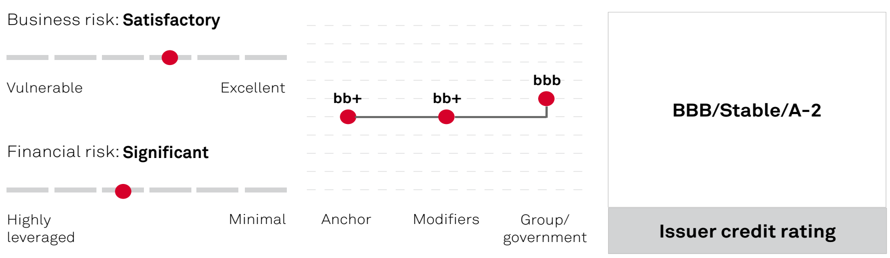
S&P Global Ratings

RatingsDirect®

TRATON SE

December 20, 2024

Ratings Score Snapshot



Primary contact

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

Secondary contacts

Florent Blot, CFA
Paris
33-1-40-75-25-42
florent.blot
@spglobal.com

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

Credit Highlights

Overview

Key strengths	Key risks
Solid position in the heavy commercial vehicle manufacturing industry, as the No. 2 worldwide (as of November 2024, in terms of units sold).	Competitive pressures and increasingly stringent carbon emissions regulation could affect the product portfolio and sales mix, and ultimately threaten profit margins.
Highly strategic subsidiary for its parent company and 89.7% owner, Volkswagen AG (VW; BBB+/Stable/A-2), to which it has close links in terms of financing, IT services, and purchasing. This underpins our rating on TRATON one notch below the rating on VW, independently of TRATON's stand-alone credit profile.	Capital expenditure is likely to remain high to meet stringent environmental targets and evolving technology shifts, at 5.5%-6.5% of industrial net sales in the coming years.
The incremental modularization of its brands could offer improvement in profitability. This, coupled with the increased level of services, could offer more EBITDA stability . TRATON aims to achieve an adjusted return on sales based on company's definition of 9%-11% by 2029, versus 8%-9% expected for 2024.	Volatile industry demand, with demand swings being closely linked to GDP growth, and prebuying effects from truck regulation and ultimately truck buyer confidence, which we anticipate will remain subdued owing to normalizing demand over 2024-2025.
Expected leverage improvements supported by the company's ambition to achieve a net reported cash position at its industrial business by 2027. S&P Global Ratings-adjusted debt improved to €7.7 billion at the end of 2023 from €9.8 billion at end-2022.	As the groupwide financial services are being enabled in several new markets, we expect TRATON to bear additional expansion costs and refinance and risk costs, not offset by benefits related to portfolio growth.

TRATON SE's 2024 S&P Global Ratings-adjusted EBITDA margins will be similar to 2023, despite worsening market conditions. The full effect of realignment of the MAN brand, coupled with strict policies on pricing, will support stabilization of TRATON's S&P Global Ratings-adjusted EBITDA margin at 9.5%-10.5% in 2024, compared with 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. The company's truck orders in Europe declined by 19% in the first nine months of 2024 to 52,618 units, suggesting for a further normalization in 2025. We forecast that global sales of heavy-duty trucks (HDTs) will increase globally by low single digits to about 1.95 million units in 2025, up from 1.93 million units expected for 2024. The market continues to normalize in Europe, with a declining trend, and is recovering moderately in North America and Asia-Pacific (APAC). (For further information, see "2025 Global Outlook For Heavy-Duty Trucks Isn't Rosy, Dec. 11, 2024," published Dec. 11, 2024, on RatingsDirect.) As a consequence, we anticipate that the company's 2025 adjusted sales will improve moderately to €44,000 million---€45,000 million (from €42,000 million-€43,000 million expected in 2024) mainly driven by price discipline and possible pre-buying ahead of the 2027 Environmental Protection Agency in the U.S. (the U.S. has historically accounted 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 (capex) 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. 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 2,389 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 in Europe, with a targeted reduction of 15% from 2025 and 45% from 2030, will likely support inclusion of electric trucks 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 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, with a clear ambition to reach a net reported cash position at its industrial business by the end of 2027.

We continue to align our rating on TRATON with our rating on VW AG. This reflects ownership of 89.7% of TRATON's shares by Volkswagen International Luxembourg S.A., a wholly owned subsidiary of VW AG. We assume that VW will keep control over TRATON by maintaining a stake of at least 75%. On a stand-alone basis we forecast that TRATON's S&P Global Ratings-adjusted funds from operations (FFO) to debt will reach 30%-40% in 2024 before improving to 35%-45% in 2025, compared with 36.5% in 2023.

Outlook

The stable outlook on TRATON mirrors that on VW, reflecting VW's ownership of 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 0.8% in 2024, up from 0.5% in 2023, but considerably below the 3.4% growth in 2022, further recovering to 1.3% in 2025. In the U.S., we expect real GDP growth of 2.7% in 2024, after 2.5% in 2023 and 1.9% in 2022, before deteriorating to 1.8% in 2025. In China, we expect real GDP growth of 4.6% in 2024, after 5.2% in 2023 and 3.0% in 2022, followed by 4.3% in 2025.
- Units sold ranging from 325,000 to 335,000 in 2024 compared with 338,183 in 2023. This is mainly due to the normalization of demand after a significant increase in the past two years. Units sold of 345,000-355,000 in 2025 as higher volumes in the U.S. and South America offset declining trend in Europe. Revenue for the industrial business ranging from €42 billion to €43 billion in 2024, relatively flat compared with €42.3 billion in 2023, owing to the good unit price realization and a slight increase in both the new vehicle and the vehicle services sales, and €44 billion-€45 billion in 2025, driven by higher expected new vehicle sales and stable prices.
- S&P Global Ratings-adjusted EBITDA margin of 9.5%-10.5% in 2024 and 10%-11% in 2025 considering the company's pricing discipline and full cost benefits from realignment of the MAN brand.
- Working capital outflow in the industrial business of about €200 million-€210 million in 2024 and 2025.
- S&P Global Ratings-adjusted capex of about €1.8 billion per year in 2024-2025, compared with €804 million in 2023. The increase in capex relates mainly to investments on electrification and increased capacity in China.
- Dividend payments of about €700 million-€900 million in 2024 and €600 million-€800 million in 2025.
- Acquisition costs of about €100 million in 2024 and thereafter, from €300 million in 2023 attributable to the ramp up of joint ventures.
- No material disposals.

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

TRATON SE--Forecast summary

(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	899	1,865	2,694	4,310	4,000-4,500	4,500-5,000
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	2,087	9,111	9,809	7,730	7,750-8,250	7,750-8,250
Adjusted ratios						
Debt/EBITDA (x)	2.3	4.9	3.6	1.8	1.7-2.2	1.5-2.0
FFO/debt (%)	19.4	12.3	16.8	36.5	30-40	35-45
Annual revenue growth (%)	(16.2)	33.9	31.6	8.4	(2)-2	0-5.0
EBITDA margin (%)	4.1	6.3	6.9	10.2	9.5-10.5	10-11

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 Dec. 18, 2024, the company's market capitalization was about €14.4 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 currently the second-largest worldwide in terms of market shares, at about 10% in 2023 (in terms of units sold), and the leader in Europe.

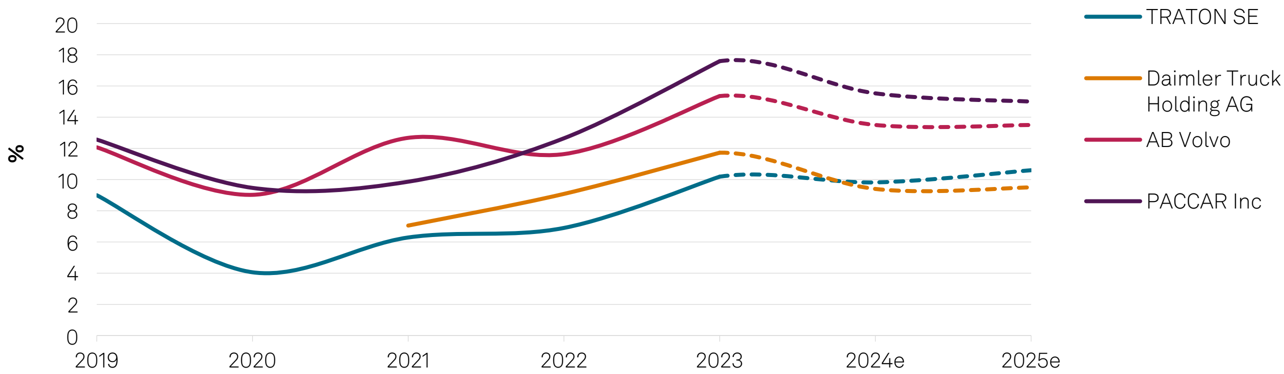
In our view, TRATON has good geographical diversification, comparable to that of main peers Daimler Truck AG and AB Volvo, given the exposure to the U.S. through the acquired Navistar and its leading market position in key markets.

In terms of profitability, TRATON is getting closer to its peers, exploiting the benefits from modularization of components and common powertrain. After lagging behind all of them in the

2019-2022 period, with its S&P Global Ratings-adjusted EBITDA margin below 7.0%, we now project its EBITDA margin will reach about 9.5%-10.5% in 2024, in line with 2023.

Profitability comparison

S&P Global Ratings-adjusted EBITDA margin, 2018-2025e



e--Estimated. 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 vehicle brands: Scania, MAN, Volkswagen Truck & Bus, and International (previously Navistar), with Scania being the premium name while VWTB, MAN, and International 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.

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
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

TRATON SE--Peer Comparisons

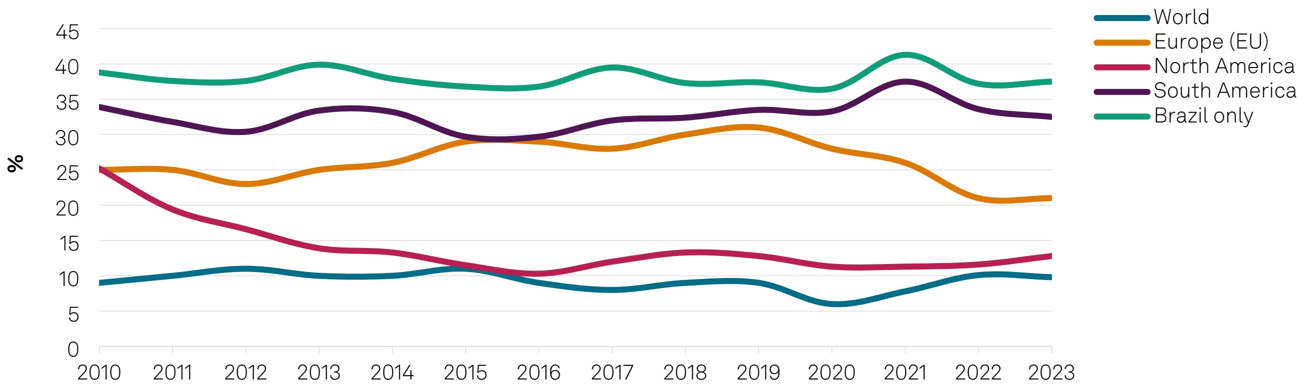
Free operating cash flow (FOCF)	1,679	4,165	3,456	3,393
Discretionary cash flow (DCF)	1,329	1,563	2,079	1,669
Debt	7,730	0	0	0
EBITDA margin (%)	10.2	15.4	17.6	11.7
Debt/EBITDA (x)	1.8	0.0	0.0	0.0
FFO/debt (%)	36.5	NM	NM	NM
FOCF/debt (%)	21.7	NM	NM	NM
DCF/debt (%)	17.2	NM	NM	NM

Business Risk

TRATON's balanced footprint and access to several profit pools can unlock value. The company has a leading position in its key markets thanks to the solid combined market shares of its brands Scania, MAN, and VWTB. The acquisition in 2021 of Navistar, now called International, 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 and AB Volvo. According to 2023 S&P Global Mobility figures for Class 8 truck units sold, TRATON is the No. 2 worldwide, with a global market share of about 10%, after Daimler Truck (13.4%). In Europe, TRATON's key market, the company recovered its leading position in 2023, with a market share of 21.3%, after having lost it in favor of Volvo in 2022, which now stands at about 19%. In this region, Scania ranks No. 4, with about 11.7% 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 33% 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% market share respectively, while International and MAN represent about 1% and less than 1% of the market, respectively. International is the only brand under which TRATON operates in North America, holding the No. 4 position with about 13% market share, after the undisputed market leader Daimler Truck (38% market share in 2023) and competitors PACCAR (30%) and AB Volvo (17%). Finally, in China, which is the largest commercial vehicle market worldwide in terms of volumes, TRATON has been the first Western truck manufacturer to receive a production license independent from a local partner. However, the market is still saturated with Asian producers, and TRATON's market share as of the end of 2023 accounted for about 0.4%.

TRATON's market share evolution in key regions

Class 8 HD Trucks -- 2010-2023



Source: S&P Global Ratings.

TRATON’s cross-brand modular system will enhance production efficiency and reduce costs as it is fully implemented. The system is designed to create a standardized platform for common vehicle components across TRATON's brands, including Scania, MAN, and International. In 2021, Scania first launched the common powertrain, but, since then, other components have followed and we expect the system will also serve battery electric vehicles (BEV) in the coming years. Moreover, in February 2024, individual brands’ research and development departments were merged into a cross-brand organization, which we expect will generate cost savings and increase flexibility to better address market needs. TRATON targets return on sales of 9%-11% by 2029, compared with 8%-9% targeted in 2024. Until the full modularization is implemented, TRATON’s cost base will remain less agile than some of its peers operating at benchmark levels such as for example AB Volvo.

TRATON is committed to expand its battery electric vehicle (BEV) offering. In the first nine months of 2024, the total order intake of full electric vehicles amounted to 2,389 units (from 1,703 over the same period in 2023) while deliveries amounted to 1,131 (from 1,190), in both cases equivalent to about 1% of total units ordered and sold and relating to buses and vans mainly. Despite the increase in orders, the growth is slower than expected, given the phaseout of the MAN E-Van at the end of the previous year and customer expectations for more developed charging infrastructure and competitive pricing which currently are holding back the demand in the market. We see TRATON’s sustainable strategy as well positioned with respect to that disclosed by its main peers. TRATON aims for half of its sales in the U.S., Canada, and EU27+3 to be zero-emission vehicles by 2030, while Daimler Truck targets 50% of its sales in Europe to be electric vehicles by 2030 and AB Volvo aims to reach 100% of new vehicles sold to be fossil free by 2040.

We anticipate that the penetration of zero-emission vehicles (ZEVs) will be gradual and uneven across countries worldwide. Currently, China has the largest share of electric medium and heavy commercial vehicles, but we expect EU countries will catch up toward 2030. The timing of the transition to electric trucks in the U.S. has become unclear and the transition will likely be prolonged, given President Elect Donald Trump's potential policies. Key barriers to electric trucks' fast penetration of the market are the current lack of charging infrastructure and the purchase price of electric trucks, which is considerably higher than that of traditional trucks. In the absence of significant subsidies, this often puts electric trucks at a disadvantage from a total cost of ownership perspective but is offset by several factors that benefit the growth of ZEVs, including customers' decarbonization strategies and government subsidies. For further details, see "2025 Global Outlook For Heavy-Duty Trucks Isn't Rosy," Dec. 11, 2024.

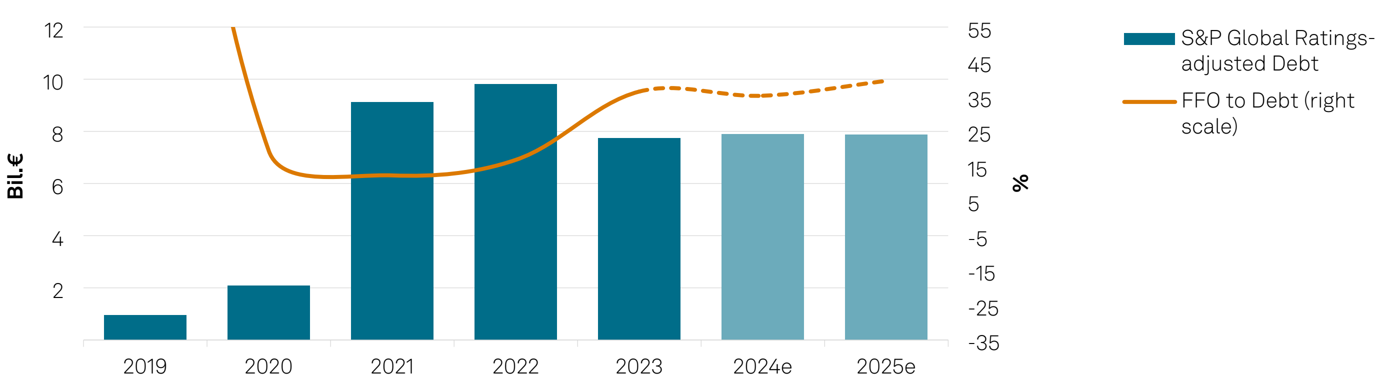
Financial Risk

Weaker-than-peers' cash generation weighs on TRATON's deleveraging path. Despite the improvement in credit metrics observed in 2023, it will take some time for the company to fully digest its recent acquisition of International. The acquisition resulted in elevated debt, reaching €9.1 billion at the end of 2021. For 2022, debt increased further to €9.8 billion following negative free operating cash flow (FOCF) of €963 million, mostly driven by the payment of an antitrust settlement at Scania. In 2023, debt stabilized at €7.7 billion. For 2024 we anticipate that debt will increase by about €100 million compared with 2023. This is because TRATON's cash flow generation remains constrained by some working capital buildup and higher capex of €1,500 million-€2,000 million. The investments realized throughout 2024 are related to the establishment of a new factory in China, the electrification of vehicle offerings and the ramp up of financial services. As a result, TRATON's FOCF to sales will likely decrease to 5%-15% from 21.3% in 2023.

Our stand-alone credit profile (SACP) on TRATON is 'bb+'. 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

2019-2025e



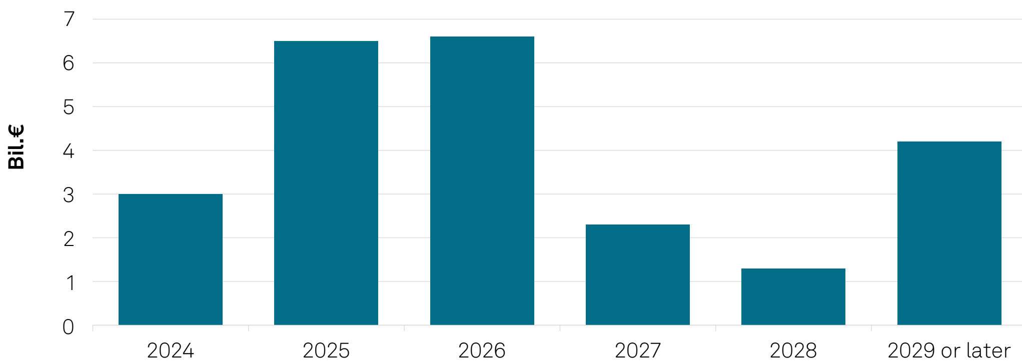
e--Estimate. Source: S&P Global Ratings.

The process of integrating captive operations for TRATON's brands is still ongoing, and our assessment could change depending on funding needs, weight of operating leases, and effects on equity ratios. TRATON aims to finalize the integration of the key aspects of the global MAN and VWTB Financial Services businesses in the second quarter of 2025. The project aiming to enlarge these operations on a global scale accelerated in 2024 with TRATON enhancing MAN Financial Services business in Spain, Poland, Germany, South Korea, the U.K., Ireland, and Sweden. On one hand, this operation supported portfolio volume expansion, generating growth of 22% in segment sales to €1,409 million as of Sept. 30, 2024. On the other hand, the segment experienced some credit quality deterioration, reporting higher bad debt allowances, contributing to an operating result decrease of 28.5% to €158 million. As of year-end 2023, TRATON's captive operations had a debt-to-equity ratio of 7.6x considering the activities of Scania Financial Services and International Financial Services. We will reflect the effects of the new financial services organization as soon as the company discloses its structure, funding strategy, capitalization targets, and related matters.

Debt maturities

Traton SE: Debt maturity profile of financial liabilities (excluding leases)

As of Sept. 30, 2024



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**	**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
Operating cash flow (OCF)	1,251	1,668	1,698	1,844	344	2,483
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
Adjusted ratios						
EBITDA margin (%)	7.8	9.0	4.1	6.3	6.9	10.2
Debt/EBITDA (x)	2.8	0.4	2.3	4.9	3.6	1.8

TRATON SE--Financial Summary

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

	Debt	Revenue	EBITDA	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2023						
Company reported amounts	20,523	46,872	6,627	4,310	2,583	350	2,209
Cash taxes paid	-	-	-	(904)	-	-	-
Cash interest paid	-	-	-	(1,300)	-	-	-
Trade receivables securitizations	113	-	-	-	(9)	-	-
Lease liabilities	1,181	-	-	-	-	-	-
Postretirement benefit obligations/ deferred compensation	1,270	-	(7)	-	-	-	-
Accessible cash and liquid investments	(1,269)	-	-	-	-	-	-
Capitalized development costs	-	-	(687)	-	(687)	-	(687)
Dividends from equity investments	-	-	27	-	-	-	-
Captive finance operations	(14,347)	(4,559)	(657)	712	596	-	(718)
Nonoperating income (expense)	-	-	-	-	-	-	-
Noncontrolling/ minority interest	-	-	-	-	-	-	-
Debt: Debt serviced by third parties	86	-	-	-	-	-	-
Debt: other	172	-	-	-	-	-	-
EBITDA - Gain/(loss) on disposals of PP&E	-	-	(15)	-	-	-	-
EBITDA: other income/ (expense)	-	-	102	-	-	-	-
EBITDA: other	-	-	(1,080)	-	-	-	-
D&A: other	-	-	-	-	-	-	-
Total adjustments	(12,793)	(4,559)	(2,317)	(1,492)	(100)	-	(1,405)

	Debt	Revenue	EBITDA	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
S&P Global Ratings adjusted	Debt	Revenue	EBITDA	Funds from Operations	Operating cash flow	Dividends	Capital expenditure
	7,730	42,313	4,310	2,818	2,483	350	804

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 will be above 1.2x for the 12 months from Sept. 30, 2024. We perform our liquidity analysis for TRATON on a joint basis, which looks at industrial and captive operations in combination.

Our estimated inflow from TRATON's portfolio run-off, and portfolio reinvestment can be broken down as follows:

- Gross portfolio run-off: Inflows from contractual repayments of loans and finance principal, totaling about €5 billion-€6 billion over the next 12 months;
- Net portfolio run-off: We net these amounts with our assumption of €1 billion of portfolio investments, which we assume TRATON would undertake from own funds during periods of constrained debt market access. These estimates are based on an imputed debt-to-equity ratio that we apply to the gross portfolio run-off plus depreciation of leased assets.

Principal liquidity sources

- Cash and equivalents of about €2.9 billion as of Sept. 30, 2024.
- €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 €4.5 billion undrawn syndicated facility.
- Industrial's reported cash FFO of €4.5 billion-€5.0 billion over the next 12 months.
- Net portfolio run-off of captive finance assets of about €4 billion-€5 billion, as broken down above.

Principal liquidity uses

- Debt maturities at TRATON's industrial business of about €2.5 billion over the next 12 months.
- Working capital outflows in the industrial business of about €2.7 billion, including intra-year swings.
- Reported industrial business capex (including capitalized development costs) for the industrial business of €2.3 billion-€2.8 billion.
- Dividend payments of €650 million-€700 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, 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. BEV 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 ZEV 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 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 2023, TRATON contributed about 14.2% of VW's consolidated revenue. 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 partially repaid, 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 Sept. 30, 2024, TRATON's consolidated financial debt totaled about €23.7 billion, excluding €1.1 billion of leasing.

Analytical conclusions

We continue to rate TRATON's senior unsecured debt and the €12 billion euro medium-term notes program 'BBB'. We also continue to rate Scania's €5 billion EMTN program at 'BBB' in line with our rating on the parent.

The priority debt ratio is about 34.6% as of Sept. 30, 2024 and sensitive to swings in issuance, but we still think the amount of priority debt will decrease, with new issuance 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	Moderately Negative (no impact)
Comparable rating analysis	Neutral (no impact)
Captive finance	Neutral (no impact)
Stand-alone credit profile	**bb+**

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

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

Related Research

- Tear Sheet: PACCAR Inc., Nov. 12, 2024
- Tear Sheet: TRATON SE, Oct. 29, 2024
- Industry Credit Outlook 2024: Autos, Sep 18, 2024
- Tear Sheet: Daimler Truck Holding AG, Aug. 7,2024
- Tear Sheet: AB Volvo, July 18, 2024
- Research Update: VW's Captive Finance Entities Affirmed At 'BBB+/A-2' After Reorganization; New Entity Rated; Outlook Stable, July 1, 2024
- Research Update: Daimler Truck Holding AG Upgraded To 'A-' From 'BBB+' On Resilient Profitability And Cash Flow; Outlook Stable, June 11, 2024
- Tear Sheet: AB Volvo, Feb. 15, 2024
- Research Update: TRATON SE 'BBB/A-2' Ratings Affirmed Following Implementation Of New Captive Finance Criteria; Off UCO, Outlook Stable, Nov. 14, 2024
- Volkswagen 'BBB+/A-2' Ratings Off UCO; Affirmed Following Implementation Of New Captive Finance Criteria; Outlook Stable, Nov. 1, 2023
- Ratings On Six Issuers With Captive Finance Operations Placed Under Criteria Observation After Criteria Revision, Oct. 23, 2023
- Global Heavy-Duty Truck Sales Gain Momentum Amid Mounting Risks, Oct. 3, 2023

Ratings Detail (as of December 20, 2024)*	
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+

Ratings Detail (as of December 20, 2024)*	
Scania AB (publ.)	
Issuer Credit Rating	BBB/Stable/A-2
Nordic Regional Scale	--/--/K-2
South Africa National Scale	zaAAA/--/zaA-1+
Skofin s.r.o.	
Commercial Paper	
Local Currency	A-2
TRATON Finance Luxembourg S.A.	
Senior Unsecured	BBB
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
Commercial Paper	
Local Currency	A-2
Senior Unsecured	BBB+
Short-Term Debt	A-2
Volkswagen Financial Services N.V.	
Commercial Paper	
Local Currency	A-2
Senior Unsecured	BBB+
Short-Term Debt	A-2
Volkswagen Financial Services Overseas AG	
Issuer Credit Rating	BBB+/Stable/A-2
Volkswagen Finans Sverige AB	
Issuer Credit Rating	
Nordic Regional Scale	--/--/K-1
Commercial Paper	
Local Currency	A-2
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

Ratings Detail (as of December 20, 2024)*	
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.