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Summary:

Autoliv Inc.

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Summary:
Autoliv Inc.

Credit Rating:	BBB+/Stable/A-2

Rationale

The ratings on Autoliv Inc., the parent company of the Sweden-based Autoliv group, reflect our assessment of its business risk profile as "satisfactory" and its financial risk profile as "intermediate", according to our criteria. The business risk profile reflects our view of the company's leading market position in auto safety products, mainly seat belts and air bags. The Autoliv group supplies leading global automotive original equipment manufacturers (OEMs) and has a stronger and more diverse customer and geographic mix than is typical in the automobile components industry. These strengths are offset by the close correlation of safety-system demand to cyclical new auto sales and recurring pricing pressure from OEMs.

Our classification of the company's financial risk profile as "intermediate" is based on its cyclical profitability but generally positive free operating cash flow (FOCF). Despite particularly strong credit metrics and liquidity over the past two years, we view the company's financial policies of maintaining net debt to EBITDA of less than 3.0x and EBITA to net interest of more than 2.75x as only "moderate". We expect higher future borrowings to fund shareholder returns, acquisitions, and a fine payment to settle an ongoing price-fixing investigation by the European antitrust authorities. As of Sept. 30, 2012, Autoliv had committed facilities in place and a scope to increase borrowings by at least $1 billion within the company's financial policies and the current ratings.

S&P base-case operating scenario

In the first nine months of 2012, Autoliv experienced a gradual decrease in revenue growth, owing to weak European sales and slower demand growth in China. We believe the group will achieve its revenue target for 2012, with organic growth of about 4% largely offset by the negative currency effect.

The company revised down its 2012 EBIT margin target in October. Autoliv now expects an operating margin of more than 9.5% (excluding costs for capacity alignments and antitrust investigations), down from 10.9% in 2011 and 12.7% in 2010. In our base-case scenario, we assume an operating margin of about 9.5% for 2012 and at about the same level in 2013. Weak European demand is set to continue in 2013. Autoliv benefits from its good market diversification, but its strong momentum in 2010 and 2011 is over. For the next few quarters, we assume that sales will be supported by the increasing penetration of passive safety devices in non-mature markets. Active safety system revenues will increase rapidly, but will likely only account for a small proportion of total sales in the near term, in our view.

S&P base-case cash flow and capital-structure scenario

For 2012, we expect Autoliv's ratio of funds from operations (FFO) to debt to have remained higher than 100%, after our adjustments, after reaching 283% in 2011. Leverage was subsequently reduced by the deferred equity subscription proceeds settled in April 2012. In 2013, we believe the FFO-to-debt ratio could weaken from this level, but we expect

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it to be greater than the 40% target.

We believe Autoliv should be able to cover any exceptional shareholder payouts and midsize acquisitions while remaining within its financial policies. The company's financial targets, for instance, include a maximum debt-to-EBITDA ratio of significantly less than 3x. Looking at 2012 expected credit metrics, we consider Autoliv able to meet about $1 billion of mandatory or discretionary payouts at the current rating level. We base this assessment on our estimate that Autoliv will generate about $1.0 billion in EBITDA and more than $0.3 billion of adjusted free operating cash flow (FOCF) annually in 2012.

Liquidity

We assess the company's liquidity and financial flexibility as "strong", as defined in our criteria.

- On Sept. 30, 2012, liquidity sources consisted of $908 million of cash and short-term investments and full availability under a $1.1 billion committed credit facility that has been extended to April 2017.
- This compares with $158 million in short-term debt on the same date. We estimate that Autoliv will generate FOCF of at least $300 million in 2012. The company's liquidity position was further bolstered in April 2012 with the receipt of deferred equity subscription proceeds of $106 million in new equity.

In our view, available liquidity sources are ample to meet annual dividend payments and other likely requirements by a substantial margin and exceed our criteria benchmarks.

The company has a Swedish krona (SEK) 7.0 billion (about $1.02 billion) commercial paper (CP) program and a $1 billion U.S. CP program. Both programs were unutilized as of Sept. 30, 2012.

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, and acquisitions in line with at least an "intermediate" financial profile.

We would consider raising the rating if Autoliv demonstrated sustainably stronger and more stable profitability or commitment to maintaining what we consider a modest financial risk profile. We believe Autoliv could maintain its current credit measures, which exceed what we consider commensurate with the 'BBB+' rating, absent much higher shareholder payouts. These metrics include FFO to debt of about 40%, debt to EBITDA of about 2.5x, and FOCF to debt of 15%-20%.

A combination of adverse market conditions, legal penalties (which we currently consider event risk and do not factor into the forecast ratios), very generous dividend payouts, or share buybacks might weaken the company's credit measures to less than what we see as rating-commensurate, leading to a negative rating action.

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Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, May 27, 2009.
- Key Credit Factors: Business And Financial Risks In The Auto Component Suppliers Industry, Jan. 28, 2009

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