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Research Update:

U.S.-Based Auto Supplier Autoliv Upgraded To 'A-' On Reassessment Of Financial Risk Profile; Outlook Stable

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Research Update:

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Overview

- Standard & Poor's Ratings Services published its revised corporate ratings criteria on Nov. 19, 2013.
- We assess U.S.-based auto supplier Autoliv Inc.'s financial risk profile as "minimal" as we forecast that the company will maintain solid financial ratios over the two next years.
- We are raising our long-term rating on Autoliv to 'A-' from 'BBB+' and removing it from CreditWatch, where we placed it with positive implications on Nov. 26, 2013, in conjunction with our criteria redesign.
- 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, leverage will be maintained below 1.5x and funds from operations (FFO) to debt above 60%.

Rating Action

On Dec. 9, 2013, Standard & Poor's Ratings Services raised its long-term corporate credit rating on U.S.-based auto supplier Autoliv Inc. to 'A-' from 'BBB+'. We removed all long-term ratings from CreditWatch, where we placed them with positive implications on Nov. 26, 2013. The outlook is stable.

At the same time, we affirmed our 'A-2' short-term rating and 'K-1' Nordic national scale rating on Autoliv.

Rationale

We base the upgrade on our reassessment of Autoliv's financial risk profile as "minimal." Importantly, Autoliv's healthy free cash flow generation and very low leverage support the maintenance of solid financial ratios. This is despite our understanding that Autoliv is going to releverage its balance sheet from the current reported cash position. The company's aim is to bring debt to EBITDA into the range of 0.5x-1.5x, with the intention to maintain it at about 1x. We believe that this is still consistent with the "minimal" financial risk profile. For the next two years, we believe that Autoliv's leading market position in passive safety and its large geographical diversification will support sales and maintain profitability of 8%-10%, supporting healthy cash generation in the cyclical auto supplier market.

Our assessment of Autoliv's "minimal" financial risk profile also reflects our forecasts of solid free operating cash flow (FOCF) generation. We assume that Autoliv will generate at least $300 million of FOCF in 2013 and a similar amount in 2014, when investments will be maintained at about 4.5% of revenues. We are also assuming that the dividend payout ratio will be in the range of 50%-60% in 2014 and that, by the end of 2013, Autoliv will have completed about $200 million of share buybacks, and that a similar amount will also be completed in 2014. We are including in our 2014 forecasts a cash payout of $500 million related to a potential antitrust fine. Including this amount, debt to EBITDA should still be below 1x and FFO to debt at about 100%. Due to the lack of information on the timing and the real amount of the potential antitrust fine, we will treat any significant difference between our assumption of $500 million and the real amount as an event risk.

We assess Autoliv's business risk profile as "satisfactory." This reflects its strong competitive position in the growing passive-safety auto supplier industry, which we consider to be moderately high risk overall. This strong position is supported by Autoliv's leading position worldwide, with an average market share of more than 30% in the airbag and seat-belt markets. The auto supplier market is cyclical and the pressure on prices can be very strong. However, niche players in growing segments such as Autoliv can maintain solid margins and growth. Autoliv has about 70% geographical exposure outside Europe and this limits the impact of the expected weak demand coming from this area in the next few years.

We assess the volatility of Autoliv's profitability as fair and its operating margin as average compared with other auto suppliers globally.

Our base-case scenario for Autoliv over 2013-2014 assumes:

- Real global GDP growth of about -0.7% in 2013 and 0.9% in 2014 in Europe; 1.7% in 2013 and 2.6% in 2014 in the U.S.; and 7.3% in both 2013 and 2014 in China.
- Average growth of the global auto market of about 4%.
- Revenue growth at Autoliv of at least 2% in 2013 and 2014.
- A reported EBIT margin of about 9% for both years.
- Capital expenditure (capex) at 4.5% of revenues.
- About $50 million of acquisitions per year beyond 2013.
- A 50%-60% dividend payout ratio.
- $200 million of share buybacks per year.
- A $500 million one-off cash payout in 2014 (potential antitrust fine).

Liquidity

We assess Autoliv's liquidity as "strong," based on our criteria. We estimate the ratio of sources to uses at more than 1.5x in 2013 and 2014.

Principal liquidity sources on Sept. 30, 2013, include:

- $1.1 billion of cash and cash equivalents, of which we consider 25% to be tied to operations.
- Access to $1.1 billion and €200 million of committed revolving lines that were fully undrawn. The majority of these lines mature in 2018 and 2019.

- At least $100 million of discretionary cash flow at year-end 2013, after the dividend payment.

Principal liquidity uses include:
- €216 million of short-term financial debt maturities.
- A dividend payment of about $200 million in 2013 and payout ratio of 50%-60% in 2014.
- $200 million for share buybacks in 2013 and about $200 million in 2014.
- A $500 million cash outflow for a potential antitrust fine in 2014.

Outlook

The stable outlook reflects our view that Autoliv's solid operating performance and strong financial metrics will enable it to weather potential slowdowns in Europe and some other markets. The outlook also reflects our expectation that the company will remain committed to balancing investments, dividends, acquisitions, and share buybacks in line with debt to EBITDA over the cycle of below 1.5x and FFO to debt of more than 60%.

At this stage, we see limited headroom for an upgrade. We would consider raising the rating if Autoliv demonstrated sustainably stronger and more stable profitability than in the past.

A combination of adverse market conditions, legal penalties beyond $500 million, very generous dividend payouts, or extremely high share buybacks might weaken the company's credit measures to a level that we see as no longer commensurate with the rating, leading to a negative rating action.

Ratings Score Snapshot

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

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

Financial risk: Minimal
- Cash flow/leverage: Minimal

Anchor: a-

Modifiers
- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Strong (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Satisfactory (no impact)

- Comparable rating analysis: Neutral (no impact)

Related Criteria And Research

- Corporate Methodology, Nov. 19, 2013
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Nov. 19, 2013
- Corporate Methodology: Ratios and Adjustments, Nov. 19, 2013
- Key Credit Factors For The Auto Suppliers Industry, Nov. 19, 2013

Ratings List

Upgraded; CreditWatch/Outlook Action; Ratings Affirmed

	To	From
Autoliv ASP Inc.		
Autoliv Inc.		
Corporate Credit Rating	A-/Stable/A-2	BBB+/Watch Pos/A-2
Autoliv Inc.		
Senior Unsecured	A-	BBB+/Watch Pos
Autoliv ASP Inc.		
Autoliv AB		
Senior Unsecured*	A-	BBB+/Watch Pos

Ratings Affirmed

Autoliv Inc.		
Corporate Credit Rating		
Nordic Regional Scale	--/--/K-1	
Autoliv ASP Inc.		
Commercial Paper*	A-2	
Autoliv AB		
Commercial Paper*	A-2	
Commercial Paper*	K-1	

*Guaranteed by Autoliv Inc.

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