Posten Bring AS

Kingdom of Norway, Postal and Logistics Services

Issuer

A

Outlook

Stable

Senior unsecured debt

A

Rating composition

Business Risk Profile		
Industry risk profile	BBB	BBB+
Competitive position	BBB+	
Financial Risk Profile		
Credit metrics	BBB	BBB
Liquidity	+/- 0 notch	
Standalone credit assessment		**BBB+**
Supplementary rating drivers		
Financial policy	+/- 0 notch	+2 notches
Parent/government support	+2 notches	
Governance & structure	+/- 0 notch	
Peer context	+/- 0 notch	
Issuer rating		**A**

Key metrics

			Scope estimates	
Scope credit ratios	**2022**	**2023**	**2024E**	**2025E**
Scope-adjusted EBITDA interest cover	9.2x	11.8x	8.8x	9.2x
Scope-adjusted debt/EBITDA	3.5x	3.0x	2.5x	2.5x
Scope-adjusted funds from operations/debt	22%	27%	32%	32%
Scope-adjusted free operating cash flow/debt	-9%	-9%	-6%	-12%
Liquidity	>200%	121%	>200%	149%

Rating sensitivities

The upside scenarios for the rating and Outlook (collectively):

- Debt/EBITDA well below 3.0x on a sustained basis, and
- Free operating cash flow/debt sustained over 15%

The downside scenarios for the rating and Outlook (individually):

- Reduced Norwegian state ownership and/or adverse change in the regulatory framework that governs Posten's role as the mandatory provider of postal service in Norway
- Debt/EBITDA over 3.5x along with consequent sustained negative cash flow ratios

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Related methodology

General Corporate Rating Methodology LINK, Oct 2023

Government Related Entities Rating Methodology LINK, Dec 2024

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1. Key rating drivers

Positive rating drivers	Negative rating drivers
• Position as 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 to performance	• High competition in the parcel business • Uncertainty surrounding future regulatory framework and government procurements • Structural decline of Mail business • Weakened credit metrics on account of investment programme

2. Rating Outlook

The **Stable Outlook** reflects Scope's expectation that leverage and EBITDA margins will remain at similar levels (less than 3.0x and around 10% respectively) over the medium-term.

The Outlook also assumes that Posten will continue to maintain its position in the Nordic parcel market and remain Norway's traditional mail service provider, with the Norwegian state remaining the company's sole owner without any significant adverse change to the regulatory framework and government procurement agreements with the Norwegian Ministry of Transport.

3. Corporate profile

Leading Norwegian postal and logistics company

Posten Bring AS (Posten; erstwhile Posten Norge AS) 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. As of December 2024, the company's operations are divided into the following main divisions: Mail, E-commerce and Logistics, International Logistics, Network Nordics, 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. Posten is 100% owned by the Norwegian government through the country's Ministry of Trade, Industry and Fisheries.

4. Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
14 Feb 2025	Affirmation	A/Stable
22 Feb 2024	Outlook Change	A/Stable
27 Feb 2023	Downgrade	A/Negative

5. Financial overview (financial data in NOK m)

			Scope estimates	
Scope credit ratios	**2022**	**2023**	**2024E**	**2025E**
Scope-adjusted EBITDA interest cover	9.2x	11.8x	8.8x	9.2x
Scope-adjusted debt/EBITDA	3.5x	3.0x	2.5x	2.5x
Scope-adjusted funds from operations/debt	22%	27%	32%	32%
Scope-adjusted free operating cash flow/debt	-9%	-9%	-6%	-12%
Liquidity	>200%	121%	>200%	149%
Scope-adjusted EBITDA				
EBITDA	1,418	2,329	2,615	2,646
add: Recurring associate dividends received	-	5	10	10
less: Capitalised expenses	-	-	-	-
Other items[1]	307	-	-	-
Scope-adjusted EBITDA	**1,725**	**2,334**	**2,625**	**2,656**
Scope-adjusted Funds from operations				
Scope-adjusted EBITDA	1,725	2,334	2,625	2,656
less: Scope-adjusted interest	(188)	(197)	(299)	(289)
less: cash tax paid	(213)	(103)	(201)	(241)
Other non-operating charges before FFO	11	(98)	-	-
Scope-adjusted Funds from operations (FFO)	**1,335**	**1,936**	**2,125**	**2,125**
Scope-adjusted Free operating cash flow				
Scope-adjusted Funds from operations	1,335	1,936	2,125	2,125
Change in working capital	142	(353)	(3)	13
Non-operating cash flow	-	-	-	-
less: capital expenditures (net)	(1,255)	(1,359)	(1,465)	(2,065)
less: lease amortisation	(757)	(882)	(1,024)	(879)
Other items	6	(15)	(15)	(15)
Scope-adjusted Free operating cash flow (FOCF)	**(529)**	**(673)**	**(381)**	**(820)**
Scope-adjusted Net cash interest paid				
Net cash interest per cash flow statement	188	197	299	289
add: 50% of interest paid on hybrid debt				
Scope-adjusted Net cash interest paid	**188**	**197**	**299**	**289**
Scope-adjusted debt				
Reported financial (senior) debt	7,878	8,118	7,782	7,903
add: shareholder loans (net of equity credit)	-	-	-	-
less: cash and cash equivalents	(2,683)	(1,947)	(2,123)	(2,140)
add: non-accessible cash	-	-	-	-
add: pension adjustment	869	939	939	939
Scope-adjusted debt (SaD)	**6,064**	**7,110**	**6,598**	**6,702**

[1] Related to recognition of pension expenses related to 'Sliter' scheme

6. Environmental, social and governance (ESG) profile[2]

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)

ESG factors: credit positive credit negative credit neutral

Credit-neutral ESG profile

The biggest challenge for Posten, as for other companies in the postal and logistics sector, in terms of 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 to be prudent, although neutral for the overall issuer rating. Posten has been an issuer and proponent of ESG/sustainable financing, but no specific ESG factor is currently material to the overall credit assessment. However, the company remains committed to setting and achieving certain sustainability goals, such all vehicles to run on electricity or biogas by 2030, and net zero emissions by 2040.

[2] 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.

7. Business risk profile: BBB+

Blended industry risk profile: BBB

Posten is present in three main industries: letters, parcels and logistics. These segments have different business dynamics. Consequently, we apply a blended industry risk assessment for Posten, separating the letters and the 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.

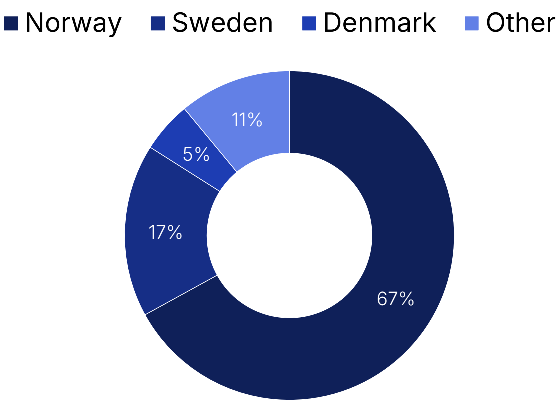
Monopolistic market position in Norwegian letter mail

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. 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 over the years. 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 geographic diversification is adequate for a postal services company, although the company is heavily reliant on its home market, where it generates about 67% of its revenue (2022 and 2023). With regards to sales channels, the company pursues a diverse strategy consisting of physical branches within supermarkets and grocery stores, and various digital solutions. The company's product diversification has been decreasing due to declining letter volumes and the growing parcels segment but it continues to have a diverse customer and supplier base across the Nordics and continues to ramp up initiatives like Shelfless (e-fulfilment) and Norgespakken.

Figure 1: Revenue breakdown, 2023

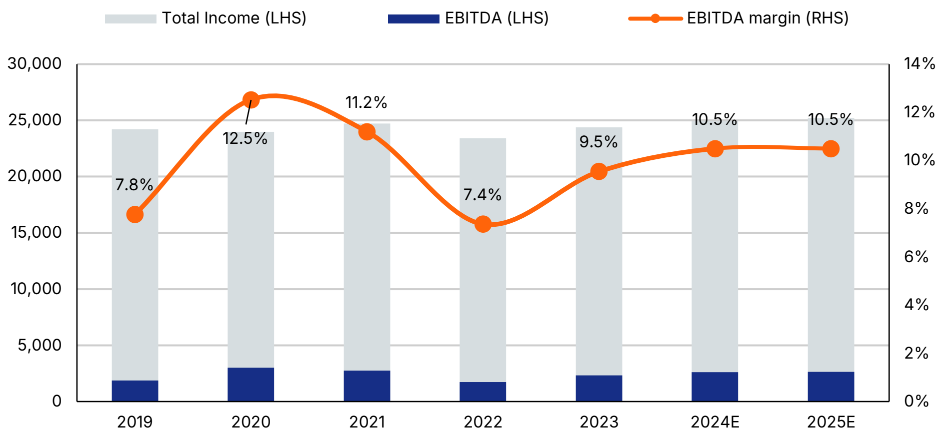


Source: Posten

Operating profitability improving; helped by strong focus on cost efficiency

In 2023 and 9M 2024, Posten's EBITDA margin has shown a significant improving trend, with Scope-adjusted EBITDA margins expected to reach, and remain, around 10% over the medium term. This partly reflects higher government procurement, which has made good the losses sustained in unprofitable mail delivery, along with a sustained cost reduction programme undertaken by management. The increased profitability also reflects judicious prices increases taken by the company in its B2B segment, as well as growth in the offshore and specialized freight forwarding businesses.

Figure 2: Scope-adjusted EBITDA margin



Source: Posten, Scope

8. Financial risk profile: BBB

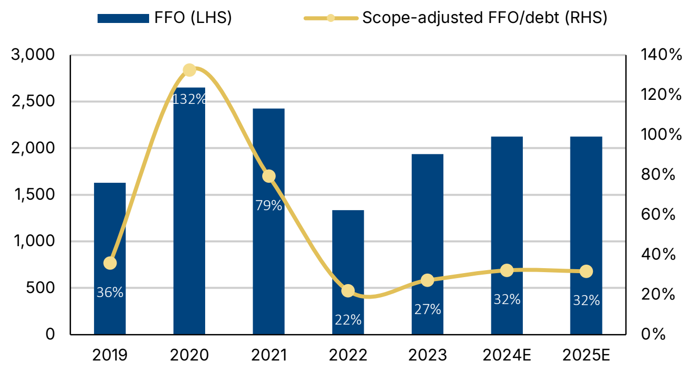
Leverage moderation to continue over medium term

In 2023, gross debt increased line with previous expectations on account of the continued investment in capex – this capex intensive phase is expected to last till 2026E, also in line with previous expectations. The capex is primarily in order to position the company for the expected strong growth in the B2C parcel market across the Nordic region (mainly Norway and Sweden).

However, some capex plans have been curtailed with current estimates of confirmed capex capped at NOK 4.4bn across 2024-2026, as against previous estimates of NOK 5.0bn; additionally discretionary capex has been capped at NOK 0.5bn vs NOK 1.1bn earlier for the same period.

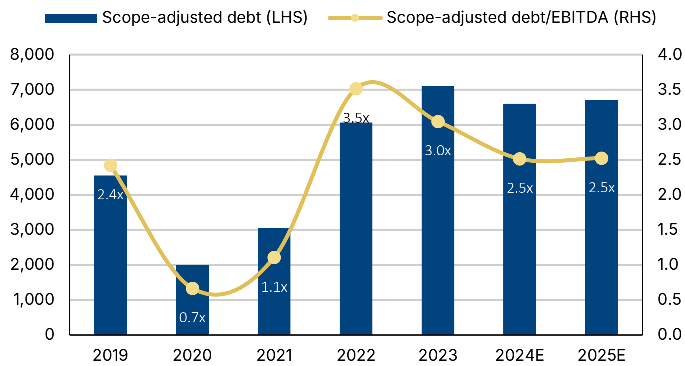
Given the limiting of capex, we expect company to start deleveraging gradually from this year, although a meaningful reduction in leverage will not be seen until after 2026 as the investments (which have a planned life of 15-20 years, as they are in the form of terminals, warehouses etc) start to generate meaningful returns and capex levels also decline significantly, as the investment phase comes to an end. Continued capex expansion beyond 2026, or lack of meaningful returns on investments could put pressure on the rating.

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



FFO: funds from operations
Sources: Posten, Scope

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



Sources: Posten, Scope

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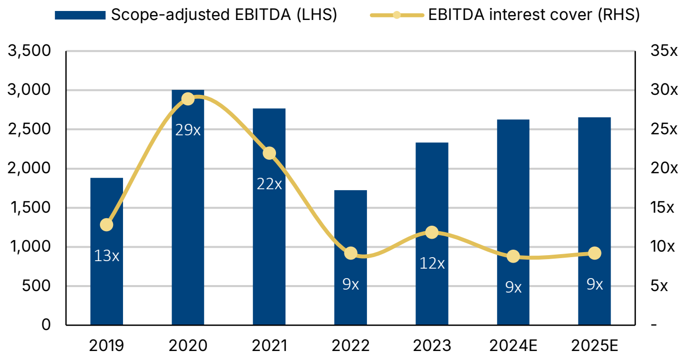
Nonetheless, we anticipate that Posten will continue its significant capital investments over the next 18-24 months, as these investments are key for Posten to maintain its market position in the more competitive logistics landscape, in particular in the fast growing (and attractive) parcel market. Growth investments are largely dedicated to increasing capacity of terminals, as well as other initiatives such as the launch of Shelfless automated warehouses. Combined with a still challenging macroeconomic forecast, Posten's leverage will be sustained at higher than historical levels. We have also not assumed any small-to-medium sized acquisitions in our base case. We assume that the company slowly ramp up dividends from 2024 as its performance recovers.

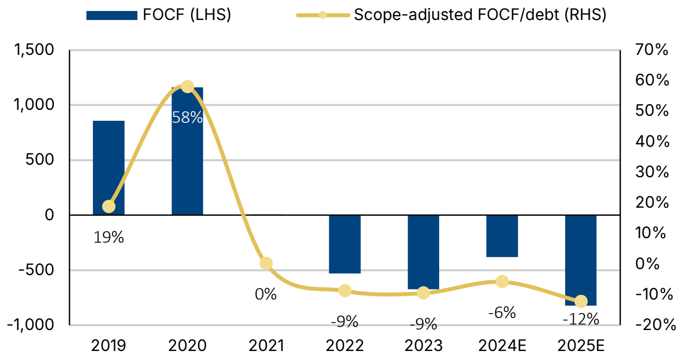
Increased investment necessary to meet demand and improve competitiveness

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



Sources: Posten, Scope

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



FOCF: free operating cash flow
Sources: Posten, Scope

The long-term procurement between Posten and governmental authorities is expected to remain in place, and a modest increase in yearly governmental purchases in the coming years is likely, especially in 2024 and 2025, in line with the current regulations.

Government procurements to provide continued support; change in regulations a key monitorable

We note the report from the Expert Working Group on the future of postal services and its recommendation to modify the delivery of letters to pickup points with an option of mailbox delivery. We will continue to monitor the progress of the aforementioned recommendations through the Norwegian Parliament, and the final outcome of the legislative deliberations, before assessing the impact (if any) on Posten. We consider it unlikely that any major change in regulations will occur in 2025. We expect that Posten will be given sufficient time (9-12 months) to modify its operations to meet the requirements for the new service, as and when they are introduced via legislation.

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 EBITDA margins are expected to remain around 10%, given the group's focus on improving cost efficiencies.

Given the assumptions above, we expect Scope-adjusted leverage to remain below 3x over the next two years, and funds from operations/debt to remain above 30%. Interest cover is expected to remain below 10x, given the continuing higher interest rate environment. 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, although we expect the trend to continue improving, particularly after 2025.

Adequate liquidity

The company's overall liquidity is expected to stand above 100% for the period 2024-26. As of YE 2024, the company is expected to have NOK 2.bn in cash and marketable securities, NOK 2.2bn in committed undrawn credit facilities, sufficient to cover short-term debt repayments. Further, the group has successfully placed two green bonds worth NOK 1bn in 2024, partly to refinance debt due in 2025.

Table 1. Liquidity sources and uses (in NOK m)

	2023	2024E	2025E
Unrestricted cash (t-1)	2,683	1,947	2,123
Open committed credit lines (t-1)	1,853	2,248	2,248
Free operating cash flow (t)	(673)	(381)	(820)
Short-term debt (t-1)	3,187	586	2,379
Liquidity	**121%**	**>200%**	**149%**

Source: Posten, Scope

9. Supplementary rating drivers: +2 notches

No adjustments for financial policy

We make no adjustment for Posten's financial policy, which is aimed at maintaining its 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 expect Posten to make a dividend payment of around 50% of expected net profits in 2024, followed by an increase to around 75% by 2026E, in order to make up for low or nil dividend payments in previous years.

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

10. Debt rating

Senior unsecured debt rating: A

The senior unsecured debt rating is affirmed at **A**, in line with the issuer rating; Posten is the bond-issuing entity. Posten has outstanding bonds totalling NOK 4.5bn, maturing between 2026-2031.

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