Moody's

Rating Action: **Moody's affirms TRATON's ratings, change outlook to positive**

18 Mar 2024

Frankfurt am Main, March 18, 2024 -- Moody's Ratings (Moody's) has today affirmed the Baa2 long term issuer rating, P-2 short term issuer rating and (P)Baa2 senior unsecured medium term notes program of TRATON SE (TRATON or "the company"). Moody's also affirmed the (P)Baa2 backed senior unsecured medium term notes programs issued by TRATON's finance subsidiaries TRATON Finance Luxembourg S.A. and TRATON Treasury AB and the Baa2 backed senior unsecured ratings issued by TRATON Finance Luxembourg S.A.. The outlook changed to positive from stable.

RATINGS RATIONALE

The outlook change to positive from stable was prompted by the company's credit metrics improvements, primarily driven by an operating margin expansion, beyond historical levels. The EBITA margin, adjusted by Moody's, rose to 9.2% in 2023, a significant increase from 5.2% in 2022 and 3.5% in 2021. While the profitability improvements benefit from a cyclical upswing in the truck market, they are also a consequence of structural performance improvements. Structural performance improvements were driven by a strategic initiative aimed at boosting the group's performance through the realization of synergies and cost savings, also including the advantages of a restructuring program at MAN and the integration of Navistar. Additionally, in 2023, TRATON managed to decrease its industrial gross debt by over €3 billion, thereby reducing its leverage. Sustained performance improvements could support further positive rating pressure over the next quarters.

TRATON operates within the highly cyclical and competitive truck market. Sales of heavy commercial vehicles, excluding China, rose 8.8% last year to 2.1 million units — exceeding pre-pandemic levels. The strong growth in 2023 was fueled by aging truck fleets and pent-up demand from the pandemic, combined with an easing of supply chain constraints that allowed manufacturers to convert high order backlogs into sales. TRATON's operating performance last year was also boosted by favorable market conditions including market growth as well as favorable price and mix dynamics.

After record sales last year, Moody's expects market's unit sales to decline and increasing pricing pressure this year as market conditions normalize. The outlook change indicates that despite the challenging market conditions, Moody's believes that an upgrade is likely providing that TRATON maintains its Moody's adjusted EBITA around 8%, its Moody's adjusted debt/EBITDA below 2x and positive free cash flow.

The outlook change is further supported by Moody's expectation that TRATON will maintain a conservative financial policy in particular regarding leverage and liquidity.

LIQUIDITY

TRATON's liquidity relies heavily on support from its parent company Volkswagen Aktiengesellschaft (VW), a key credit weakness.

As of December 2023, TRATON's sources of liquidity included cash and cash equivalent of €1.7 billion at group level, marketable securities of around €400 million and access to a fully available €4.5 billion revolving credit facility maturing in December 2028. Together with funds from operations estimated by Moody's at around €5 billion for 2024, total cash sources amount to around 12 billion.

Further liquidity needs include working cash (estimated at around €1.4 billion or 3% of revenue), capex (including capital development costs and leases repayment) of around €3 billion annually, working capital outflows of around €600 million as well as dividend payments. In Moody's theoretical scenario of no access to the capital markets for its manufacturing and financial services activities, uses of liquidity includes upcoming debt maturities, including from financial services, amounting to €7.6 billion in 2024 and another €5.9 billion in 2025. The company already issued €1.3 billion new debt in Q1 2024 to cover for upcoming debt maturities.

As a result, TRATON heavily relies on continued liquidity support from the parent company VW, which provides sizeable credit facilities to TRATON, in a framework agreement totaling €4 billion out of which €3.5 billion were available at December 2023.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

TRATON's ratings could be upgraded if (i) its Moody's-adjusted EBITA margin remains around 8% through the cycle; (ii) the company generates positive free cash flow on a sustainable basis; (iii) its Debt/EBITDA (Moody's adjusted) stays consistently below 2.0x and (iv) the company builds further track record of conservative financial policy including leverage and improvement of its liquidity position.

TRATON's ratings could be downgraded if (i) its Moody's-adjusted EBITA margin declines sustainably below 6%; (ii) it Debt/EBITDA (Moody's adjusted) increases sustainably and materially above 2.5x; (iii) its liquidity profile weakens; and (iv) its free cash flow turns negative.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Manufacturing published in September 2021 and available at https://ratings.moodys.com/rmc-documents/74970. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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