FitchRatings

16 DEC 2024

Fitch Assigns Autoliv, Inc. First-Time 'BBB+' IDR; Outlook Stable

Fitch Ratings - Barcelona - 16 Dec 2024: Fitch Ratings has assigned Autoliv, Inc. a Long-Term Issuer Default Rating (IDR) of 'BBB+' with a Stable Outlook. Fitch has also assigned the company's senior unsecured debt a 'BBB+' rating.

Autoliv's ratings are supported by its strong competitive position as the leading safety content provider for almost all global original equipment manufacturers (OEM). Autoliv's product portfolio is powertrain agnostic and tightening regulations drive secular demand growth. The business profile strengths lead to stable profitability and cash generation, which mimics those of higher-rated issuers that benefit from replacement demand.

The rating is constrained by low free cash flow (FCF; after dividends as per Fitch's criteria), partially driven by sizeable shareholder returns, product concentration and full exposure to OEMs. A worsening in FCF generation, coupled with continuous share buyback programmes could put pressure on the rating, raising the importance of the issuer's publicly stated capital allocation policy.

Key Rating Drivers

Established Business Model: Autoliv has a strong reputation and established record as a Tier-1 auto supplier. The ratings are supported by its market position as the top global supplier of safety systems including airbags and seatbelts. With revenues above USD10 billion, Autoliv is one of the largest Fitch-rated Tier-1 suppliers with business characteristics that match investment-grade medians in our rating criteria. Autoliv has a market share of 45% globally, twice the size of its closest competitor. This reduces the volatility of its margins, and helps with product price negotiations, which is a key industry concern.

Stable Profitability: Fitch forecasts Autoliv's EBIT margins to be around 9-10% in its forecast period, which is in line with pre-pandemic levels and 2024. We do not expect a significant uptick in the short term as we believe light vehicle production (LVP) growth levels will be muted in 2025, and increasing security content per vehicle will be dependent on customers' ability to afford higher-end vehicles.

Nevertheless, we believe downside risk is limited as Autoliv completed its restructuring programme, driving an improved capacity and headcount to improve its efficiency as of end-2023. We deem Autoliv more prepared for some OEM capacity reduction than many of its auto supplier peers.

Weak FCF: At around 1.5% of revenues in our forecasts, Autoliv's FCF margin is weak for its ratings, reflecting high capex (5.5% of revenues) and a shareholder-friendly distribution policy. We view the

company's policy of net leverage not exceeding 1.5x as a key rating driver, considering that the policy is achievable, thanks to Autoliv's strong operating cash flows, and commensurate with the ratings. The company has a record of managing leverage within the stated limits, and we expect this to continue. An aggressive shift in this policy resulting in higher leverage metrics would put pressure on the ratings.

Supportive Market Trends: Autoliv's business profile benefits from increasing regulatory requirements for security content in passenger and other vehicles. Higher installation rates for airbags, advanced seatbelt products and complex steering wheels will increase revenue content per vehicle and continue supporting Autoliv's revenue growth above that of annual production volumes. Pedestrian safety and truck and motorcycle regulations will provide further areas for growth longer term, but are not in our rating case forecast.

Concentrated Product Portfolio: Autoliv's product portfolio is less diversified than other high investment-grade rated peers, and the company does not have sizeable aftermarket revenues. However, this is mitigated by Autoliv's strong customer and geographic diversification, and stable demand for the automotive safety products it provides. Autoliv also provides safety testing services, but their contribution to revenues is small.

Airbags Key for Added Value: Autoliv has a mixed portfolio of products in terms of added value. We consider the share of mature products with medium technology content will remain low compared with airbags and steering wheels (67% share for 2023), which we expect to grow with new regulations.

Manageable Exposure to China: Autoliv has sizeable exposure to the Chinese market (20% of revenues for 2023) and locally established OEMs, which we expected to grow with a strong order intake. However, Fitch continues to expect challenging macroeconomic conditions in China in the short term, which could delay purchasing decisions or push demand towards more affordable models with less safety content. Fitch expects China's domestic car unit sales to grow by mid-single-digits in 2025, driven by vehicle upgrade subsidies and novel new energy vehicle offerings, broadly in line with 2024.

Product Recalls Impact Unquantified: The US National Highway Traffic Safety Administration has issued an initial decision to recall 52 million airbags as a part of a class action lawsuit, some of which were produced by a subsidiary of Autoliv. The decision is not yet final, and Autoliv has not provisioned for any losses. However, the outcome could have an impact on the ratings once we are able to quantify the possible recall.

Derivation Summary

Autoliv has a relatively strong competitive position, focusing on safety technologies that are rising in importance as regulations and technology drive higher growth than LVP levels and provide stability to profitability margins. Autoliv´s forecast EBITDA margin of around 12-13% is slightly lower than that of Borgwarner Inc.'s (BBB+/Stable). However, Autoliv has a powertrain agnostic portfolio protecting it against rapid changes in transition trend.

Autoliv is more OEM dependent and has lower replacement revenues share than Continental AG (BBB/Positive) and Compagnie Generale des Etablissements Michelin (A-/Stable/F2), which provide a buffer

against cyclical downturns. Nevertheless, Autoliv's margin volatility has been similar to that of tyre manufacturers, reflecting the strength of its market shares and product portfolio.

Autoliv´s EBITDA net leverage, which we forecast to fluctuate between 1.5x-2.0x, is similar to those of Borgwarner and Aptiv Plc (BBB/Stable). We do not expect Autoliv to maintain leverage below 1.5x as we assume the issuer will continue returning excess cash to its shareholders. Autoliv's FCF around 1.5% of revenues is weaker compared with peers including BorgWarner and Aptiv.

Autoliv's Short-Term IDR of 'F2' reflects its financial flexibility, which we view as consistent with the 'BBB+' Long-Term IDR.

Key Assumptions

- Production volume assumptions flat for 2025, increasing 2% afterwards.

- Higher growth in airbag products driven by increasing higher safety content by vehicle.

- Unadjusted EBIT margins reaching 9% supported by a favourable cost base.

- Slight working capital reversal after 2025 driven by volume uptick.

- Capex median at 5.5% of revenues for four years.

- Common dividend payout at 30%.

- Continued share buybacks into 2025.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- EBIT margin sustained below 8%

- FCF margin sustained below 1.5%

- EBITDA net leverage sustained above 2x

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- EBIT margin sustained above 10%

- FCF margin sustained above 2.5%

- EBITDA net leverage sustained below 1x and supported by stricter financial policy

Liquidity and Debt Structure

Fitch expects Autoliv's liquidity to remain robust over the medium term. At end-2023, Autoliv had available cash balances of USD498 million, of which Fitch considers USD210 million (about 2% of

annual sales) not immediately available for debt repayment. The company has access to USD1.225 billion unsecured committed undrawn revolving credit facilities maturing in 2029 along with two commercial paper programmes including a USD700 million equivalent Swedish programme and a USD1 billion programme, of which USD215 million was utilised.

As of 30 September 2024, Autoliv's capital structure consisted primarily of private placements, EUR1 billion Eurobonds issued under its EUR3 billion EMTN programme, and Swedish export facilities totalling SEK3 billion due 2025. Autoliv's maturities are well spread and we expect this to continue.

Issuer Profile

Autoliv is a leading developer, manufacturer, and supplier of passive safety systems to the automotive industry with a broad range of product offerings.

Date of Relevant Committee

04-Dec-2024

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Autoliv ASP, Inc.				
• senior unsecured	LT	BBB+	New Rating	
• senior unsecured	LT	BBB+	New Rating	
Autoliv, Inc.	LT IDR	BBB+	New Rating	
	ST IDR	F2	New Rating	
• senior unsecured	LT	BBB+	New Rating	
Autoliv AB				

ENTITY/DEBT	RATING		RECOVERY	PRIOR
• senior unsecured	LT	BBB+	New Rating	

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	⬘
NEGATIVE	⊖	⬙
EVOLVING	◈	◆
STABLE	■	

Applicable Criteria

Corporate Rating Criteria - Effective 3 November 2023 to 6 December 2024 (pub.03 Nov 2023) (including rating assumption sensitivity)

Corporate Recovery Ratings and Instrument Ratings Criteria (pub.02 Aug 2024) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria - Effective from 21 June 2024 to 6 December 2024 (pub.21 Jun 2024)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch's website.

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