

Tear Sheet:**lochpe-Maxion S.A.****November 14, 2024**

The recovery of volumes in Brazil and depreciation of the Brazilian real should continue compensating for lochpe-Maxion S.A. (lochpe)'s weak volumes from Europe in the coming quarters. In Brazil, the production of light and commercial vehicles increased 5.2% and 47.2%, respectively in the first nine months of 2024 versus the same period of 2023, according to ANFAVEA. However, in Europe they dropped 5% and 12.4%, respectively, according to IHS. Meanwhile in North America there was a slight drop of less than 1% for both segments in the period.

The depreciation of the Brazilian real against the U.S. dollar of approximately 17.5% until the end of October is sufficiently balancing relatively stable volumes in North America, where we continue forecasting revenue will expand about 5.5%-6.5% this year. That said, the deep volume decline in Europe is not sufficiently balanced by foreign exchange variation.

Therefore, we have maintained our expectation that lochpe's 2024 consolidated net revenue will increase almost 5% versus 2023, driven by the volume recovery in Brazil, notably from aluminum wheels for light vehicles and structural components for commercial vehicles, with higher truck production and sales.

For 2025, we expect revenue growth of 5%-8% in Brazil from continued volume recovery--somewhat balanced by still-high interest rates pressuring credit affordability. We believe revenue in North America might expand about 5.5%-6.5% in local currency in 2025, as volumes gradually expand, mainly from expected prebuying of heavy vehicles prior to technology changes, but the scenario is still uncertain amid the recent presidential election. While in Europe, industry conditions remain challenging due to persistent high inflation and interest rates, but we expect revenue growth of about 3.5%-4.5% in local currency, mainly from a recovery of commercial vehicle production compared with a weak 2024.

lochpe is delivering consistently lower leverage quarter over quarter. Annualized debt to EBITDA was 2.7x in third-quarter 2024, compared with 3.9x in the first quarter and 3.0x in the second. In our current forecast, we assume about 2.8x-3.0x by the end of the year, mostly from higher cash generation and relatively stable debt.

The company is also delivering consistent profitability improvements with EBITDA margins approaching 10% in the 12 months ended September 2024, versus 8.2% in 2023. We expect management to remain focused on operational efficiency with a better pricing strategy, higher mix of value-added products, and improvements in production lines and technology, while continuing to pass through inflation to customers.

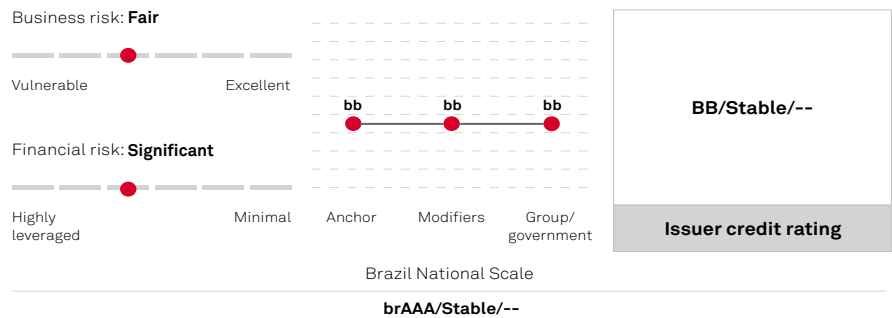
Primary contact

Fabiana Gobbi
Sao Paulo
55-11-3039-9733
fabiana.gobbi
@spglobal.com

Additional contact

Luisa Vilhena
Sao Paulo
55-11-3039-9727
luisa.vilhena
@spglobal.com

Ratings Score Snapshot



Recent Research

- lochpe-Maxion S.A. Upgraded To 'BB' On Expected Lower Leverage And Solid Free Cash Flow; Outlook Stable, March 4, 2024

Company Description

Founded in 1918, lochpe is a global manufacturer of steel wheels for light and commercial vehicles and agricultural machinery. It also manufactures aluminum wheels for light vehicles; side rails, crossmembers, and full frames for commercial vehicles; and structural components for light and commercial vehicles.

lochpe currently has 33 manufacturing facilities across 14 countries. The company operates its core business through Maxion Wheels and Maxion Structural Components in the auto segment, and through AmstedMaxion, which produces railway equipment in Brazil and other countries.

We estimate Brazil will represent about 25%-30% of consolidated revenue in 2024, North America almost 30%, Europe about 35%, and Asia 10%.

Outlook

The stable outlook reflects our expectation that lochpe's broad geographic diversification and exposure to hard currency will balance weaker volumes from Europe in the next couple of quarters. We expect continued efforts to improve profitability and cash generation will balance persistent high interest rates and credit affordability. In turn, we forecast controlled leverage in the coming years with debt to EBITDA of about 2.8x-3.0x by year-end 2024 and free operating cash flow (FOCF) to debt remaining at about 20% in 2024-2025.

Downside scenario

A negative rating action is unlikely in the short to medium term. But it could occur if the company fails to improve profitability and reduce leverage because of tougher global industry dynamics, with lower demand and higher inflation weighing on costs and expenses. Moreover, this could result from elevated interest rates globally affecting credit availability and household income. In this scenario, we would see deteriorated debt to EBITDA consistently close to 3.5x and negative free cash flow.

Upside scenario

A positive rating action is also unlikely in the next 12-18 months, since in our view it will depend on the company delivering a comfortable liquidity cushion and less volatile credit metrics through the cycle. In this scenario, we would have to see debt to EBITDA consistently below 2.0x and FOCF to debt above 15%.

Key Metrics

Iochpe-Maxion S.A.--Forecast summary

Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027
(Mil. BRL)	2020a	2021a	2022a	2023a	2024e	2025f	2026f	2027f
Revenue	8,761	13,688	16,948	14,955	15,661	17,411	19,087	20,023
Gross profit	1,122	2,264	2,300	1,979	2,413	2,783	3,142	3,364
EBITDA (reported)	372	1,841	1,737	1,253	1,562	1,859	2,142	2,306
Plus: Operating lease adjustment (OLA) rent	--	--	--	--	--	--	--	--
Plus/(less): Other	41	(290)	(81)	(26)	6	6	6	6
EBITDA	414	1,551	1,656	1,227	1,568	1,865	2,147	2,312
Less: Cash interest paid	(163)	(282)	(443)	(597)	(488)	(437)	(434)	(434)
Less: Cash taxes paid	(95)	(206)	(255)	(74)	(74)	(74)	(74)	(74)
Plus/(less): Other	--	--	--	--	--	--	--	--
Funds from operations (FFO)	156	1,063	958	556	1,006	1,354	1,640	1,805
EBIT	(160)	1,027	1,257	923	1,213	1,502	1,800	1,999
Interest expense	205	293	528	645	581	467	439	439
Cash flow from operations (CFO)	113	1,020	1,879	1,469	1,423	1,332	1,680	1,961
Capital expenditure (capex)	336	485	489	505	550	540	700	700
Free operating cash flow (FOCF)	(223)	535	1,390	964	873	792	980	1,261
Dividends	146	166	236	158	39	131	240	325
Share repurchases (reported)	--	--	13	14	7	--	--	--
Discretionary cash flow (DCF)	(369)	369	1,142	792	827	660	740	937
Debt (reported)	5,120	5,532	6,477	6,766	6,568	6,568	6,568	6,568
Plus: Lease liabilities debt	--	53	47	74	77	80	83	86
Plus: Pension and other postretirement debt	456	407	305	280	280	280	280	280
Less: Accessible cash and liquid Investments	(1,605)	(1,088)	(2,287)	(2,962)	(3,115)	(3,645)	(4,247)	(5,172)
Plus/(less): Other	11	--	--	524	524	524	524	524
Debt	3,983	4,904	4,542	4,681	4,334	3,807	3,208	2,286
Equity	3,803	4,398	4,293	4,085	4,394	4,911	5,549	6,315
Adjusted ratios								
Debt/EBITDA (x)	9.6	3.2	2.7	3.8	2.8	2.0	1.5	1.0
FFO/debt (%)	3.9	21.7	21.1	11.9	23.2	35.6	51.1	78.9
FFO cash interest coverage (x)	2.0	4.8	3.2	1.9	3.1	4.1	4.8	5.2

lochpe-Maxion S.A.--Forecast summary

EBITDA interest coverage (x)	2.0	5.3	3.1	1.9	2.7	4.0	4.9	5.3
CFO/debt (%)	2.8	20.8	41.4	31.4	32.8	35.0	52.4	85.8
FOCF/debt (%)	(5.6)	10.9	30.6	20.6	20.1	20.8	30.6	55.2
DCF/debt (%)	(9.3)	7.5	25.1	16.9	19.1	17.3	23.1	41.0
Annual revenue growth (%)	(12.5)	56.2	23.8	(11.8)	4.7	11.2	9.6	4.9
Gross margin (%)	12.8	16.5	13.6	13.2	15.4	16.0	16.5	16.8
EBITDA margin (%)	4.7	11.3	9.8	8.2	10.0	10.7	11.3	11.5
Return on capital (%)	(2.3)	12.0	13.9	10.5	13.9	17.2	20.6	23.0

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. R\$--Brazilian real.

Financial Summary

lochpe-Maxion S.A.--Financial Summary

Period ending	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	R\$	R\$	R\$	R\$	R\$	R\$
Revenues	9,616	10,016	8,761	13,688	16,948	14,955
EBITDA	1,100	1,043	414	1,551	1,656	1,227
Funds from operations (FFO)	745	737	156	1,063	958	556
Interest expense	192	173	205	293	528	645
Cash interest paid	179	174	163	282	443	597
Operating cash flow (OCF)	640	658	113	1,020	1,879	1,469
Capital expenditure	471	484	336	485	489	505
Free operating cash flow (FOCF)	169	174	(223)	535	1,390	964
Discretionary cash flow (DCF)	120	62	(369)	369	1,142	792
Cash and short-term investments	487	646	1,605	1,088	2,287	2,962
Gross available cash	487	646	1,605	1,088	2,287	2,962
Debt	2,746	2,849	3,983	4,904	4,542	4,681
Common equity	3,199	3,497	3,803	4,398	4,293	4,085
Adjusted ratios						
EBITDA margin (%)	11.4	10.4	4.7	11.3	9.8	8.2
Return on capital (%)	11.8	9.9	(2.3)	12.0	13.9	10.5
EBITDA interest coverage (x)	5.7	6.0	2.0	5.3	3.1	1.9
FFO cash interest coverage (x)	5.2	5.2	2.0	4.8	3.2	1.9
Debt/EBITDA (x)	2.5	2.7	9.6	3.2	2.7	3.8
FFO/debt (%)	27.1	25.9	3.9	21.7	21.1	11.9
OCF/debt (%)	23.3	23.1	2.8	20.8	41.4	31.4
FOCF/debt (%)	6.2	6.1	(5.6)	10.9	30.6	20.6
DCF/debt (%)	4.4	2.2	(9.3)	7.5	25.1	16.9

Peer Comparison

Iochpe-Maxion S.A.--Peer Comparisons

	Iochpe-Maxion S.A.	Tupy S.A.	Nemak S.A.B. de C.V.	Dana Inc.	Metalsa S.A. de C.V.
Foreign currency issuer credit rating	BB/Stable/--	BB+/Stable/--	BB+/Negative/--	BB-/Stable/NR	BB+/Stable/--
Local currency issuer credit rating	BB/Stable/--	BB+/Stable/--	BB+/Negative/--	BB-/Stable/NR	BB+/Stable/--
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2023-12-31	2023-12-31	2023-12-31	2023-12-31	2021-12-31
Mil.	R\$	R\$	R\$	R\$	R\$
Revenue	14,955	11,368	24,228	51,214	12,850
EBITDA	1,227	1,167	2,777	3,969	1,926
Funds from operations (FFO)	556	876	1,661	2,518	1,722
Interest	645	292	438	912	281
Cash interest paid	597	114	411	733	204
Operating cash flow (OCF)	1,469	829	1,457	2,513	944
Capital expenditure	505	570	2,623	2,431	571
Free operating cash flow (FOCF)	964	259	(1,166)	82	374
Discretionary cash flow (DCF)	792	111	(1,174)	(247)	(357)
Cash and short-term investments	2,962	1,604	1,565	2,567	1,160
Gross available cash	2,962	1,593	1,565	2,567	1,160
Debt	4,681	2,414	7,702	13,602	1,800
Equity	4,085	3,328	8,591	8,870	3,156
EBITDA margin (%)	8.2	10.3	11.5	7.7	15.0
Return on capital (%)	10.5	16.0	5.6	8.3	24.7
EBITDA interest coverage (x)	1.9	4.0	6.3	4.4	6.8
FFO cash interest coverage (x)	1.9	8.7	5.0	4.4	9.5
Debt/EBITDA (x)	3.8	2.1	2.8	3.4	0.9
FFO/debt (%)	11.9	36.3	21.6	18.5	95.7
OCF/debt (%)	31.4	34.3	18.9	18.5	52.5
FOCF/debt (%)	20.6	10.7	(15.1)	0.6	20.8
DCF/debt (%)	16.9	4.6	(15.2)	(1.8)	(19.8)

Environmental, Social, And Governance

Environmental factors are a negative consideration in our credit rating analysis of Iochpe. This is because the global auto industry is significantly exposed to environmental risks, given that electrification and the transition to carbon-dioxide-neutral mobility are disruptive forces that will shape the industry.

In Europe and North America, regulatory rules are well advanced for light vehicles, but those for heavy vehicles will be implemented in the long term. Given significant exposure to both regions

and to light vehicles, lochpe has been working on weight-reduction technology to meet original equipment manufacturers' needs.

Nevertheless, the company is the global leader in wheel manufacturing, which is less vulnerable to the global regulatory push. Also, lochpe is on track to reduce the intensity of its greenhouse gas emissions (scopes 1 and 2) 30% by 2025 from the 2019 level of 0.0003900028 tons of carbon dioxide per kilogram produced, and to be carbon neutral by 2040.

Rating Component Scores

Foreign currency issuer credit rating	BB/Stable/--
Local currency issuer credit rating	BB/Stable/--
Business risk	Fair
Country risk	Low
Industry risk	Moderately High
Competitive position	Fair
Financial risk	Significant
Cash flow/leverage	Significant
Anchor	bb
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	bb

Related Criteria

- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014

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- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

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