidating by 20%-30%. For Asia-Pacific, we expect a decline in commercial vehicle sales by 10%-20% this year. In addition, we still forecast another sales contraction for heavy-duty trucks in Asia-Pacific in 2021 of up to 10%, mainly because of the recent fleet expansion after regulation changes and the scheduled implementation of higher emission standards in 2021 (for more information, see "COVID-19 Will Further Slow Demand For Heavy Trucks," published May 5, 2020, on RatingsDirect).
- Our expectations for the global commercial vehicle market will likely evolve throughout the second and third quarters of 2020 as more information becomes available.
- We expect industrial reported operating profit for 2020 to be break-even or slightly negative after €1.7 billion for 2019. For 2021 we expect industrial reported operating profit of about €1.1 billion.
- We assume corporate tax rate of about 30% for 2020 and 2021 after about 24% in 2019.
- Trade working capital changes of about positive €1 billion for 2020, offset by changes in leasing and rentals of the same amount, resulting in neutral working capital. For 2021, we expect working capital of negative €1.1 billion-€1.2 billion.

- Capex in the industrial business, including capitalized development costs, will be €1.1 billion-€1.2 billion for 2020, lower than €1.5 billion for 2019. For 2021, we expect capex at 2019 levels.
- In February 2020, TRATON paid €1.4 billion to VW for the termination of the DPLTA.
- Notwithstanding COVID-19 effects, TRATON's dividend proposal hasn't been withdrawn. Therefore, we still retain about €500 million for 2020, while for 2021 we assume no dividends due to a net loss for fiscal 2020.
- TRATON will execute the squeeze-out MAN minority shareholders. Although we assume that the transaction would have a positive effect on the structure of the group there could be delays in the execution, leading to a potential cashout in 2021 of about €450 million according to our estimate.
- Our base-case scenario excludes any potential NAVISTAR takeover.

Key metrics

Table 1

TRATON SE--Key Metrics*

	--Fiscal year ended Dec. 31--			
	2018a	**2019a**	**2020e**	**2021f**
(Mil. €)				
Truck units sold	232,994	242,219	170,000	205,000
Revenue	24,963	26,444	About 20,000	About 22,000
Revenue growth (%)	5.6	5.9	(25)	10-12
EBITDA	1,958	2,379	650-700	About 2,000
EBITDA margin (%)	7.8	9.0	About 3.0	Slighlty above 9
Free operating cash flow (FOCF)	319.9	564.0	600-700	200-250
Debt	5,418	933	About 2,100	2,000-2,500
Debt/EBITDA (x)	2.8	0.4	3.0-3.5	1.0-1.5
Funds from operations/debt (%)	26.1	196.4	25-30	Above 60
FOCF/debt (%)	5.9	60.4	30-35	About 10

*All industrial business figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

TRATON safeguards its liquidity and cash flow. In 2019, the company took cost-cutting measures in light of gloomier truck market prospects in 2020 and to gain operating flexibility. Also, in 2020, both MAN and Scania launched restructuring measures to align the production to post-COVID-19 norms. Apart from curbing costs, we anticipate that capital expenditure (capex) and some research and development spending will be contained in 2020. We expect that autonomous driving spending will be postponed while expenditure related to decreasing carbon dioxide (CO_2) emissions will continue due to the upcoming EU emission regulation on heavy-duty trucks. In addition, over the past few weeks, TRATON and its subsidiaries have closed multiple bilateral credit lines, which are on top of the €3 billion undrawn lines the company has from VW. As a result, TRATON had €5.6 billion of undrawn committed lines available at March 31, 2020.

Company Description

TRATON was founded in 2015 as the commercial vehicle arm of VW. The company sells trucks and buses under the Scania, MAN, and VWCO brands and is market leader in Europe and Brazil in the heavy duty truck segment (over 15 tons) with about 33% and 38% market share, respectively. It is mainly active in Europe and South America, with a footprint in 17 countries and 29 production and assembly sites.

TRATON recorded revenue of more than €26 billion and adjusted EBITDA margin of 9% under its industrial business in 2019. The company sells its new vehicles supported by either Scania's financial business operations (for the Scania brand) or VW's financial services (for MAN and VWCO).

TRATON is controlled by VW group, which owns 89.7% of its share capital after a June 2019 IPO. It is listed on the Frankfurt stock exchange and the Nasdaq Stockholm. As of June 16, 2020, its market capitalization was about €9.3 billion.

Peer Comparison

TRATON is leading the heavy duty market with a 33% share in Europe, followed by AB Volvo and Daimler. It is also the leading operator in Brazil with about 38% market share, followed by Daimler and AB Volvo. In addition, it holds the no. 1 position in South America overall with a 30% market share. We believe that the company's strong market position in its core markets is a competitive advantage against peers that are pursuing a follower strategy, once further integration will be accomplished.

TRATON has the newest truck portfolio on the market compared with its main peers with MAN and VWCO having launched its new models in 2019 and Scania in 2016, respectively. Moreover, thanks to its interest in Navistar (16.8% stake) and Sinotruk (25% plus one share stake) and its strategic alliance with Hino (Japan), the company is among the most influential truck players in the world, with a size comparable with that of Daimler and AB Volvo's commercial alliances. However, TRATON's industrial debt is higher than that of peers, which typically are in an S&P Global Ratings-adjusted net cash position and enjoy comparatively higher financial flexibility. Also, and until the full integration if its brands, TRATON has comparatively lower FOCF than Paccar, AB Volvo, or Scania stand-alone. We therefore see the company's business risk profile positioned in the lower half of our satisfactory category.

Table 2

TRATON SE--Peer Comparison*

Industry Sector: Auto OEMs

	TRATON SE	**Scania AB (publ.)**	**AB Volvo**	**PACCAR Inc**	**CNH Industrial N.V.**	**Daimler AG**	**Navistar International Corp.**
Ratings as of June 24, 2020	BBB/Stable/--	BBB/Stable/A-2	A-/Stable/A-2	A+/Stable/A-1	BBB/Stable/A-2	BBB+/Negative/A-2	B/Watch Neg/--
	--Fiscal year ended Dec. 31, 2019--						**--Fiscal year ended Oct. 31, 2019--**
(Mil. €)							
Revenue	26,444	14,075	39,788	21,494	23,230	144,099	9,920
EBITDA	2,379	1,896	5,062	2,700	2,648	7,072	931
Funds from operations (FFO)	1,833	1,546	4,214	2,144	2,304	6,053	689

Table 2

TRATON SE--Peer Comparison* (cont.)

Industry Sector: Auto OEMs

	TRATON SE	Scania AB (publ.)	AB Volvo	PACCAR Inc	CNH Industrial N.V.	Daimler AG	Navistar International Corp.
Interest expense	256	57	59	1	197	817	200
Cash interest paid	132	30	15	36	206	60	184
Cash flow from operations	1,589	1,587	4,331	2,563	979	9,902	359
Capital expenditure	1,025	547	788	512	1,066	7,562	120
Free operating cash flow (FOCF)	564	1,040	3,542	2,052	(87)	2,340	239
Discretionary cash flow (DCF)	(3,795)	576	1,601	939	(339)	(1,442)	218
Cash and short-term investments	5,091	2,079	5,882	4,607	4,344	27,538	1,229
Debt	933	0	0	0	2,666	1,342	4,252
Equity	13,365	4,841	12,889	5,593	2,753	47,858	(3,939)
Adjusted ratios							
EBITDA margin (%)	9.0	13.5	12.7	12.6	11.4	4.9	9.4
Return on capital (%)	10.1	28.6	35.4	45.6	16.5	1.7	138.3
EBITDA interest coverage (x)	9.3	33.1	85.1	4,230.4	13.4	8.7	4.7
FFO cash interest coverage (x)	14.9	52.8	284.1	60.4	12.2	102.6	4.7
Debt/EBITDA (x)	0.4	N.M.	N.M.	N.M.	1.0	0.2	4.6
FFO/debt (%)	196.4	N.M.	N.M.	N.M.	86.4	451.1	16.2
Cash flow from operations/debt (%)	170.3	N.M.	N.M.	N.M.	36.7	737.9	8.5
FOCF/debt (%)	60.4	N.M.	N.M.	N.M.	(3.3)	174.4	5.6
DCF/debt (%)	(406.6)	N.M.	N.M.	N.M.	(12.7)	(107.5)	5.1

*Industrial business figures are S&P Global Ratings-Adjusted.OEM--Original equipment manufacturer. N.M.--Not meaningful.

Business Risk: Satisfactory

A strong market presence in Europe and Brazil supports brand positioning. TRATON has a strong market position in both Europe and South America, thanks to the company's solid combined market shares of its brands Scania, MAN, and VWCO. Moreover, we believe that the recent truck launches in its portfolio should support TRATON's order intake provided that COVID-19 pandemic is contained. We believe that because the company has the newest truck line in the market, which offers the opportunity to increase its market share.

The operational integration of Scania and MAN moves slowly and faces execution risks. TRATON started an extensive program to use similar powertrain components across its brands with long-term synergies of up to €700 million and a targets a reported return on sales of about 9% by 2024. The company's integration strategy comprises several steps, starting from procurement, to shared services, and power train parts including the new CBE engine. We understand it plans to implement it on MAN from 2024 and on VWCO in 2026, after its roll-out on Scania in 2021. Therefore we see the majority of synergies ramping up from 2023-2024. TRATON's increased scale against Scania unlocks access to higher resources and opportunities for investing in new technologies, maximizing the returns over the medium term. We think this will reinforce the technological edge that the company received from Scania, eventually increasing its market reach. At the same time, we expect TRATON's operating profit margins for 2020-2021 still below the levels of its peers, such as Paccar (A+/Stable/A-1) or AB Volvo (A-/Stable/A-2).

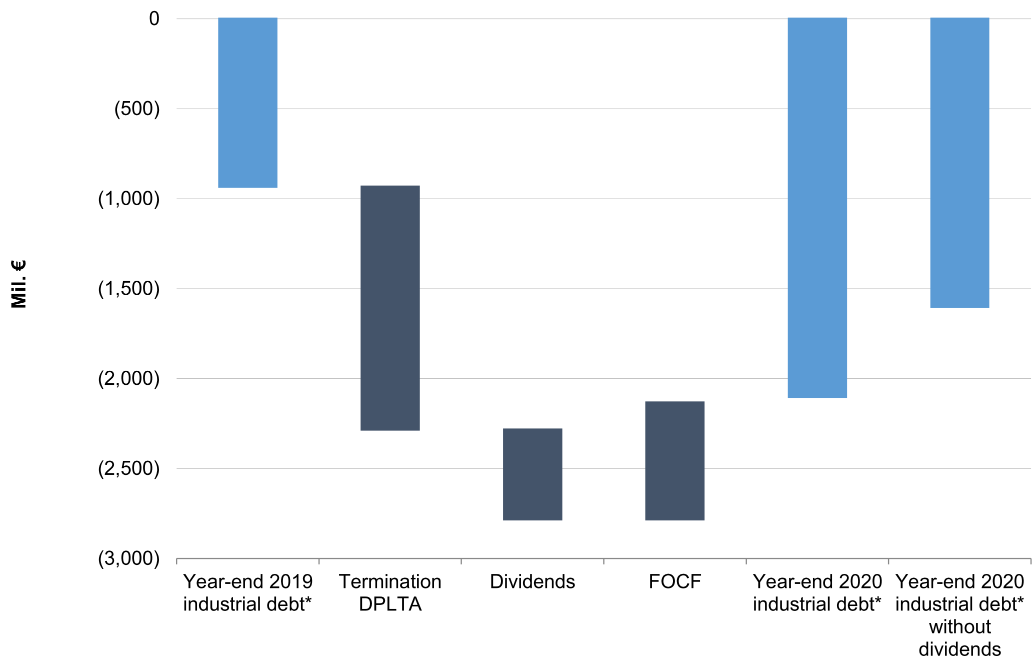
The company's weaker-than-peers' cash conversion limits its opportunities to increase its net cash position. For 2019-2021, we expect TRATON's adjusted FOCF to sales to be 1.0%-3.0% on average, which is weaker compared with that of its main peers. However, we believe TRATON can improve its cash generation after 2022 once the integration of its operating brands has advanced and MAN terminates its parallel production.

Financial Risk: Modest

Healthy debt metrics in 2019 provide some flexibility for a tough 2020, provided that credit metrics materially improve in 2021. We see TRATON's gross reported industrial debt at year-end 2019 including the lease liability reaching €3.6 billion. This translated to adjusted FFO to debt of about 200%, supported by cash in hand and available for debt repayment of close to €5 billion. We see this in line with TRATON's financial policy of running its industrial business at a net cash position under normal circumstances. For 2020, we assume company's S&P adjusted debt to reach €2.1 billion from about €900 million at the end of 2019 primarily owing to €1.4 billion transfer of DPLTA to VW. At the same time, we believe FOCF (see chart 3) at the industrial business will be still positive and likely more than cover the proposed divided distribution of €500 million. This translates in FFO to debt at about 30%. While our 'bbb' SACP on TRATON factors-in a weak 2020, we believe that in 2021, its FFO to debt (see chart 4) will surge sustainably above 60% primarily due to higher operation profits.

Chart 3

TRATON SE--Bridge To Year-End 2019 Industrial Debt* And Year-End 2020 Debt

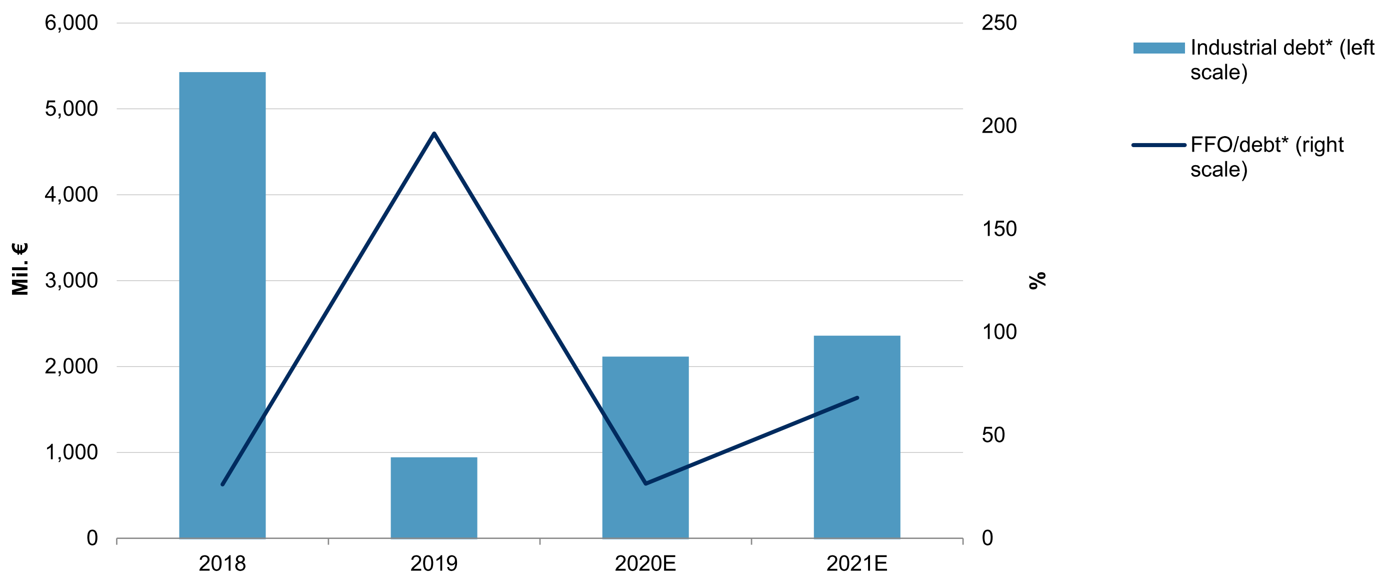


*S&P Global Ratings-adjusted. Source: S&P Global Ratings. DPLTA--Domination and profit and loss transfer agreement. FOCF--Free operating cash flow.

We think TRATON's stand-alone credit profile (SACP) has very limited headroom in 2020 due to the very weak and currently hard-to-predict market. On March 23, the company announced that the executive board had proposed a €1 dividend per share for 2019, subject to approval by the annual shareholder meeting, which has been postponed to a later date. Consequently, we included in our base-case €500 million cash for dividends in 2020, although shareholders haven't approved this yet. If the dividends were cancelled, we calculate that the company's adjusted FFO to debt would increase to about 40% for 2020 (all else being equal) in our base-case scenario, providing some cushion to our downgrade trigger of 30% in 2020. TRATON has approved a divided policy that in principle looks for a payout ratio of 30%-40%.

Chart 4

TRATON SE--Debt And FFO To Debt Evolution



*S&P Global Ratings-adjusted. Source: S&P Global Ratings. FFO--Funds from operations. E--Estimate.

The company's captive operations are evolving. TRATON does not have any own captive finance operations. MAN and VWCO rely on captive services offered by VW Financial Services and Scania is offering its service though its own financial services business. As of year-end 2019, Scania's captive operations had a leverage of 9.8x and we expect it to remain below 12x, at historically low loss ratios. The penetration rate of its captive service in the market where these services are active is 43% higher than that of AB Volvo, which stood at 23%, closer to Daimler's financial services penetration rate (which includes passenger cars). We therefore believe that Scania's financial services operations are, for the time being, neutral to TRATON's creditworthiness. Still, any changes to the company's captive business could trim different captive treatments that we don't consider under the rating.

S&P Global Ratings acknowledges a high degree of uncertainty about the rate of spread and peak of the coronavirus outbreak. Some government authorities estimate the pandemic will peak about midyear, and we are using this assumption in assessing the economic and credit implications. We believe the measures adopted to contain COVID-19 have pushed the global economy into recession (see our macroeconomic and credit updates here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

Financial summary

Table 3

TRATON SE--Financial Summary*

Industry Sector: Auto OEMs		
	--Fiscal year ended Dec. 31--	
	2019	2018
(Mil. €)		
Revenue	26,444	24,963
EBITDA	2,379	1,958
Funds from operations (FFO)	1,833	1,415
Interest expense	256	277
Cash interest paid	132	139
Cash flow from operations	1,589	1,251
Capital expenditure	1,025	931
Free operating cash flow (FOCF)	564	320
Discretionary cash flow (DCF)§	(3,795)	320
Cash and short-term investments	5,091	3,095
Gross available cash	5,031	2,950
Debt	933	5,418
Equity	13,365	16,219
Adjusted ratios		
EBITDA margin (%)	9.0	7.8
Return on capital (%)	10.1	8.2
EBITDA interest coverage (x)	9.3	7.1
FFO cash interest coverage (x)	14.9	11.2
Debt/EBITDA (x)	0.4	2.8
FFO/debt (%)	196.4	26.1
Cash flow from operations/debt (%)	170.3	23.1
FOCF/debt (%)	60.4	5.9
DCF/debt§ (%)	(406.6)	5.9

*Industrial business figures are S&P Global Ratings-adjusted. §Includes the domination and profit and loss transfer agreement to Wolkswagen for €3.3 billion.

Reconciliation

Table 4

TRATON SE--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts

	--Fiscal year ended Dec. 31, 2019--							
Traton SE reported amounts (mil. €)								
	Debt	Shareholders' equity	Revenue	EBITDA	Operating income	S&P Global Ratings' adjusted EBITDA	Cash flow from operations	Capital expenditure
	11,420	13,864	26,901	4,086	1,884	2,379	1,088	1,464
S&P Global Ratings' adjustments								
Cash taxes paid	--	--	--	--	--	(463)	--	--

Table 4

TRATON SE--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (cont.)								
Cash interest paid	--	--	--	--	--	(433)	--	--
Trade receivables securitizations	170	--	--	--	--	--	(50)	--
Reported lease liabilities	1,077	--	--	--	--	--	--	--
Postretirement benefit obligations/deferred compensation	1,462	--	--	(1)	(1)	--	--	--
Accessible cash and liquid investments	(4,781)	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	--	(2)	(2)	(2)
Capitalized development costs	--	--	--	(467)	(275)	--	(467)	(467)
Dividends received from equity investments	--	--	--	65	--	--	--	--
Captive finance operations	(8,856)	(769)	(457)	(146)	(83)	352	1,020	30
Nonoperating income (expense)	--	--	--	--	301	--	--	--
Noncontrolling interest/minority interest	--	270	--	--	--	--	--	--
Debt: Guarantees	38	--	--	--	--	--	--	--
Debt: Litigation	403	--	--	--	--	--	--	--
EBITDA: Gain (loss) on disposals of PP&E	--	--	--	(11)	(11)	--	--	--
EBITDA: Other	--	--	--	(1,147)	(1,147)	--	--	--
Depreciation and amortization: Other	--	--	--	--	1,147	--	--	--
Total adjustments	(10,487)	(499)	(457)	(1,707)	(69)	(546)	501	(439)
S&P Global Ratings' adjusted amounts								
	Debt	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Funds from operations**	**Cash flow from operations**	**Capital expenditure**
Adjusted	933	13,365	26,444	2,379	1,815	1,833	1,589	1,025

PP&E--Plant, property, and equipment.

Liquidity

We assess TRATON's liquidity as adequate. We estimate that the company's ratio of sources to uses of liquidity will be 1.4x over the 12 months started April 1, 2020. Our assessment primarily considers TRATON's concentrated debt maturity profile at the industrial level, with a weighted-average maturity of about two years as of March 31, 2020. Although VW Group can extend part of the short-term repayments at any time, the somewhat short-term nature of the capital structure constrains our liquidity assessment.

We recognize that most of TRATON's cash is representing deposits of Scania. We understand the company could use this cash if needed and, therefore, we include the cash upstreamed by Scania from our ratios and liquidity analysis. The group enjoys a covenant debt-free structure.

We expect principal liquidity sources for the 12 months from April 1, 2020, will include the following:

- Cash and equivalents of about €3.0 billion when excluding our assessment of €250 million of cash not immediately available and €100 million of cash we estimate is captive
- €4.3 billion of undrawn committed lines maturing beyond 12 months, to which we have added about €800 million lines signed in the course of the second quarter. We assess lines available in the amount of €3.9 billion after deducting our estimation of peak-commercial paper use
- Industrial unadjusted cash FFO of about €2.0 billion, including the payment of operating leases over the next 12 months.

We expect principal liquidity uses for the same period will include:

- Debt maturities under TRATON's industrial business of about €2.2 billion over the next 12 months, of which the €1 billion MAN facility from VW can be extended at any time.
- Our assumption of working capital outflow including working capital intrayear swings of up to about €2.6 billion (including the change in lease assets)
- Capex of €1.2 billion-€1.3 billion
- Dividends of €500 million

Debt maturities

Consolidated (including captive debt) debt maturities as of the end of December 2019, excluding leases:

- 2020: €6.3 billion
- 2021: €3.4 billion
- Thereafter: €1.2 billion

Environmental, Social, And Governance

As a truck manufacturer, TRATON faces meaningful exposure to environmental risks from CO2 regulation in Europe. The company is making the technological shift to cleaner commercial transportation mobility aimed at reducing fossil-fuel reliance. It has already in its portfolio engines that cover all commercially available alternative fuels (bio-gas, bioethanol, biodiesel, compressed natural gas, and hydrogenated vegetable oils). TRATON's research and development cash spending ranges at 5%-6% of its sales, and we expect the company to further sharpen its fossil-free product offering. From 2019-2024, the company expects to spend cumulatively €2 billion in e-mobility and digitalization. However, we think cash preservation measures due to COVID-19 could change the spend allocation in the medium term.

EU regulations adopted earlier in 2019 poses challenging targets to the truck industry in general. We see the 15% CO2 reduction by 2025 as potentially achievable for TRATON thanks to the new CBE that will help the group comply with the more stringent regulation. However, the proposed target for 2030 that foresees a further reduction of 30% from 2019 levels (subject to a further discussion in 2022) poses challenges for the all truck-makers. As far as we understand, the 2030 target is not achievable with the fossil-fuel technologies available on the market. The applied financial penalties in case of noncompliance with the CO2 targets are set to €4,250 per CO2 emission per gram over ton-kilometer in 2025 and €6,800 in 2030. According to Association des Constructeurs Européens d'Automobiles (ACEA) (December 2019), 98.3% of all heavy and medium trucks (above 3.5 tons) on Europe's roads today run on diesel and electrically chargeable vehicles account for a negligible share of all trucks in circulation (0.01%, or one of every 10,000 vehicles), and about 0.4% of all trucks in the EU run on natural gas.

Although we are monitoring an ongoing investigation by the European Commission concerning inappropriate cooperation, we do not see any credit risk with regard to governance factors.

Group Influence

We consider TRATON a highly strategic subsidiary within VW (BBB+/Negative/A-2), reflecting its strong ties with the parent company and our expectation that VW's stake in the company will not decrease below 75% for the foreseeable future. We believe that VW regards TRATON as a very important strategic asset and there are still close operational links between TRATON and its parent company. In 2019, it contributed about 17% of VW's consolidated top line. Moreover, TRATON has access to VW's purchasing platforms and both MAN and VWCO's financial services are offered through VW's captive operations. Furthermore, in 2019, VW has granted TRATON a permanent €3 billion revolving credit facility. As long as we view TRATON as a highly strategic subsidiary for VW, the long-term rating on it will remain one notch below that on VW. This would remain the case even if we revise our SACP on TRATON to 'bbb-' or below, provided VW retains a 'BBB+' rating. Our rating on TRATON could equal, but not exceed, the rating on VW if its SACP is at least equal to the rating on VW, although this is currently not the case.

Ratings Score Snapshot

Issuer Credit Rating

BBB/Stable/--

Business risk: Satisfactory

- **Country risk:** Intermediate
- **Industry risk:** Moderately high
- **Competitive position:** Satisfactory

Financial risk: Modest

- **Cash flow/leverage:** Modest

Anchor: bbb+

Modifiers

- Diversification and portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable ratings analysis: Negative (-1 notch)
- Captive finance: Neutral (no impact)

Stand-alone credit profile: bbb

- Group credit profile: bbb+
- Entity status within group: Highly strategic (no impact)

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 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
- Criteria | Corporates | Industrials: Key Credit Factors For The Auto And Commercial Vehicle Manufacturing Industry, Nov. 19, 2013

- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, 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: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Swedish Truckmaker Scania Downgraded To 'BBB' On Expected Gradual Integration With TRATON; Outlook Stable, May 14, 2020
- Heavy Truck Manufacturer Volvo Affirmed At 'A-/A-2' In Weaker Operating Environment; Outlook Stable, May 14, 2020
- COVID-19 Will Further Slow Demand For Heavy Trucks, May 5, 2020
- Navistar International Corp. CreditWatch Implications Revised To Negative Due To Coronavirus Impact, April 15, 2020

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	**Modest**	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	**bbb+**	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of June 25, 2020)*

TRATON SE	
Issuer Credit Rating	BBB/Stable/--
Issuer Credit Ratings History	
17-Jun-2020	BBB/Stable/--
Related Entities	
Banco Volkswagen S.A.	
Issuer Credit Rating	
Brazil National Scale	brAAA/Stable/--
Scania AB (publ.)	
Issuer Credit Rating	BBB/Stable/A-2
Nordic Regional Scale	--/--/K-2

Ratings Detail (As Of June 25, 2020)*(cont.)	
South Africa National Scale	zaAAA/--/zaA-1+
Volkswagen AG	
Issuer Credit Rating	BBB+/Negative/A-2
Volkswagen Bank GmbH	
Issuer Credit Rating	A-/Negative/A-2
Commercial Paper	
Local Currency	A-2
Senior Subordinated	BBB+
Senior Unsecured	A-
Short-Term Debt	A-2
Volkswagen Financial Services AG	
Issuer Credit Rating	BBB+/Negative/A-2
Volkswagen Finans Sverige AB	
Issuer Credit Rating	
Nordic Regional Scale	--/--/K-1
Volkswagen International Belgium S.A.	
Issuer Credit Rating	BBB+/Negative/A-2
Commercial Paper	
Local Currency	A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.