27 February 2023

Corporates

Posten Norge AS
Norway, Postal Services

A NEGATIVE

Key metrics

			Scope estimates	
Scope credit ratios	2021	2022	2023E	2024E
Scope-adjusted EBITDA/interest cover	22.0x	9.7x	7.0x	6.9x
Scope-adjusted debt/EBITDA	1.1x	3.3x	3.8x	3.7x
Scope-adjusted funds from operations/debt	78%	17%	22%	22%
Scope-adjusted free operating cash flow/debt	-4%	-14%	-12%	-6%

Rating rationale

The rating action reflects Posten's 2022 earnings, which were impacted by the normalisation of demand post-Covid-19, recessionary pressures and increased cost base. The A issuer rating results from the company's standalone credit quality of BBB+ and a two-notch uplift based on the capacity and willingness of the Norwegian government as owner to provide support to the rated entity, assessed in accordance with our Government Related Entities Rating Methodology.

Outlook and rating-change drivers

The Negative Outlook reflects the likelihood that deterioration in credit metrics will not be confined to 2022 only, with Scope-adjusted leverage averaging 3-4x over the next few years, and free operating cash flow remaining negative due to ongoing elevated investment. Scope also assumes that Posten's dividend payout and financial policy will not become more aggressive as the company's performance recovers. Scope still expects that Posten will retain its leading position in the Nordic parcel market and remain Norway's traditional mail service provider. It also assumes that the Norwegian state will remain the company's sole owner and that there will be no significant adverse change to the regulatory framework and government procurements with the Norwegian Ministry of Transport and Communication.

A return to a Stable Outlook could occur if profitability margins and discretionary cash flow improved, resulting in Scope-adjusted leverage sustained at significantly below 3.5x. Further positive rating action is currently remote.

A downgrade could occur if the Norwegian state reduced its ownership and/or if the regulatory framework governing Posten's role as Norway's mandatory postal service provider changed adversely. A downgrade could also occur if overall weak market conditions persisted or worsened, or if Posten's financial policy changed significantly, leading to Scope-adjusted leverage over 3.5x on a sustained basis.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
27 Feb 2023	Downgrade	A/Negative
01 Mar 2022	Affirmation	A+/Stable
26 Mar 2021	Initial rating	A+/Stable

Ratings & Outlook

Issuer	A/Negative
Senior unsecured debt	A

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Related Methodologies and Related Research

General Corporate Rating Methodology; July 2022

Government Related Entities Rating Methodology; May 2022

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Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Norway's mandated postal services company, backed by a supportive regulatory framework • Leading Nordic market shares within the parcel market • 100% owned by the Norwegian state, which has a strong capacity and willingness to support the company • Ability to adapt financial policy (dividend pause, timing/amount of capex) to performance and market changes	• High competition in the parcel business, with selected pressure on pricing/margins • Structural decline of mail business, which will require ongoing restructuring • Some longer-term uncertainty surrounding the future regulatory framework and government procurements for mail business • Weakening credit metrics and liquidity due to inflationary/macroeconomic pressure

Positive rating-change drivers	Negative rating-change drivers
• For return to Stable Outlook: Improved profitability margins and higher discretionary cash flow, resulting in Scope-adjusted leverage significantly below 3.5x on a sustained basis • Further positive rating upside remote	• Reduced Norwegian state ownership and/or adverse change in regulatory framework governing Posten's role as Norway's mandated postal services provider • Weakening of or sustained negative market conditions or significantly adverse financial policy, resulting in Scope-adjusted leverage of over 3.5x on a sustained basis

Corporate profile

Posten Norge AS (Posten) is a postal and logistics company from Norway. It is a universal service provider fulfilling a universal service obligation (USO) in Norway. The company operates under two brands: Posten, which concentrates on private customers in Norway, and Bring, which focuses on the corporate market in the Nordic region and private customers outside Norway. The company's operations are divided into the following main divisions: Post, E-commerce and Logistics, International Logistics, Nordic Network, Post, and Next. For financial reporting, the company is split into two segments, Logistics and Mail. In Norway, postal deliveries are regulated by the Norwegian Postal Services Act, which is overseen by the Norwegian Ministry of Transport and Communication. Posten is 100% owned by the Norwegian government through the country's Ministry of Trade, Industry and Fisheries.

Financial overview

				Scope estimates		
Scope credit ratios	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Scope-adjusted EBITDA/interest cover	28.9x	22.0x	9.7x	7.0x	6.9x	7.6x
Scope-adjusted debt/EBITDA	0.7x	1.1x	3.3x	3.8x	3.7x	3.4x
Scope-adjusted funds from operations/debt	132%	78%	17%	22%	22%	25%
Scope-adjusted free operating cash flow/debt	55%	-4%	-14%	-12%	-6%	-4%
Scope-adjusted EBITDA in NOK m						
EBITDA	3,005	2,767	1,451	1,813	1,992	2,347
Other items	0	0	371	0	0	0
Scope-adjusted EBITDA	**3,005**	**2,767**	**1,822**	**1,813**	**1,992**	**2,347**
Funds from operations in NOK m						
Scope-adjusted EBITDA	3,005	2,767	1,822	1,813	1,992	2,347
less: (net) cash interest paid	-104	-126	-187	-260	-291	-308
less: cash tax paid per cash flow statement	-165	-189	-213	-22	-34	-89
add: dividends from associates	0	0	0	0	0	0
Change in provisions	-86	-27	-2	0	0	0
Funds from operations	**2,650**	**2,425**	**1,420**	**1,531**	**1,667**	**1,950**
Free operating cash flow in NOK m						
Funds from operations	2,650	2,425	1,420	1,531	1,667	1,950
Change in working capital	28	-618	142	-10	-9	-9
Non-operating cash flow	0	0	0	0	0	0
less: capital expenditure (net)	-700	-1,062	-1,276	-1,600	-1,350	-1,500
less: lease amortisation	-878	-857	-757	-757	-757	-757
Free operating cash flow	**1,100**	**-112**	**-842**	**-836**	**-449**	**-315**
Net cash interest paid in NOK m						
Cash interest paid, proxy per income statement	209	177	188	410	421	438
Cash interest received, proxy per income statement	-105	-51	-1	-150	-130	-130
Change in other items: pension interest	0	0	0	0	0	0
Net cash interest paid	**104**	**126**	**187**	**260**	**291**	**308**
Scope-adjusted debt in NOK m						
Reported gross financial debt	5,659	5,824	7,878	8,019	8,456	8,956
less: subordinated (hybrid) debt	0	0	0	0	0	0
less: cash and cash equivalents	-4,633	-3,401	-2,657	-1,962	-1,875	-1,960
add: non-accessible cash	0	0	0	0	0	0
add: pension adjustment	975	680	872	872	872	872
add: operating lease obligations	0	0	0	0	0	0
Other items	0	0	0	0	0	0
Scope-adjusted debt	**2,001**	**3,103**	**6,093**	**6,929**	**7,453**	**7,868**

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Environmental, social and governance (ESG) profile[1]

Environment	Social	Governance
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)	Labour management	Management and supervision (supervisory boards and key person risk)
Efficiencies (e.g. in production)	Health and safety (e.g. staff and customers)	Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate)
Product innovation (e.g., transition costs, substitution of products and services, green buildings, clean technology, renewables)	Clients and supply chain (geographical/product diversification)	Corporate structure (complexity)
Physical risks (e.g., business/asset vulnerability, diversification)	Regulatory and reputational risks	Stakeholder management (shareholder payouts and respect for creditor interests)

Legend
Green leaf (ESG factor: credit positive)
Red leaf (ESG factor: credit negative)
Grey leaf (ESG factor: credit neutral)

ESG considerations

The largest challenge for the transportation sector with regards to ESG factors is CO2 emissions, due to the sector's contribution from fossil fuel vehicles and logistics infrastructure.

We consider Posten's approach to ESG as prudent though neutral for the overall issuer rating. The company issued NOK 1bn in green bonds in 2021, making it the first transportation company to issue green bonds in the Nordics. Several of the company's investment projects scheduled over the coming years qualify for green funding.

Posten Norge has been an issuer and proponent of ESG/sustainable financing, but no specific ESG factor currently materially impacts the overall credit assessment. Nevertheless, the company remains committed to setting and achieving certain sustainability goals, such as reaching net zero emission for all road transport by 2030 and the use of renewable energy for 44% of its vehicle fleet in 2022.

[1] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e., those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

Business risk profile: BBB+

Blended industry risk profile of BBB

Posten is present in three main industries: mail, parcels and logistics. These segments have substantially different business dynamics. Consequently, we apply a blended industry risk assessment for Posten, separating the mail, parcels, and logistics segments. Based on the EBITDA contribution of each segment in the past couple of years, we maintain a BBB blended industry risk for Posten, but note that the average score is weakening due to declining share from mail.

Monopolistic market position in traditional mail

Posten's overall competitive position is positively affected by its role as Norway's postal services company with a supportive regulatory framework, under which the Norwegian government fully covers the net costs of holding the universal service obligation (USO) provider licence. In the parcel business, Posten operates across the Nordic region. Compared to traditional letter post, the parcel market is characterised by higher competition and larger pricing pressure. Posten is the market leader for parcel deliveries (B2C and B2B) in Norway and the second largest in the Nordics, surpassed only by PostNord. B2B is more fragmented than B2C due to the larger presence of international carriers. Nevertheless, Posten has grown its volume share in the Norwegian market as well as in Sweden, taking some of the market from PostNord. In other logistics segments, Posten benefits from its extensive network across the Nordic region. However, as this market is more fragmented, Posten's position is weaker than in mail and parcels.

Adequate diversification

Posten's geographical diversification is adequate for a postal services company, although the company relies heavily on its home market, where it collects about 60% of its revenue. With regards to sales channels, the company pursues a diverse strategy consisting of physical branches, primarily within supermarkets and grocery stores, and various digital solutions. The deployment of more 24-hour parcel boxes at various locations in Norway will continue. The company's product diversification has been decreasing due to declining letter volumes and the growing parcels segment but has a diverse customer and supplier base across the Nordics and is ramping up different initiatives like Shelfless (e-fulfilment) and Norgespakken. However, there can be a lag for new products/services to become profitable.

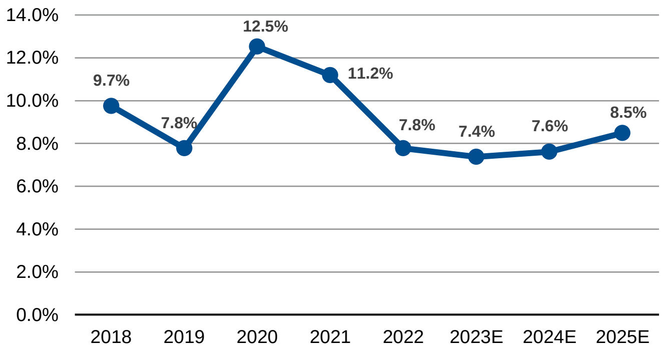
Increased B2C parcel volumes offset declining mail volume

The company saw much higher EBITDA margins during Covid-19 in 2020 and 2021, largely driven by higher B2C parcel volumes due to pandemic-induced changes in consumer behaviour, but also by cost efficiencies gained from significant operational restructuring (such as the reduced frequency of weekly letter deliveries). This was expected to and did normalise post-Covid-19 in 2022, while profitability continued to be negatively affected by the low contribution of the mail segment.

Operating profitability under pressure from inflation and macroeconomic challenges

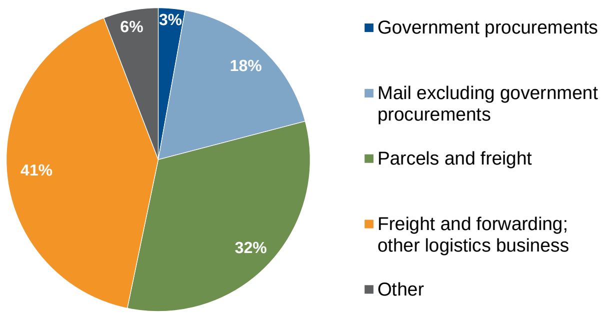
In 2022, Posten's EBITDA margin fell by over 300 bp, on the back of much higher-than-expected costs for energy, transport, and wages, among others. In addition, the overhang of an economic recession weakened consumer confidence and demand, which also hit parcel volumes.

Figure 1: Scope-adjusted EBITDA margin



Sources: Posten Norge, Scope (estimates)

Figure 2: Revenue breakdown, 2022



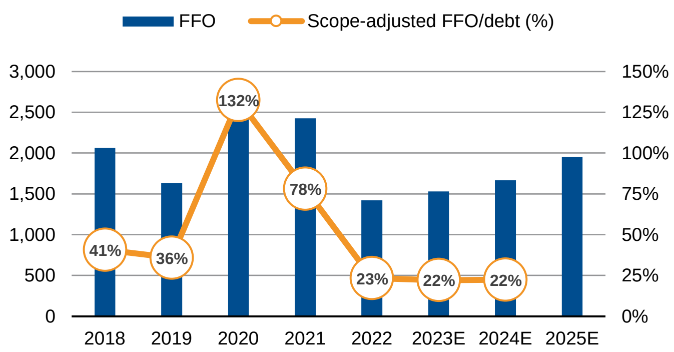
Source: Posten Norge

Financial risk profile: BBB+

Weaker profitability, higher debt in 2022 increased leverage

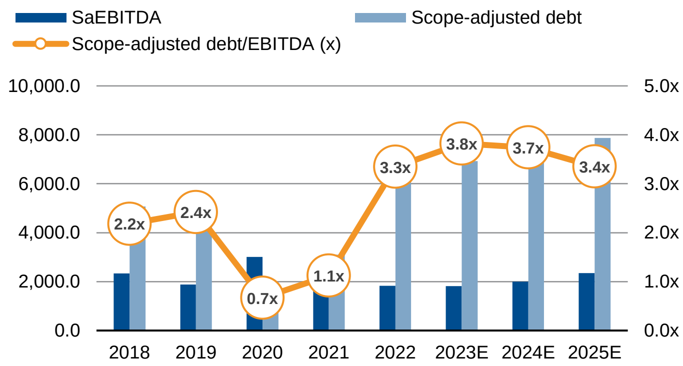
With Scope-adjusted leverage at 3.3x at YE 2022, up from 1.1x YoY, the company's capital structure worsened significantly, compared to times of favourable market dynamics when it was conservative. Significant capex and dividend payments in 2022 from 2021 caused Posten to enter the 2023-2025 forecast period with much more limited financial flexibility.

Figure 3: Scope adjusted FFO (LHS, in NOK m) and FFO/debt



FFO: funds from operations
Sources: Posten Norge, Scope (estimates)

Figure 4: Scope-adjusted EBITDA, debt (LHS, in NOK m) and leverage



Sa: Scope-adjusted
Sources: Posten Norge, Scope (estimates)

Our base case expects continued declining revenue from mail and increasing revenue from logistics, driven by B2C parcels growth through both general market demand and new products. The forecast period is assumed to feature a recessionary and stagnant macro environment until 2025, in addition to the established trend of lower/decreasing volumes in the traditional letter mail business. As a result, we expect overall group EBITDA margins to remain at below 10%.

Governmental procurements likely to increase

We acknowledge that the restructuring of the mail segment will have to continue, as cost savings from the reduced frequency of mail deliveries are unlikely to offset the expected decline in demand. The long-term procurement between Posten and governmental authorities is expected to remain in place, and an increase in yearly governmental purchases in the coming years is likely.

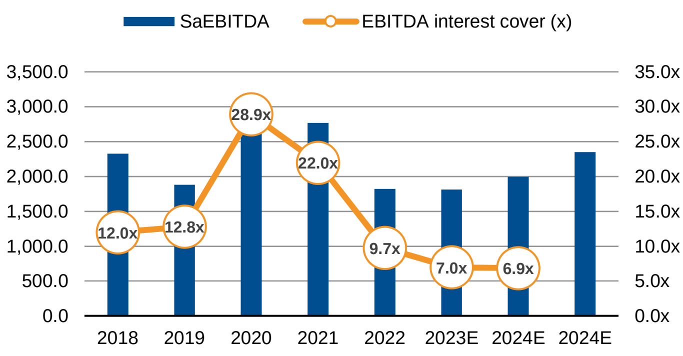
Increased investment still a priority in order to meet demand and improve margins and competitiveness

With respect to future investments, we anticipate that Posten will continue to prioritise significant capex in the next few years. Even with lower financial flexibility in 2022 and in the near term, these investments are key for Posten to maintain its market position in the more competitive logistics landscape, in particular in the fast growing (and attractive) parcel market. Growth investments are largely dedicated to increasing capacity of terminals, as well as other initiatives such as the launch of Shelfless automated warehouses. Compared to last year, we have assumed that annual capex will be partially reduced and plans are further spread out in coming years. Combined with a weak macroeconomic forecast, Posten's leverage will be sustained at higher than historical levels. Based on planned expansion investments (NOK 4.5bn in 2023-2025), we have not assumed any small-to-medium sized acquisitions in our base case. We assume that after the special dividend payments and challenging market in 2022, the company will pause or scale back on dividends as its performance gradually recovers in the next few years.

Deterioration in credit ratios

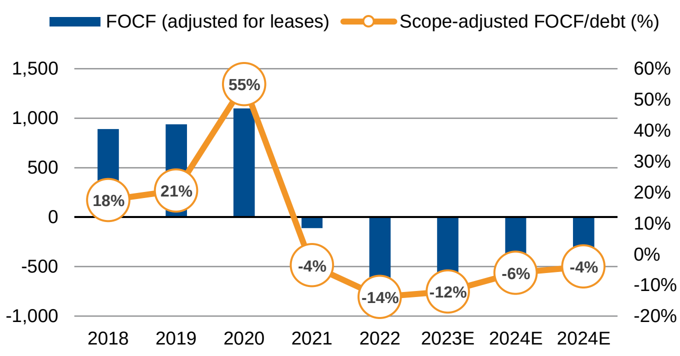
Given the assumptions above, we expect Scope-adjusted leverage to increase towards 3-4x in the medium term, and Scope-adjusted funds from operations/debt to drop to around 20%. Interest cover is also expected to decline significantly due to the weaker EBITDA generated and an assumed higher rate environment in the forecast period. In addition, given that capacity expansion remains a top priority for the company, free cash flow is likely to stay negative in the short term.

Figure 5: Scope-adjusted EBITDA (LHS, in NOK m) and interest cover



Sources: Posten Norge, Scope (estimates)

Figure 6: Scope-adjusted free operating cash flow (LHS, in NOK m) and cash flow cover



FOCF: free operating cash flow
Sources: Posten Norge, Scope (estimates)

Adequate liquidity

Posten's liquidity is strong as it has a good access to banks and domestic bond markets. After issuing NOK 1bn in green bonds and signing a EUR 200m revolving credit facility tied to targets for reducing greenhouse gas emissions in 2021, the company shifted to the issuance of short-term debt (CDs, short-term RCFs and RCF drawdown) in 2022 given the increased rate environment. As of YE 2022, the company had NOK 3.4bn in cash and marketable securities and NOK 2.8bn in undrawn credit lines. Liquidity is therefore sufficient to cover NOK 1.6bn in interest-bearing short-term debt.

Balance in NOK m	2022	2023E	2024E
Unrestricted cash (t-1)	3,401	2,657	1,962
Open committed credit lines (t-1)	2,880	2,500	2,500
Free operating cash flow	-842	-836	-449
Short-term debt (t-1)	1,636	3,930	1,884
Coverage	**>200%**	**110%**	**>200%**

Supplementary rating drivers: +2 notches

No adjustment for financial policy

We make no adjustment for Posten's financial policy, which is aimed at maintaining high financial flexibility and low financing costs. Posten's sole owner, the Norwegian state, expects to receive a portion of after-tax profits as dividends. We note that Posten has planned to suspend dividend payments in 2023, but will resume in 2024, with an expected dividend/payout ratio of 50-70%.

100% Norwegian state ownership provides a two-notch rating uplift

The Norwegian state (rated AAA/Stable by Scope) owns Posten through the country's Ministry of Trade, Industry and Fisheries. The owner provides no explicit guarantees, but Posten's role in Norway as a universal service obligation (USO) provider in a supportive regulatory framework makes for a close dependence. Based on our Government Related Entities Rating Methodology and using the bottom-up approach, we assess the Norwegian state's capacity to provide potential support to Posten as high and its willingness to do so as medium. Our assessment is based on Posten's strategic importance, ease of substitution and default implications. Specifically, the Norwegian government must ensure postal services are accessible to the state and society. Our overall assessment warrants a two-notch uplift to the BBB+[2] standalone rating, resulting in an issuer rating of A.

Long-term and short-term debt ratings

Senior unsecured debt rating: A[3]

The senior unsecured debt rating is in line with the issuer rating. Posten is also the bond-issuing entity. Posten has a private placement and outstanding bonds totalling NOK 1.3bn, maturing in 2023 and 2026, as well as a NOK 222m Nordic Investment Bank loan with repayments in 2023 and 2024.

No short-term debt rating assigned

[2] Corrected on March 13, 2023
[3] Corrected on March 13, 2023

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