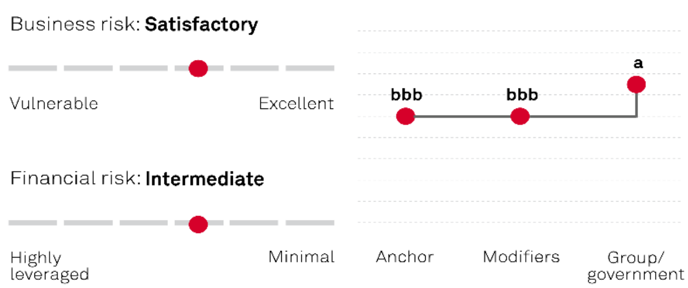
bpost NV/SA

May 17, 2023

Ratings Score Snapshot



A/Stable/A-1

Issuer credit rating

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Credit Highlights

Overview

Key strengths	Key risks
A broad network of operations underpinning bpost's competitive advantage; a leading and protected market share in domestic mail; and diversification into parcels to tap into the growth trend in Belgium's e-commerce market.	Structurally declining volumes in the core high-margin mail business, which has accounted for the largest share of total earnings so far.
Increasing diversification of the earnings base into e-commerce logistics services in Eurasia and the U.S. following the acquisition of Radial in 2017, with long-term growth potential.	Strong competition, for example due to Amazon's insourcing trend of logistics, as well as inflationary pressure on the cost base and cyclical demand in the parcel and logistics segments, with persistent macroeconomic headwinds weighing on trade volumes.
Capacity to generate strong operating cash flow, providing scope for growth investments and supporting moderate financial leverage.	Ongoing investigation relating to bpost's tender for a press concession in Belgium and its voluntary launch of compliance reviews relating to other tenders and

public contracts, with an uncertain impact on margins and cash flows.

Enlarged financial headroom thanks to solid results and cash protection in 2022. bpost now has stronger credit measures to withstand potential margin compression or cash outflows in the context of the Belgian Competition Authority's ongoing investigation and internal compliance reviews.

bpost has reported resilient earnings, demonstrated strict cash protection, and increased the financial headroom under its credit measures, which were stronger in 2022 than we expected. bpost's S&P Global Ratings-adjusted EBITDA decreased moderately to €553 million in 2022 from an elevated €588 million in 2021, but stayed well above the €506 million in 2020, as we expected. This was despite adverse market conditions due to a normalization of parcel volumes, high inflation weighing on consumer confidence and bpost's cost base, increased competition in the domestic parcel market, and persistent cross-border volume weakness in Asia. The latter resulted from supply chain disruptions, which have now largely disappeared, and the introduction of a new EU value-added tax in July 2021 that led to a decline in small parcel volumes. We believe that bpost's continued proactive measures to stimulate revenue and contain costs to counter persistent macroeconomic headwinds will support EBITDA also this year. Solid earnings, combined with lower capital expenditures (capex) than we expected of €164 million (also well below bpost's guidance of €250 million) and subsequently higher free operating cash flow, resulted in an adjusted funds from operations (FFO)-to-debt ratio of about 64% in 2022. This exceeded our August-2022 base case of 45% and about 61% in 2021. While bpost has partly deferred its capex to 2023, the underspend demonstrates the group's financial discipline in difficult trading conditions. bpost's adjusted debt of about €744 million as of Dec. 31, 2022, was lower than the €792 million in 2021 and included a €650 million 1.25% eight-year unsecured bond due in 2026, a $185 million unsecured term loan due in 2023, and close to €670 million in leases.

Due to likely margin compression, bpost's credit metrics in 2023 will weaken from strong 2022 levels but remain in the intermediate financial risk profile category. This includes an adjusted FFO-to-debt ratio of above 30%. In our base case, adjusted EBITDA will fall to about €500 million this year from €553 million in 2022, and stay at around that level in 2024. bpost's reported EBITDA of €150.8 million for the first quarter of 2023, compared with €160.4 million a year earlier, confirms the adverse earnings trend. We believe that expanding revenues from parcels and e-commerce logistics 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) to largely offset the inflationary pressure on its cost base that derives mainly from salary adjustments. We continue to believe that e-commerce penetration in Belgium, which is low compared to other European countries, will continue driving the parcel volume growth by a mid-single-digit percentage rate in the medium term. In the first quarter of 2023, parcel volumes in Belgium increased by 9.1%, which, combined with a positive price/mix effect, resulted in a year-on-year revenue surge in the parcel segment in Belgium of 13.9%. In aggregate, we forecast low-single-digit like-for-like revenue growth for the group this year and in 2024, following 2.1% growth in 2022 and 4.1% in 2021. That said, we account for a likely structural EBIT margin correction in some existing public contracts from 2023. This follows bpost's voluntary launch of compliance reviews relating to tenders and public contracts other than its concession for the distribution of newspapers and periodicals. These reviews have revealed that bpost's margins on certain services that it provides to the Belgian state potentially surpass the acceptable levels under applicable laws. The group has estimated, on a preliminary basis, a potential reduction in EBIT of

€25 million-€50 million. This compares with its recently withdrawn 2023 EBIT guidance of €240 million-€260 million and €278.5 million in 2022.

Solid results and cash protection measures in 2022 have provided bpost with ample financial leeway. bpost now has stronger credit measures to withstand potential margin compression or cash outflows 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 2023 EBITDA forecast and bpost's guidance of up to €200 million of capex, its adjusted debt could increase by up to €400 million this year. This would still allow to keep the adjusted FFO-to-debt ratio above 30%, the threshold for the current rating. 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, external growth, and shareholder returns if the investigation and compliance reviews were to result in a significant cash outflow.

The sustainability of bpost's competitiveness hinges on the agility and success 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. bpost's earnings base and profitability are therefore exposed to structurally declining mail volumes. To sustain its competitiveness, bpost, like other European peers, is diversifying into the structurally growing parcel and e-logistics segments, which benefit from the e-commerce evolution. bpost has already gained a decent share of its domestic parcel market. However, fierce competition is limiting further domestic expansion. For example, Amazon’s recent insourcing trend of logistics caused bpost to lose around 50% of related volumes in 2022. The group is therefore eyeing growth potential abroad with its North American and Eurasian e-logistics segments. In 2022, these segments contributed about 42% to the group's total reported EBITDA. The growth trend in the North American e-logistics segment is particularly notable, and mainly results from the acquisition of U.S.-based Radial in 2017. The segment's reported EBITDA has been resilient to difficult macroeconomic conditions and made up about 33% of bpost's total EBITDA in 2022. We expect bpost to continue its expansion into international e-logistics, which needs to be supported by corresponding large capital investments, over the medium term. We understand that bpost will spend the bulk of the €200 million in gross capex that it plans for 2023 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 to bpost's s mail business underline the importance of competitive pricing and prudent cost management.

Outlook

The stable outlook reflects our expectation that the group will preserve its strong domestic market positions in both the mail and parcels, prevent unexpected and significant 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 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;
- The parcels business experienced a surge in competition, dampening overall group profitability;
- The group unexpectedly embarked on sizable debt-funded acquisitions; and/or
- The ongoing investigation and internal compliance reviews resulted in a significant margin squeeze or cash outflows.

A downgrade could also occur if we believed 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 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 debt reduction rather than dividend distributions. For an upgrade, we would need to revise the SACP upward by two notches, 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 increasingly 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. With about 25,000 full-time domestic employees, bpost is one of the largest companies and employers in Belgium. In 2022, the group generated revenue of about €4.4 billion (€4.3 billion in 2021) and adjusted EBITDA of about €553 million (€588 million in 2021).

Peer Comparison

bpost SA/NV--Peer Comparisons

	bpost SA/NV	PostNL N.V.	Royal Mail PLC
Foreign currency issuer credit rating	A/Stable/A-1	BBB/Negative/A-2	BBB/Negative/A-2
Local currency issuer credit rating	A/Stable/A-1	BBB/Negative/A-2	BBB/Negative/A-2
Period	Annual	Annual	Annual
Period ending	2022-12-31	2022-12-31	2022-03-31
Mil.	EUR	EUR	EUR
Revenue	4,372	3,144	15,042
EBITDA	553	222	1,332
Funds from operations (FFO)	473	203	1,138
Interest	28	17	65
Cash interest paid	26	20	66
Operating cash flow (OCF)	397	243	1,317
Capital expenditure	164	138	714
Free operating cash flow (FOCF)	233	105	603
Discretionary cash flow (DCF)	134	(224)	(88)
Cash and short-term investments	1,051	556	1,428
Gross available cash	981	556	1,428
Debt	744	530	1,246
Equity	1,065	179	6,312
EBITDA margin (%)	12.7	7.1	8.9
Return on capital (%)	15.3	9.8	10.0
EBITDA interest coverage (x)	19.7	13.1	20.5
FFO cash interest coverage (x)	19.6	11.2	18.2
Debt/EBITDA (x)	1.3	2.4	0.9
FFO/debt (%)	63.7	38.3	91.4
OCF/debt (%)	53.4	45.8	105.7
FOCF/debt (%)	31.3	19.8	48.4
DCF/debt (%)	18.0	(42.2)	(7.0)

Financial Risk

Period ending	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2018a	2019a	2020a	2021a	2022a

Display currency (mil.)	EUR	EUR	EUR	EUR	EUR
Revenues	3,774	3,779	4,115	4,282	4,372
EBITDA	618	510	506	588	553
Funds from operations (FFO)	437	379	404	481	473
Interest expense	44	50	32	21	28
Cash interest paid	44	28	26	26	26
Operating cash flow (OCF)	441	424	571	398	397
Capital expenditure	115	162	148	172	164
Free operating cash flow (FOCF)	325	262	424	226	233
Discretionary cash flow (DCF)	63	88	424	226	134
Cash and short-term investments	680	670	948	908	1,051
Gross available cash	610	600	878	838	981
Debt	1,043	1,142	877	792	744
Common equity	702	683	584	885	1,065
Adjusted ratios					
EBITDA margin (%)	16.4	13.5	12.3	13.7	12.7
Return on capital (%)	20.2	15.3	16.7	20.4	15.3
EBITDA interest coverage (x)	14.0	10.3	16.0	28.5	19.7
FFO cash interest coverage (x)	10.9	14.3	16.6	19.8	19.6
Debt/EBITDA (x)	1.7	2.2	1.7	1.3	1.3
FFO/debt (%)	41.8	33.2	46.1	60.7	63.7
OCF/debt (%)	42.2	37.2	65.1	50.3	53.4
FOCF/debt (%)	31.2	23.0	48.3	28.5	31.3
DCF/debt (%)	6.1	7.7	48.3	28.5	18.0

Reconciliation Of bpost SA/NV Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

	Debt	Shareholder equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2022									
Company reported amounts	820	1,067	4,372	553	263	26	553	422	99	164
Cash taxes paid	-	-	-	-	-	-	(54)	-	-	-
Cash interest paid	-	-	-	-	-	-	(26)	-	-	-
Lease liabilities	669	-	-	-	-	-	-	-	-	-

Reconciliation Of bpost SA/NV Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

	Debt	Shareholder equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Postretirement benefit obligations/ deferred compensation	212	-	-	2	2	2	-	-	-	-
Accessible cash and liquid investments	(981)	-	-	-	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	2	-	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	(26)	-	-
Noncontrolling/ minority interest	-	(2)	-	-	-	-	-	-	-	-
Debt: Contingent considerations	24	-	-	-	-	-	-	-	-	-
EBITDA - Gain/(loss) on disposals of PP&E	-	-	-	(2)	(2)	-	-	-	-	-
Total adjustments	(76)	(2)	-	0	3	2	(80)	(26)	-	-
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	744	1,065	4,372	553	266	28	473	397	99	164

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

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 greenhouse gas (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 (LNG) 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.

Rating Component Scores

Foreign currency issuer credit rating	**A/Stable/A-1**
Local currency issuer credit rating	**A/Stable/A-1**
Business risk	**Satisfactory**
Country risk	Low
Industry risk	Low
Competitive position	Satisfactory
Financial risk	**Intermediate**
Cash flow/leverage	Intermediate
Anchor	**bbb**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Exceptional (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**bbb**

Related Criteria

- 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: 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
- Criteria - Corporates - Industrials: Key Credit Factors For The Railroad And Package Express Industry, Aug. 12, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012

- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings Detail (as of May 17, 2023)*

bpost SA/NV	
Issuer Credit Rating	A/Stable/A-1
Commercial Paper	
Local Currency	A-1
Senior Unsecured	A
Issuer Credit Ratings History	
20-Jun-2018	A/Stable/A-1

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.