MOODY'S
INVESTORS SERVICE

Rating Action: Moody's changes Nexteer's Ba1 ratings outlook to positive

Global Credit Research - 24 Nov 2015

Hong Kong, November 24, 2015 -- Moody's Investors Service has changed to positive from stable the outlook of Nexteer Automotive Group Limited's Ba1 corporate family rating and senior unsecured debt rating.

Moody's has also affirmed the company's Ba1 corporate family rating and senior unsecured debt rating.

RATINGS RATIONALE

"The positive ratings outlook reflects our expectation that Nexteer's credit profile will continue to improve over the next 12 -18 months in terms of scale, geographic concentration, profitability, and debt leverage," says Gerwin Ho, a Moody's Vice President and Senior Analyst.

Nexteer's revenue grew to USD1.6 billion in the six months ended 30 June 2015, which is an approximate 14% year-on-year increase.

This revenue growth reflects robust revenue growth for Electric Power Steering (EPS).

EPS' revenue grew 24% year-on-year and accounted for 59% of the company's overall sales.

Moody's expects EPS' revenue to continue to grow at about 10% per annum in the next 12--18 months because of strong demand for fuel efficiency improvements in new auto models and increasing penetration of EPS to developing auto markets such as China (Aa3 stable) and Brazil (Baa3 stable).

In addition, Nexteer has shown lower geographic concentration. Its revenue from North America declined to 67% in 1H 2015 from 70% in 1H 2014.

Nexteer's growth in scale and increased contributions from the higher margin EPS has improved its profitability.

Its adjusted EBITA margin improved to 6.9% in the twelve months ended 30 June 2015 from 5.9% in 2014.

Moody's expects the company's EBITA margins to improve further to about 8.4% in the next 12 -18 months.

Accordingly, its debt leverage -- measured by debt/EBITDA -- declined to 2.3x at 30 June 2015 from 2.9x at end-2014.

Moody's expects the company's debt leverage to decline to a level of around 2x in the next 12 -18 months.

"Nexteer's ability to secure more businesses from new auto makers also supports the positive outlook," says Ho who is also the Lead Analyst for Nexteer.

Nexteer has reduced its revenue concentration in General Motors Company (GM, senior unsecured bank credit facility Baa3 stable, senior unsecured rating Ba1 stable) to 48.7% in 1H 2015 from 55.9% in 1H 2014 by expanding its customer base, especially in China.

Nexteer's Ba1 corporate family rating incorporates its standalone credit profile, and a two-notch uplift, based on our expectation of strong support -- in times of financial distress -- mainly from Aviation Industry Corporation of China (AVIC unrated), the ultimate owner of AVIC Automotive Systems Holding Co., Ltd. (AVIC Auto, unrated), which has a beneficial ownership of 34% in Nexteer.

Nexteer's standalone credit profile reflects (1) strong barriers to entry; (2) the company's long track record and global footprint; (3) its EPS product, which drives revenue growth; and (4) an expectation that its debt leverage will improve.

On the other hand, Nexteer's standalone credit profile is constrained by (1) its concentration in terms of its customer revenue; and (2) its small scale and geographic concentration.

Nexteer's liquidity position is strong, as reflected in its cash to short-term debt coverage of about 4.3x at 30 June

2015.

The rating could be upgraded if Nexteer demonstrates a track record of: (1) improving EBITA margins; (2) decreasing revenue concentration in GM and its US operations; (3) expansion in business scale, and improvements in its credit metrics, such that adjusted debt/EBITDA stays below 2.5x on a sustained basis.

On the other hand, the rating outlook could return to stable if Nexteer is unable to (1) improve its EBITA margins; (2) grow in scale; or (3) improve its debt leverage to below 2.5x;

Any weakening in support from its ultimate parent, AVIC, due to a change in business strategy or regulatory reasons will be negative for the ratings.

The principal methodology used in this rating was Global Automotive Supplier Industry, published in May 2013.

Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Headquartered in Saginaw, Michigan, and listed on the Hong Kong Stock Exchange in October 2013, Nexteer Automotive Group Limited manufactures steering and driveline systems. The company has 21 manufacturing plants across North and South America, Europe and Asia.

Nexteer is 67.3%-owned by Pacific Century Motors, Inc., which is in turn 51%-owned by AVIC Automotive Systems Holding Co., Ltd. (AVIC Auto, unrated), and 49% owned by Beijing E-Town International Investment & Development Co. Ltd. (unrated), which is controlled by Beijing's municipal government,

AVIC Auto is wholly owned by Aviation Industry Corporation of China (unrated), a Chinese central government-owned enterprise.

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