

Tear Sheet:

# TRATON SE

October 29, 2024

**TRATON SE will keep its S&P Global Ratings-adjusted EBITDA margins at about the same levels as 2023 despite worsening market conditions.** The full effect of MAN realignment program coupled with strict policies on pricing will support a stabilization of TRATON's S&P Global Ratings-adjusted EBITDA margin at 9.5%-10.5% in 2024, from 10.2% in 2023 and 6.9% in 2022. We expect flattish sales in 2024 at €42 billion-€43 billion, with price mix offsetting lower volumes. Revenue visibility for 2025 has eroded as growth in new orders is slowing down, or even contracting in markets such as Germany. Trucks orders in Europe declined by 19% in the first nine months 2024 to 52,618 units. Overall, we expect modest growth in revenue in 2025, supported by some possible pre-buy ahead of the 2027 Environmental Protection Agency in the U.S. (historically accounting for 20%-25% of the group's unit sales).

**For 2024, we anticipate that cash generation at TRATON will stay positive but will not exceed €1 billion due to higher investments for a new production facility in China and e-mobility.**

TRATON is stepping up its capital expenditure in 2024 as it is establishing a new factory in China to produce locally for the Chinese and Asian markets from the end of 2025 onward. Its current license allows for 50,000 units per year. In addition, the company is pursuing its investments in the electrification of its portfolio. Although the demand for all-electric vehicles is still low, with orders of 2,374 units (1.3% of total orders) and deliveries of 1,131 units (0.5% of total unit sales) in the first nine months 2024; the tightening of the regulatory framework on carbon dioxide emissions reduction in Europe with a targeted reduction in carbon dioxide emissions of 15% from 2025 and 45% from 2030 will likely support electric trucks' inclusion in the product mix over time. However, we do not anticipate a material increase of battery electric vehicles (BEVs) units sold over the coming two years. The lack of reliable charging infrastructure as well as the total cost of ownership of BEVs against combustion engines are two key elements that impede a faster penetration.

**Over the next few years, TRATON will focus on leveraging its TRATON modular system (TMS) approach and the integration of group functions to reach its return on sales targets of 9%-11% by 2029 (from the 8%-9% target for 2024).** TMS refers to the development of modular components with universal applicability across brands. This should increase the number of common parts across the brands and simplify the manufacturing process while ensuring customization and brand differentiation. We expect that TRATON will also focus on the strengthening of its balance sheet supported by a moderate financial policy characterized by dividend payout of 30%-40% of net income and limited merger and acquisition activity.

## Primary contact

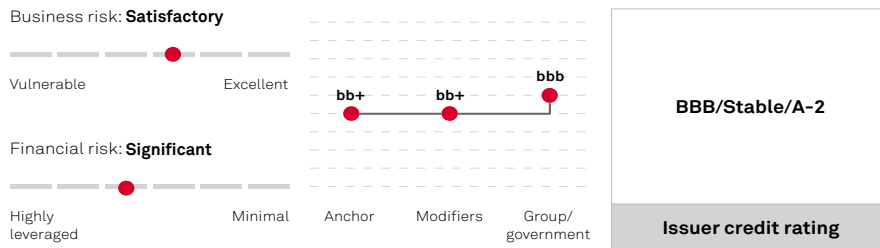
**Margaux Pery**  
Paris  
33-14-420-7335  
margaux.pery  
@spglobal.com

## Secondary contact

**Benedetta Sorge**  
Milan  
39-02-7211-1244  
benedetta.sorge  
@spglobal.com

**We continue to align our rating on TRATON with our rating on VW AG.** This reflects VW Finance Luxembourg's, a wholly owned subsidiary of VW AG, ownership in TRATON for about 89.7% of its shares. We assume that VW will keep the control over TRATON by maintaining a stake of at least 75% in TRATON. On its stand-alone basis we currently forecast that TRATON's S&P Global Ratings-adjusted FFO to debt will reach 30%-40% in 2024 before improving to 35%-45% in 2025 as compared to 36.5% in 2023. At the same time in its recent capital market day the company expect to gradually deleverage to reach a reported net cash position under its industrial operations by the end of 2027.

## Ratings Score Snapshot



## Recent Research

- Research Update: TRATON SE 'BBB/A-2' Ratings Affirmed Following Implementation Of New Captive Finance Criteria; Off UCO; Outlook Stable, Nov. 14, 2023
- TRATON SE, Oct. 17, 2023
- Bulletin: German Truck Manufacturer TRATON Sees Positive Route Ahead For 2023, March 9, 2023
- Research Update: German Truck Manufacturer TRATON SE Affirmed At 'BBB' Despite Weaker Margin Prospects In 2022; Outlook Stable, July 22, 2022
- Industry Top Trends Update: Autos EMEA, July 14, 2022
- Global Heavy Truck Sales Forecast: COVID, War, And Supply Chain Woes Are Taking Their Toll In 2022, June 24, 2022

## Company Description

TRATON was founded in 2015 as the commercial vehicle arm of VW. It sells trucks and buses under the Scania, MAN, International (formerly Navistar), and VW Truck & Buses brands. TRATON is the market leader in South America for heavy-duty trucks (class 8) with a market share of about 33% and in Europe with a market share of about 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, now called International, maintaining a No. 4 position in the U.S. heavy-duty truck market in 2024.

In 2023, TRATON recorded S&P Global Ratings-adjusted revenue of €42.3 billion and an adjusted EBITDA margin of 10.2% under its industrial business.

TRATON is controlled by VW, which has owned 89.72% 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. 9, 2024, the company's market capitalization was about €14.3 billion.

## 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.

## Key Metrics

### TRATON SE--Forecast summary

Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025
(Mil. EUR)	2020a	2021a	2022a	2023a	2024e	2025f
Revenue	22,156	29,656	39,041	42,313	42,000-43,000	44,000-45,000
EBITDA (reported)	2,522	3,125	4,549	6,627	6,500-7,000	7,000-7,500
Plus/(less): Captive	(1,623)	(1,260)	(1,855)	(2,317)	(2,500)-(2,000)	(2,500)-(2,000)
EBITDA	899	1,865	2,694	4,310	4,000-4,500	4,500-5,000
Less: Cash interest paid	(101)	(233)	(426)	(691)	(750)-(700)	(775)-(725)
Less: Cash taxes paid	(393)	(508)	(619)	(801)	(750)-(650)	(850)-(750)
Funds from operations (FFO)	405	1,124	1,649	2,818	2,500-3,000	3,000-3,500
Capital expenditure (capex)	1,029	1,128	1,307	804	1,500-2,000	1,500-2,000
Free operating cash flow (FOCF)	669	716	(963)	1,679	500-1,000	1,000-1,500
Dividends	501	135	250	350	700-900	600-800
Debt (reported)	11,251	16,968	19,922	20,523	20,880-21,380	22,330-22,830
Plus: Lease liabilities debt	1,047	1,237	1,209	1,181	1,181	1,181
Plus: Pension and other postretirement debt	1,364	1,938	1,322	1,270	1,270	1,270
Less: Accessible cash and liquid investments	(3,519)	(1,853)	(797)	(1,269)	(677)	(677)
Plus/(less): Other	(8,056)	(9,179)	(11,847)	(13,976)	(15,250)-(14,750)	(16,000)-(16,500)
Debt	2,087	9,111	9,809	7,730	7,750-8,250	7,750-8,250
<b>Adjusted ratios</b>						
Debt/EBITDA (x)	2.3	4.9	3.6	1.8	1.7-2.2	1.5-2.0

**TRATON SE--Forecast summary**

FFO/debt (%)	19.4	12.3	16.8	36.5	30-40	35-45
FFO cash interest coverage (x)	5.0	5.8	4.9	5.1	4.5-5.5	4.5-5.5
FOCF/debt (%)	32.1	7.9	(9.8)	21.7	5-15	10-20
Annual revenue growth (%)	(16.2)	33.9	31.6	8.4	(2)-2	0-5
EBITDA margin (%)	4.1	6.3	6.9	10.2	9.5- 10.5	10.0-11.0

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

## Financial Summary

**TRATON SE--Financial Summary**

Period ending	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	24,963	26,444	22,156	29,656	39,041	42,313
EBITDA	1,958	2,379	899	1,865	2,694	4,310
Funds from operations (FFO)	1,415	1,833	405	1,124	1,649	2,818
Cash interest paid	139	132	101	233	426	691
Capital expenditure	931	1,025	1,029	1,128	1,307	804
Free operating cash flow (FOCF)	320	643	669	716	(963)	1,679
Discretionary cash flow (DCF)	320	(3,716)	168	581	(1,213)	1,329
Debt	5,418	854	2,087	9,111	9,809	7,730
<b>Adjusted ratios</b>						
EBITDA margin (%)	7.8	9.0	4.1	6.3	6.9	10.2
FFO cash interest coverage (x)	11.2	14.9	5.0	5.8	4.9	5.1
Debt/EBITDA (x)	2.8	0.4	2.3	4.9	3.6	1.8
FFO/debt (%)	26.1	214.6	19.4	12.3	16.8	36.5
FOCF/debt (%)	5.9	75.3	32.1	7.9	(9.8)	21.7
DCF/debt (%)	5.9	(435.0)	8.0	6.4	(12.4)	17.2

## Peer Comparison

**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	A-/Stable/A-2
Local currency issuer credit rating	BBB/Stable/A-2	A/Stable/A-1	A+/Stable/A-1	A-/Stable/A-2
Period	Annual	Annual	Annual	Annual
Period ending	2023-12-31	2023-12-31	2023-12-31	2023-12-31
Mil.	EUR	EUR	EUR	EUR

## TRATON SE--Peer Comparisons

Revenue	42,313	47,567	30,140	53,290
EBITDA	4,310	7,303	5,301	6,247
Funds from operations (FFO)	2,818	5,439	4,037	4,769
Cash interest paid	691	104	(92)	62
Operating cash flow (OCF)	2,483	5,381	4,085	4,463
Capital expenditure	804	1,216	629	1,070
Free operating cash flow (FOCF)	1,679	4,165	3,456	3,393
Discretionary cash flow (DCF)	1,329	1,563	2,079	1,669
Debt	7,730	0	0	0
EBITDA margin (%)	10.2	15.4	17.6	11.7
Debt/EBITDA (x)	1.8	0.0	0.0	0.0
FFO/debt (%)	36.5	NM	NM	NM
FOCF/debt (%)	21.7	NM	NM	NM
DCF/debt (%)	17.2	NM	NM	NM

## 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 negative consideration. TRATON is exposed to the challenges of managing the transition of its product portfolio toward zero-emission vehicles because of more stringent global carbon dioxide emission regulation. Tightening emission regulation kicks in from 2025 in Europe, where the group generated about 51% of its revenue in 2023. Battery electric vehicle technology is already available for trucks, but we expect conventional engines to largely dominate the market in 2024-2025. 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. This is because substantial engineering and financial resources will 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 free operating cash flow.

**Rating Component Scores**

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

## Related Criteria

- Criteria | Corporates | General: Methodology: The Impact Of Captive Finance Operations On Nonfinancial Corporate Issuers, Oct. 23, 2023
- 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 And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- 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: Principles Of Credit Ratings, Feb. 16, 2011

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- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

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