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Navistar Financial Issuer Credit Ratings Raised To 'mxBBB-/mxA-3' Upon Similar Action On Its Parent Company; outlook stable

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This English version is provided on request and reflects the translation from the original one published only in Spanish by S&P Global Ratings on January 25, 2019. In case of any discrepancy between this English version and the original in Spanish, the Spanish version shall apply.

Overview

- On January 24, 2019, S&P Global Ratings raised its long-term issuer credit rating on Navistar International Corp. (NIC; B/Stable/-) to 'B' from 'B-' and revised its outlook to stable from positive. Consequently, we raised the national long and short term issuer credit ratings on the entity's subsidiary, Navistar Financial, S.A. de C.V. SOFOM, E. R. (Navistar Financial), to 'mxBBB-/mxA-3' from 'mxBB-/mxB', respectively.
- Despite the adverse environment its parent company has faced for several years, we assess Navistar Financial's performance as positive, based on its leading position in the truck market in Mexico, with adequate revenue stability and a solid capital base that underpin its growth.
- Although we continue considering the Mexican subsidiary as non-strategic for the group, in our opinion, the strong link between them persists, since a potential deterioration of the parent company could influence the financial performance of Navistar Financial.
- The stable outlook on Navistar Financial reflects that of its parent company.

Rating Action

Mexico City, January 25th, 2019.– S&P Global Ratings raised its national short and long-term issuer credit ratings –CaVal– on Navistar Financial, S.A. de C.V. SOFOM, E.R. (Navistar Financial) to 'mxBBB-/mxA-3' from 'mxBB-/mxB, respectively, after assessing the potential impact on the company derived from a similar rating action on its parent company .We revised its outlook to stable from positive after the upgrade.

Rationale

The upgrade follows a similar action on its parent company, [Navistar International Corp.](#) (NIC; 'B/Stable/-'). This rating action reflects operational improvements derived from higher business volume due to the market's conditions and to the increase in NIC's market share. The operational improvements reflect its growing market share, as it is the only company in the market with growth in class 8 trucks during 2018, and we expect it to maintain this trend for 2019. NIC also benefited from better profitability levels thanks to savings policies on structural costs. These improvements should allow the company to maintain its profitability levels without affecting the next business cycle.

We continue to consider Navistar Financial as a non-strategic subsidiary for the operations of its parent company, given the small size that the Mexican market represents for NIC's worldwide operations. On the other hand, we estimate that a deterioration in the financial situation of its parent company could affect the operations of the Mexican subsidiary, which limits our rating on Navistar Financial.

In previous years, the financial restriction imposed on Navistar Financial has negatively affected our funding and liquidity evaluation given that a potential payment default of its parent company could accelerate the debt payment of the Mexican subsidiary compromising the stability of its business. However, we consider that after the ratings upgrade on its parent company, the probability of such default is lower. On the other hand, Navistar Financial has a diversified funding structure comprised of credit lines from development and commercial banks, which complements with market debt (commercial paper and securitizations). In addition, in our cash flow analysis, the company's liquidity remains positive for the next 12 months, both in our base and stressed scenarios. This reflects that, even considering a stress scenario, the company has sufficient resources to meet its short-term liquidity needs.

Navistar Financial's ratings reflect its leading position in the truck market in Mexico with adequate revenue stability that focuses primarily on that industry. The ratings also consider the solid capital base of the company that supports its growth and its still relaxed origination standards when compared to the banking industry (it should be noted that commercial banks do not commonly serve those customers served by Navistar Financial).

Outlook

Navistar Financial's outlook reflects that of its parent company, as well as our expectations that the good demand for its products in the market will continue in 2019, and that some cost reduction initiatives will allow the company to maintain its credit indicators.

Downside scenario

We could downgrade Navistar Financial ratings in the next 12 months if we take a similar rating action on its parent company, especially if NIC cannot maintain its profitability levels in case the demand is affected by an adverse economic cycle bringing debt to EBITDA above 6.5x (times) or if the free operating cash flow is consistently negative. Similarly, we could downgrade the rating if we revise the NIC outlook to negative, as this could put pressure again on the company's funding and liquidity indicators.

Upside scenario

We could raise Navistar Financial's ratings in the next 12 months if we raise the rating of its parent company. This could happen if the company continues to improve its profitability levels and decrease its debt levels, resulting in better credit indicators, in a leverage close to 4x and free operating cash flow consistently close to 10%.

Ratings Score Snapshot

Navistar Financial, S.A. de C.V. SOFOM, E.R.

Issuer Credit Rating	
National Scale –CaVal–	mxBBB-/Stable/mxA-3
Anchor	bb+
Business Position	Moderate
Capital and Earnings	Very Strong
Risk Position	Moderate
Funding	Moderate
Liquidity	Moderate
External influence	
Government influence	No
Group influence	Yes
Rating above the sovereign	No

Related Criteria and Research

Criteria

- Methodology For National And Regional Scale Credit Ratings, June 25, 2018.
- Use Of CreditWatch And Outlooks, 14 de septiembre de 2009.
- Nonbank Financial Institutions Rating Methodology, 9 de diciembre de 2014.
- Banking Industry Country Risk Assessment Methodology And Assumptions, 9 de noviembre de 2011.
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013 .
- Risk-Adjusted Capital Framework Methodology, 20 de julio de 2017.
- Group Rating Methodology, 19 de noviembre de 2013.

Related Research

- General Description of the Credit Rating Process.
- [MÉXICO - Definiciones de calificación en Escala CaVal \(Nacional\)](#).
- Guidance: S&P Global Ratings' National And Regional Scale Mapping Specifications, June 25, 2018.
- If NAFTA Negotiations Are Unsuccessful, The Mexican Financial System Is Well-Positioned To Absorb The Repercussions, Nov. 14, 2017.
- Is AMLO's Government Plan The Answer To Mexico's Cross-Sector Success?, 4 de julio de 2018.
- Credit Conditions Latin America: Tough Fixtures Home And Away., Nov. 29, 2018.
- [S&P Global Ratings toma acciones de calificación sobre 20 entidades financieras mexicanas por revisión de metodología y tablas de correlación; retira identificador de Observación por Criterios](#), 6 de septiembre de 2018.
- [S&P Global Ratings revisa perspectiva de Navistar Financial a positiva de estable tras acción similar sobre su casa matriz](#), 12 de julio de 2018.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

ADDITIONAL REGULATORY INFORMATION

1) Financial information as of September 30, 2018.

2) The rating is based on information provided to S&P Global Ratings by the issuer and / or its agents and advisers. Such information may include, among others, according to the characteristics of the rated transaction, value or entity, the following: terms and conditions of the issue, placement prospectus, audited quarterly and annual financial statements, operational statistics --including those of the holding companies, when applicable-, prospective information -for example, financial projections-, annual reports, information on the characteristics of the market, related legal information, information from the interviews with management and information from other external sources, for example, CNBV, Mexican Stock Exchange.

The rating is based on information provided prior to the date of this press release; consequently, any change in such information or additional information may result in a modification of the aforementioned rating.

3) S&P Global Ratings takes into account in its analysis the originator and/or asset servicer's capabilities. However, our estimation of their capabilities not necessarily have a direct impact on assigned ratings.

4) S&P Global Ratings does not take into account in its analysis to determine the rating the existence of mechanisms to align incentives between originator, servicer and guarantor, and possible purchasers of securities issued under the rated securitization.

5) During the previous fiscal year S&P Global Ratings received income from Navistar Financial, S.A. de C.V. SOFOM, E.R. for additional services different to a rating, these represent 30.5272% of the income received for rating services during that same year.

6) S&P Global Ratings' regulatory disclosures (PCRs) are published as of a point-in-time, which is current as of the date a Credit Rating Action was last published. S&P Global Ratings updates the PCR for a given Credit Rating to include any changes to PCR disclosures only when a subsequent Credit Rating Action is published. Thus, disclosure information in this PCR may not reflect changes to data within PCR disclosures that can occur over time subsequent to the publication of a PCR but that are not otherwise associated with a Credit Rating Action.

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