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Research Update:

Truck Maker Scania (publ.) AB 'A-' Long-Term Rating Affirmed And Off Credit Watch On Link To Parent VW; Outlook Negative

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Overview

- We currently consider that the restructurings at Volkswagen (VW) are unlikely to have an adverse impact on the business risk and financial risk of its subsidiary Scania.
- We are affirming the 'A-' long-term rating on Scania and removing it from CreditWatch.
- Given VW's 71% voting stake in Scania, we apply our parent-subsidiary criteria and cap the rating on Scania at the rating level of VW.
- The outlook is negative, reflecting that on VW.

Rating Action

On Aug. 31, 2009, Standard & Poor's Ratings Services affirmed its 'A-' long-term corporate credit rating on Sweden-based truck and bus manufacturer Scania (publ.) AB. The rating was removed from CreditWatch, where it was placed with negative implications on May 8, 2009, following our concerns about the potential impact on Scania's credit quality as a result of the restructuring by its parent, Volkswagen AG (VW; A-/Negative/A-2).

At the same time, the A-2 short-term corporate credit rating on Scania was affirmed. The outlook is negative.

Rationale

The rating affirmation reflects our view that it is now less likely that the restructurings at VW will have an adverse impact on Scania's business risk and financial risk profile.

VW continues to own a majority stake in Scania, with 71% of voting shares and 46% of capital. According to our ratings criteria, there is a close link between the ratings on a parent and a subsidiary because there is a high degree of affiliation between the two parties. Even though VW's economic share in Scania is small, VW has enough voting power to influence Scania's business risk profile and, more importantly, its financial risk profile.

In our view, Scania is effectively a subsidiary under the control of VW, which is also supported by VW's perceived intentions about the long-term nature of its investment in Scania. What's more, other investors are less able to wield control over Scania given the small proportion of voting shares in the hands of minorities. Consequently, Scania remains subject to the VW group risks and we align the ratings on the parent and the subsidiary. Given that group risks for VW still exist in the medium term, as reflected by the

negative outlook on VW, these group risks affect the rating on Scania.

Scania's results for the first half of 2009 showed a sharp decline in profitability following a considerable drop in unit sales. EBIT was down drastically compared with the peak-of-the-cycle margins in the years 2006-2008. Nevertheless, Scania managed to achieve a positive EBIT margin of about 2% in its industrial unit, mostly supported by the service business. Free operating cash flow (FOCF) in industrial operations was positive at Swedish krona (SEK) 1.8 billion due to a reduction of working capital, notably inventory.

The outlook for Scania's markets continue to be bleak and we continue to expect that its operating profit will contract harshly in 2009 compared with 2008. For the industrial division, we expect the group to show a low single-digit EBIT margin and positive FOCF of about the level of this year's dividend payment.

Short-term credit factors

The short-term rating is 'A-2'. We consider Scania's liquidity and financial flexibility to be adequate. It is enhanced by two committed revolving credit facilities (RCF) of €1 billion each. One facility is due in January 2013 with a two-year renewal option. The second RCF is due in May 2012. As of June 2009, Scania had access to unutilized committed credit facilities of SEK26.7 billion. Committed facilities were received from a broad variety of banks. For its financial services unit, Scania pursues the policy to have dedicated financing that covers the estimated demand for funding during the subsequent year. The bank lines are not subject to financial covenants or rating triggers. In addition, in its industrial unit the company reported cash and short-term investments of SEK6.1 billion as of June 30, 2009. Short-term maturities in the industrial unit are covered with existing financial flexibility. We expect Scania to report a positive FOCF in 2009.

Outlook

The negative outlook reflects the outlook on its parent, VW. Hence, in application of our parent-subsidiary criteria, the rating on Scania is capped at the rating level of Volkswagen.

Related Research

For details on our parent-subsidiary rating methodology, please see the chapter "Parent/Subsidiary Links" in the 2006 edition of our corporate criteria book "Corporate Ratings Criteria 2008" on RatingsDirect.

Volkswagen AG 'A-/A-2' Ratings Affirmed And L-T Rating Off CreditWatch Negative After Merger Review; Outlook Negative, Aug. 31, 2009.

Ratings List

Ratings Affirmed; CreditWatch/Outlook	Action	To	From
Scania (publ.) AB			
Corporate Credit Ratings		A-/Negative/A-2	A-/Watch Neg/A-2
South Africa National Scale Ratings		zaAA+/zaA-1	zaAA+/Watch Neg/zaA-1
Scania CV AB			
Senior Unsecured*		A-	A-/Watch Neg
Commercial Paper*		K-1	K-1/Watch Neg
*Guaranteed by Scania (publ.) AB.			

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