S&P Global
Ratings

RatingsDirect®

Research Update:

Auto Supplier Autoliv 'A-/A-2' And 'K-1' Ratings Affirmed; Outlook Stable

Primary Credit Analyst:
Per Karlsson, Stockholm (46) 8-440-5927; per.karlsson@spglobal.com

Secondary Contact:
Mikaela Hillman, Stockholm (46) 8-440-5917; mikaela.hillman@spglobal.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Issue Analysis

Related Criteria

Ratings List

Research Update:

Auto Supplier Autoliv 'A-/A-2' And 'K-1' Ratings Affirmed; Outlook Stable

Overview

- High free operating cash flow has allowed Autoliv to maintain strong credit ratios over first-half 2017, despite high investments and recent share buybacks.
- We do not expect any impact on the business risk profile should Autoliv decide to separate its Passive Safety and Electronics segments, given Electronics' relatively low contribution to the group's operating profit.
- We are therefore affirming our 'A-/A-2' corporate credit and 'K-1' Nordic regional scale ratings on Autoliv.
- The stable outlook reflects our view that Autoliv's leading position in the passive safety niche segment will continue to support significant free cash flow generation and that, over the cycle, the company will maintain debt below 1.5x and funds from operations to debt above 60%.

Rating Action

On Sept. 22, 2017, S&P Global Ratings affirmed its 'A-' long-term and 'A-2' short-term corporate credit ratings on U.S.-based auto supplier Autoliv Inc. and its core subsidiary Autoliv ASP Inc. The outlook is stable.

At the same time, the 'K-1' Nordic national scale rating on Autoliv Inc. was affirmed.

We also affirmed the 'A-' issue rating on Autoliv's senior unsecured debt, issued under the core subsidiaries Autoliv AB and Autoliv ASP Inc.

Rationale

Autoliv has managed to sustain strong credit ratios over the first half of 2017, despite continued research and development (R&D) investments to support its growth strategy, and its recent share buybacks. The company's operating margin has been broadly in line with margins in the last year, supported by increasing volumes and cost-efficiency measures within the Passive Safety division. These positive factors have, however, been offset by costs related to growth initiatives within the Electronics division. We expect sales growth of about 3% for full-year 2017, given lower growth than expected in some regions. We furthermore expect the company will be able to maintain its EBITDA margin at about 12.7%, despite continued upfront investments, thanks to improved operating leverage.

The company's net debt has increased by about $274 million since year-end 2016, mainly as a result of shareholder distributions, including share repurchases of $157 million in the first half of 2017. This resulted in leverage of 0.8x during the 12 months to June 30, 2017, from about 0.6x at the end of 2016. That said, we continue to see adequate headroom under Autoliv's credit ratios and forecast leverage below 1.0x and funds from operations (FFO) to debt of well above 60% in our base case for 2017. We think that revenue growth, prompted by good order intakes, will support operating cash flow generation of above US$800 million, albeit continuing to require somewhat higher investment to accommodate higher volumes.

Autoliv recently announced that it had initiated a strategic review of whether to separate its Electronics and Passive Safety businesses. The strategic review will also include the capital structure of the remaining group. Any final decision is not likely to be taken until late 2017 or early 2018, however, and we are therefore not including any separation of the businesses in our base-case scenario at this stage. Were Autoliv to initiate such a separation, however, we think that the remaining Passive Safety business' risk profile would likely benefit from less exposure to the volatile markets of the Electronics business, and enjoy higher profitability, but that diversification would be lower.

In the first half of 2017, the Electronics business reported a low operating margin of about 3.0%, well below the 10.5% reported by Passive Safety. All in all, contribution to earnings from Electronics is currently relative low, although there is larger growth potential over the medium term. Electronics will, however, continue to require higher investments, which has negatively affected cash flows of the combined group.

Given ample headroom under the minimal financial risk profile, with debt to EBITDA currently around 0.8x, strong free operating cash flow (FOCF) potential for the Passive Safety business, and the long track record of operating with low debt, we do not foresee any deviation from a minimal financial risk profile more than temporarily if the separation takes place.

Our assessment of Autoliv's business risk profile continues to reflect its leading market position in automotive safety as the global No. 1 supplier of passive safety products, which include seatbelts, airbags and steering wheels. The company estimates its global market share at about 39%, and has had about 50% of industry order wins over the last couple of years. We think that the growth of Autoliv's revenues over the longer term will be supported by continued growing light vehicle production, mainly in emerging markets. In that respect, we positively view the company's presence in China, where it generates 18% of its revenues. Furthermore, rising safety concerns globally, including increasing safety standards in emerging markets, will enable Autoliv to increase value content by car.

We also view positively Autoliv's balanced geographic presence in terms of sales and industrial footprint. The company sells its products in Europe, the Americas, and Asia, which all account for roughly a third of revenues. In that

respect, Autoliv is better diversified than many other European auto suppliers that typically have greater focus on Europe. We also note that Autoliv serves a wide array of customers, including all major global original equipment manufacturers (OEMs). In 2016, the company derived 52% of its revenues from the five largest OEM clients, Renault/Nissan (11%), Ford (11%), Hyundai/KIA (11%), Honda (10%), and GM (10%). We think that Autoliv is less diversified product wise, however, given its focus on safety products. The scale of its operations compared with some European peers, such as Continental, Michelin, Schaeffler, or Valeo, is also smaller.

Autoliv's Electronics business accounted for 21% of sales in 2016 and consists of active safety products, restraint controls, and sensing and brake systems. We note that the active safety market, which includes radars, night and camera vision, and positioning systems, and which accounted for 7% of Autoliv's sales in 2016, is more fragmented and, therefore, more competitive. Nevertheless, the company has a leading position within this market and has been able to capture significant growth within Electronics over the last two years.

Autoliv has accelerated its efforts to strengthen its foundation in Electronics through strategic agreements and has announced five new partnerships in 2017 so far apart from the joint venture agreement with Volvo Cars. However, although the market for Electronics shows stronger growth prospects than for Passive Safety, the Electronics market is more uncertain and requires large upfront investments, which negatively affects the group's profitability and FOCF. The group's profitability is therefore somewhat at the lower end in comparison with peers, as measured by our adjusted EBITDA margin of 12.7% in 2016.

In our base-case expectations for 2017 and 2018, we continue to see adequate financial leeway under Autoliv's credit metrics. We think that revenue growth prompted by good order intakes will support operating cash flow generation, albeit require somewhat higher investment to accommodate higher volumes. Autoliv has been consistently generating FOCF and we expect it to continue to post FOCF of US$300 million-US$400 million, despite higher capital expenditures.

We think that the financial leeway that the company currently enjoys could narrow, owing to a potential antitrust investigation settlement, for which the timing and size still remains unknown. We also think that the company could continue undertaking midsize acquisitions and partnership agreements. We think that more sizable debt-funded acquisitions could put pressure on credit metrics without any offsetting measures.

In our base case, we assume:

- Real GDP growth in 2017 and 2018 of 2.0% and 1.7% in the EU, 2.2% and 2.3% in North America, and 6.7% and 6.3% in China.
- Light vehicle production growth in 2017 of around 3% in Asia Pacific, while growth in Europe and North America is expected to remain flat.
- About 3%-4% revenue growth in 2017 and 2018 on the back of weaker-than-expected light vehicle production in North America and China

and recovery in the European markets.
- Stable EBITDA margins as positive sales mix trends are offset by higher R&D and unfavorable raw materials impact.
- Capital expenditures of 5%-6% of revenues to accommodate growth embedded in the order intake.
- We assume moderate working capital outflows based on continued revenue growth.
- We model US$150 million-US$200 million for acquisitions per year in 2017 and 2018, including recently announced partnerships.
- About US$200 million-US$220 million per year for dividend distribution in 2017 and 2018.
- We don't include further share buybacks in our base case. We note, however, that the company could purchase up to 3.6 million of its shares under the existing program (about US$440 million at the current share price).

Based on these assumptions, we arrive at the following credit measures in 2017 and 2018:
- Debt to EBITDA of about 0.8x.
- FFO to debt of 90%-100%.

Liquidity

The short-term corporate credit rating is 'A-2' and the short-term Nordic regional scale rating is 'K-1'. We view Autoliv's liquidity as strong. This reflects our view that the ratio of sources to uses of liquidity should comfortably exceed 1.5x 2017 and 2018. At the same time, we think that the potential EU fine and a midsize acquisition could be a drag on cash in the near future, although this should not undermine our view of strong liquidity.

In our view, management has a proactive approach to financing and we believe that Autoliv's liquidity would remain sufficient to cover uses even if EBITDA dropped by 30%. Other supportive factors include Autoliv's solid relationships with banks, high standing in credit markets, and its likely ability to absorb high-impact, low-probability events without refinancing.

Principle liquidity sources as of June 30, 2017, include:
- Reported US$857.5 million of cash and cash equivalents. We deduct about US$65 million from cash balances because we deem this amount not immediately available.
- An undrawn revolving credit facility (RCF) of US$1.1 billion maturing in July 2022 that can be extended by one year.
- Our expectation about US$950 million in FFO (unadjusted).

Principle liquidity uses as of June 30, 2017, include:
- About US$200 million of short-term debt.
- Year-on-year working capital increase in light of continued growth.
- Capital expenditures exceeding US$500 million in the next 12 months.

There are no maintenance covenants in the RCF or in any of Autoliv's other credit lines.

Outlook

The stable outlook reflects our view that Autoliv will sustain stable profitability with an EBITDA margin around 12%-13% and healthy FOCF generation in excess of US$200 million annually. The outlook also factors in continued dividend distribution of about US$220 million per year. Also, we assume that midsize acquisitions and a potential antitrust investigation settlement will not hamper the group's ability to sustain an FFO-to-debt ratio of more than 60% and a debt-to-EBITDA ratio of less than 1.5x. We are not including the potential separation of the Active Safety and Electronics divisions in our base-case scenario, and we will re-assess our base case if the separation would be realized.

Downside scenario

We could take a negative rating action if Autoliv posted credit ratios below our expectations for the current rating. This could happen if the company paid a substantial fine, without offsetting these outflows by lower shareholder distributions. We could also consider a negative rating action if Autoliv made a sizable debt-funded acquisition that significantly increased leverage.

Upside scenario

We currently see limited headroom for an upgrade. We would consider raising the rating if Autoliv achieved a track record of substantially stronger and more stable profitability metrics.

Ratings Score Snapshot

Issuer Credit Rating: A-/Stable/A-2

Business risk: Satisfactory
- Country risk: Low
- Industry risk: Moderately high
- Competitive position: Strong

Financial risk: Minimal
- Cash flow/Leverage: Minimal

Anchor: a-

Modifiers
- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Strong (no impact)

- Management and governance: Satisfactory (no impact)
- Comparable ratings analysis: Neutral (no impact)

Issue Analysis

Capital Structure

- Autoliv's capital structure consists of senior unsecured debt issued at the level of core subsidiaries Autoliv AB and Autoliv ASP Inc.

Analytical Conclusions
The debt is rated 'A-', the same as the corporate credit rating, since no significant elements of subordination risk are present in the capital structure. This is also supported by the company's low leverage, having a minimal financial risk assessment.

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, Sept. 21, 2017
- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables, Aug. 14, 2017
- 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
- General Criteria: National And Regional Scale Credit Ratings, Sept. 22, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - Industrials: Key Credit Factors For The Auto Suppliers Industry, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013

Ratings List

Ratings Affirmed

Autoliv Inc.	
Corporate Credit Rating	A-/Stable/A-2
Nordic Regional Scale	--/--/K-1
Senior Unsecured	A-

Autoliv ASP Inc.

Corporate Credit Rating	A-/Stable/A-2
Senior Unsecured[1]	A-
Commercial Paper	A-2
Autoliv AB	
Senior Unsecured[1]	A-

[1] Guaranteed by Autoliv Inc.

Additional Contact:
Industrial Ratings Europe; Corporate_Admin_London@spglobal.com

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Copyright © 2017 by Standard & Poor’s Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.