

# MOODY'S

## RATINGS

### **Rating Action: Moody's affirms lochpe-Maxion's Ba3 ratings, stable outlook**

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18 Mar 2024

New York, March 18, 2024 -- Moody's Ratings, ("Moody's") has today affirmed lochpe-Maxion S.A. (lochpe-Maxion)'s Ba3 corporate family rating and the Ba3 backed senior unsecured rating of its \$400 million sustainability-linked notes due 2028 co-issued by lochpe-Maxion Austria GmbH and Maxion Wheels de Mexico, S. de R.L. de C.V., and fully and unconditionally guaranteed by lochpe-Maxion. The outlook for the ratings is stable.

#### RATINGS RATIONALE

lochpe-Maxion's Ba3 ratings reflect the company's size, scale and position as a leading global supplier of steel and aluminum wheels for light and commercial vehicles, and as a major provider of structural components in the Americas; its good geographic diversification; and long-standing relationships with original equipment manufacturers (OEMs). The ratings also incorporate lochpe-Maxion's adequate corporate governance standards, experienced management team and strengthened financial policies.

The company's adequate liquidity after several liability management initiatives since the beginning of 2021 also supports its rating. lochpe-Maxion's cash position covers all of its short-term debt maturities.

The rating also reflects lochpe-Maxion's ability to expand its market share and its track record of robust revenue growth, even when the operating environment is difficult for the global automotive industry; and its adequate credit metrics, with Moody's-adjusted leverage ranging between 3.0x and 4.0x through economic cycles.

lochpe-Maxion's ratings are constrained by its limited free cash flow (FCF) generation as a result of the industry's thin margins and high capital intensity. Additional rating constraints include the company's history of growth through leveraged acquisitions, although it is likely to focus on organic growth in the next few years; and its exposure to the cyclicity of the automotive industry and the volatility in the prices of raw materials (steel and alumina). The company's exposure to a commoditized product

offering and the bargaining power of large OEMs is also credit negative because it increases pricing pressure and limits margin expansion.

In 2023, lochpe-Maxion's revenue declined to BRL15 billion from BRL16.9 billion in 2022, reflecting lower commercial vehicle production in Brazil as part of the transition to Euro 6, and lower sales prices following reduced raw material costs. The company's profitability also declined, with Moody's-adjusted EBITDA margin falling to 9.4% in 2023 from 10.4% in 2022. Moody's-adjusted leverage increased to 5.0x in 2023, compared with 3.9x in 2022, but Moody's expects it to gradually decrease in the next 12-18 months as lochpe-Maxion's operating performance recover following a pickup in commercial vehicles production in Brazil. Moody's expects lochpe-Maxion's revenue to increase to BRL15.5-16.0 billion in 2024 and 2025, while EBITDA margin will recover to 11.0-12.0% in the same period. Adjusted gross leverage will improve to 3.5-4.0x, with stable debt levels and higher EBITDA stream.

## LIQUIDITY

lochpe-Maxion has adequate liquidity. The company's cash position of BRL3.0 billion as of year-end 2023 is sufficient to cover all short-term debt maturities by 1.8x, and the company still has a BRL500 million committed revolving credit facility due in April 2025. lochpe-Maxion continues to work on additional refinancing initiatives to lengthen its debt amortization schedule further, such as the latest issuance of debentures approved by the board in the amount of BRL750 million to refinance upcoming debt amortization.

The company's liquidity has improved since the beginning of 2020, reflecting several initiatives to improve its debt amortization schedule. Moody's expects lochpe-Maxion to generate positive FCF in the next few years despite a capital spending of about BRL550 million per year, but its internal cash generation will remain limited by the industry's thin margins and capital intensity. The company's bylaws have established a dividend payout of 37% of net income, above the 25% payout required by Brazilian laws, and historically, lochpe-Maxion has maintained an adequate buffer under incurrence financial covenants applicable to part of its total outstanding debt, setting a maximum reported net leverage of 3.5x (2.9x at the end of 2023).

## RATING OUTLOOK

The stable rating outlook reflects Moody's expectations that lochpe-Maxion's profitability and leverage will remain adequate in the next 12-18 months despite potential market volatility; and that the company will prudently manage debt refinancing, capital spending and dividend distributions to preserve its liquidity.

## FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

lochpe-Maxion's rating could be upgraded if its profitability improves, with adjusted

leverage below 3.0x, and its interest coverage ratio (EBITA/interest expense) approaches 3.5x on a sustained basis. For an upgrade, lochpe-Maxion would have to maintain adequate liquidity, with cash coverage of short-term debt above 1.0x on a sustained basis; and positive FCF generation, which would help the company withstand the volatility in its end markets.

lochpe-Maxion's rating could be downgraded if its profitability deteriorates, with an EBITA margin below 8%, while its adjusted leverage is maintained above 4.0x and its FCF generation remains negative without any prospect of improvement. A deterioration in the company's liquidity could also lead to a rating downgrade. Weaker financial policies — reflected in funding concentrated in short-term facilities, a sizable debt-funded acquisition or a large shareholder distribution — would also strain the rating. Finally, an increase in the proportion of secured debt compared with unsecured debt would also lead to a downgrade of the rating of the unsecured notes.

## COMPANY PROFILE

Headquartered in Cruzeiro, Brazil, lochpe-Maxion S.A. (lochpe-Maxion) is the largest global producer of steel wheels for light and commercial vehicles, is among the top 10 global producers of aluminum wheels for light vehicles, and is a leading producer of side rails and chassis in the Americas. The company has 33 plants located in 14 countries in Europe, South America, North America, Asia and Africa, with around 50 million wheels produced per year. lochpe-Maxion also has a 19.5% interest in an associated company that produces freight cars, railway wheels and castings, and industrial castings in Brazil. In 2023, the company generated BRL15.0 billion (\$3.0 billion) in net revenue and BRL1.4 billion (\$280 million) in Moody's-adjusted EBITDA.

The principal methodology used in these ratings was Automotive Suppliers published in May 2021 and available at <https://ratings.moodys.com/rmc-documents/72204>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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