Volkswagen's Proposed Hybrid Securities Rated 'BBB-' And Assigned Intermediate Equity Content

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MILAN (S&P Global Ratings) Nov. 05, 2026--S&P Global Ratings today said that it assigned its 'BBB-' long-term issue rating to the proposed two tranches of five-and-3/4-year noncall and eight-year noncall, perpetual, optionally deferrable, and subordinated hybrid notes to be issued by Volkswagen International Finance N.V. The proposed notes will be guaranteed by the parent company, Germany-based automaker Volkswagen AG (VW; BBB+/Negative/A-2).

The completion and size of the transaction will be subject to market conditions, but we anticipate total issuance of at least €1.9 billion. VW plans to use the proceeds to refinance its outstanding €2.0 billion hybrid instrument, which has a first call date in June 2027, and fits outstanding €1.0 billion hybrid instrument with a call date in December 2027. We will regard these instruments as having no equity content upon completion of the new transaction, compared with intermediate previously.

We maintain our intermediate equity content designation on VW's hybrid portfolio, despite our expectation that the company will not fully replace €3 billion of hybrids with a first call date in 2027, reducing VW's hybrid stock to €11.2 billion when the transaction and redemption are completed. This is because we consider the reduction as falling within our 25%-over-10-years immateriality guidelines, below which we may consider redemptions as acceptable under our criteria in the context of an issuer's capital structure. VW's flexibility under the 25% guideline that commenced in March 2022 when VW redeemed a €1.1 billion hybrid without replacement for the first time followed by a second redemption without replacement this year amounts to €1.1 billion additional immaterial redemption. Following the planned redemption in 2027, VW has fully utilized the headroom provided under our immateriality guidelines. Further redemptions under our guidance are therefore not possible.

Following the new issuance and redemption, we estimate the ratio of outstanding hybrids to adjusted capitalization at below 9%, below the 15% limit that caps the stock of hybrids that may receive equity content under our criteria.

We classify the proposed hybrid notes as having intermediate equity content until their first call dates in August 2032 and November 2034, respectively. This is because the notes meet our criteria in terms of subordination, permanence, and optional deferability during this period (see "General Criteria: Hybrid Capital: Methodology And Assumptions," Feb. 10, 2025,). Therefore, in our calculation of VW's credit ratios, we will treat 50% of the principal outstanding under the proposed hybrids as equity rather than debt. We will also treat 50% of the related payments on the hybrids as equivalent to a common dividend.

The two-notch difference between our 'BBB-' issue rating on the proposed hybrid notes and our 'BBB+' issuer credit rating on VW reflects the following downward adjustments from the issuer credit rating:

- One notch for the subordination of the proposed notes, because the long-term issuer credit rating on VW is investment grade (higher than 'BB+'); and
- An additional notch for payment flexibility, due to the optional deferability of interest.

The deduction for payment flexibility is only one notch because we consider that there is a relatively low likelihood that VW will defer interest payments. Should our view on this likelihood change, we may increase the number of notches we deduct to determine the issue rating on the proposed hybrids. We may lower the issue rating before we lower the issuer credit rating.

The documentation of the proposed notes (and of outstanding hybrids with identical language) provides for mandatory settlement of interest arrears upon payment of a dividend by VW, but not by VW's 75% subsidiary Porsche AG, as long as VW does not guarantee any of Porsche's securities.

Key factors in our assessment of the securities' permanence

Although the proposed notes are perpetual, the issuer may redeem them on the first call dates in August 2032 (for the five-and-3/4-year noncall tranche), and November 2034 (for the eight-year noncall tranche), and on each interest payment date thereafter. In addition, the notes may be purchased at any time in the open market. The notes may also be called at any time for tax, rating, and accounting events, or if 80% or more of the notes have already been redeemed.

With certain exceptions, the issuer intends to redeem or repurchase the notes only to the extent that they are replaced with instruments with equivalent equity content, but it is not obliged to do so. In our view, VW's track record of managing hybrids and the company's stated intentions mitigate the likelihood that it will redeem or repurchase the securities without replacing them, beyond situations provided for in our criteria.

The coupon to be paid on the proposed securities will be fixed during the noncall period and, from the reset date, will equal the sum of the applicable swap rate plus a margin. The margin for the five-and-a 3/4-year noncall securities will increase by 25 basis points (bps) in 2037 and by a further 75 bps in 2052. For the eight-year noncall securities, the margin is set to increase by 25 bps in 2036 and by a further 75 bps in 2054. We consider the cumulative 100 bps step-up for each set of securities, which is unmitigated by any definitive commitment to replace the respective instruments, as an incentive for VW to redeem the instruments. This leads us to view the dates of the second step-up in 2052 and 2054, respectively, as the instruments' effective maturity dates. Consequently, we will no longer recognize the instruments as having intermediate equity content after the first call dates, because the remaining period until their effective maturity would then be less than 20 years.

Key factors in our assessment of the securities' subordination

The proposed securities will constitute unsecured and subordinated obligations of the issuer, ranking pari passu with the issuer's existing portfolio of hybrids and will benefit from an unconditional and irrevocable subordinated guarantee from VW. As such, the securities will be subordinated to senior instruments, and rank senior only to the issuer's ordinary and other classes of shares, or instruments that have a ranking equal to that of common shares.

Key factors in our assessment of the securities' deferability

In our view, VW's option to defer payment of interest on the proposed notes is discretionary. This means that the issuer may elect not to pay accrued interest on an interest payment date. However, any outstanding deferred interest would have to be settled in cash if, for example, the issuer paid interest on the next interest payment date, the issuer or the group paid interest on or repurchased equally ranked securities, or VW declared a dividend on or initiated repurchases of lower-ranking instruments such as common shares. This condition remains acceptable under our methodology since the issuer can still choose to defer on the next interest payment date after settling a previously deferred amount.

VW retains the option to defer interest throughout the life of the securities. The deferred interest is cumulative and non-compounding.

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, May 5, 2026
- General Criteria: Hybrid Capital: Methodology And Assumptions, Oct. 13, 2025
- Criteria | Corporates | General: Sector-Specific Corporate Methodology, July 7, 2025
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: The Impact Of Captive Finance Operations On Nonfinancial Corporate Issuers, Oct. 23, 2023
- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- 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: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- 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

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 https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria 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 referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

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