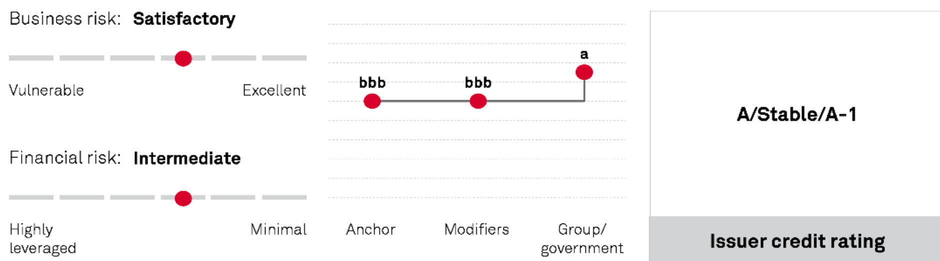
bpost NV/SA

August 9, 2022

Ratings Score Snapshot



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Credit Highlights

Overview

Key strengths	Key risks
Broad network of operations that underpins competitive advantage; leading and well-protected market share in domestic mail; and diversification into parcels to tap the growth trend in Belgium's e-commerce market.	Structurally declining volume in the core high-margin mail business (which has the largest share in total earnings, so far).
Increasing diversification of earnings base into e-logistics services in Eurasia and the U.S. (following 2017 Radial acquisition), with attractive long-term growth potential.	Strong competition including from Amazon's recent insourcing trend, as well as pricing pressure, and cyclical demand in the parcel and logistics segments.
Capacity to generate strong free operating cash flow (FOCF) providing scope for discretionary spending and supporting moderate financial leverage.	Strengthening macroeconomic headwinds weighing on domestic parcel volumes, increasing cost pressure, and squeezing margins.

We expect bpost's EBITDA, as adjusted by S&P Global Ratings, to moderate from the elevated 2021 level of €588 million but remain above the €506 million achieved in 2020. Last year's figure benefitted from the pandemic-related extraordinary parcel and mail volumes, among other supporting factors. On top of volumes normalization, our 2022 EBITDA forecast is weighed down by the deteriorating consumer confidence, rising inflation, increased competition in the domestic parcel market, as well as persisting Asian cross-border volume losses due to China's strict COVID-19 policy--dragging out supply chain disruptions--and the new EU value-added tax regulation introduced in July 2021, particularly depressing small parcel volumes. At the same time, our forecast considers bpost's proactive measures to stimulate revenue and contain costs to counter the increasing macroeconomic headwinds, as we observed the group do in the second quarter.

Our 'bbb' assessment of bpost's stand-alone credit profile (SACP) has sufficient headroom to absorb the anticipated decline in earnings. In 2021, bpost's debt, as adjusted by S&P Global Ratings, decreased to €792 million from €877 million in 2020 and €1.1 billion in 2019. The improvements have stemmed from strong FOCF and a prudent financial policy. bpost cut capital expenditure (capex) and suspended dividends in 2020 and 2021 to preserve cash amid uncertain trading conditions. In 2022, with the intensifying headwinds on operating performance and the company's planned increase in capex up to maximum €250 million (from €172 million in 2021 and €147 million in 2020), we expect FOCF to moderate but remain materially positive. At the same time, the proceeds from the sale of bpost bank and Ubiway Retail, received in first-quarter 2022, fully offset the €98 million cash outflow for resumed dividends distributed in May, in line with the restated dividend policy to pay out 30%-50% of the previous year's International Financial Reporting Standards (IFRS) net income. Therefore, in 2022 we expect adjusted debt to be potentially somewhat above the level in 2020-2021, depending on the magnitude of discretionary spending and working capital swings, but to remain well below the pre-pandemic level. We understand that ratings stability is an important consideration for bpost when it comes to its discretionary spending decisions. Therefore, we believe that bpost would prioritize modest accretive external growth over additional shareholder returns beyond the stated dividend policy. We expect the S&P Global Ratings-adjusted funds from operations (FFO)-to-debt ratio in 2022 of well above 30.0% (versus 60.7% in 2021 and 46.1% in 2020), the threshold for the current rating.

The sustainability of bpost's competitiveness hinges on the agility and success of the company's transformative investments. bpost derives a material, yet continuously decreasing, part of its earnings from the mail business--a sector suffering from the ongoing digitalization and e-substitution trends. About 45% of the group's 2021 EBITDA came from the mail and retail services, compared with about 48% in 2020 and 63% in 2019. bpost's earnings base and future profitability are exposed to mail volumes that are structurally declining. To sustain its competitiveness, bpost--like European peers--is diversifying into the structurally growing parcel and e-logistics segments benefitting from the favorable e-commerce evolution. bpost has already acquired a decent share in its domestic parcel market. However, further expansion domestically is limited by the increasing competition (among others, the recent insourcing trend by Amazon, due to which bpost expects to lose up to 60% of related volumes in 2022). The company is therefore eyeing growth potential abroad with its North American and Eurasian e-logistics segments. In 2021, these segments contributed about 40% to the group's total reported EBITDA. We view particularly notable the growth in the North American e-logistics segment (mainly represented by the U.S.-based Radial acquired in 2017), with reported EBITDA increasing 1.5x compared with the 2020 level (corresponding to one-fourth of the total EBITDA). The positive development was fueled by the sales growth on the back of new customers, which has accelerated from June 2021 well into the first half of 2022. We expect bpost to continue its expansion into international e-logistics, supported by the elevated capital investments over the medium term. We understand that a bulk of the total €250 million capex planned for 2022 will be spent on the Eurasian and North American e-logistics segments. Along with the further growth in international e-logistics volumes, we underline the importance of favorable pricing and prudent cost management, considering the lower segment's profitability compared to bpost's mail business.

Outlook

The stable outlook on bpost reflects our expectation that the group will preserve strong market positions in both the mail and parcel segments, prevent unexpected significant profitability erosion, and maintain an adjusted FFO-to-debt ratio of at least 30%. The SACP incorporates ample financial leeway for discretionary spending or potential unexpected operational challenges.

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 assess downside risk as currently remote, given our expectation of adjusted FFO to debt at 40%-45% in 2022-2023, well above the 30% minimum for the rating. However, we could consider a negative rating action if bpost's operating and financial performance proved substantially weaker than our base-case forecasts, notably if adjusted FFO to debt fell below 30% without clear recovery prospects. This could occur if:

- Mail volumes declined more than we currently expect;
- Tariff evolution and planned cost-saving measures were insufficient or took materially longer to offset the structural mail volume decline;
- The parcels business experienced a surge in competition, such that overall group profitability was dampened; or
- The company unexpectedly embarked on considerable debt-funded external growth.

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 also take the same rating action on bpost.

Upside scenario

Although 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 a significant diversification of the group's business. This would most likely occur because of a financial policy revision, with the company directing its cash flow to debt reduction rather than dividend distribution. 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, although less likely, if bpost's role for or link with the Belgian government strengthens.

Our Base-Case Scenario

Assumptions

- Belgian real GDP growth decelerating to 2.1% in 2022 and 1.6% in 2023, after a rebound to 6.2% in 2021 following a contraction to 5.7% in 2020. We expect it to reach 1.8%. In the U.S., Radial's major market, real GDP growth will slow to 2.4% in 2022 and 1.6% in 2023, after a 5.7% rebound in 2021 following a decline to 3.4% in 2020. In 2024, we expect the U.S. real GDP to grow 1.9%.
- Belgian CPI growth, as a measure of inflation, accelerating to 8.9% in 2022, after 3.2% in 2021, then moderating to 3.6% in 2023 and 2.4% in 2024. U.S. CPI growth increasing to 7.5% in 2022 from 4.7% in 2021 and decelerating to 3.4% in 2023 and 1.7% in 2024.
- Decline in traditional mail volumes in 2022 to about 8%,the rate reported in 2021, still benefitting from COVID-19-related communication campaigns in the first quarter. In 2023-2024 we expect it to accelerate to up to 9%-10%.The volumes decline should be partly offset by the price increases.
- Our estimate of up to 15% decline in Belgian parcel volumes in 2022 from the elevated base in 2021 amid a consumption shift toward services, rising macroeconomic headwinds taking their toll on the (until recently) buoyant e-commerce environment, and insourcing by Amazon started at end-2021. This should be partly offset by the price increases.
- Low- to mid-teens percentage growth in North American e-logistics revenue in 2022, driven by Radial’s accelerated expansion plan and contributions from new customers.
- Mixed development of Eurasian e-logistics revenue in 2022 with the anticipated expansion of Radial EU and Active Ants, offset by Asian cross-border issues, as well as declining Dynagroup’s revenue.
- Revenue in 2022 close to the 2021 level of €4.3 billion. We expect largely flat revenue in 2023-2024 supported by the regional and service diversification with an increasing share of international e-logistics. We also believe that e-commerce penetration in Belgium will continue in general and the segment's share in total retail sales will increase, resuming the domestic parcel volume growth. At the same time, we acknowledge risks from a potentially more aggressive Amazon’s expansion in Belgium.

- EBITDA margin declining to about 12.0% in 2022 from 13.7% in 2021, weighed by the increasing inflation in (especially energy and payroll) costs. In 2023–2024, we expect margins to remain largely flat, as the proactive price indexation and efficiency improvements largely offset the cost pressure. We also expect the ongoing decline in higher-margin mail business to cap the rebound in profitability.
- An increase in gross capex up to maximum €250 million in 2022 (from €172 million in 2021), as bpost accelerates investments in automation and expands the capacity of its U.S. and Eurasian parcel and e-commerce-related businesses. We expect gross capex to remain elevated in 2023-2024.
- Dividend distribution of about €98 million in May 2022, based on the approved €0.49 dividend per share. Further on, we anticipate a 30%-50% annual dividend payout based on the previous year's IFRS net income, in line with the stated dividend policy.
- Likely additional discretionary spending, especially for bolt-on mergers and acquisitions (M&A).
- Up to €70 million of cash for day-to-day operations (cash in the tills).

Key metrics

bpost SA/NV--Key Metrics*

(Mil. EUR)	2020a	2021a	2022e	2023f
Revenue	4,115.1	4,282.4	close to 4300	close to 4300
EBITDA	506.1	587.8	510-530	510-530
Funds from operations (FFO)	404.2	480.6	420-450	420-450
Debt	877.2	792.1	9000-950	1000-1100
Debt to EBITDA (x)	1.7	1.3	1.8-1.9	2.0-2.2
FFO to debt (%)	46.1	60.7	close to 45	35-45

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

Company Description

bpost is a majority government-owned postal operator based in Belgium. It plays an important role for Belgian society and the country's economy as a provider of a universal service obligation (USO) and services of general economic interest (SGEI). USO encompasses the provision of certain services, including mail delivery within the country, under conditions overseen by the respective regulator, while SGEI include maintaining the retail network (at least 1,300 postal service points, of which at least 650 must be post offices), election and public request mail delivery, doorstep payments of pensions and other benefits, basic payment services for people not served by banks, as well as 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 nonmail-related segments, such as parcels and e-logistics--including the acquisition of Radial in 2017. With about 25,000 full-time domestic employees, bpost is one of the largest companies and employers in Belgium. In 2021, the company generated revenue of about €4.3 billion (€4.1 billion in 2020) and an S&P Global Ratings-adjusted EBITDA of about €588 million (€506 million in 2020).

Peer Comparison

bpost SA/NV--Peer Comparisons

	bpost NV/SA	PostNL N.V.	Royal Mail PLC	Australian Postal Corp.	Singapore Post Ltd.
Foreign currency issuer credit rating	A/Stable/A-1	BBB+/Stable/A-2	BBB/Positive/A-2	A+/Stable/A-1	BBB+/Stable/NR
Local currency issuer credit rating	A/Stable/A-1	BBB+/Stable/A-2	BBB/Positive/A-2	A+/Stable/A-1	BBB+/Stable/NR
Business Risk	Satisfactory	Satisfactory	Satisfactory	Satisfactory	Satisfactory
Financial Risk	Intermediate	Minimal	Minimal	Intermediate	Intermediate
Anchor	bbb	a-	a-	bbb-	bbb
Modifiers					
Comparable rating analysis	Neutral	Negative (-1 notch)	Negative (-1 notch)	Positive (+1 notch)	Positive (+1 notch)
Financial Policy	Neutral	Neutral	Negative (-1 notch)	Neutral	Neutral
Stand-alone credit profile	bbb	bbb+	bbb	bbb	bbb+
Likelihood of government support	High (+3 notches from SACP	N/A	N/A	Very high (+4 notches from SACP)	N/A
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2021-12-31	2021-12-31	2022-03-31	2021-06-30	2021-03-31
Mil.	EUR	EUR	EUR	EUR	EUR
Revenue	4,282	3,466	15,042	5,226	890
EBITDA	588	446	1,332	426	96
Funds from operations (FFO)	481	349	1,138	369	58
Free operating cash flow (FOCF)	226	310	603	227	110
Debt	792	211	1,226	806	237
Adjusted ratios					
EBITDA margin (%)	13.7	12.9	8.9	8.2	10.8
Debt/EBITDA (x)	1.3	0.5	0.9	1.9	2.5
FFO/debt (%)	60.7	165.4	92.9	45.8	24.6

Financial Risk

Debt maturities

bpost's next sizable maturity is its $185 million unsecured term loan due in July 2023. bpost's inaugural €650 million bond is not due until 2026.

Financial Summary

bpost SA/NV--Financial Summary

Period ending	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021
Reporting period	2018a	2019a	2020a	2021a
Display currency (mil.)	EUR	EUR	EUR	EUR
Revenues	3,774	3,779	4,115	4,282
EBITDA	618	510	506	588
Funds from operations (FFO)	437	379	404	481
Interest expense	44	50	32	21
Cash interest paid	44	28	26	26
Operating cash flow (OCF)	441	424	571	398
Capital expenditure	115	162	148	172
Free operating cash flow (FOCF)	325	262	424	226
Discretionary cash flow (DCF)	63	88	424	226
Cash and short-term investments	680	670	948	908
Gross available cash	610	600	878	838
Debt	1,043	1,142	877	792
Common equity	702	683	584	885
Adjusted ratios				
EBITDA margin (%)	16.4	13.5	12.3	13.7
Return on capital (%)	20.2	15.3	16.7	20.4
EBITDA interest coverage (x)	14	10.3	16	28.5
FFO cash interest coverage (x)	10.9	14.3	16.6	19.8
Debt/EBITDA (x)	1.7	2.2	1.7	1.3
FFO/debt (%)	41.8	33.2	46.1	60.7
OCF/debt (%)	42.2	37.2	65.1	50.3
FOCF/debt (%)	31.2	23	48.3	28.5
DCF/debt (%)	6.1	7.7	48.3	28.5

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-31-2021									
Company reported amounts	817	885	4,282	606	338	21	588	398	-	172
Cash taxes paid	-	-	-	-	-	-	(82)	-	-	-
Cash interest paid	-	-	-	-	-	-	(26)	-	-	-
Lease liabilities	560	-	-	-	-	-	-	-	-	-

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	252	-	-	(1)	(1)	-	-	-	-	-
Accessible cash and liquid investments	(838)	-	-	-	-	-	-	-	-	-
EBITDA - Gain/(loss) on disposals of PP&E	-	-	-	(15)	(15)	-	-	-	-	-
EBITDA: Business divestments	-	-	-	(1)	(1)	-	-	-	-	-
Total adjustments	(25)	1	-	(18)	(17)	-	(107)	-	-	-
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	792	885	4,282	588	321	21	481	398	-	172

Liquidity

The short-term rating on bpost is 'A-1', reflecting the long-term issuer credit rating and our assessment of the group's liquidity as exceptional. We consider our expectation that liquidity sources for the 24 months started June 30, 2022, will cover uses by more than 2x. The group's strong relationships with banks and high standing in credit markets support our assessment. Below, our estimate of the company's liquidity sources and uses for the 12 months from end-June 2022.

Principal liquidity sources

- About €905 million of cash on hand;
- Access to €375 million long-term committed revolving credit facilities, which are fully undrawn; and
- Our estimate of cash FFO of €300 million-€320 million after lease payments.

Principal liquidity uses

- Last payment of about €9 million under the European Investment Bank (EIB) loan;
- Up to €60 million of working capital outflow;
- Up to maximum €250 million of capex (including expansionary); and
- Cash dividends expected to be paid in May 2023, in line with the dividend policy of 30%-50% of IFRS net income.

Covenant Analysis

Requirements

The company's debt does not contain financial maintenance covenants.

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 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.

Government Influence

Based on the government's 51% majority stake in bpost and our view of its importance to the country's population and economy, we consider the company as a government-related entity (GRE). We think there is a high likelihood that bpost would benefit from timely and sufficient extraordinary support from the Belgian government in the event of financial distress. The government's contingent liabilities are limited and therefore would not constrain its capacity and willingness to support bpost in a timely manner if the company experienced financial difficulty, in our view. More generally, we do not question the government's general propensity to support the GRE sector.

We base our assessment of a high likelihood of support from the Belgian government on bpost's:

- Very important role for the government, considering its status as Belgium's second-largest public employer after the state, and the economic, political, and social importance of its public-policy mandates (including the universal postal service provision, the maintenance of an extensive distribution network, and press distribution). bpost is Belgium's universal mail service provider until the end of 2023 at least, as fixed by the 2018 postal law. Compensation associated with the provision of public mandates complies with the European Commission's EU State Aid Rule provisions; and
- Strong link with the government. The Belgian government owns 51% of bpost shares and can appoint half of the board's members. While it has regularly signed multiyear management contracts with bpost (the most recent being the 7th management contract regarding the provision of services of public economic interest (SGEI) lasting until end 2026), we understand the government is not actively involved in the company's strategy and operations. Although we do not expect privatization in the near future, we do not fully rule out a potential dilution of the government's stake in the company's capital, for instance, in case of an acquisition, given prior government statements.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of June 30, 2022, bpost's capital structure mainly consisted of €650 million in senior unsecured bonds due in 2026 and the $185 million unsecured term loan at the parent company level.

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.

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 government rating	AA
Likelihood of government support	High (+3 notched from SACP)

Related Criteria

- 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: 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
- 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: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Ratings Detail (as of August 09, 2022)*

bpost SA/NV	
Issuer Credit Rating	A/Stable/A-1

Ratings Detail (as of August 09, 2022)*

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.