Research Update:

bpost SA/NV 'A' And 'A-1' Ratings Placed On CreditWatch Negative Following Acquisition Announcement

April 11, 2024

Rating Action Overview

- Belgium-based postal operator and parcel and e-logistics services provider bpost SA/NV has signed an agreement to acquire French logistics company Staci for an enterprise value of €1.3 billion (on a pre-International Financial Reporting Standard 16 basis, that is, excluding rolled over lease liabilities at Staci).
- The transaction is subject to regulatory approvals expected to be obtained around September-October 2024.
- The proposed acquisition will strengthen bpost's positioning in the satisfactory business risk profile category by enhancing the group's scale of operations, diversity of end markets, and profitability.
- That said, bpost will fund the acquisition through a combination of new debt and available cash, leading to significantly weaker credit measures with S&P Global Ratings-adjusted funds from operations (FFO) to debt falling to less than 30%, our downgrade trigger for the current rating, for an extended period.
- We therefore placed our 'A/A-1' long- and short-term issuer credit ratings on bpost and our 'A' issue rating on its senior unsecured debt on CreditWatch with negative implications.
- We aim to resolve the CreditWatch placement upon completion of the acquisition, likely with a one-notch downgrade.

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Rating Action Rationale

bpost's credit metrics will weaken significantly given the acquisition is funded through a combination of new debt and available cash. The acquisition of Staci will result in a n increase in bpost's reported net debt of €1.3 billion. In addition, bpost will roll over Staci's leases liabilities, which amounted to €240 million-€250 million as of Dec. 31, 2023. On a pro forma basis, assuming the full consolidation of Staci in 2024, we anticipate that bpost's adjusted FFO to debt will weaken to about 25%, from about 55% in 2023. We forecast that this ratio will remain below 30%, our downgrade trigger for the current rating, for an extended period. Upon the transaction's close, which is currently anticipated for September-October 2024, we will likely lower our rating on bpost by one notch to 'A-', provided there is no unexpected margin compression or cash outflows (beyond the group's publicly communicated estimates) 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.

The proposed acquisition, in our view, strengthens bpost's positioning in the satisfactory business risk profile category by enhancing the scale of operations, diversity of end markets, and profitability. With reported normalized annual revenues of €771 million and IFRS 16-adjusted EBITDA of about €150 million in 2023, Staci will enlarge bpost's scale of operations. On a pro forma basis and based on 2023 numbers, we estimate that Staci would represent 15% of bpost's consolidated revenue and 20%-25% of adjusted EBITDA. In our view, the acquisition fits well with bpost's strategy to expand in attractive segments in specialized logistics, new geographies, and high-growth resilient segments. We believe that the transaction will bolster bpost's diversity by end market, thanks to Staci's strong exposure to industries such as beauty and health care, food and beverage, and med- and high-tech. Staci's diversified portfolio of more than 2,000 blue-chip clients and low customer concentration (with its top-20 customers accounting for about 30% of revenue) should moreover bolster bpost's end-customer diversification. Furthermore, the acquisition will enhance bpost's geographical footprint by, for example, establishing a presence in French and Spanish markets, where bpost does not operate currently, and increasing the group's exposure to the Netherlands. We also acknowledge the competitive advantages Staci would bring to the group, including expertise in complex and high value-added logistics niches characterized by high barriers to entry, as well as immediate access to knowledge and technology of business to business, e-commerce, and brick-and-mortar businesses. Staci's EBITDA margins exceed those of bpost, and its strong EBITDA-to-cash flow conversion, underpinned by an asset light business model with low maintenance capital expenditure (capex) and low working capital requirements, is a further positive factor.

bpost reported solid underlying earnings, continued with its disciplined cash protection, and maintained strong credit measures in 2023. bpost's EBITDA decreased to €481 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, because it does not yet reflect the views of the Belgian government. 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 underlying earnings, combined with lower gross capex than we expected (at €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 adjusted FFO-to-debt ratio of about 55% in 2023 (somewhat weaker than 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 €744 million, including a €650 million 1.25% eight-year unsecured bond due in 2026 and close to €644 million in leases, netted of by available cash.

We forecast that on a standalone basis, bpost's operating results and FOCF will remain robust in 2024. Based on bpost's existing business perimeter, 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 withdrew the press concession (effective from July 1, 2024). We believe that expanding revenue 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 2022-2023) to offset the lingering overcapacity in the E-Logistics North America business 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 neighboring countries, and resilient purchasing power of the Belgian population (thanks to automatic salary indexation linked to inflation) will continue driving the parcel volume growth by 5%-7% over the medium term. In aggregate and based on bpost's existing business perimeter, 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.

CreditWatch

The negative CreditWatch placement reflects that we expect to lower our ratings on bpost, likely by one notch, when the transaction closes, which we understand will be around September-October 2024. We could remove the ratings from CreditWatch and affirm them if the transaction does not go through, for example, if bpost fails to obtain the necessary regulatory approvals.

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 corporations 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 the corporate segment, while adjusted EBIT excludes the corporate segment.

Ratings Score Snapshot

Issuer Credit Rating	A/Watch Neg/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: Sector-Specific Corporate Methodology, April 4, 2024
- 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: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, 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

Related Research

- bpost SA/NV 'A/A-1' Ratings Affirmed On Solid Earnings And Ample Financial Leeway; Outlook Stable, March 20, 2024

Ratings List

Ratings Affirmed; CreditWatch Action

	To	From
bpost SA/NV		
Issuer Credit Rating	A/Watch Neg/A-1	A/Stable/A-1
Senior Unsecured	A/Watch Neg	A
Commercial Paper	A-1/Watch Neg	A-1

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 www.spglobal.com/ratings 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 affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.