



Moody's Investors Service

## Credit Opinion: **MAN SE**

Global Credit Research - 18 Aug 2009

Munich, Germany

### Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	A3
Senior Unsecured -Dom Curr	A3
ST Issuer Rating	P-2

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### Key Indicators

#### MAN SE<sup>[1]</sup>

	LTM	2008	2007	2006	2005
	(06/30/2009)				
EBITA Margin %	7.2%	11.8%	13.2%	8.6%	5.6%
EBIT / Interest Expense	9.2x	33.1x	20.3x	9.3x	9.9x
FCF / Debt	-24.3%		-179.8%	48.9%	91.5%
	98.2%				
Debt / EBITDA	1.9x	0.2x	0.5x	1.4x	1.9x
Financial Services Assets as a % of Total Group Assets	14.2%	14.9%	12.8%	12.2%	10.5%

[1] based on Moody's standard adjustments

Note: For definitions of Moody's most common ratio terms please see the accompanying [User's Guide](#).

### Opinion

#### Company Profile

Headquartered in Munich, Germany, MAN SE ("MAN", "the group" or "the company"; rated A3/Prime-2/stable) is a diversified transport-related engineering group operating on a global scale. Its three main activities are Commercial Vehicles and Buses, Diesel Engines and Turbo Machinery. Management recently announced to merge Diesel Engines and Turbo Machinery into one segment from 2010 with an increased focus on the power plant market. The company offers also financial services for its products. Commercial vehicles is the largest division generating 71.0% of group sales and 54.9% of group operating profit in 2008, followed by Diesel Engines (17.0% and 24.0% respectively) and Turbo Machinery (8.9% / 9.1%). In fiscal year 2008 the group generated revenues of EUR 14.9 billion and a reported operating profit of EUR 1.6 billion.

#### Rating Rationale

MAN's A3 rating is supported by the strong market position of its core segments Commercial Vehicles as well as Diesel Engines and Turbo Machinery which will be merged into one segment Power Engineering from 2010; the company's historical strong credit metrics (EBIT/Interest expense 33.1x, EBITA Margin 11.8% in 2008) as well as its solid financial flexibility reflected in moderate leverage (Debt/EBITDA 1.9x for the LTM period ending June 30, 2009), a balanced debt maturity profile and the adequacy of its liquidity profile.

While several of MAN's historical financial metrics are very strong for the A3 rating category, Moody's expects profitability and credit metrics to come under severe strain given the expectation of European truck markets declining by -50% in the current year. Consequently, the current strength in its metrics is balanced against the cyclical nature of MAN's businesses, the smaller scale

compared to its competitors, the concentration of its products on the truck industry as well as its limited geographic diversification, though recently broadened by the acquisition of VW Trucks & Buses Brazil and a 25% plus one stake in the leading Chinese truck manufacturer SINOTRUK.

The successful implementation of the company's cost savings measures as well as its efforts to reduce inventories and capital expenditures to return to positive free cash flow generation are a key consideration in the A3 rating. We would expect that the company maintains a modestly leveraged capital structure going forward.

#### Market Structure and Competitive Position

MAN's A3 rating benefits from the competitive position of its three core divisions Commercial Vehicles, Turbo Machinery and Diesel Engines as well as expanding global diversification. Moody's notes positively management's continued strategy to focus on its core business, reflected by the sale of a 70% stake of its industrial services division MAN Ferrostal to IPIC as well as the announcement to merge MAN Diesel and MAN Turbo into one segment from 2010. The new segment will have an increased focus on the power plant market. MAN's geographical footprint is still limited with 73.9% of group revenues generated in the European market in 2008. Consequently, MAN remains highly reliant on a recovery in the European markets. Moody's notes MAN's high exposure to Russia as well as Central and Eastern Europe is a potential weakness as truck demand has collapsed in these markets as a result of the worsening economic environment and tighter credit availability.

Nonetheless, the agency recognizes favourably the group's latest efforts to expand its geographical reach by its recent acquisition of VW Trucks & Buses Brazil and the acquisition of a 25% plus one stake in the Chinese truck manufacturer SINOTRUK.

#### Revenue Volatility

The global economic downturn combined with the significant fall in demand for commercial equipment continues to adversely impact the demand for MAN trucks and buses. Revenues in this segment declined by 39% in H1 2009 compared to the same period last year. Currently, revenue growth stems primarily from its Turbo Machinery Division (+16%) with revenues at its Diesel Engines division being flat (-3%).

Going forward, Moody's anticipates a severe decline in the group's revenues in 2009 with Turbo Machinery and Diesel Engines mitigating only to some extent the steep decline in the commercial vehicles division. Moody's is concerned that MAN's exposure to Eastern Europe (20% of commercial vehicle revenues in 2008) makes it particularly vulnerable to the steeper downturn in these countries and the adverse effect of local currency depreciation on its revenues (e.g. Russian Rouble, Polish Zloty and Czech Koruna).

#### Profitability and Operational Efficiency

The group's profitability and operational efficiency continues to be substantially impacted by the severe downturn in global commercial vehicle markets, evidenced by EBITA margin declining to 7.2% in the LTM period ending June 30, 2009 from 11.8% in fiscal year 2008.

As truck sales declined by 54% in H1 2009 compared to the same period in 2008, the company is challenged to reduce its fixed costs to the lower level of demand.

Notwithstanding the erosion in operating performance, we expect that the announced cost cutting initiatives and the group's achievement in improving operating efficiency over past years should help to moderate the degree of erosion in profitability and returns. In addition, the group benefits from a solid order backlog of EUR 8.7 billion and operating performance of its Turbo Machinery and Diesel Engines divisions.

Moody's cautions that more measures may be needed in case of a more protracted downturn in global truck markets or deteriorating prospects for its Turbo Machinery and Diesel Engines divisions. In addition, an increase in price competition across the industry in order to reduce current high inventories could pressure profitability even further.

#### Financial Flexibility and Policy

MAN's financial flexibility is viewed as solid and reflects the group's healthy liquidity profile, its balanced debt maturity profile and modest leverage (Debt/EBITDA 1.9x based on LTM, ending June 30, 2009) in its industrial operations.

In terms of free cash flow generation the group has benefited from the buoyant economic environment and the cyclical upturn in the years 2005 - H1 2008. Against the severe downturn in the global truck industry and in the marine segment Moody's anticipates cash flow generation from operations to be affected accordingly in 2009. Nonetheless, the current rating incorporates Moody's expectation that the group's initiatives to reduce costs and improve inventory levels will be effective and will enable the company to return to positive free cash flow generation in the current fiscal year.

The current rating also assumes that the group will not undergo large debt-financed acquisitions.

#### Liquidity

Maintaining adequate liquidity is an essential feature of a company's ability to sustain its rating during a cyclical downturn until markets recover. In a scenario, where access to debt markets is assumed to be closed for 12 months and maturing finance assets are replaced, the company's available key sources of liquidity consisting of EUR 265 million in cash, EUR 484 million in marketable securities as well as unused syndicated committed credit lines of EUR 2.3 billion as of June 30, 2009 and various bilateral credit lines fully cover the potential needs arising from capital expenditures, working capital, day to day needs, debt maturities and dividend payments.

#### Rating Outlook

The stable outlook reflects Moody's view that MAN will have narrowing but sufficient cushion within the A3 rating to withstand the

current cyclical downturn affecting in particular its commercial vehicles division. MAN's competitive position, announced cost cutting initiatives, the expected solid operating performance of its Turbo Machinery and Diesel Engines businesses should enable the group to moderate the anticipated deterioration in profitability and credit metrics. In addition, the stable outlook recognizes the company's adequate liquidity profile and conservative financial policy.

#### **What Could Change the Rating - Down**

MAN's rating could come under pressure in case of a more protracted and severe downturn in MAN's core markets than currently anticipated by Moody's. This would be reflected in (i) the company's failure to achieve an average EBIT margin of around 6.0% through a business cycle and generate free cash flows over such period as well as (ii) increased Debt/EBITDA to above 2.0x.

#### **What Could Change the Rating - Up**

A rating upgrade over the short to medium term is unlikely, but the outlook could be changed to positive in case the company should (i) achieve an average EBIT margin above 7.5% through the cycle, (ii) maintain leverage at levels of no more than 1.5x Debt/EBITDA at the low point of the cycle and (iii) further profitably diversify its business by geography.



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