

Research Update:

Mahle GmbH Ratings Lowered To 'BB-' On Low Earnings Increase; Outlook Stable

March 27, 2025

Rating Action Overview

- We think that Mahle GmbH (Mahle)'s earnings increase over 2025-2026 will not be enough to support funds from operations (FFO) to debt above 25%, our threshold for the 'BB' rating.
- We expect that the transition to e-mobility, combined with restructuring costs, will continue to weigh on the company's free operating cash flow (FOCF) generation.
- Therefore, we lowered our long-term issuer credit and issue ratings on Mahle to 'BB-' from 'BB'.
- The stable outlook reflects our expectation that cost savings, synergies from the acquisition of the remaining stake in Mahle Behr GmbH & Co. KG, and productivity gains should enable Mahle to achieve an adjusted FFO-to-debt ratio above 20% and return to FOCF to debt well above 2% from 2026.

Rating Action Rationale

Difficult market conditions decreased Mahle's deleveraging prospects. We think that Mahle's FFO to debt will remain below 25%, our threshold for the 'BB' rating, over 2025-2026; this is despite the company's cost cuts on overheads and rightsizing of production capacity. This is because low automotive production growth, volatile battery electric vehicle (BEV) demand, and high research and development (R&D) costs constrain profitability. About 70%-75% of Mahle's revenue stems from Europe and North America and this exacerbates the headwinds on revenues since we expect that China will fuel market growth for light vehicles and trucks in the next two years. We estimate that China accounts for about 10% of Mahle's sales. Nevertheless, we forecast that the company will modestly increase its S&P Global Ratings-adjusted EBITDA margin over 2025-2026 to 8.0%-9.0% from 7.0%-8.0% expected in 2024, and 6.8% in 2023. This is based on our expectations that Mahle will benefit from its profitable aftermarket business accounting for about 11% of its sales, protect the margin contribution from its traditional products (pistons, filtration systems) through its cost leadership approach, while making gradual progress on the turnaround of its thermal management division. We also incorporate costs savings from the group reorganization implemented in January 2025.

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Mahle's free cash flow generation is weak due to cash restructuring costs and investments in e-mobility.

Like many Germany-based automotive suppliers, Mahle is adjusting its domestic production capacity to demand. The shift to best cost countries and the reduction in personnel should drive cost reduction in the future but constrains the company's free cash flow in the meantime due to cash restructuring costs, which we estimate at about €150 million over 2025-2026. We think that this will constrain the group's FOCF level to about €50 million in 2025 and to about €100 million next year, after an anticipated cash burn of about €30 million in 2024. The company's investments in e-mobility hamper Mahle's earnings and free cash flow. The company spent a relatively large amount of R&D in the past few years, representing about 5%-6% of its annual sales on average. We view Mahle's efforts to build a competitive product offering in e-mobility to lower its reliance on internal combustion engine-related components and thereby reduce the substitution risk from the transition to alternative powertrains as positive. However, we note that it could take time for Mahle to generate positive cash flows from its e-mobility products because volumes do not currently cover the high fixed and R&D costs to develop new products. The likely relaxation of the carbon dioxide emissions targets for automakers in Europe, combined with U.S. President Donald Trump's environmental policies increase the uncertainty on the pick-up in demand for BEVs over the next two years in our view, although this may temporarily slow the decrease in demand for Mahle's combustion-engine-related components such as pistons, and oil and fuel filters.

We think that Mahle will keep its conservative financial policy. Mahle's shareholders, which are non-profit entities--Mahle Stiftung and MABEG--should continue to support a prudent dividend policy. This leads us to estimate cash dividends of €30 million-€50 million annually over 2025-2026. We also think that the company will only consider small bolt-on acquisitions, if any. Management targets a reported net debt-to-EBITDA ratio below 2.0x, which compares to 1.3x as of Sept. 30, 2024. In our base case, we expect a gradual improvement in S&P Global Ratings-adjusted debt-to-EBITDA ratio of 2.8x-3.3x in 2024 and 2.5x-3.0x in 2025, down from 3.6x in 2023. We also expect an improvement in Mahle's FFO-to-debt ratio to 20%-25% in 2025, from below 20% in 2023 and 2024. The difference between Mahle's reported leverage and our S&P Global Ratings-adjusted debt to EBITDA mainly stems from our adjustments related to operating leases, pension obligations, outstanding receivable financing, and reclassification of income from asset disposals as exceptional items. We also exclude some cash balances that we consider not immediately available for debt repayment.

Outlook

The stable outlook reflects our expectation that Mahle's EBITDA margin will recover to about 8%-9% over 2025-2026 as the company benefits from cost savings and from its new organization structure, synergies from the acquisition of its remaining stake in Mahle Behr, and from productivity gains despite the low growth in light vehicle production. This should translate into an FFO to debt above 20% and positive FOCF in 2025.

Downside scenario

We could lower our rating on Mahle if the company cannot maintain its FFO to debt above 15% or if it does not progressively restore its FOCF to debt well above 2% by 2026. This could materialize if the company reports higher-than-expected losses from its e-mobility segment due to volatile demand and intense competition, or if the turnaround of its thermal management activities was materially slower than currently envisaged.

Upside scenario

We could raise our rating on Mahle if the company manages to increase its FFO to debt to above 25% and its FOCF to debt to above 5%. This could stem from a stronger-than-expected pick-up in demand for the company's e-mobility systems, and improved profitability in its thermal management activities, combined with cost leadership in its other segments.

Company Description

Mahle is a global auto parts manufacturer for light vehicles, commercial vehicles, and the aftermarket, and in the first nine months of 2024, it reported sales of about €8.8 billion (including joint ventures [JVs]). It operates under three business units since the January 2025 reorganization where Mahle reduced its business units to three from five:

- Powertrain and Charging Division: Merging of its Electronics and Mechatronics (previously 10.6% as of first nine months of 2024 sales) and Engine Systems and Components (previously 20.9%);
- Thermal and Fluid Systems: Merging of its Thermal Management division (previously 34.6%) and Filtration and Engine Peripherals (previously 17.1%);
- Life Cycle and Mobility: Renamed from its Aftermarket division (previously 11.3%); and
- Profit Centers (5.6%) will be integrated into each business unit.

Mahle is headquartered in Germany and operates about 148 production plants across 29 countries. At the end of September 2024, it had about 69,000 employees. Mahle Stiftung, a non-profit foundation based in Stuttgart, owns 99.9% of the shares, and MABEG owns all the voting rights.

Our Base-Case Scenario

Assumptions

- Global real GDP growth of 3.2% in both 2025 and 2026 from 3.3% expected in 2024, including 1.2% and 1.3% growth in the eurozone compared with 0.8% in 2024.
- Global light vehicle production recovering by up to 1.0% annually in 2025 and 2026 after the decline of about 2.0% in 2024 and growth of 9.9% in 2023.
- Revenue decline of about 5%-7% in 2024 primarily driven by deconsolidation effects and contraction of automotive volume production (or a decline of 2%-3% if excluding deconsolidation effects). For 2025, we expect topline growth of about 3%-4%, directionally in line with the market and further supported by the company's orderbook for thermal and mechatronics systems.
- EBITDA margin to slightly improve to about 7%-8% in 2024 (excluding one-off gains from the BHTC disposal), compared with 6.8% in 2023, mainly led by productivity gains and cost efficiencies. For 2025, we expect margins to improve to 8%-9% driven by on-going footprint optimization to best cost countries, productivity improvements, ramp-up of profitable new contracts, and procurement savings.
- We incorporate limited effects from tariffs between the U.S., Mexico, and Canada, in our base case because we assume that Mahle will pass through most of the effects to its auto and

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commercial vehicle original equipment manufacturers. Inability to recover the additional costs, or tariff-related higher-than-expected decline in production volume at key customers in North America poses additional downside risks to our growth and profitability forecast.

- Working capital outflows of up to €50 million per year after a release of about €170 million in 2023, driven by the gradual recovery in production volumes in 2025-2026.
- Capital expenditure (capex) amounting to about 4% of sales, covering depreciation of assets.
- Cumulated cash restructuring costs of about €150 million over the 2025-2026 period.
- Dividend paid to shareholders remain modest at about €35 million-€45 million during 2024-2026.
- Limited outflow for acquisitions in 2025 in relation to the purchase of shares in Mahle Behr JV.
- Net proceeds of about €225 million from asset disposals in 2024.

Key metrics

Mahle GmbH--Forecast summary

	--Fiscal year ended Dec. 31--						
Period ending	2020a	2021a	2022a	2023a	2024e	2025f	2026f
(Mil. EUR)							
Revenue (excluding JVs)	9,237	10,382	11,830	12,205	11,300-11,800	11,350-11,850	11,580-12,080
Revenue growth (%)	-18.9	12.4	13.9	3.2	(7)-(5)	0-5	0-5
EBITDA margin (%)	5.9	8.1	5.9	6.8	7.0-8.0	8.0-9.0	8.0-9.0
Capex	427	400	443	455	440-490	440-490	450-500
Free operating cash flow (FOCF)	342	-10	-439	220	(50)-(0)	20-70	80-130
Debt/EBITDA (x)	4.5	3.0	4.7	3.6	2.8-3.3	2.5-3.0	2.5-3.0
FFO/debt (%)	14.3	23.8	12.4	18.2	18-20	20-25	20-25
FOCF/debt (%)	14.0	-0.4	Negative	7.4	(3)-(0)	1-4	2-5

*All figures adjusted by S&P Global Ratings. Figures for 2024e, 2025f and 2026f are based on assumptions made by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

Liquidity

We assess Mahle's liquidity as strong, reflecting that sources will exceed uses by more than 1.5x over the next 12 months and by more than 1.0x in the subsequent 12 months. We also consider the company's solid relationship with banks and its well-spread debt maturities.

Principal liquidity sources

- For the 24 months started Oct. 1, 2024, cash and cash equivalents of about €631 million, excluding about €60 million of cash held at JVs and inaccessible cash;
- About €1.2 billion of available committed credit facilities maturing in 2029 (including extension options); and
- About €400 million-€500 million of reported FFO annually.

Principal liquidity uses

- For the same period, about €194 million of debt maturities in the first 12 months and about €213 million of maturities in the subsequent 12-month period;
- Up to €300 million of annual intra year working capital needs;
- Yearly working capital investments of €20 million-€50 million;
- About €450 million-€490 million of capex per year; and
- Dividends of about €30 million-€50 million per year.

Covenants

The documentation for Mahle's revolving credit facility (RCF) includes two financial maintenance covenants: Debt-to-EBITDA ratio of 3.5x and interest coverage ratio of 3.0x. We expect headroom of close to 50% under both covenants over the next two years.

Environmental, Social, And Governance

Environmental factors are a negative consideration in our credit rating analysis of Mahle because the company relies on conventional internal combustion engines for about 40% of its sales. The company faces substitution risks from electrification, and its ability to offset potential losses in its combustion engine-related businesses largely depends on higher content per vehicle in its electronics and mechatronics business.

A faster-than-expected transition to BEVs, coupled with slow adoption of the company's technology, still represents a meaningful risk, despite the company's efforts to expand and improve the profitability of its electric vehicle-related product portfolio. However, we note that Mahle has the technological capability to support the increased electrification of vehicle powertrains at a competitive cost. However, we expect high R&D costs of 5.0%-6.0% of sales over the next two to three years will likely constrain EBITDA margin expansion.

Issue Ratings--Recovery Analysis

Key analytical factors

- We lowered our rating on Mahle's €500 million senior unsecured notes due 2031 and its pari passu €1.2 billion RCF to 'BB-' (the same level as our issuer credit rating) with a '3' recovery rating.
- The '3' recovery rating indicates our expectation for meaningful recovery (50%-70%; rounded estimate: 55%) in the event of a default.
- The notes and the RCF are unsecured and benefit from guarantees from certain subsidiaries that account for about 46% of the company's total EBITDA. The existing €750 million unsecured notes and about €212 million promissory notes do not benefit from the same guarantees.

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- In our hypothetical default scenario, we envisage a cyclical downturn in the auto sector, intensified competition, and the company's inability to adjust its cost structure or pass through cost inflation for labor, energy, and other cost items, leading to a material deterioration in its EBITDA and cash flow.
- We value Mahle as a going concern, given its leading market positions in its key segments and experience in systems integration.

Simulated default assumptions

- Year of default: 2029
- Enterprise value multiple: 5.0x
- Jurisdiction: Germany

Simplified waterfall

- Emergence EBITDA: €503 million (minimum capital expenditure at 2% of historical three-year average sales; cyclicity adjustment of 10%, standard for the auto sector; and minus 5% operational adjustment)
- Gross recovery value: €2.5 billion
- Net recovery value for waterfall after 5% administration expenses and accounting for pension claims: €2.0 billion
- Estimated priority claims (factoring lines and debt at subsidiary level): €0.7 billion
- Net value available to all unsecured debt after priority claims: €1.3 billion
- Thereof available to guaranteed unsecured debt: €0.9 billion
- Guaranteed senior unsecured debt claims: €1.9 billion
- --Recovery expectations: 50%-70% (rounded estimate: 55%)

Note: All debt amounts include six months of prepetition interest and the RCF is assumed 85% drawn at default.

Rating Component Scores

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Rating Component Scores

Component	
Foreign currency issuer credit rating	BB-/STABLE/--
Local currency issuer credit rating	BB-/STABLE/--
Business risk	Fair
Country risk	Intermediate Risk
Industry risk	Moderately High Risk
Competitive position	Fair
Financial risk	Aggressive
Cash flow/leverage	Aggressive
Anchor	bb-
Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Strong
Management and governance	Moderately Negative
Comparable rating analysis	Neutral
Stand-alone credit profile	bb-

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- 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
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Credit FAQ: European Auto Suppliers Face Old And New Hazards, Feb. 24, 2025
- Uncertain Tariff Policies Could Create Ratings Risks For North American Automakers And Suppliers, Feb. 18, 2025
- Credit FAQ: Impact Of U.S. Tariffs On China's Auto Sector: Watch For Second-Order Effects, Feb. 10, 2025
- Industry Credit Outlook 2025: Autos, Jan. 14, 2025
- Auto Industry Buckles Up For Trump's Proposed Tariffs On Car Imports, Nov. 29, 2024
- Global Auto Outlook: More Players, Less Profit, Oct. 9, 2024

Ratings List

Ratings list

Downgraded; Outlook Action

	To	From
Mahle GmbH		
Issuer Credit Rating	BB-/Stable/--	BB/Negative/--

Downgraded; Recovery Ratings Unchanged

	To	From
Mahle GmbH		
Senior Unsecured	BB-	BB
Recovery Rating	3(55%)	3(55%)

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.spglobal.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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