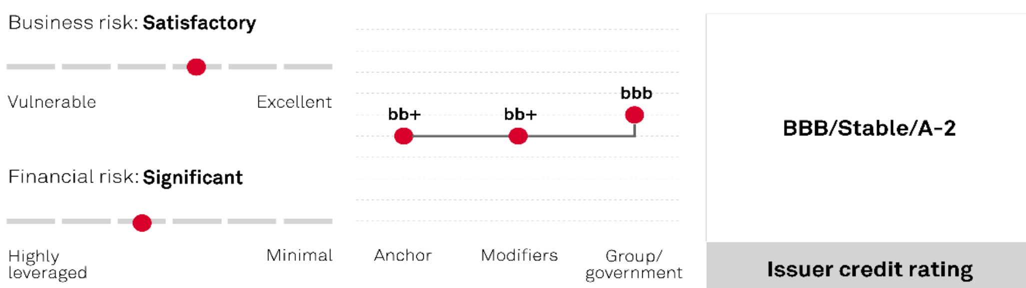
TRATON SE

October 17, 2023

Ratings Score Snapshot



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Credit Highlights

Overview

Key strengths	Key risks
Strong position as the third-largest heavy commercial vehicle manufacturer worldwide (as of end-2022, in terms of units sold), holding the No. 2 market positions in Europe and South America, and a challenger position in the U.S. market (No. 4).	The recovery and resilience of the group's relatively weak EBITDA margins depending highly on TRATON's ability to implement a better fixed-cost absorption and introduce the common base engine across its brands, started at Scania in 2022.
Highly strategic subsidiary for its parent company and 89.7% owner, Volkswagen AG (VW), to which it has close links in terms of financing, IT services, and purchasing. This underpins our rating on TRATON one notch below the VW rating, independently of TRATON's stand-alone credit profile.	Relatively high leverage after the acquisition of Navistar, with S&P Global Ratings-adjusted debt reaching €9.8 billion at end-2022, specifically, we expect funds from operations (FFO) to debt to improve from 2023 from about 17% in 2022.
The groupwide launch of its common base engine (CBE) across all brands from 2022-2028, which should help the group achieve significant cost synergies, because the powertrain accounts for up to 65% of the total manufacturing cost of a truck.	Investment requirements likely to remain high to meet stringent environmental targets and evolving technology shifts; we expect industrial capital expenditure (capex; including capitalized R&D) of 5.0%-6.0% of industrial net sales.
	The groupwide financial services operations are currently being established. This could entail additional funding needs as well as a new funding structure.

After satisfactory six-month sales results, S&P Global Ratings expects demand drivers will remain moderately supportive over 2023, while MAN's realignment and tight price management should strengthen profitability. We also expect demand to hold up well in 2023, supported by fleet aging and replacement needs, as well as catching up from 2022's lost production. We anticipate TRATON will sell 325,000-330,000 units in 2023 and 320,000-325,000 units in 2024 (compared with 305,485 in 2022). Moreover, the price mix and strong aftermarket services will support TRATON's industrial business revenue to increase to €40 billion-€45 billion in 2023 and 2024 (from €39 billion in 2022) in our base-case scenario. The company, as with peers, has been relatively cautious in opening up for new orders, so first-half 2023 orders declined 24% to about 125,300 units. Nevertheless, we understand orders for 2024 are not fully opened. We forecast that S&P Global Ratings-adjusted EBITDA margin will improve sharply to 10.0%-11.0% in 2023, from 6.9% in 2022 and 6.3% in 2021. We forecast a margin improvement in 2023, mainly supported by positive results stemming from the restructuring measures at MAN Trucks & Bus and a material improvement in Scania's profitably.

For 2023, we anticipate that cash generation will turn positive; adjusted free operating cash flow (FOCF) could slightly exceed €1 billion, which would help the group reduce debt. We anticipate S&P Global Ratings-adjusted free operating cash flow (FOCF) in 2023 will improve materially after a negative balance of €963 million in 2022 related to exceptional cash outflows from the payment of Scania's €937 million fine and the settlement of Navistar's dispute for €420 million. For the first six months of 2023, TRATON's industrial operations segment's cash flow from operations was positive €1.7 billion, compared with a negative balance of €606 million for the same period a year ago.

Our rating reflects TRATON's ongoing strong ties with its parent, VW. We consider TRATON a highly strategic subsidiary of VW, reflecting its strong ties with the parent 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 close operational links between TRATON and VW. In 2022, TRATON contributed about 14.4% of VW's consolidated top line. Moreover, TRATON has access to VW's purchasing platforms. In addition, VW granted TRATON an acquisition facility to support the purchase of Navistar, which has now been fully refinanced with external debt and an uncommitted line of €4 billion. Therefore, as long as we view TRATON as highly strategic to the VW group, we will rate it up to one notch below VW, all else being equal. Should VW's stake in TRATON fall below 75%, we could reconsider TRATON's group status and the implications for our long-term rating.

Outlook

The stable outlook on TRATON mirrors that on VW, so long as VW owns more than 75% of TRATON.

Downside scenario

We could lower our rating on TRATON following a similar action on 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 following a positive rating action on VW.

Our Base-Case Scenario

Assumptions

- Real GDP growth in the eurozone of 0.6% in 2023, down from 3.4% in 2022 and 5.3% in 2021, before recovering to 0.9% in 2024 and 1.5% in 2025. In the U.S., we expect real GDP growth of 2.3% in 2023, after 2.1% in 2022 and 5.9% in 2021, before stabilizing at 1.3% in 2024 and 1.4% in 2025. In China, we expect real GDP growth of 4.8% in 2023, after 3.0% in 2022 and 8.5% in 2021, followed by 4.4% in 2024 and 5.0% in 2025.
- Units sold ranging from 325,000-330,000 in 2023, and 320,000-325,000 in 2024, compared with 305,485 in 2022. We think the group will catch up to lost deliveries in 2023, especially related to production idling at MAN. Meanwhile Scania will benefit from the new engine, which promises fuel savings of up to 8% compared with the former model, and Navistar started delivering the new powertrain to North American customers from the second half of 2023, which promises to improve fuel efficiency by 15% compared with its predecessor.
- Revenue for the industrial business ranging from €40 billion-€45 billion in each of 2023 and 2024, up from €39 billion in 2022, owing to both higher units sold and price increases.
- S&P Global Ratings-adjusted EBITDA margin increasing to 10%-11% in 2023-2024 considering a boost from Scania's sales of its new CBE, and a somewhat better contribution from MAN. We anticipate that the full cost benefits from MAN realignment will be fully visible in 2024. MAN targets a reported 8% return on sales on its manufacturing activities by end-2024, compared with 0.0% in 2022 and 6.8% in the first six months of 2023. Overall TRATON targets a consolidated company's adjusted return on sales of 9%.
- Working capital outflow in the industrial business of about €1 billion per year.
- S&P Global Ratings-adjusted capex of about €2.0 billion per year in 2023-2024, compared with €1.3 billion in 2022. The material sharp increase in capex relates mainly to investments towards electrification and Scania's new plant in China.
- Dividend payments of about €350 million in 2023 and €700 million-€750 million in 2024.
- No material disposals or acquisitions.

Key metrics

TRATON SE--Forecast summary

Period ending	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024
(Mil. €)	2019a	2020a	2021a	2022a	2023e	2024f
Revenue	26,444	22,156	29,656	39,041	43,588	42,511
EBITDA	2,379	899	1,865	2,694	4,431	4,352
Funds from operations (FFO)	1,833	405	1,124	1,649	3,127	3,081
Capital expenditure (capex)	1,025	1,029	1,128	1,307	1,898	1,898

TRATON SE--Forecast summary

Free operating cash flow (FOCF)	643	669	716	(963)	1,218	1,594
Dividends	3,250	501	135	250	342	736
Discretionary cash flow (DCF)	(3,716)	168	581	(1,213)	875	859
Debt	854	2,087	9,111	9,809	7,947	7,451
Adjusted ratios						
Debt/EBITDA (x)	0.4	2.3	4.9	3.6	1.8	1.7
FFO/debt (%)	214.6	19.4	12.3	16.8	39.3	41.3
Annual revenue growth (%)	5.9	(16.2)	33.9	31.6	11.6	(2.5)
EBITDA margin (%)	9.0	4.1	6.3	6.9	10.2	10.2

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast.

Company Description

TRATON was founded in 2015 as the commercial vehicle arm of VW. It sells trucks and buses under the Scania, MAN, Navistar, and VWTB brands. TRATON is the market leader in South America for heavy-duty trucks (class 8), with a market share of about 34%, and retains the No. 2 position in Europe, with a market share of 21%. The company is active mainly in Germany, the U.S., and Brazil, with a presence in 16 other countries via 28 production and assembly sites. TRATON gained material exposure to the North American heavy-duty vehicle market through its July 2021 acquisition of Navistar, which gave it the No. 4 position in the U.S. heavy-duty truck market in 2022, following a sharp increase in unit sales in the region.

In 2022, TRATON recorded S&P Global Ratings-adjusted revenue of €39.0 billion (compared with €29.7 billion in 2021) and an adjusted EBITDA margin of 6.9% (compared with 6.3%) under its industrial business. To date, the company has sold new vehicles with support from Scania's financial business operations (for the Scania brand), and is planning to offer groupwide and integrated financial services solutions for all its brands.

TRATON is controlled by VW, which has owned about 90% of its share capital since an IPO in June 2019. It is listed on the Frankfurt stock exchange and the Nasdaq Stockholm. As of Oct. 10, 2023, the company's market capitalization was about €9.4 billion.

Peer Comparison

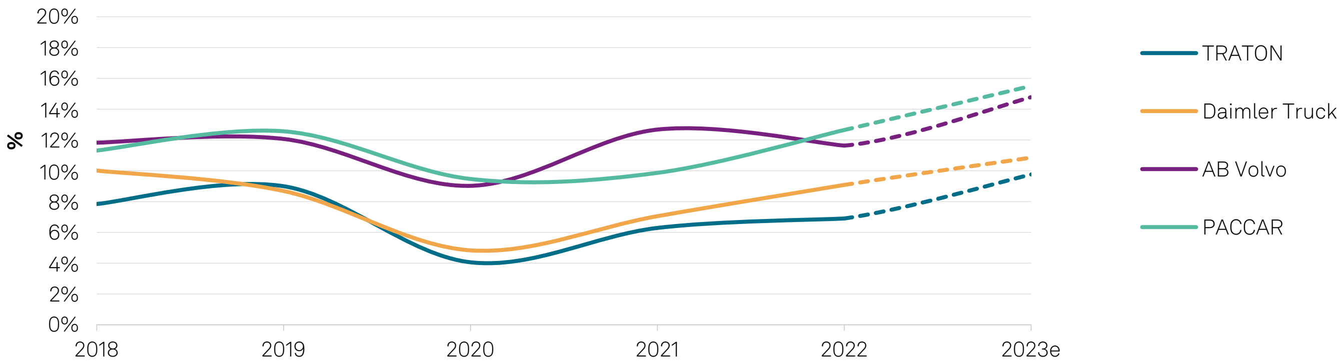
TRATON operates in a highly competitive market. While there are several local players, the main global competitors in the most important profit pools (U.S. and Europe) are German company Daimler Truck AG, Sweden's AB Volvo, and U.S.-based PACCAR Inc. In this group, TRATON is the third-largest worldwide in terms of market shares, at about 10% in 2022 (in terms of units sold).

In our view, TRATON has good geographical diversification, on par with Daimler Truck AG and AB Volvo, thanks to its recent expansion in the U.S. through the acquisition of Navistar, and leading market position in its key markets.

In terms of profitability, TRATON has been lagging its main peers, with its S&P Global Ratings-adjusted EBITDA margin below 7.0% from 2019-2022, against 9.1% for Daimler Truck in 2022, 12.6% for PACCAR in 2022, and 11.6% for AB Volvo in 2022. However, TRATON has a goal to improve its performance, mainly through modularization of components and common powertrains.

Profitability comparison

S&P Global Ratings-adjusted EBITDA margin, 2018 - 2023e



e--Estimate. Source: S&P Global Ratings.

Like Daimler Truck, TRATON has a multibrand approach with different market positioning, allowing the group to offer a wide range of products and serve different client needs. The group manages four vehicles' brands: Scania, MAN, Volkswagen Truck & Bus, and Navistar, with Scania being the premium name while VWTB, MAN, and Navistar are the value offerings.

Unlike Daimler Truck, AB Volvo, and PACCAR, TRATON doesn't run its industrial business on an adjusted net cash position, which in our view makes the company overall more vulnerable to sudden market changes. In addition, S&P Global Ratings-adjusted debt rose significantly in 2021 to finance the acquisition of Navistar, weighing on credit metrics.

TRATON SE--Peer Comparisons

	TRATON SE	AB Volvo	PACCAR Inc.	Daimler Truck Holding Ag
Foreign currency issuer credit rating	BBB/Stable/A-2	A/Stable/A-1	A+/Stable/A-1	BBB+/Positive/A-2
Local currency issuer credit rating	BBB/Stable/A-2	A/Stable/A-1	A+/Stable/A-1	BBB+/Positive/A-2
Period	Annual	Annual	Annual	Annual
Period ending	2022-12-31	2022-12-31	2022-12-31	2022-12-31
Mil.	EUR	EUR	EUR	EUR
Revenue	39,041	41,264	25,557	49,186
EBITDA	2,694	4,801	3,232	4,467
Funds from operations (FFO)	1,649	3,825	2,404	3,207
Interest	358	124	1	245
Cash interest paid	426	77	(44)	207
Operating cash flow (OCF)	344	3,991	2,863	2,653
Capital expenditure	1,307	1,065	491	935

TRATON SE--Peer Comparisons

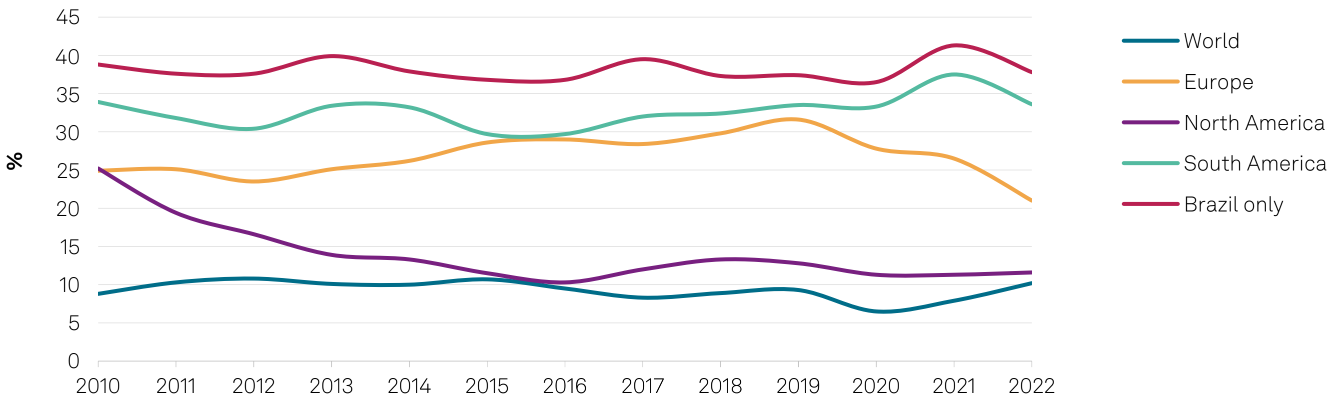
Free operating cash flow (FOCF)	(963)	2,926	2,372	1,718
Discretionary cash flow (DCF)	(1,213)	552	1,430	1,666
Cash and short-term investments	1,512	7,538	5,763	6,966
Gross available cash	1,057	5,602	5,763	6,560
Debt	9,809	0	0	0
Equity	12,199	13,235	8,337	18,388
EBITDA margin (%)	6.9	11.6	12.6	9.1
Return on capital (%)	7.1	31.4	37.4	19.1
EBITDA interest coverage (x)	7.5	38.8	5466.0	18.2
FFO cash interest coverage (x)	4.9	50.8	(54.2)	16.5
Debt/EBITDA (x)	3.6	0.0	0.0	0.0
FFO/debt (%)	16.8	NM	NM	NM
OCF/debt (%)	3.5	NM	NM	NM
FOCF/debt (%)	(9.8)	NM	NM	NM
DCF/debt (%)	(12.4)	NM	NM	NM

Business Risk

TRATON's balanced footprint and access to several profit pools con unlock value. The company has a leading position in its key markets thanks to its solid combined market shares of its brands Scania, MAN, and VWTB. The acquisition of Navistar in 2021 gave TRATON a foothold in the U.S. market, which is the most profitable globally, and allowed the group to directly compete on a global scale with players such as Daimler Truck or AB Volvo. According to 2022 S&P Global Mobility figures for Class 8 truck units sold, TRATON is the No. 3 worldwide, with a global market share of about 10%, after Daimler Truck (14.3%) and AB Volvo (10.6%). Chinese troubled sales in 2022 led to a material decrease in the local original equipment makers (OEMs), which affected the annual statistics. In Europe, TRATON’s key market, the company in 2022 lost its leading position, which it had retained for more than a decade. It now stands at No. 2 with a 21% market share, compared with about 27% as of end-2021. In this region, Scania ranks No. 4, with about 10.7% market share, and MAN is No. 5, with about 10.4%. TRATON is the largest player operating in South America and Brazil, where it represents about 34% and 38% of the market, respectively. In Latin America, TRATON is present with all its four brands: among them, Volkswagen and Scania hold the No. 3 and No. 4 positions, with about 18.6% and 13.2% of market share respectively, while Navistar and MAN represent about 1% and less than 1% of the market, respectively. Navistar is the only brand under which TRATON operates in North America, holding the No. 4 position with a 12% market share, after the undisputed market leader Daimler Truck (38% market share in 2022) and competitors PACCAR (30%) and AB Volvo (18%). Finally, in China, which is the largest commercial vehicle market worldwide in terms of volumes, TRATON has been the first Western truck OEM that received a production license independent from a local partner. However, the market is still saturated, with Asian OEMs, and TRATON’s market share as of the end of 2021 accounted for about 1%.

Market share evolution in key regions

Class 8 HD Trucks -- 2010 - 2022



Source: S&P Global Ratings, S&P Global Mobility.

TRATON's cost base is set to improve structurally once the full modular system is completed, but this could take up to several years. Since its IPO, the company has undertaken an extensive program to use common powertrain components across its brands and targeted a reported return on sales of about 9% through the cycle, thanks to better cost absorption and realization of meaningful synergies. The integration strategy comprises several steps and is based on introducing the TRATON Modular System across its brands. The new common-based engine, launched by Scania in 2021, is the first example. We expect other common components, such as chassis, cabins, and (especially) e-components, will follow. We understand that TRATON started to deploy its new powertrain on Navistar. It plans to deploy it on MAN in 2024, and VWTB in 2028, after its roll-out at Scania in 2022. At the same time, until the full modularization is implemented, TRATON's cost base will be less agile than some of its peers operating at benchmark levels.

TRATON offers commercial sales of fully electric vehicles, mainly buses and vans, while it lags in the truck segment, even if it is catching up fast. In 2022, the total order intake of full electric vehicles amounted to 2,366 units (from 1,717 in 2021) while deliveries amounted to 1,740 (from 1,076), in both cases equivalent to less than 1% of total units ordered and sold. Buses and vans continue to represent the main share of electric vehicles sold for TRATON. At the same time, TRATON aims for 50% of its vehicles to be battery electric by 2030, comparable with that of main peers such as Daimler Truck (60% of sales by 2030 and 100% of sales by 2039) and AB Volvo (35% of global deliveries by 2030), while PACCAR has not publicly committed to any targets.

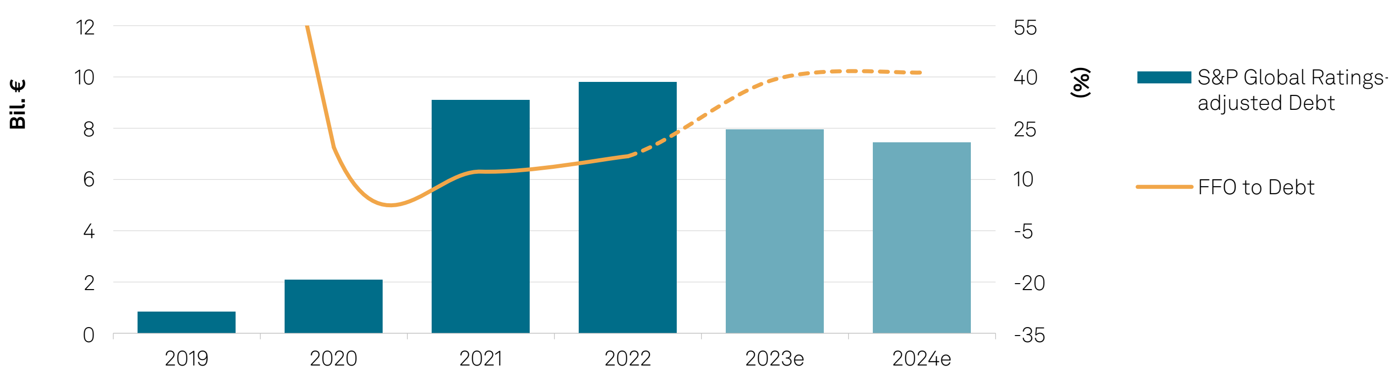
Zero-emission truck sales will be a major factor by the end of the decade. We think the segment's growth will depend on several factors, namely regulatory framework developments, energy costs, customers' decarbonization strategies, battery cell developments, the availability of charging infrastructure and eventually hydrogen refueling, and potential subsidies. We anticipate a gradual and uneven penetration of zero-emission trucks across countries worldwide because of the much higher purchase price of electric trucks compared with internal combustion engine (ICE) trucks, which often puts electric trucks at a disadvantage from a total cost of ownership perspective absent significant subsidies. In addition, the lack of charging infrastructure represents a key barrier to electric trucks' fast penetration of the market. There is also uncertainty on carbon dioxide regulation, at least in Europe, where the European Commission's Euro 7 proposal could still be subject to changes after negotiations between EU countries and lawmakers in 2023. This could affect the allocation of substantial engineering and financial resources from battery and fuel-cell electric vehicles to ICE vehicles. For more information on this, see "Global Heavy-Duty Truck Sales Gain Momentum Amid Mounting Risks," published Oct. 3, 2023, on RatingsDirect.

Financial Risk

The company's weaker-than-peers' cash conversion limits its opportunities to deleverage. TRATON's acquisition of Navistar resulted in elevated debt levels, reaching €9.1 billion at the end of 2021. For 2022, debt increased further to €9.8 billion following negative FOCF of €963 million. Most of which driven by one-time events, such as the payment of the fine at Scania and Navistar settlement. For 2023, we anticipate TRATON's FOCF to sales will improve from the negative value in 2022 to around 2%-3%, more in line with historical levels. As a result, we expect FFO to debt to start materially improving, to 35%-40% in 2023. We assign TRATON our 'bb+' stand-alone credit profile (SACP). We would consider revising our SACP assessment if adjusted FFO to debt rises sustainably to about 45% and FOCF to debt strengthens above 15%.

Debt and FFO to debt evolution

2019 - 2023e



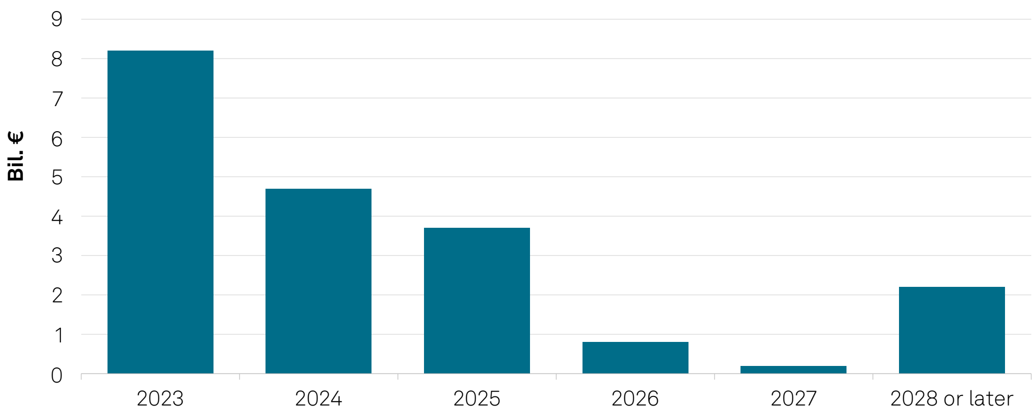
e--Estimate. Source: S&P Global Ratings.

The company's captive operations for its brands are not yet integrated, and our assessment could change depending on the funding configuration, equity ratios, and incidence of operating leases. TRATON carries on its balance sheet the financial services activities of Scania, so it does not have fully centralized captive finance operations. At the same time, over the past few months, activities aimed at establishing and integrating a groupwide financial services organization have accelerated. On April 1, 2023, Scania sold its financial services operations to its parent. In addition, in July 2023, the company reached an agreement with its parent to transfer the financial services activities of MAN and Volkswagen Truck & Bus. We understand that the framework agreement foresees that the sale and transfer of rights to provide financial solutions for these two brands from VW to TRATON. The company expects to conclude the integration process by the end of 2025. Finally, on Oct. 5, 2023, Navistar launched its intention to offer captive finance services to its clients directly. However, for the time being, TRATON hasn't disclosed its key milestones for establishing a groupwide financial service business, or its funding needs, so our assessment of TRATON's SACP does not include the impacts, if any, of establishing a new business. We will reflect the effects of the new financial services organization that TRATON is establishing as soon as the company discloses its structure, funding strategy, capitalization targets, and related matters. As of year-end 2022, TRATON's captive operations had a debt-to-equity ratio of 5.5x following the consolidation of Navistar.

Debt maturities

Debt maturity profile of financial liabilities (excluding leases)

As of December 31, 2022



Source: S&P Global Ratings.

TRATON SE--Financial Summary

Period ending	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR
Revenues	24,963	26,444	22,156	29,656	39,041
EBITDA	1,958	2,379	899	1,865	2,694
Funds from operations (FFO)	1,415	1,833	405	1,124	1,649
Interest expense	277	256	226	347	358
Cash interest paid	139	132	101	233	426
Operating cash flow (OCF)	1,251	1,668	1,698	1,844	344
Capital expenditure	931	1,025	1,029	1,128	1,307
Free operating cash flow (FOCF)	320	643	669	716	(963)
Discretionary cash flow (DCF)	320	(3,716)	168	581	(1,213)
Cash and short-term investments	3,095	5,091	3,819	2,228	1,512
Gross available cash	2,950	5,031	3,746	2,082	1,057
Debt	5,418	854	2,087	9,111	9,809

TRATON SE--Financial Summary

Common equity	16,219	13,164	12,208	11,623	12,199
Adjusted ratios					
EBITDA margin (%)	7.8	9.0	4.1	6.3	6.9
Return on capital (%)	8.2	10.2	0.9	5.8	7.1
EBITDA interest coverage (x)	7.1	9.3	4.0	5.4	7.5
FFO cash interest coverage (x)	11.2	14.9	5.0	5.8	4.9
Debt/EBITDA (x)	2.8	0.4	2.3	4.9	3.6
FFO/debt (%)	26.1	214.6	19.4	12.3	16.8
OCF/debt (%)	23.1	195.3	81.4	20.2	3.5
FOCF/debt (%)	5.9	75.3	32.1	7.9	(9.8)
DCF/debt (%)	5.9	(435.0)	8.0	6.4	(12.4)

Reconciliation Of TRATON SE Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2022									
Company reported amounts	19,922	14,368	40,335	4,549	1,564	288	2,694	(660)	250	1,909
Cash taxes paid	-	-	-	-	-	-	(689)	-	-	-
Cash interest paid	-	-	-	-	-	-	(749)	-	-	-
Trade receivables securitizations	104	-	-	-	-	-	-	(19)	-	-
Lease liabilities	1,209	-	-	-	-	-	-	-	-	-
Postretirement benefit obligations/ deferred compensation	1,322	-	-	(5)	(5)	70	-	-	-	-
Accessible cash and liquid investments	(797)	-	-	-	-	-	-	-	-	-
Capitalized development costs	-	-	-	(604)	(225)	-	-	(604)	-	(604)
Dividends from equity investments	-	-	-	60	-	-	-	-	-	-
Captive finance operations	(11,951)	(2,175)	(1,294)	(80)	(80)	-	393	1,627	-	2
Nonoperating income (expense)	-	-	-	-	281	-	-	-	-	-
Noncontrolling/ minority interest	-	6	-	-	-	-	-	-	-	-
EBITDA - Gain/(loss) on disposals of PP&E	-	-	-	(27)	(27)	-	-	-	-	-
EBITDA: other	-	-	-	(1,199)	(1,199)	-	-	-	-	-
D&A: other	-	-	-	-	1,199	-	-	-	-	-
Total adjustments	(10,113)	(2,169)	(1,294)	(1,855)	(56)	70	(1,045)	1,004	-	(602)

Reconciliation Of TRATON SE Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	9,809	12,199	39,041	2,694	1,508	358	1,649	344	250	1,307

Liquidity

We assess TRATON's liquidity as adequate, and our short-term rating on TRATON is 'A-2'. We project the group's ratio of liquidity sources to uses for the industrial division will be about 1.3x for the 12 months from June 30, 2023.

Principal liquidity sources

- Cash and equivalents of about €1.5 billion as of June 30, 2023.
- €3.5 billion of undrawn committed lines maturing beyond 12 months, excluding our expectation of peak commercial paper use of up to about €1.0 billion. TRATON's syndicated revolving credit facility amounts to €4.5 billion.
- Industrial's reported cash FFO of €4.5 billion-€5.0 billion over the next 12 months.

Principal liquidity uses

- Debt maturities at TRATON's industrial business of about €3.8 billion over the next 12 months.
- Working capital outflows in the industrial business of about €1.0 billion.
- Reported industrial business capex (including capitalized development costs) for the industrial business of €2.3 billion-€2.8 billion.
- Dividend payments of €700 million-€750 million in the next 12 months.

Environmental, Social, And Governance

Governance factors are a moderately negative consideration in our credit rating analysis of TRATON. This primarily reflects our assessment of its parent's governance, the slower-than-anticipated integration of brands under the previous management team, and higher-than-average management turnover, which somewhat affected the speed of execution. TRATON faces higher-than-average execution risks, for example regarding the integration of its brands, the creation of a common financial services framework, and increasing its market shares in the U.S. while defending its market position in Europe amid worsening market conditions.

Environmental factors are also a moderately negative consideration. TRATON is exposed to the challenges of managing the transition of its product portfolio toward zero-emission vehicles in light of more stringent global carbon dioxide emission regulation. Tightening emission regulation kicks in from 2025 in Europe, where the group generated about 46% of its revenue in 2022. Battery electric vehicle technology is already available for trucks, but we expect conventional engines to largely dominate the market in 2023-2025. At this stage, higher total cost of ownership for transport companies, lack of charging infrastructure, and the limited maximum range that trucks can cover with the battery technology will constrain the scalability of these technologies, in our view. Also, there is still meaningful uncertainty on the evolution of carbon dioxide regulation and the margin contribution for zero-emission vehicles against conventional combustion engines. Moreover, the latest Euro 7 pollutant emission proposal from the EU Commission, dated Nov. 7, 2022, could challenge trucks OEMs' transition to zero-emission transport. This is because substantial engineering and financial resources will also still be needed to improve internal combustion engine trucks in addition to new investment for battery and fuel-cell electric vehicles, potentially affecting internal resource allocation and ultimately FOCF.

Group Influence

We consider TRATON a highly strategic subsidiary of VW (BBB+/Stable/A-2), reflecting its strong ties with the parent 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 close operational links between TRATON and its parent company. In 2022, TRATON contributed about 14.4% of VW's consolidated top line. Moreover, TRATON has access to VW's purchasing platforms. Furthermore, VW has granted TRATON an acquisition facility to support the financing of the Navistar acquisition, now fully refinanced with external debt, and offered an uncommitted line of €4 billion. Therefore, as long as we view TRATON as highly strategic to the VW group, we will rate it a maximum of one notch below VW, which itself we currently rate 'BBB+'. Our rating on TRATON could equal, but not exceed, the rating on VW if the SACP were at least equal to the rating on VW.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of June 30, 2023, TRATON's consolidated financial debt totaled about €20.4 billion, excluding €1.2 billion of leasing.

Analytical conclusions

We continue to rate TRATON's senior unsecured debt and the €12 billion euro medium-term notes program 'BBB'. The priority debt ratio is about 38% and sensitive to some swings in issuances, but we still think the amount of priority debt will decrease, with new issuances at the parent level.

Rating Component Scores	
Foreign currency issuer credit rating	**BBB/Stable/A-2**
Local currency issuer credit rating	**BBB/Stable/A-2**
Business risk	**Satisfactory**
Country risk	Low
Industry risk	Moderately High
Competitive position	Satisfactory
Financial risk	**Significant**
Cash flow/leverage	Significant
Anchor	**bb+**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Fair (no impact)
Comparable rating analysis	Neutral (no impact)
Captive finance	Neutral (no impact)
Stand-alone credit profile	**bb+**
Group credit profile	**bbb+**
Entity status within group	**Highly strategic (-1 notch from group credit profile)**

Rating Component Scores

Foreign currency issuer credit rating	BBB/Stable/A-2
Local currency issuer credit rating	BBB/Stable/A-2
Business risk	Satisfactory
Country risk	Low
Industry risk	Moderately High
Competitive position	Satisfactory
Financial risk	Significant
Cash flow/leverage	Significant
Anchor	bb+
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Fair (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	bb+

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
- 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

- Daimler Truck Holding AG, Oct. 12, 2023
- Global Heavy-Duty Truck Sales Gain Momentum Amid Mounting Risks, Oct. 3, 2023
- Tear Sheet: AB Volvo, July 31, 2023
- Tear Sheet: Daimler Truck Holding AG, July 31, 2023
- Tear Sheet: TRATON SE, June 16, 2023
- Tear Sheet: PACCAR Inc., June 8, 2023
- Research Update: Daimler Truck Holding AG Outlook Revised To Positive On Improving Margins And Cash Flow; Affirmed At 'BBB+/A-2', May 26, 2023
- Research Update: Sweden-Based Truck Manufacturer AB Volvo Upgraded To 'A' On Improving Margins And Cash Flow Expectations; Outlook Stable, May 15, 2023
- Bulletin: German Truck Manufacturer TRATON Sees Positive Route Ahead For 2023, March 9, 2023

Ratings Detail (as of October 16, 2023)*

TRATON SE	
Issuer Credit Rating	BBB/Stable/A-2
Issuer Credit Ratings History	
12-Sep-2023	BBB/Stable/A-2
29-Apr-2021	BBB/Stable/--
22-Oct-2020	BBB/Negative/--
17-Jun-2020	BBB/Stable/--
Related Entities	
Banco Volkswagen S.A.	
Issuer Credit Rating	
Brazil National Scale	brAAA/Stable/--
Navistar Financial, S.A. de C.V. SOFOM, E.R.	
Issuer Credit Rating	
CaVal (Mexico) National Scale	mxAA+/Stable/mxA-1+
Senior Unsecured	
CaVal (Mexico) National Scale	mxAA+
Short-Term Debt	
CaVal (Mexico) National Scale	mxA-1+
Scania AB (publ.)	

Ratings Detail (as of October 16, 2023)*

Issuer Credit Rating	BBB/Stable/A-2
Nordic Regional Scale	--/--/K-2
South Africa National Scale	zaAAA/--/zaA-1+
Volkswagen AG	
Issuer Credit Rating	BBB+/Stable/A-2
Volkswagen Bank GmbH	
Issuer Credit Rating	BBB+/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Subordinated	BBB
Senior Unsecured	BBB+
Short-Term Debt	A-2
Volkswagen Financial Services AG	
Issuer Credit Rating	BBB+/Stable/A-2
Volkswagen Financial Services Polska SP. Z O.O.	
Senior Unsecured	A-2
Volkswagen Finans Sverige AB	
Issuer Credit Rating	
Nordic Regional Scale	--/--/K-1
Volkswagen International Belgium S.A.	
Issuer Credit Rating	BBB+/Stable/A-2
Volkswagen Leasing S.A. de C.V.	
Senior Secured	
CaVal (Mexico) National Scale	mxAAA
Short-Term Debt	
CaVal (Mexico) National Scale	mxA-1+

*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.