Posten Bring AS
Norway, Postal Services

STABLE
A

Key metrics

			Scope estimates	
Scope credit ratios	**2021**	**2022**	**2023E**	**2024E**
Scope-adjusted EBITDA/interest cover	22.0x	9.2x	7.7x	7.4x
Scope-adjusted debt/EBITDA	1.1x	3.5x	3.0x	3.2x
Scope-adjusted funds from operations/debt	79%	22%	28%	26%
Scope-adjusted free operating cash flow/debt	-3%	-9%	-8%	-7%

Rating rationale

The rating action reflects Scope's expectation of improved leverage in 2023 and over the medium term, in comparison to the elevated leverage in 2022, driven by an improvement in operating profitability. Scope notes that the continued high capex in 2024 and 2025 will result in leverage remaining elevated over this period, and meaningful deleveraging is only expected to begin post 2025.

Posten business risk profiles continues to be supported by its long-standing monopoly-like position over traditional letter posting services in Norway. Posten's financial risk profile reflects its current position in the capex cycle, with leverage elevated from historical levels on account of its ambitious investment programme in the Nordics. The issuer rating reflects Posten's standalone credit quality of BBB+ and a two-notch uplift based on our assessment of the strong capacity and willingness of Posten's sole owner, the Norwegian state (rated AAA/Stable by Scope) to provide support.

Posten's liquidity is strong, and sufficient to cover interest-bearing short-term debt, as it has good access to banks and domestic bond markets.

Outlook and rating-change drivers

The revision in Outlook to Stable reflects the expectation of improvement in Posten Bring's leverage to significantly below 3.5x in 2023, driven by an improvement in Scope-adjusted EBITDA margins to 9%, and that both leverage and EBITDA margins will remain at similar levels over the medium-term. The Outlook also assumes that Posten will continue to hold a leading 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.

A positive rating action could occur if profitability margins and discretionary cash flow improved, resulting in Scope-adjusted leverage sustained below 3x and free operating cash flow/debt is sustained above 15%.

A negative rating action 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 similar action could also occur if 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 along with consequent negative cash flow ratios.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
22 Feb 2024	Outlook change	A/Stable
27 Feb 2023	Downgrade	A/Negative
01 Mar 2022	Affirmation	A+/Stable

Ratings & Outlook

Issuer A/Stable

Senior unsecured debt A

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Related Methodologies and Related Research

General Corporate Rating Methodology; October 2023

Government Related Entities Rating Methodology; July 2023

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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 to performance and market changes	• High competition in the parcel business • 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 lower margins due to macroeconomic factors

Positive rating-change drivers	Negative rating-change drivers
• Improved profitability margins and higher discretionary cash flow generation, resulting in leverage well below 3x on a sustained basis • Scope-adjusted free operating cash flow/debt above 15%	• 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 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. 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.

Financial overview

			Scope estimates		
Scope credit ratios	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Scope-adjusted EBITDA/interest cover	22.0x	9.2x	7.7x	7.4x	7.6x
Scope-adjusted debt/EBITDA	1.1x	3.5x	3.0x	3.2x	3.1x
Scope-adjusted funds from operations/debt	79%	22%	28%	26%	27%
Scope-adjusted free operating cash flow/debt	-3%	-9%	-8%	-7%	-2%
Scope-adjusted EBITDA in NOK m	**2021**	**2022**	**2023E**	**2024E**	**2025E**
EBITDA	2,767	1,418	2,252	2,385	2,643
Other items (pension expenses for 'Sliter')	-	307	-	-	-
Scope-adjusted EBITDA	**2,767**	**1,725**	**2,252**	**2,385**	**2,643**
Funds from operations in NOK m	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Scope-adjusted EBITDA	2,767	1,725	2,252	2,385	2,643
less: (net) cash interest paid	-126	-187	-291	-322	-347
less: cash tax paid per cash flow statement	-189	-213	-60	-96	-135
add: dividends from associates	-	-	-	-	-
Change in provisions	-27	-2	-	-	-
Funds from operations	**2,425**	**1,323**	**1,901**	**1,967**	**2,161**
Free operating cash flow in NOK m	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Funds from operations	2,425	1,323	1,901	1,967	2,161
Change in working capital	-618	142	29	-9	-8
Non-operating cash flow	30	6	0	0	0
less: capital expenditure (net)	-1,062	-1,276	-1,655	-1,800	-1,700
less: lease amortisation	-857	-757	-837	-713	-588
Free operating cash flow	**-82**	**-562**	**-562**	**-555**	**-135**
Net cash interest paid in NOK m	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Cash interest paid, proxy per income statement	177	188	441	467	493
Cash interest received, proxy per income statement	-51	-1	-150	-144	-146
Net cash interest paid	**126**	**187**	**291**	**322**	**347**
Scope-adjusted debt in NOK m	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Reported gross financial debt	5,824	7,878	8,364	9,164	9,664
less: subordinated (hybrid) debt	-	-	-	-	-
less: cash and cash equivalents	-3,448	-2,671	-2,475	-2,465	-2,472
add: pension adjustment	680	869	914	914	914
Other items	-	-	-	-	-
Scope-adjusted debt	**3,056**	**6,076**	**6,803**	**7,613**	**8,106**

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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. Following this, the company has issued several more green bonds in 2023. Many of the company's investment projects scheduled over the coming years qualify for green funding.

Posten 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 all vans and 80 percent of own trucks to be fossil-free 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: letters, parcels and logistics. These segments have different business dynamics. Consequently, we apply a blended industry risk assessment for Posten, separating the letters and 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 traditional mail in Norway

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

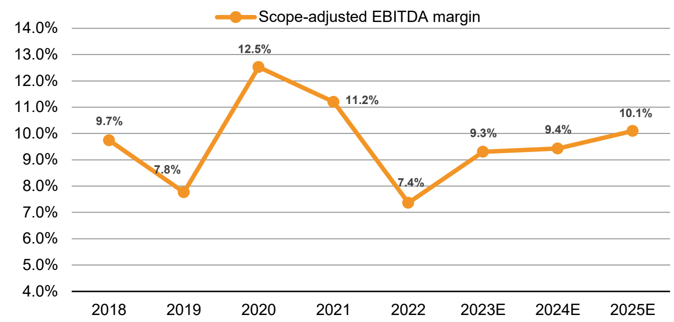
Posten's geographical diversification is adequate for a postal services company, although the company relies heavily on its home market, where it collects about 67% of its revenue, as of 2022. With regards to sales channels, the company pursues a diverse strategy consisting of physical branches, primarily within supermarkets and grocery stores, and various digital solutions. The 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 is ramping up different initiatives like Shelfless (e-fulfilment) and Norgespakken. However, there can be a lag for new products/services to become profitable.

Operating profitability improving; still lower than pandemic-era highs

In 2023, Posten's EBITDA margin improved significantly, reflecting higher government procurement, which has made good the losses sustained in unprofitable mail delivery, along with a sustained cost reduction programme undertaken by management. Profitability was also positively impacted by the company being able to renegotiate some of the lower priced fixed rate contracts with B2B and B2C suppliers during the year.

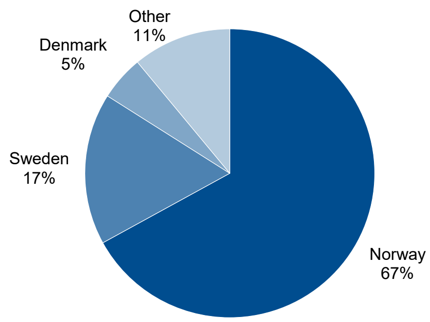
The company saw much higher EBITDA margins during Covid-19 in 2020 and 2021, largely driven by higher B2C parcel volumes due to pandemic-induced changes in consumer behaviour, along with significant operational restructuring.

Figure 1: Scope-adjusted EBITDA margin



Sources: Posten, Scope (estimates)

Figure 2: Revenue breakdown, 2022



Source: Posten

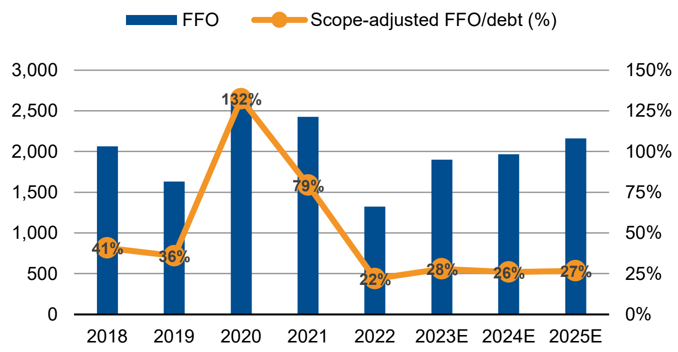
Financial risk profile: BBB

Leverage, although high, moderates from 2022 levels

With Scope-adjusted leverage expected to fall to 3.0x in 2023, as compared to nearly 3.5x in 2022, the company's capital structure has improved slightly in contrast to our earlier expectations of a further weakening of leverage. To be clear, leverage still remains far above the level of 0.7x-1.1x seen during 2020-2021.

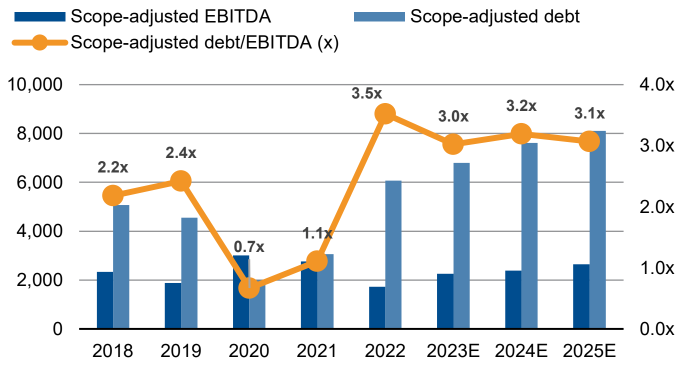
Significant capex and dividend payments in 2022 from 2021 caused Posten to enter the 2023-2025 forecast period with much more limited financial flexibility. We expect that gross debt will continue to remain high till at least 2025E, on account of the high investments to position the company for the expected strong growth in the B2C parcel and logistics market across the Nordic region (mainly Norway and Sweden).

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



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

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



Sources: Posten, 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 challenging 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 around 10% over the medium term.

Governmental procurements likely to increase

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, especially in 2023 and 2024. We also note that in January 2024, the Norwegian Ministry of Transport has set up an Expert Working Group mandated to analyze and advice on possible amendments of the USO and general postal services policy for the future; although we do not expect any change in the USO regulations over the next two to three years.

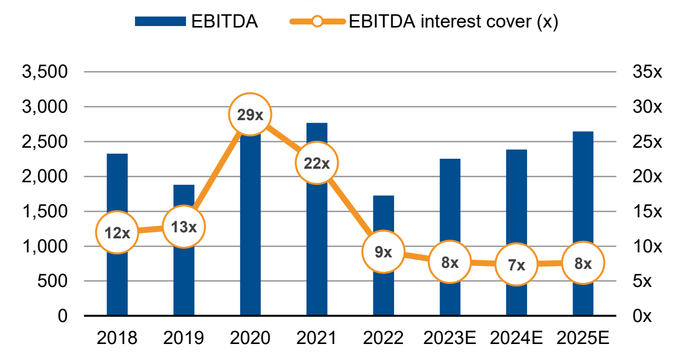
Increased investment still a priority in order to meet demand and improve margins and competitiveness

With respect to future investments, we anticipate that Posten will continue to prioritise significant capex in the next few years, 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. We expect annual capex to be in the range of NOK 1.7bn-1.8bn annually over the next two years. Combined with a 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 after the special dividend payments and challenging market in 2022, the company will scale back on dividends in 2023 and slowly ramp up dividends in 2024 as its performance gradually recovers.

Credit ratios to improve slowly

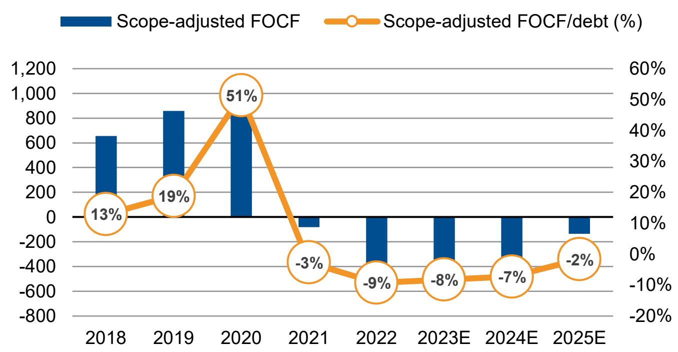
Given the assumptions above, we expect Scope-adjusted leverage to remain around 3x over the next two years, and Scope-adjusted funds from operations/debt to remain around 27%. Interest cover is expected to remain below 10x, given the higher interest rate environment in the forecast period. In addition, given that capacity expansion remains a top priority for the company, free cash flow is likely to stay negative in the short term, although we expect the trend to continue improving, particularly from 2025.

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



Sources: Posten, 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, Scope (estimates)

Adequate liquidity

Posten's liquidity is strong as it has a good access to banks and domestic bond markets. The company's overall liquidity is expected to stand above 100% in 2023 and 2024, even with a dip in 2023 when the company has refinanced short-term debt drawn in 2022. As of YE 2023, the company is expected to have NOK 2.5bn in cash and marketable securities and NOK 2.3bn in undrawn credit lines. Liquidity is sufficient to cover outstanding interest-bearing short-term debt.

Balance in NOK m	2022	2023E	2024E
Unrestricted cash (t-1)	3,448	2,671	2,475
Open committed credit lines (t-1)	2,880	2,250	2,250
Free operating cash flow	-562	-562	-555
Short-term debt (t-1)	1,636	3,930	1,743
Coverage	**>200%**	**111%**	**>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 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 note that while Posten had earlier planned to suspend dividend payments in 2023, on the basis of its improved performance it now expects to make a minimal dividend payment of around 50% of expected net profits. We expect the dividend payments to increase to 70-75% of net profits from 2024 onwards.

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

Long-term debt ratings

Senior unsecured debt rating: A

The senior unsecured debt rating is in line with the issuer rating. Posten is also the bond-issuing entity. Posten has outstanding bonds totalling NOK 3.5bn, maturing between 2026-2031, as well as a NOK 111m Nordic Investment Bank loan with repayment in December 2024.

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