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# Morningstar DBRS Changes Trend on Volkswagen AG's Issuer Rating to Negative From Stable; Confirms Issuer Rating at A (low)

**Industry Group:** Corporate Finance
**Subindustry:** Autos & Auto Suppliers
**Region:** Global

DBRS Limited (Morningstar DBRS) changed the trend on Volkswagen AG's (VW or the Company) Issuer Rating to Negative from Stable and confirmed its Issuer Rating at A (low). Morningstar DBRS also changed the trend on Volkswagen International Finance N.V.'s Issuer Rating to Negative from Stable and confirmed its Issuer Rating at A (low). Finally, Morningstar DBRS changed the trends on the Senior Unsecured Debt and Commercial Paper credit ratings of VW Credit Canada, Inc. to Negative from Stable and confirmed the credit ratings at A (low) and R-1 (low), respectively.

## KEY CREDIT RATING CONSIDERATIONS

The trend changes reflect several significant industry challenges confronting the Company that, cumulatively, could negatively affect its comprehensive business risk assessment (CBRA). VW, as with numerous other legacy automotive original equipment manufacturers (OEMs), is facing substantial difficulties in China (among its most important markets), where domestic manufacturers are gaining market share amid very aggressive pricing levels, further undermining margins. Additionally, while electric vehicle (EV) sales thus far in 2025 have meaningfully increased globally and across major markets, such as China and even Europe (where EV sales last year underperformed vis-à-vis expectations), there remains considerable uncertainty around the medium-term adoption rate of EVs across the Company's main markets, further complicating its planned transition from internal combustion engine (ICE) vehicles and toward EVs. Finally, VW, like several of its peers, is adversely affected by the Trump administration's policies that have increased tariffs globally. While the Company has some U.S. production capacity in Chattanooga, Tennessee, VW's U.S. sales are significantly exposed to tariffs. This includes the Company's premium brands, with Porsche production based exclusively in Europe and Audi production significantly based in Europe, supplemented by Mexico. VW's significant tariff exposure, while manageable over the near term, could meaningfully impact its earnings prospects going forward.

## CREDIT RATING DRIVERS

Like its peers, VW is facing substantial costs and investment requirements associated with the progressive electrification of its vehicle fleet (in addition to the expansion of its software services). While the Company announced certain revisions and delays in planned model launches across certain markets, VW's planned investments persist at elevated levels, rendering positive credit rating actions rather unlikely.

Conversely, unresolved, likely structural challenges facing the Company could cause VW's CBRA to decline to levels resulting in negative credit rating actions. These could include a further weakening in VW's geographic diversification, the Company's relatively high-cost position (notwithstanding meaningful planned labour restructuring activities extending through 2030), and a potential softening of VW's overall brand strength, with earnings of some the Company's key premium brands possibly subject to sustained decreases because of increasing tariff exposure and potentially lower volumes.

## EARNINGS OUTLOOK

Morningstar DBRS notes VW, as with several other automotive OEMs, is significantly exposed to the developing tariff environment. This has significantly lowered the Company's recently released H1 2025 operating results vis-à-vis the similar prior year period, with VW indicating that its costs related to the additional U.S. tariffs amounted to EUR 1.3 billion through the first six months of 2025.

The fluid tariff environment and the ensuing uncertainty across several major automotive markets have prompted VW to revise its 2025 earnings guidance downward; although, Morningstar DBRS notes the Company is nonetheless expected to remain significantly profitable. For 2025, VW anticipates its consolidated revenues to be at essentially constant levels year-over-year (YOY; 2024 consolidated revenues amounting to EUR 325 billion). The Company expects its 2025 consolidated operating margin to weaken YOY and range from 4.0% to 5.0%, (compared with its annual 2024 consolidated operating margin of 5.9%). Anticipated contributing factors to the likely softer earnings include negative product mix (incorporating the higher proportionate share of EV sales) and pricing effects, increased costs attributable to the tariffs, and adverse exchange rate/derivative developments. These are assumed to be partly offset by firm vehicle volumes. Additionally, improved operating results of VW's financial services segment is estimated to further support VW's consolidated results.

## FINANCIAL OUTLOOK

Consistent with the earnings outlook outlined above, Morningstar DBRS expects VW's cash flow from operations in 2025 to decline YOY amid lower anticipated profitability. Capital expenditures (capex) are estimated to remain substantial and approximate prior year levels. Aggregate dividend payments are to be moderately lower YOY, albeit remaining material in the approximate amount of EUR 4.5 billion. While Morningstar DBRS expects VW's 2025 gross free cash flow (i.e., before working capital items) to significantly decline YOY, Morningstar DBRS nonetheless expects gross free cash flow to remain materially positive. Working capital is estimated to represent a minor use of cash on an annual basis, with Morningstar DBRS forecasting net free cash flow for the year to be materially positive.

Going forward, cash flow from operations is projected to remain solid, albeit, likely declining over the medium term amid anticipated pressure in earnings. Capex will persist at substantial levels; however, it's anticipated to moderate over the near to medium term with VW's current investment cycle having peaked. Dividends are projected to remain essentially constant over the next few years, likely ranging from EUR 4.5 billion to EUR 5.0 billion annually in aggregate. Notwithstanding ongoing substantial capex outlays amid roughly constant dividend payments, Morningstar DBRS anticipates VW's free cash flow to persist at positive levels over the medium term, with VW's strong financial profile estimated to sufficiently absorb potentially sizable mergers and acquisitions activities in connection with its ongoing new mobility business initiatives.

## CREDIT RATING RATIONALE

Comprehensive Business Risk Assessment: BBBH

VW's credit ratings are supported by its favourable position as the world's second-largest automotive OEM (according to 2024 sales data), with the Company being the leader in its core European market. While VW remains a solid player in China, its recent results in the region have weakened considerably amid stronger local competition and very challenging pricing. VW possesses among the widest of brand portfolios in the industry, ranging from value and mainstream brands such as Škoda and VW, to several premium and luxury bands, notably including Audi, Porsche, Lamborghini, and Bentley. Morningstar DBRS notes, however, that the 2025 results, thus far, of key brands Porsche and Audi have been significantly affected by the increasing tariffs. Nonetheless, the Company's geographic and product diversity, in addition to its strong presence in the premium vehicle segments, contribute significantly to its earnings stability. Regarding VW's electrification ambitions, the Company has faced some notable challenges, including increasing competition in Europe from Chinese new energy vehicle manufacturers. Moreover, software difficulties resulted in the delay of several EV product launches; although, the Company has attempted to address this through its partnership with Rivian Automotive, Inc. VW also entered into an agreement with Xpeng Inc. on platform and software collaboration (substantially on Chinese EVs). In aggregate, the Company appears reasonably well positioned relative to its immediate peers, with ongoing solid earnings/cash flow generation of its legacy ICE vehicle sales facilitating its EV efforts and expansion into new mobility businesses. VW's financial services business provides further diversification benefits and plays an important role in supporting vehicle sales, with the segment being a source of significant and stable earnings. Finally, the Company's liquidity position is substantial, with the industrial operations having a sizable net cash position.

Morningstar DBRS notes VW's CBRA is subject to a downward adjustment of one-half notch, recognizing ongoing corporate governance challenges, specifically the significant disconnect between economic and voting rights among the Company's various stakeholders.

Comprehensive Financial Risk Assessment (CFRA): AAL
Reflecting consistently strong earnings/cash flow generation over the past several years, VW's financial profile is strong, with credit metrics being readily within AA levels, thereby providing VW with meaningful cushion in the context of the currently assigned credit ratings.

VW's financial policy is quite conservative, with the Company prioritizing a strong balance sheet. As of June 30, 2025, the industrial operations retained a substantial net cash position, with the Company's net liquidity position (as defined by VW) as of the same date amounting to EUR 28.4 billion. This is supplemented by a EUR 12.5 billion syndicated credit facility (of a term of five years with two one-year extension options) that remained undrawn as of H1 2025. Morningstar DBRS also notes the Company maintains several additional options to further bolster its liquidity position, including the sale of further equity stakes in Traton SE and/or other potential divestitures of noncore assets.

Morningstar DBRS notes VW's CFRA is subject to a downward adjustment of one notch, given limited earnings visibility across the automotive sector amid uncertain industry conditions, exacerbated by the developing tariff situation and substantial investment requirements over the foreseeable future.

Intrinsic Assessment (IA): AL
The IA is based on the CFRA and CBRA. Taking into consideration peer comparisons, in addition to limited earnings visibility over the near term, Morningstar DBRS places VW's IA in the middle of the IA range.

Additional Considerations: None
VW's credit ratings include no further negative or positive adjustments because of additional considerations.

Further details on the Issuer's IA can be found at [PASTE THE LINK TO THE ISSUER'S CORPORATE INTRINSIC ASSESSMENT FRAMEWORK HERE].

## ENVIRONMENTAL, SOCIAL, AND GOVERNANCE CONSIDERATIONS
ESG Considerations had a significant effect on the credit analysis.

**Environmental (E) Factors**
Morningstar DBRS considered that the Environmental factor, specifically costs relating to carbon and greenhouse gas emissions, represents a relevant factor as VW, consistent with its automotive peers, is facing a fundamental transformation process in line with the implementation of ever more stringent emission and fuel consumption regulations across most global jurisdictions. Accordingly, the Company is undergoing substantial investments associated with the electrification of its model portfolio, including the further development of modular toolkits for its volume, premium, and sports brands. Similarly, VW is investing in the gradual conversion of its locations for the production of EVs and in the creation of battery manufacturing capacity with the aim of establishing a battery supply chain under its own control.

**Governance (G) Factors**
Morningstar DBRS considered that the Governance factor related to corporate/transaction governance, specifically with respect to VW's shareholder structure and distribution of voting rights, represents a relevant negative factor. As of YE2024, Porsche Automobil Holding SE, Stuttgart held 53.3% of voting rights. The State of Lower Saxony (the second-largest shareholder) held 20.0% of the voting rights, with Qatar Holding LLC holding 17.0% of voting rights. Accordingly, external shareholders have very few voting rights; these amounted to 9.7% as of YE2024. Similarly, VW's supervisory board is composed primarily of shareholders and worker representatives, with only a nominal proportion of independent members; this potentially limits the board's ability to oversee risks.

There were no Social factor(s) that had a relevant or significant effect on the credit analysis.

A description of how Morningstar DBRS considers ESG factors within the Morningstar DBRS analytical framework can be found in the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings (May 16, 2025), https://dbrs.morningstar.com/research/454196.

**Notes:**
All figures are in euros unless otherwise noted.

Morningstar DBRS applied the following principal methodology:
-- Global Methodology for Rating Companies in Manufacturing and Production Industries (February 3, 2025), https://dbrs.morningstar.com/research/447185

Morningstar DBRS credit ratings may use one or more sections of the Morningstar DBRS Global Corporate Criteria (February 3, 2025; https://dbrs.morningstar.com/research/447186), which covers, for example, topics such as holding companies and parent/subsidiary relationships, guarantees, recovery, and common adjustments to financial ratios.

The following methodologies have also been applied:
-- Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings (May 16, 2025), https://dbrs.morningstar.com/research/454196

The credit rating methodologies used in the analysis of this transaction can be found at: https://dbrs.morningstar.com/about/methodologies.

A description of how Morningstar DBRS analyses corporate finance transactions and how the methodologies are collectively applied can be found at: https://dbrs.morningstar.com/research/431153.

The related regulatory disclosures pursuant to the National Instrument 25-101 *Designated Rating Organizations* are hereby incorporated by reference and can be found by clicking on the link under Related Documents or by contacting us at info@dbrsmorningstar.com.

The following additional regulatory disclosures apply to VW and VW Credit Canada, Inc.:

The credit ratings were initiated at the request of the rated entity.

The rated entity or its related entities did participate in the credit rating process for these credit rating actions.

Morningstar DBRS had access to the accounts, management, and other relevant internal documents of the rated entity or its related entities in connection with these credit rating actions.

These are solicited credit ratings.

The following additional regulatory disclosures apply to Volkswagen International Finance N.V.:

The credit rating was not initiated at the request of the rated entity.

The rated entity or its related entities did participate in the credit rating process for this credit rating action.

Morningstar DBRS had access to the accounts, management, and other relevant internal documents of the rated entity or its related entities in connection with this credit rating action.

This is an unsolicited credit rating.

For more information on Morningstar DBRS' policy regarding the solicitation status of credit ratings, please refer to the Credit Ratings Global Policy, which can be found in the Morningstar DBRS Understanding Ratings section of the website: https://dbrs.morningstar.com/understanding-ratings

These credit ratings are endorsed by DBRS Ratings Limited for use in the United Kingdom, and by DBRS Ratings GmbH for use in the European Union, respectively. The following additional regulatory disclosures apply to endorsed credit ratings:

Regarding Volkswagen International Finance N.V., with respect to FCA and ESMA regulations in the United Kingdom and European Union, respectively, this is an unsolicited credit rating. This credit rating was not initiated at the request of the issuer.

With Rated Entity or Related Third Party Participation: YES
With Access to Internal Documents: YES
With Access to Management: YES

The conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12-month period. Morningstar DBRS trends and credit ratings are under regular surveillance.

For further information on Morningstar DBRS historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: https://registers.esma.europa.eu/cerep-publication. For further information on Morningstar DBRS historical default rates published by the Financial Conduct Authority (FCA) in a central repository, see https://data.fca.org.uk/#/ceres/craStats.

Lead Analyst: Robert Streda, Senior Vice President
Rating Committee Chair: William Schwartz, Senior Vice President, Senior Sector Lead
Initial Rating Date: Volkswagen International Finance N.V. – December 27, 2023; Volkswagen AG – May 16, 2001; VW Credit Canada, Inc. – April 24, 2000

Information regarding Morningstar DBRS ratings, including definitions, policies, and methodologies, is available on https://dbrs.morningstar.com or contact us at info-DBRS@morningstar.com.

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| Issuer | Debt Rated | Credit Rating Action | Credit Rating | Trend |
|---|---|---|---|---|
| Volkswagen AG | Issuer Rating | Confirmed | A (low) | Stable |
| Volkswagen AG | Issuer Rating | Trend Change | A (low) | Neg |
| VW Credit Canada, Inc. | Commercial Paper (unconditionally guar. by Volkswagen AG) | Confirmed | R-1 (low) | Stable |
| VW Credit Canada, Inc. | Commercial Paper (unconditionally guar. by Volkswagen AG) | Trend Change | R-1 (low) | Neg |
| VW Credit Canada, Inc. | Senior Unsecured Debt (unconditionally guar. by Volkswagen AG) | Confirmed | A (low) | Stable |
| VW Credit Canada, Inc. | Senior Unsecured Debt (unconditionally guar. by Volkswagen AG) | Trend Change | A (low) | Neg |
| Volkswagen International Finance N.V. | Issuer Rating | Confirmed | A (low) | Stable |
| Volkswagen International Finance N.V. | Issuer Rating | Trend Change | A (low) | Neg |

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