STANDARD & POOR'S RATINGSDIRECT

RESEARCH

Research Update:

Scania (publ.) AB 'A-' Rating Remains On CreditWatch Negative Following Dividend Announcement

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Rationale

On Oct. 17, 2006, Standard & Poor's Ratings Services said its ratings on Sweden-based truck and bus manufacturer Scania (publ.) AB remain on CreditWatch with negative implications following the company's Oct. 16, 2006, announcement to pay shareholders a special dividend of about Swedish krona (Skr) 7 billion ($940 million) by year-end 2006.

Given the headroom provided by Scania's modest financial risk profile and adequate financial flexibility, the company can accommodate the announced special dividend at the current rating level. Consequently, the announcement does not change our perception of Scania's financial risk profile.

The 'A-' long-term and 'A-2' short-term corporate credit ratings were originally placed on CreditWatch on Sept. 14, 2006, following the announcement by Germany-based truck maker MAN AG (not rated) expressing its interest in merging with Scania.

The takeover of Scania by MAN is still pending and based on publicly available information, MAN is continuing to pursue a merger.

The negative implications reflect our concerns that the business and financial risk of a combined entity would conceivably be weaker than Scania's existing business and financial risk characteristics.

Compared with its global peers, Scania has an outstanding profitability level and the highest degree of component commonality in the production process. Despite conceivable synergistic benefits that may result from a merger with MAN, we expect that the profitability of a combined entity would initially be weaker. The likely benefits of improved customer and geographic diversification may not immediately outweigh the integration risks that would eventually result from a merger of this size.

Depending on the acquisition price, financial structuring, and form of any transaction, the financial risk profile of the combined entity may also be weaker than Scania's modest financial risk profile.

We expect to resolve the CreditWatch once there is more clarity about the intentions of both MAN and Scania's majority owners, and what implications this could have for Scania's credit quality. The ratings would be removed from CreditWatch should MAN not follow through on its stated intentions. Standard & Poor's will follow developments closely.

Short-term credit factors

Despite the announced special dividend, Standard & Poor's considers Scania's liquidity and financial flexibility to be strong. It is enhanced by two committed revolving credit facilities amounting to €1 billion and €500 million, with a tenor of seven and five years, respectively. The bank lines are not subject to financial covenants or rating triggers. The company's liquidity position is underpinned by access to MTN and CP programs. In addition, the company reported cash and short-term investments of Skr6.4 billion ($685 million) at March 31, 2006. Positive free cash flows through the cycle, cash holdings, and credit lines should provide ample leeway for Scania to cover short- and medium-term debt maturities.

Ratings List

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Scania (publ.) AB
  Corporate credit rating     A-/Watch Neg/A-2

N.B.: This list does not include all ratings affected.
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