

Research Update:

bpost SA/NV Ratings Lowered To 'A-' From 'A' On Staci Acquisition; Ratings Off CreditWatch Negative; Outlook Stable

September 27, 2024

Rating Action Overview

- Belgium-based postal operator, and parcel and e-logistics services provider bpost SA/NV has completed the acquisition of France-based logistics company Staci for an enterprise value of €1.3 billion (on a pre-International Financial Reporting Standard 16 [IFRS] basis, excluding rolled over lease liabilities at Staci).
- The acquisition has strengthened bpost's competitive position by enhancing the group's scale of operations, diversity of end markets, and profitability.
- bpost has funded the acquisition through a combination of new debt and available cash, leading to significantly weaker credit measures. We forecast S&P Global Ratings-adjusted funds from operations (FFO) to debt will fall below 30%, our downgrade trigger for the previous 'A' rating, for an extended period.
- We therefore lowered our long- and short-term issuer credit ratings on bpost to 'A-/A-2' from 'A/A-1' and our issue rating on its senior unsecured debt to 'A-' from 'A'. We removed the ratings from CreditWatch, where we placed them on April 11, 2024.
- The stable outlook reflects our expectation that bpost will maintain strong market positions in the mail and parcel segments, prevent unexpected significant profitability erosion and successfully integrate Staci, while maintaining adjusted FFO to debt at more than 23% over 2025-2026.

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Rating Action Rationale

bpost's credit metrics will weaken significantly given the acquisition was funded through a combination of new debt and available cash. The acquisition of Staci has resulted in an increase in bpost's reported net debt of €1.3 billion. In addition, bpost has rolled over Staci's leases liabilities, which amounted to €210 million-€220 million as of Dec. 31, 2023. As of end-2023, bpost's stand-alone 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 understand that Staci is expected to contribute to the group's earnings from August 2024, with an average monthly EBIT of €8 million-€9 million. 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 23%, from about 55% in 2023. We forecast this ratio will be in the 24%-27% range over 2025-2026, which is consistent with our guideline for the 'A-' rating. Our base-case forecasts assume that 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. We further assume that the €75 million provision (recorded by bpost in 2023), 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.

We think that Staci' acquisition strengthens bpost's competitive positioning 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 €144 million in 2023, Staci has enlarged bpost's scale of operations. On a pro forma basis and based on 2023 numbers, we estimate that Staci represents about 15% of bpost's consolidated revenue and 20%-25% of its adjusted EBITDA. We view the acquisition as fitting into bpost's expansion strategy in attractive segments such as specialized logistics, new geographies, and high-growth resilient segments. We think that the acquisition has bolstered 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 relatively low customer concentration (with its top-20 customers accounting for about 30% of revenue) has moreover enhanced bpost's end-customer diversification. Furthermore, the acquisition has enlarged bpost's geographical footprint by establishing a presence in French and Spanish markets for example, where bpost did not operate before the acquisition, and increasing the group's exposure to the Netherlands. Staci has brought several competitive advantages 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 stand-alone EBITDA margins also exceed those of bpost.

We forecast that on a stand-alone basis, bpost's operating results and free operating cash flow (FOCF) will remain robust in 2024.

Based on bpost's stand-alone business perimeter and its first-half 2024 results, our base-case forecast indicates a resilient adjusted EBITDA of €460 million-€470 million in 2024 (compared to €481 million, including the €75 million provision, in 2023 and €264 million reported EBITDA in first-half 2024), remaining largely flat to marginally better in 2025. This captures the adverse effect of the new press distribution contracts after the Belgian State withdrew the press concession (effective from July 1, 2024). We think that expanding revenue from parcels and e-commerce logistics in the E-Logistics Eurasia segment (although at a slower pace in 2025-2026 than in 2024), and the group's continued ability to increase prices and tariffs underpinned by its demonstrated grip on cost control, will largely cushion the impact of structurally shrinking mail and press volumes, lingering overcapacity and topline pressure in the E-Logistics North America business segment, and inflationary pressure on bpost's cost base that derives mainly from several salary adjustments. Furthermore, we also

expect that the low penetration of e-commerce in Belgium (relative to neighboring countries), and the relatively resilient purchasing power of the Belgian population (thanks to automatic salary indexation linked to inflation) will drive parcel volume growth by an annual average rate of about 5.0% over the medium term. Resilient underlying earnings, combined with lower gross capital expenditure (capex) than expected (at €150 million--compared with bpost's initial guidance of €180 million and €155 million spent in 2023) will boost FOCF to above €200 million (from about €188 million in 2023). Staci's strong EBITDA-to-cash flow conversion, underpinned by an asset light business model with low maintenance capex and low working capital requirements, will further augment the group's cash flow profile.

Outlook

The stable outlook reflects our base-case forecast that adjusted FFO to debt will remain above 23% over 2025-2026. We anticipate that the group will maintain strong market positions in the mail and parcel segments and that it will prevent unexpected significant profitability erosion, while successfully integrating Staci over the next 24 months.

Downside scenario

We could downgrade bpost if, for example, we expected its adjusted FFO to debt to decline below 23% on a sustained basis. This could happen if bpost's operating and financial performance proved substantially weaker than our base-case forecasts because for example:

- 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 parcel business experienced a surge in competition, dampening overall group profitability;
- The group unexpectedly embarked on further sizable debt-funded acquisitions;
- The overcompensation, relating to tenders and public contracts, was much higher than expected resulting in an unexpectedly significant margin squeeze or cash outflows; or
- The group failed to successfully integrate Staci.

We could also take a negative rating action if bpost unexpectedly did not refinance its upcoming debt maturities in a timely manner. A downgrade could also occur if we think that the likelihood of government support had weakened.

Upside scenario

Although unlikely over the medium term, we could raise the rating on bpost if adjusted FFO to debt exceeded 30% on a sustained basis. This could happen if, for example, bpost performed significantly above our base-case projections and consistently applied free cash flows for net debt reduction while adjusting its financial policy to ensure these ratios are sustainable.

We could also raise the rating if bpost's role for or link with the Belgian government further strengthens. Yet we consider this as unlikely.

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 nonmail-related segments, such as parcels and e-logistics. The acquisition of Radial in 2017 and Staci in 2024 are two examples of that. These markets display attractive long-term growth potential, in 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); and
- 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.

Staci is a contract logistics service provider, founded in 1989, with a focus on complex orders (i.e., multireference packages, single-unit picking, and distribution to multi-delivery points). It is active in warehousing, distribution, freight forwarding, and value-added services for business-to-business, business-to-customer, direct-to-customer, and e-commerce. Staci reported normalized annual revenues of €771 million and IFRS 16-adjusted EBITDA of about €144 million in 2023.

Liquidity

The short-term rating on bpost is 'A-2', reflecting the long-term issuer credit rating and our assessment of the group's liquidity as adequate. Our view of bpost's liquidity primarily reflects our expectation that liquidity sources for the 12 months started June 30, 2024, will cover uses by about 3.0x. The group's well-established and solid relationships with banks and generally prudent risk management support our liquidity assessment. We factor in that the €1.0 billion acquisition bridge loan facility due July 2026 and €650 million unsecured bond due July 2026 will be

refinanced in a timely manner, which we view as no later than 12 months ahead of their maturities.

Below is our estimate of the group's liquidity sources and uses for the 12 months started June 30, 2024.

Principal liquidity sources:

- About €889 million of available cash as of June 30, 2024;
- Access to €400 million fully undrawn committed revolving credit facility maturing June 2029; and
- Our estimate of cash FFO of €300 million–€320 million after lease payments.

Principal liquidity uses:

- Up to €30 million of working capital outflow;
- Up to €160 million of capex (including expansionary capex that would likely proceed even in a downturn or that has been contractually committed); and
- About €300 million cash outflow for the acquisition of Staci completed as of Aug. 1, 2024.

No dividends are assumed for the purpose of our liquidity analysis because we do not think bpost would pay dividends in a stress scenario.

Environmental, Social, And Governance

Environmental, social, and governance 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 think that bpost is on track to achieve its target to reduce its scope 1 and 2 greenhouse gas emissions by 55% by 2030 (compared with 2019) and its scope 3 greenhouse gas emissions by 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.

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 group 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 group 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 and the maintenance of an extensive distribution network); 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 seventh management contract regarding the provision of services of public economic interest lasting until end 2026), we understand the government is not actively involved in the group'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 group's capital, for instance, in case of an acquisition, given prior government statements.

Issue Ratings - Subordination Risk Analysis

Capital structure

As of June 30, 2024, pro forma for the acquisition of Staci, the debt portfolio consisted solely of the €650 million unsecured bond due July 2026 and €1.0 billion two-year acquisition bridge loan facility. Noncurrent and current lease liabilities amounted to about €630 million at bpost's stand-alone level and €210 million-€220 million at Staci's level as of that date.

Analytical conclusions

We rate bpost's senior unsecured bonds in line with the 'A-' long-term issuer credit rating, given that there are no significant elements of subordination risk in the group's capital structure. All the group's outstanding debt sits at the parent level and is unsecured in nature.

Ratings Score Snapshot

Issuer Credit Rating	A-/Stable/A-2
Business risk:	Satisfactory
Country risk	Low
Industry risk	Low
Competitive position	Satisfactory
Financial risk:	Significant
Cash flow/leverage	Significant
Anchor	bbb-
Modifiers:	
Diversification/Portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate: (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile:	bbb-

Issuer Credit Rating	A-/Stable/A-2
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: 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

Downgraded; Outlook Action

	To	From
bpost SA/NV		
Issuer Credit Rating	A-/Stable/A-2	A/Watch Neg/A-1
bpost SA/NV		
Senior Unsecured	A-	A/Watch Neg
Commercial Paper	A-2	A-1/Watch Neg

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<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.

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