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Summary:
Scania (publ.) AB

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Summary:

Scania (publ.) AB

Credit Rating:	A-/Stable/A-2

Rationale

The ratings on Sweden-based truck and bus manufacturer Scania (publ.) AB (Scania) reflect the group's strong business profile and modest financial risk. The ratings are supported by Scania's outstanding profitability in the global truck industry, which is not expected to fall below an operating margin of 4% to 5% at the bottom of the cycle. The group's truck and bus businesses benefit from leading market positions, up-to-date product lines, and the highest degree of component commonality in the global truck industry.

The ratings continue to benefit from Scania's strong cash flow generation and stable capital structure, together with its adequate financial flexibility. The ratings are constrained by the high capital intensity and severe cyclicality of the commercial-vehicle industry, as well as the volatility and difficult, although somewhat improving, environment of the global bus industry.

Results for 2007 showed a continuation of Scania's strong earnings performance. The group's EBIT margin in 2007 was 14.4% compared with 12.4% in 2006, reflecting higher capacity utilization as a result of increased production volume, a favorable pricing environment, and higher service revenues. This was offset by a somewhat negative market mix, higher costs for restructuring the axle and gearbox production, and higher salaries since the second-quarter of 2007. EBIT in industrial operations was 13.8% versus 11.7% in 2006. The company has affirmed its medium-term margin goal of achieving a 12%-15% EBIT margin between 2007 and 2009, and slightly raised its sales expectation for the same period.

Free cash flow in the industrial operations was Swedish krona (SEK) 8.2 billion compared with SEK6.9 billion in 2006. Gross financial debt in industrial operations is SEK1.7 billion on Dec. 31, 2007.

Truck order bookings in 2007 were strong, although order intake in the last quarter showed some signs of weakening, notably for Western Europe. Order intake from Eastern Europe has remained solid. Given the favorable demand situation and existing order backlog, we expect Scania to maintain its overall high levels of profitability in 2007. High-capacity utilization and strong market demand should continue to allow for a favorable pricing environment over the medium term.

Scania announced a one-time dividend of SEK6.0 billion in addition to the regular dividend of SEK4.0 billion. The one-time dividend payment is in line with the expectations for the rating.

Liquidity

Standard & Poor's Ratings Services considers Scania's liquidity and financial flexibility to be strong. It is enhanced by two committed revolving credit facilities of €1 billion each. Scania renegotiated its prior €500 revolving credit facility (RCF) to €1.0 billion and placed it on the market in January 2008. This new facility is due in January 2013, with a two-year renewal option. The second RCF is due in May 2012.

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The bank lines are not subject to financial covenants or rating triggers. The company's liquidity position is underpinned by access to medium-term note and commercial paper programs. In addition, the company reported cash and short-term investments of SEK4.1 billion on Dec. 31, 2007. Positive free cash flows through the cycle and credit lines should provide ample leeway for Scania to cover short-term debt maturities.

Outlook

The stable outlook reflects Scania's industry-leading profitability and ability to generate free cash flows through the cycle, which limits downside risk. In line with Scania's historical practice, we expect that it will continue its predominantly organic growth strategy. Major acquisitions are not factored into the ratings. The industry's tough competitive environment and cyclical demand restrict upside ratings potential.

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