Mercedes-Benz Manufacturing Hungary Kft.
Hungary, Automotive Manufacturers

SCOPE A STABLE

Corporate profile

Mercedes-Benz Manufacturing Hungary Kft. (MBMH) produces Mercedes-Benz compact vehicles (A-class, CLA Coupé, CLA Shooting Brake) within the global production footprint of Mercedes-Benz AG. MBMH is one of the largest companies in Hungary, with 4,700 employees (2018). The company is a wholly owned subsidiary of Mercedes-Benz AG.

Rating rationale

Scope Ratings assigns a first-time issuer credit rating of A to Mercedes-Benz Manufacturing Hungary Kft. with a Stable Outlook. Scope also assigns a first-time credit rating of A to the senior unsecured bond issued by MBMH and guaranteed by Daimler AG.

MBMH plans to issue a bond under the MNB Bond Funding for Growth Scheme, with a size of HUF 40bn and a seven-year tenor. The proceeds from the issue will be used for general corporate purposes.

MBMH's ratings are derived from the A rating of its guarantor, Daimler AG (click here for the latest rating report, dated 19 December 2019). The corporate rating reflects Daimler's implicit guarantee to MBMH, assumed based on its name identity, brand responsibility, and importance as a manufacturer for Daimler AG. The senior unsecured debt rating specifically reflects Daimler's unconditional and irrevocable guarantee for debtholders of the planned MNB bond.

The A corporate rating on guarantor Daimler AG reflects its track record and our expectation that its key divisions, Mercedes-Benz Cars and Daimler Trucks, will continue to hold strong market positions. Daimler's geographic diversification, with a strong presence in both mature and developing markets, and the added diversification benefit from the captive finance business (Daimler Financial Services, renamed Daimler Mobility in July 2019), further support its business risk assessment. Limiting factors for Daimler's business risk assessment are the pronounced risk of negative cyclical volume changes, notably in the truck division, the high capital requirements and investments in R&D to expand the product portfolio, and the technological changes currently influencing the automotive industry.

The cost items that affected Daimler's results in 2019 are unlikely to constitute a drag on its profitability in 2020. The same is true for its free cash flow in the industrial unit (Mercedes-Benz AG and Daimler Truck AG under the new corporate structure), though cash generation from this unit might be affected in 2020 by the release of provisions booked in 2019, notably for diesel-related issues. The one weaker element in Daimler's business risk assessment is operating profitability (EBITDA margin), but we believe it can improve despite changes in the industry. The positive macro environment that benefitted automakers in 2019 is unlikely to continue to support volumes in 2020, with key volume markets, notably China, showing initial signs of weakness after almost a decade of growth in light-vehicle sales.

The key support for Daimler's rating remains its financial risk profile. Significant surplus liquidity covers financial debt in the industrial unit, including our adjustment for pension obligations (operating leases formerly adjusted for that moved onto the balance sheet in 2019).

Ratings & Outlook

Corporate ratings	A/Stable
HUF 40bn bond (2020/27) guaranteed by Daimler AG	A

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Related Methodologies

Corporate Rating Methodology

Rating Methodology Automotive and Commercial Vehicle Manufacturers

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At Daimler's capital markets day in November 2019, management communicated new operating targets (EBIT margins by division) and details of financial objectives, providing a mixed picture.

As expected, Daimler's key unit, Mercedes-Benz Cars, will be negatively affected in 2020 by the transition towards a higher share of electrified vehicles, mainly to comply with the CO2 targets defined by the European Commission. The anticipated weakening of key commercial vehicle markets, Europe and NAFTA, is likewise expected to take a toll on operating profits in 2020. Daimler's plan to cuts costs by EUR 1.3bn, to alleviate margin pressure, is unlikely to come to measurable fruition in 2020. The weaker outlook for operating profits (EBITDA) has therefore somewhat weakened Daimler's business risk profile.

Daimler's weaker business prospects are balanced by its plans, as communicated at the capital markets day, to ensure a focus on cash flow generation in the industrial unit and to properly incentivise this among key management. Daimler intends to limit capex and R&D and address its weak cash flow via various projects, notably one to reduce working capital. The long-standing policy of a 40% dividend payout now has the caveat that payments must be linked to free operating cash flows generated by the industrial unit. Although the industrial unit has had a net liquidity balance for years, we view as positive management's clear communication that this balance must be at least EUR 10bn.

Daimler has limited financial debt in its industrial unit and considerable unrestricted liquidity. The group's unrestricted and available liquidity (including marketable securities) exceeds financial debt in the industrial unit as well as Scope's debt adjustments. The Scope-adjusted debt figure is therefore negative. The net cash position ultimately results in strong credit ratios. The credit ratios that are key to our assessment of automakers, Scope-adjusted debt/EBITDA and funds from operations/Scope-adjusted debt, are both negative.

Outlook aligned with MBMH's guarantor, Daimler AG

The Outlook is Stable and is in line with MBMH's guarantor, Daimler AG. Daimler's Outlook incorporates our expectation that its financial risk profile is likely to remain strong. Daimler has a financial buffer on its key credit metrics to accommodate the current weakness in operating earnings and additional one-off costs related to legal matters. Scope-adjusted debt is very likely to remain negative.

We would consider a negative rating action if free operating cash flow in Daimler's industrial unit turned negative, triggered by an unexpected decrease in EBITDA owing to a substantially lower unit-sales volume in the key car and truck divisions. In line with our perception of Daimler's financial policy, we do not expect material changes to shareholder remuneration or any sizeable acquisitions. The ratings could be negatively impacted if Daimler's financial policy became more aggressive, for example, if it engaged in a large acquisition funded by cash and debt. However, we do not view this to be likely.

We would consider a positive rating action if Daimler were to continue its track record of a cautious financial policy, including moderate dividend payouts, substantial liquidity, and strong credit metrics, coupled with an improvement in the adjusted EBITDA margin to above 12%.

Rating drivers (same as those of guarantor Daimler AG)

Positive rating drivers	Negative rating drivers
• Assumed implicit guarantee to MBMH, given its name identity, brand responsibility and importance as a manufacturer for Daimler AG • Unconditional and irrevocable guarantee given to debtholders of the planned bond under the MNB Bond Funding for Growth Scheme • Mercedes-Benz's status as a leading premium car manufacturer, with one of the strongest brands for premium cars worldwide • Track record of successful product launches, facelifts, and extension of the product range at Mercedes-Benz Cars • Broad geographic reach in its key divisions, Mercedes-Benz Cars and Daimler Trucks • Broad regional distribution of sales across both mature and emerging markets • Diversification benefits from captive finance operations, adding a source of operating profits outside manufacturing • Strong financial risk profile providing a buffer for unexpected negative operating performance and substantial financial flexibility	• Strong risks of negative cyclical volume changes that may result from worsening consumer sentiment or less favourable economic environment • Substantial investment required to develop hybrid and electric vehicles and to meet increasingly stringent emission standards • Technological changes in the automotive industry that may change the competitive landscape • Strong earnings risks in the commercial vehicle sector given the early-cycle nature of this industry

Rating-change drivers (same as those of guarantor Daimler AG)

Positive rating-change drivers	Negative rating-change drivers
• Continuation of strong financial position leading to headroom that may accommodate seriously negative volume developments at Mercedes-Benz Cars and Daimler Trucks • Substantial technological advancements at Mercedes-Benz Cars, suggesting a technological lead for electrified vehicles	• Deterioration of operating performance such as sustained market share losses in key markets (Europe/US) in either the passenger or truck division • Change in financial policy towards higher shareholder remuneration, including share buybacks or larger-sized acquisitions – risks that we currently evaluate as being low • Weakening of the liquidity position, including limited access to public debt markets

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