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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, reflects our view of the company's leading market position in auto safety products, principally 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. Accordingly, we assess Autoliv Inc.'s business risk profile as "satisfactory." We classify the company's financial risk profile as "intermediate" in view of its cyclical profitability but generally positive free operating cash flow. 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 significantly below 3.0x and EBITDA to net interest of over 2.75x as only "moderate". We expect higher future borrowings to fund shareholder returns, acquisitions, and payment of a fine to settle the remaining European price-fixing investigation. As of March 31, 2012, there were committed facilities in place and 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

Autoliv bounced back from the 2008-2009 crisis with strong growth and high profitability, although raw material, restructuring (severance) costs, litigation-related accruals, and R&D expense brought down Q1 2012 EBITDA margins to 10.3% from the 14% to 16% range of 2011 and 2010. The extent of a slowdown or contraction in major economies in the current year and a continuing EU investigation into anticompetitive behavior by Autoliv in Germany and other markets are the main uncertainties for the balance of the year.

In June 2012, the company agreed with the U.S. Department of Justice (USJD), subject to court approval, with a guilty plea and payment of an a $14.5 million fine equal to the amount that it had accrued in its first-quarter 2012 results to resolve that investigation. Nothing has been quantified or announced about progress in the related EU investigation, but even a potentially more costly EU settlement would not stress available resources.

We expect Autoliv to maintain EBITDA margins in the 11% to 13% ranges over the next few years, even with legal costs and economic uncertainties factored in, thanks to efforts to reduce cost over the past several years, increasing interest in safety systems in expanding emerging markets, and good geographic diversity that dampens the effect of weak individual national or regional auto markets. Active safety system revenues will grow rapidly, but will likely only account for a small proportion of total sales in the near term, in our view.

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

For the 12 months to March 31, 2012, Autoliv's funds from operations (FFO) to debt, after our adjustments, was 246% and adjusted debt to EBITDA only 0.3x (after netting cash in excess of $200 million from debt). Leverage was subsequently reduced by the deferred equity subscription proceeds settled in April 2012.

We believe Autoliv should be able to cover any likely EU legal fines, 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 below 3x". We consider Autoliv able to meet at least $1 billion of mandatory or discretionary payouts that might materialize in 2012 within the current rating. We base this assessment on our estimate that Autoliv will generate about $1.0 billion in EBITDA and $0.4 billion of adjusted free operating cash flow (FOCF) annually in 2012 and 2013.

Liquidity

The short-term rating on Autoliv is 'A-2'. We assess the company's liquidity and financial flexibility as "strong," as defined in our criteria. On March 31, 2012, liquidity sources consisted of $732 mil. 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 $209 million in short-term debt on the same date. A separate €225 million five-year loan commitment from the European Investment Bank (EIB; AAA/Negative/A-1+), which expires in December 2012 if not utilized, and about $290 million of bank lines were also undrawn. We estimate that Autoliv will generate FOCF of about $400 million in 2012. The company's liquidity position was further bolstered in May 2012 with receipt of the deferred equity subscription proceeds of $106 million in new equity.

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) and a $1 billion U.S. commercial paper (CP) program.

Outlook

The stable outlook reflects our view that Autoliv's solid operating performance and currently strong financial metrics will enable it to weather potential slowdowns in Europe and some other markets as well as possible fines stemming from the European Commission investigation. 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. At the current rating level, we see headroom to accommodate acquisitions and special shareholder payments of $1 billion or more, depending on what the payments are for.

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%.

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A combination of adverse market conditions, legal penalties, very generous dividend payouts, or share buybacks might weaken the company's credit measures to below what we see as rating-commensurate, leading to a negative rating action.

Related Criteria And Research

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

- Methodology And Assumptions: Standard & Poor's Standardizes Liquidity Descriptors For Global Corporate Issuers, July 2, 2010
- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- Key Credit Factors: Business and Financial Risks in the Auto Component Suppliers Industry, Jan. 28, 2009

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