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**Summary:**  
**MAN AG**

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## Summary:

# MAN AG

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

## Rationale

The ratings on Germany-based diversified industrial company MAN AG reflect its modest financial risk profile and strong business risk profile. They are underpinned by the group's leading market positions in heavy trucks in Europe and South America, strong market positions in diesel engines and turbo machinery, good free operating cash flow (FOCF) generation, and solid geographic diversification.

The ratings are tempered, however, by the capital intensity and pronounced cyclicity of MAN's end markets, notably commercial vehicles, and the continuously challenging market conditions for its bus segment.

MAN reported sharply lower operating profits in the first quarter of 2009. The operating margin before depreciation (excluding investment income) was 4.4%. This compares with peak-of-cycle margins of about 10%-11% achieved in 2007-2008. The negative margin development is mostly attributable to significantly lower volume sales and low capacity utilization in the truck division. Order intake for trucks is down considerably, in line with the negative figures reported by MAN's peers.

Standard & Poor's Ratings Services expects orders in the European truck industry to continue to be bleak in 2009 with only moderate improvements expected in 2010. Order backlog in MAN's turbo and diesel division remain solid and ensure some visibility in production.

In 2008, MAN's credit protection measures, such as funds from operations (FFO) to debt of 300% and debt to EBITDA of 0.3x, were commensurate with rating. We expect MAN's operating profit to contract considerably in 2009. The company is in the process of implementing significant restructuring measures to align its production to lower demand levels. Under our base case projections, financial debt protection measures are expected to stay commensurate with the current rating in 2009. Adjusted for the acquisition of Volkswagen AG's (VW; A-/Watch Neg/A-2) truck business and the disposal of Ferrostaal, MAN generated €58 million of free FOCF in the first quarter of 2009. We continue to expect MAN to post a positive FOCF in 2009.

We have not factored in a closer cooperation with Sweden-based truck manufacturer Scania (publ.) AB (A-/Watch Neg/A-2) into the ratings. While we still consider a truck alliance involving Scania and MAN to be possible, we have no information that indicates the heightened risk of such a transaction taking place over the short term. The rating implications of closer cooperation would depend on the funding structure of the relevant transaction.

For the time being, we likewise don't see an immediate impact on the ratings or outlook on MAN following the news of a merger between VW and Porsche (not rated). VW has a 29.9% stake in MAN, but we believe that MAN is not directly affected by the merger discussions between VW and Porsche. We will, however, continue to monitor the situation closely. If, in the future, MAN became involved in the economic and legal restructuring at Porsche and VW, we would consider rating implications for MAN.

## Liquidity

MAN's liquidity is strong, underpinned by cash and marketable securities of about €0.6 billion on March 31, 2009. The group has availability under an unused €2.0 billion variable-rate revolving credit facility (RCF), which was granted by a consortium of 25 banks and expires in December 2011. This facility was unused on March 31, 2009. In addition, the group has about €1.2 billion in committed and bilateral credit lines with different banks. In conjunction with the acquisition of the VW truck business, MAN arranged a €2.0 billion syndicated bank facility. This facility was sized to an amount to allow the refinancing of €400 million due in September 2009. In 2009, MAN's capacity to serve its outstanding debt should be somewhat supported by FOCF generation. Bank lines are not subject to financial covenants, rating triggers, or material adverse change clauses. The RCF has a change-of-control clause. On March 31, 2009, short-term maturities in its industrial unit were €0.5 billion and MAN's funding sources considerably exceed upcoming debt maturities in the medium term.

## Outlook

The stable outlook reflects our expectation that MAN will sustain a relatively stable operating performance over the industry cycle and that the company will maintain a modest financial risk profile. We expect expansionary investments to be covered largely by internally generated cash flows. To maintain the ratings, we expect the industrial business to generate FFO of at least 40%-45% of industrial debt and industrial debt to EBITDA to be no higher than 1.8x. The ratings could be lowered if the company increased its industrial debt leverage beyond these thresholds, owing to larger debt-financed acquisitions or an unforeseen weakening of industry conditions.

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