Research Update:

bpost SA/NV 'A/A-1' Ratings Affirmed On Solid Earnings And Ample Financial Leeway; Outlook Stable

March 20, 2024

Rating Action Overview

- Belgian postal operator bpost SA/NV reported solid earnings, demonstrated disciplined cash protection, and maintained strong credit measures in 2023, being well above the thresholds for the rating.
- bpost's strong performance points to the group's ability to sustain ample financial flexibility at the current rating level for unforeseen setbacks.
- We therefore affirmed our 'A' ratings on bpost and on the group's senior unsecured debt. We also affirmed our 'A-1' short-term rating on bpost.
- The stable outlook reflects our view that bpost will preserve its leading domestic market positions in both the mail and parcels segments, prevent unexpected and substantial profitability erosion, and maintain an S&P Global Ratings-adjusted funds from operations-to-debt ratio of at least 30%.

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Rating Action Rationale

bpost reported solid earnings, continued with its disciplined cash protection, and maintained strong credit measures in 2023, which are well above the thresholds for our 'A' rating. bpost's EBITDA decreased to €480 million in 2023 from €553 million in 2022, as adjusted by S&P Global Ratings. In our EBITDA calculation, however, we include the €75 million provision (as recorded by the group in 2023), which constitutes the best available estimate of overcompensation, following bpost's closing of three voluntary compliance reviews (traffic fines, 679 accounts, and license plates) relating to tenders and public contracts. We acknowledge that the estimated amount remains preliminary, as it does not yet reflect the views of the Belgian State. Decent growth in parcel volumes, ability to raise prices, and bpost's continued measures to stimulate revenue and contain costs amid persistent macroeconomic headwinds, structural overcapacity in the E-Logistics North America segment, and compliance review impacts supported EBITDA last year.

Solid earnings, combined with lower-than-we-expected gross capital expenditure (capex) of €155 million--compared with bpost's initial guidance of €200 million and €164 million spent in 2022--and subsequently higher free operating cash flow (FOCF), resulted in an S&P Global Ratings-adjusted funds from operations (FFO)-to-debt ratio of about 55% in 2023. This exceeded our May 2023 base-case projection of 30%-45% but decreased somewhat from the elevated level of 64% in 2022. While bpost has partly deferred its gross capex to 2024, the underspend demonstrates the group's financial discipline in difficult trading conditions. At end-2023, bpost's debt, as adjusted by S&P Global Ratings, was €720 million-€730 million, including a €650 million 1.25% eight-year unsecured bond due in 2026 and close to €644 million in leases.

Resilient operating results and FOCF will continue in 2024. Our base case indicates a resilient adjusted EBITDA of €480 million-€490 million this year, increasing gradually to as much as €500 million-€520 million in 2025. This captures a potential adverse impact from underlying changes in the press distribution segment after the Belgian State had withdrawn the press concession (effective from July 1, 2024). We believe that expanding parcels' and e-commerce logistics' revenue will cushion the impact of structurally shrinking mail volumes, further underpinned by the group's ability to increase prices and tariffs (as it did in 2022-2023) to offset the lingering overcapacity in the E-Logistics North America segment, as well as inflationary pressure on its cost base that derives mainly from several salary adjustments. We continue to believe that low penetration of e-commerce in Belgium, relative to neighbouring countries, and resilient purchasing power of the Belgian population (thanks to automatic salary indexation linked to inflation in Belgium) will continue driving the parcel volume growth by 5%-7% over the medium term. In aggregate, we forecast that the group's total revenue will be largely flat this year and in 2025, following a 2.6% drop in 2023 and 2.1% growth in 2022.

Strong credit metrics point to bpost having retained ample financial flexibility under the rating for unforeseen setbacks. bpost maintains strong credit measures to withstand potential unexpected margin compression or cash outflows (beyond the publicly communicated estimates by the group) in the context of the Belgian Competition Authority's ongoing investigation into the state's award of a press concession to bpost and bpost's internal compliance reviews. Based on our 2024 EBITDA forecast and bpost's guidance of up to €180 million of gross capex and dividend distribution of 30%-50% of net income, net debt will stay stable (or diminish slightly), keeping the adjusted FFO-to-debt ratio above 50%. This is commensurate with our modest financial risk assessment. We understand that rating stability is an important consideration for the group when it comes to its discretionary spending decisions. Therefore, we believe that bpost would prioritize net debt reduction over discretionary capex and shareholder returns if the investigation and compliance reviews were to result in an unexpectedly large cash outflow. That said, we understand the group intends to expand via acquisitions in the logistics or e-commerce segments. Given that the magnitude and timing of potential mergers and acquisitions (M&A) are uncertain at this stage, we apply a negative financial policy modifier to account for possible re-leveraging risk.

The sustainability of bpost's competitiveness hinges on the effectivity of the group's transformative investments. bpost derives a material, yet continuously decreasing, part of its earnings from the mail business, a sector suffering from digitalization and e-substitution trends. The group's earnings base and profitability are therefore exposed to structurally declining mail volumes. Like some other European peers, bpost is looking to retain a competitive edge by diversifying into the structurally growing parcel and e-logistics segments, which benefit from the e-commerce evolution. bpost has already gained a leading share of the Belgian domestic B2C (business-to-consumer) parcel market. However, fierce competition is weighing on further domestic expansion. The group is therefore eyeing growth potential abroad with its North American and Eurasian e-logistics segments, as well as tapping the B2B (business-to-business) segment. In 2023, North American and Eurasian e-logistics segments contributed about 36% to the group's total adjusted EBIT (excluding the Corporate segment). The growth trend in the E-Logistics North America segment is particularly notable and mainly results from the acquisition of U.S.-based Radial in 2017. The segment's earnings have withstood difficult market conditions thanks to resource alignment and productivity gains, and it made up about 23% of bpost's total adjusted EBIT (excluding the Corporate segment) in 2023. We expect bpost to continue its expansion into international e-logistics, which will require large capital investments, over the medium term. We understand that bpost will spend the bulk of the planned €180 million in gross capex for 2024 on the Eurasian and North American e-logistics segments. The continuous growth in international e-logistics volumes and the lower profitability of this segment compared with bpost's mail business underline the importance of competitive pricing and prudent cost management.

Outlook

The stable outlook reflects our expectation that bpost will preserve its leading domestic market positions in both the mail and parcels segments, prevent unexpected and substantial profitability erosion, and maintain an adjusted FFO-to-debt ratio of at least 30%. The stand-alone credit profile (SACP) incorporates ample financial leeway for potential unexpected margin compression or cash outflows from the ongoing investigation, internal compliance reviews, or other discretionary spending.

Furthermore, the stable outlook captures the continued likelihood of timely and sufficient extraordinary government support if bpost faces financial distress. The stable outlook also reflects that on Belgium.

Downside scenario

We could consider a downgrade if bpost's operating and financial performance proved weaker than our base-case forecasts, notably, if the adjusted FFO-to-debt ratio fell below 30%, without any clear recovery prospects. This could occur if:

- Tariff or price evolution and ongoing cost-saving measures were insufficient to offset the structural decline in mail volumes and overcapacity in North America;
- The parcels business experienced a surge in competition, dampening overall group profitability;
- The group embarked on sizable debt-funded acquisitions; or
- The ongoing investigation and internal compliance reviews resulted in an unexpectedly pronounced margin squeeze or cash outflows.

A downgrade could also occur if we thought that the likelihood of government support had weakened. If we lowered our rating on Belgium or revised the outlook on the sovereign rating to negative, we could take the same rating action on bpost.

Upside scenario

Although it is unlikely in the medium term, we could raise the rating on bpost if its credit metrics improved substantially and sustainably above our base-case projections, coinciding with significant and profitable diversification of the group's business. This would most likely occur because of a financial policy revision, with the group allocating its cash flow to net debt reduction rather than growth via M&A and dividend distributions. An upgrade would hinge on a two-notch upward revision to the SACP, all other things being equal.

We could also raise the rating if bpost's role for or link with the Belgian government strengthened, although this is less likely.

Company Description

bpost is a majority government-owned postal operator based in Belgium. It plays an important role in Belgian society and the country's economy as a provider of a universal service obligation and services of general economic interest. The universal service obligation encompasses the provision of certain services, including mail delivery, under conditions overseen by the respective regulator. Services of general economic interest include the maintenance of at least 1,300 postal service points, 650 of which must be post offices; voting paper packages, election items, and public request mail delivery; doorstep payments of pensions and other benefits; basic payment services for people not served by banks; and digital public services to close the digital gap in Belgium.

To counteract the continuous structural decline in the mail sector, bpost is diversifying its business into non-mail-related segments such as parcels and e-logistics. The acquisition of Radial in 2017 is one example of that. These markets display attractive long-term growth potential, in a stark comparison with the structurally declining mail market in Belgium.

With about €4.3 billion in revenue and adjusted EBITDA of €480 million in 2023, and approximately 34,000 full-time employees, bpost is one of the largest corporates in Belgium and an important employer in the country. It holds as much as 99% in some markets, primarily domestic mail, where certain business areas enjoy natural economies of scale that are difficult to replicate profitably.

bpost operates through three segments:

- Belgium (52% of group revenue and 64% of group adjusted EBIT in 2023).
- E-Logistics Eurasia (15% of group revenue; 13% of group adjusted EBIT).
- E-Logistics North America (33% of group revenue; 23% of group adjusted EBIT).

Revenue excludes intersegment and other revenue as well as Corporate segment, while adjusted EBIT excludes Corporate segment.

Liquidity

The short-term rating on bpost is 'A-1', reflecting the long-term issuer credit rating and our assessment of the company's liquidity as exceptional. Our view of bpost's liquidity reflects primarily our expectation that liquidity sources for the 24 months started Dec. 31, 2023, will cover uses by more than 4x. The group's well-established and solid relationships with banks and generally prudent risk management support our liquidity assessment.

Below, our estimate of the group's liquidity sources and uses for 2024.

Principal liquidity sources:

- About €870 million of available cash as of Dec. 31, 2023.

- Access to €75 million fully undrawn committed revolving credit facility maturing beyond 12 months.
- Our estimate of cash FFO of €280 million-€290 million after lease payments.

Principal liquidity uses:

- Up to €50 million of working capital outflow.
- Up to €180 million of capex (including expansionary).
- Cash dividends in line with the dividend policy of 30%-50% of IFRS net income. That said, we think bpost would not pay dividends in a stress scenario (or that the payout would be adjusted accordingly).

Environmental, Social, And Governance

Environmental, social, and governance (ESG) factors have no material influence on our credit rating analysis of bpost. As a postal operator, bpost relies on a large fleet of vehicles for its deliveries. We believe bpost is on track to achieve its target to reduce its scope 1 and 2 GHG emissions 55% by 2030 (compared with 2019) and its scope 3 GHG emissions 14% by 2030 (compared with 2019) by switching to liquefied natural gas vehicles, introducing double-decker trucks, and expanding its zero-emissions delivery zones to more areas in Belgium. bpost aims to reach net-zero emissions by 2040.

Issue Ratings - Subordination Risk Analysis

Capital structure

As of Dec. 31, 2023, following repayment of the $185 million bank loan, the debt portfolio consisted solely of the €650 million unsecured bond due 2026. Non-current and current lease liabilities amounted to about €644 million as of that date.

Analytical conclusions

We rate bpost's senior unsecured bonds in line with the 'A' issuer credit rating, given that there are no significant elements of subordination risk in the company's capital structure.

Ratings Score Snapshot

Issuer Credit Rating	A/Stable/A-1
Business risk:	Satisfactory
Country risk	Low
Industry risk	Low
Competitive position	Satisfactory
Financial risk:	Modest
Cash flow/leverage	Modest

Anchor	bbb+
Modifiers:	
Diversification/Portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Negative (-1 notch)
Liquidity	Exceptional: (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile:	bbb
Related government rating	AA
Likelihood of government support	High (+3 notched from SACP)

Related Criteria

- 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: 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: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- 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
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Ratings List

Ratings Affirmed	
bpost SA/NV	
Issuer Credit Rating	A/Stable/A-1
Senior Unsecured	A

Ratings Affirmed	
Commercial Paper	A-1