1 March 2022 | Corporates

Posten Norge AS
Norway, Postal Services

A+ STABLE

Corporate profile

Posten Norge AS (Posten) is a postal and logistics company with its origins in 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 of Norway. The company's operations are divided into four main divisions: E-commerce and Logistics, Network Norway, Mail, and International Logistics. 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.

Key metrics

			Scope estimates	
Scope credit ratios	2020	2021	2022E	2023E
EBITDA/interest cover (x)	28.9x	22.0x	18.5x	17.5x
Scope-adjusted debt (SaD)/EBITDA	0.7x	1.1x	1.9x	2.0x
Scope-adjusted funds from operations/SaD	132%	79%	46%	43%
Free operating cash flow (adj. for lease payment)/SaD	56%	-4%	-6%	-10%

Rating rationale

Scope Ratings has today affirmed the issuer rating of A+/Stable to Norwegian postal services company Posten Norge AS. Scope has also affirmed its senior unsecured debt rating of A+.

The issuer rating reflects Posten's standalone credit quality of A- 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 Methodology.

With regard to Posten's business risk profile, the company continues to have a strong position in Norway due to its long-standing monopoly-like position over traditional letter posting services. The parcel business, on the other hand, is seeing higher competition, but is growing significantly with profitability rising. Geographical diversification is adequate, with operations across the Nordic region, although Norway accounts for about two-thirds of revenues. Posten continues to improve its sales channels, which comprise physical branches (primarily within supermarkets and grocery stores), self-service pick-up boxes, home delivery and digital solutions, providing important diversification elements. We still assume that the supportive regulatory framework, under which the Norwegian government fully covers the net costs of holding the USO provider licence, will remain unchanged.

Posten's financial risk profile is supported by historically strong credit metrics for the last two years. At YE 2021, the company's capital structure is described as conservative, with Scope-adjusted leverage of 1.1x and FFO/SaD of 78%. Although the last two years have been boosted by pandemic lockdowns effects, we consider the upward trend in parcels

Ratings & Outlook

Corporate issuer rating A+/Stable

Senior unsecured rating A+

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Related Methodologies

Corporate Rating Methodology, July 2021

Government Related Entities Methodology, May 2021

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to be more permanent and expect long-term growth in both sales and profitability for this segment. EBITDA margins are likely to be negatively affected by the continued loss of mail volume. Overall, however, we anticipate that EBITDA margins going forward should be sustainably higher than the normalised level before 2020.

With respect to future investments, we note that Posten will increase its capex, based on its improved financial flexibility and desire to maintain its market position in the more competitive logistics landscape. The growth investments (indicated at NOK 3bn-4bn the next four years) will largely be dedicated to increasing terminal capacity and will put pressure on free operating cash flow (FOCF) and leverage. We expect Scope-adjusted leverage to increase towards 2x in the medium term and funds from operations/Scope-adjusted debt (SaD) ratios of around 45%. Interest cover is expected to remain very strong. Over time, Scope continues to assume that the company will aim to fund investments with internal generated cash flow. We assume that dividends also will be extraordinarily high in 2022, given Posten's strong performance, and then return to a more normalised, stated policy target.

Outlook and rating change drivers

The Stable Outlook reflects our expectation that Posten will continue to hold a leading position in the Nordic parcel market and remain Norway's traditional mail service provider. The Outlook 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 procurement agreements with the Norwegian Ministry of Transport and Communication. Financially, we expect FOCF to fluctuate somewhat due to increased investment, but with Scope-adjusted leverage averaging 1-2x over time. Scope also assume that dividend pay-out and financial policy do not adversely change.

A positive rating action is possible if profitability margins and discretionary cash flow improve (but currently remote, given the investment phase), resulting in Scope-adjusted leverage sustained at well below 1x.

A negative rating action is possible if the Norwegian state reduces its ownership and/or if the regulatory framework governing Posten's role as Norway's mandatory postal service provider changes adversely. A downgrade is also possible if overall market conditions weaken or the financial policy changes significantly adversely, leading to negative credit ratio effects exemplified by Scope-adjusted leverage moving towards 2x (or higher) on a sustained basis.

Rating drivers

Positive rating drivers	Negative rating drivers
• Norway's postal services company, backed by a supportive regulatory framework • Leading Scandinavian market shares within the parcel market • Strong credit metrics and liquidity bolster financial flexibility • 100% owned by the Norwegian state, which has a strong capacity and willingness to support the company	• High competition in the parcel business, with selected price pressure • 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

Rating-change drivers

Positive rating-change drivers	Negative rating-change drivers
• Improved profitability margins and discretionary cash flow, resulting in Scope-adjusted leverage sustained at well below 1x	• Reduced Norwegian state ownership and/or adverse change in regulatory framework governing Posten's role as Norway's mandatory postal services provider • Weakening market conditions or significantly adverse financial policy, resulting in Scope-adjusted leverage moving towards 2x (or higher) on a sustained basis

Financial overview

			Scope estimates	
Scope credit ratios	**2020**	**2021**	**2022E**	**2023E**
EBITDA/interest cover	28.9x	22.0x	18.5x	17.5x
Scope-adjusted debt (SaD)/EBITDA	0.7x	1.1x	1.9x	2.0x
Scope-adjusted funds from operations/SaD	132%	79%	46%	43%
Free operating cash flow/SaD*	56%	-4%	-6%	-10%
Liquidity in NOK m	**2020**	**2021**	**2022E**	**2023E**
Unrestricted cash position	3,912	4,633	3,448	2,509
Committed unused bank facilities	3,500	2,495	2,500	2,500
Liquidity ratio (%) (internal and external)	433%	394%	347%	326%
Scope-adjusted funds from operations in NOK m	**2020**	**2021**	**2022E**	**2023E**
EBITDA	3,005	2,767	2,308	2,589
less: (net) cash interest as per cash flow statement	-104	-126	-125	-148
less: cash tax paid as per cash flow statement	-165	-189	-194	-207
add: other cash items	-86	-27	-	-
Scope-adjusted funds from operations	**2,650**	**2,425**	**1,989**	**2,234**
Scope-adjusted debt in NOK m	**2020**	**2021**	**2022E**	**2023E**
Reported gross financial debt (including leases)	5,659	5,824	6,155	6,743
less: cash and cash equivalents	-4,633	-3,448	-2,509	-2,233
add: cash not accessible	-	-	-	-
add: pension adjustment	975	680	670	670
Other	-	-	-	-
Scope-adjusted debt	**2,001**	**3,056**	**4,316**	**5,180**

*Adjusted for payment/amortisation for lease liabilities

Business risk profile

Different industry dynamics – blended industry risk of BBB

Posten has two main business segments, mail and logistics; the latter includes parcels. We consider these segments to have substantially different business dynamics. Consequently, we apply a blended industry risk assessment for Posten, separating the mail, parcels, and logistics segments. Based on a normalised EBITDA contribution estimate of 10%, 80% and 10% respectively, we maintain a BBB blended industry risk for Posten, but note that the average score is slightly weaker than last year.

Competitive positioning

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 USO provider licence. In the parcel business, Posten operates across the Nordic region. Compared to traditional letter post, the parcels 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 Scandinavia, surpassed only by PostNord. B2B is more fragmented than B2C due to the larger presence of international carriers. 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.

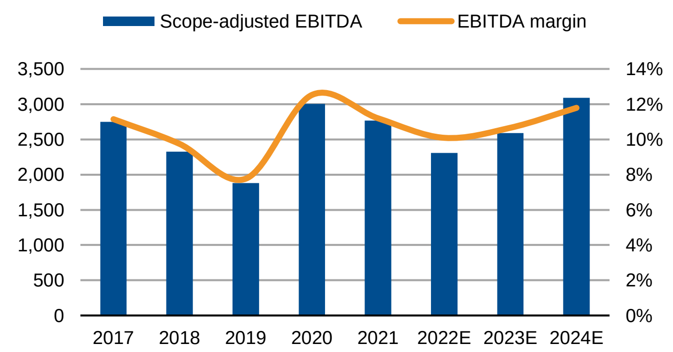
Adequate diversification

Posten's geographical diversification is adequate for a postal services company, although the company relies heavily on its home market, where it collects about two-thirds of its revenues. 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. Moreover, the work of deploying more of the "24-hour parcel boxes" at various locations in Norway will continue. The company sees decreasing product diversification driven by declining letter post volumes and the growing parcels segment but has a diverse customer and supplier base across the Nordics.

Increased B2C parcel volumes more than offset declining mail volume

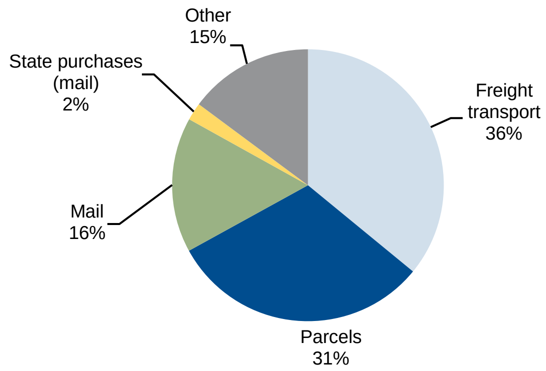
The higher EBITDA margins of the last two years have been largely driven by higher B2C parcel volumes due to pandemic-induced changes in consumer behaviour, but also by cost efficiencies gained from significant operational restructuring (such as the reduced frequency of weekly letter post deliveries). Going forward, we expect the Scope-adjusted EBITDA margin in 2022 at around 10%, negatively affected by the low contribution from the mail segment, but then to improve to higher normalised levels than before 2020.

Figure 1: Scope-adjusted EBITDA in NOK m (LHS) and margin development (RHS)



Source: Posten Norge, Scope estimates

Figure 2: Share of revenues categories in 2021



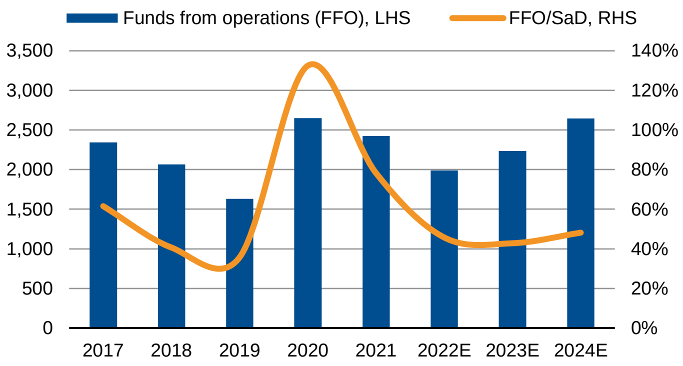
Source: Posten Norge, Scope estimates

Financial risk profile

Solid 2021 results led to another year with a conservative capital structure

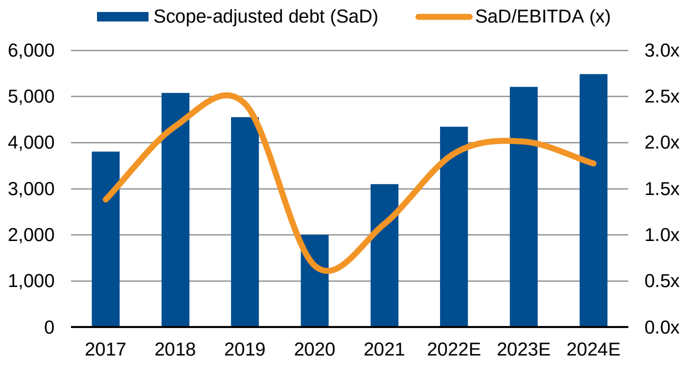
With Scope-adjusted leverage at 1.1x at YE 2021, the company's capital structure is still conservative. This is despite the significant rise in capex in 2021 compared to 2020 and the increase in the company's dividend pay-out. As a result, Posten goes into 2022 with strong financial flexibility.

Figure 3: Funds from operations/SaD development



Source: Posten Norge, Scope estimates

Figure 4: SaD (NOK m, LHS) and leverage ratio (RHS)



Source: Posten Norge, Scope estimates

Our base case expects continued declining revenues from the company's mail segment and increasing revenues from its logistics segment, driven by B2C parcels growth through both general market and new products. This year, revenue will be negatively affected by the Frigoscandia disposal last year, as well as a lower expected result from the traditional letter mail businesses. Still, we expect overall group EBITDA margins to average above 10% in the medium term.

Governmental procurements likely to increase going forward

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 estimated decline in demand. The long-term procurement agreement between Posten and governmental authorities is expected to remain in place, and an increase in the yearly governmental purchases in the coming years is likely.

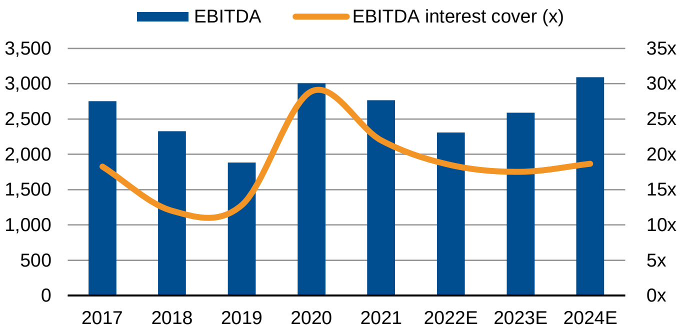
Increased investment ambitions to meet demand and improve margins and competitiveness

With respect to future investments, we anticipate that Posten will increase its capex, based on its improved financial flexibility and desire to maintain its market position in the more competitive logistics landscape, i.e. in particular the fast growing (and attractive) parcel market. We anticipate that growth investments will largely be dedicated to increasing terminal capacity, exemplified by the already announced Østlandsterminalen in Norway, where the capacity for smaller parcels will double post completion (expected in 2023). Compared to last year, we have assumed significantly higher capex in the medium term, but still believe that expansion investments will be carefully balanced against Posten's desire for relatively low leverage. Based on the new expansion investments (indicated at NOK 3bn-4bn the next four years by Posten in their Q4 2021 report), we have not assumed any small to medium sized acquisitions in our base case. We assume that dividends will also be extraordinarily high in 2022, given the company's strong performance, and then return to a more normalised, stated policy target.

Slightly weaker credit ratios, but healthy liquidity expected

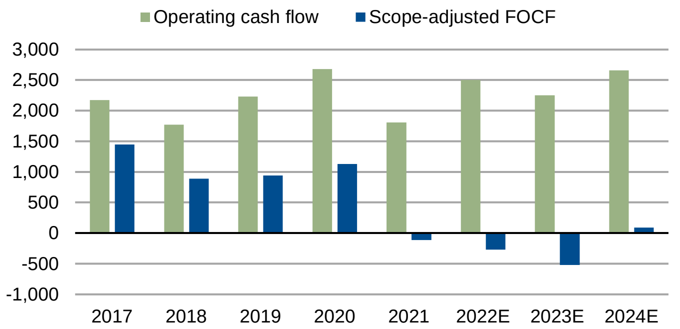
Given the assumptions above, we expect Scope-adjusted leverage to increase towards 2x in the medium term and funds from operations/SaD ratios of around 45%. Interest cover is expected to remain strong. However, given the increased capacity expansion investments, free cash flow is likely to turn negative in the shorter term.

Figure 5: Scope-adjusted EBITDA and interest cover



Source: Posten Norge, Scope estimates

Figure 6: Operating cash flow and Scope-adjusted FOCF (in NOK m)



Source: Posten Norge, Scope estimates

Increased focus on ESG sustainable financing, but no specific ESG factors that currently materially impact the overall credit assessment

Posten's liquidity position is strong with good access to bank and domestic bond markets. The company issued two green bonds in 2021 totalling NOK 1bn. It also signed a new EUR 200m revolving credit facility, which includes conditions related to the company's achievement of sustainability targets for reducing greenhouse gas emissions. These financing initiatives strengthen Posten's commitment to being the greenest logistics player in the Nordic region, and a significant portion of its future investments will support these ambitions. As of YE 2021, the company had NOK 3.4bn in cash and marketable securities and NOK 2.5bn in undrawn credit lines. Liquidity is therefore sufficient to cover the NOK 1.6bn in short-term debt and could also be used to finance Posten's growth capacity investment plans.

Supplementary rating drivers

Financial policy

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. Its financial planning closely follows several credit metrics, which include leverage, equity and liquidity ratios.

Posten's sole owner, the Norwegian state, expects to receive 50% of after-tax profits as dividends. Scope notes the deviation from the dividend policy last year with around 100% dividend pay-out ratio, and will be monitoring the new announcement this year, particular given the increased investment ambitions.

Ownership and parent support

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 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 A- standalone rating, resulting in an issuer rating of A+.

Long-term and short-term debt ratings

Senior unsecured debt rating: A+

No short-term debt rating assigned

The senior unsecured debt rating is in line with the issuer rating. Posten Norge AS is also the bond-issuing entity. Posten has three outstanding NOK bonds totalling NOK 1.35bn, maturing in 2022 and 2026.

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