FitchRatings

Fitch Upgrades La Poste's Short-Term IDR to 'F1+'

Fitch Ratings - Paris - 09 September 2019:

Fitch Ratings has upgraded La Poste's Short-Term Issuer Default Rating (IDR), and the short-term ratings on the company's EUR8 billion EMTN programme, EUR3 billion negotiable European commercial paper (Neu CP) programme, and EUR500 million euro commercial paper programme to 'F1+' from 'F1'. The ratings have been removed from Under Criteria Observation. All long-term ratings have been affirmed at 'A+'.

The upgrade follows the publication of our 'Short-Term Ratings Criteria" on 2 May 2019 and reflects the application of the higher short-term rating of two options mapping to a Long-Term IDR of 'A+' using a top-down approach.

Key Rating Drivers

Fitch classifies La Poste as a government-related entity (GRE) of France (AA/Stable) under its GRE criteria and rates it two notches below the sovereign. This reflects the following assessment of the rating factors:

Status, Ownership and Control: Strong

La Poste is a limited company (société anonyme) fully owned by the French state and Caisse des dépots et consignations (CDC; AA/Stable), a state-owned financial institution. As of June 2019, the state controlled 73.7% of the capital while CDC controlled the remaining 26.3%.

Since the law of 22 May 2019 (the PACTE Act), the French state is no longer a mandatory majority shareholder. However, the law still requires La Poste to be fully owned by public-sector entities, and mentions the state and CDC as the only possible shareholders. As a result of CNP Assurances and La banque postale (A-/Stable) combining their activities, CDC will become La Poste's majority shareholder with the French state remaining a significant shareholder (above 33% expected).

However, Fitch expects the French state to retain ultimate ownership of La Poste and to keep tight control over La Poste's activities, including the nomination of the chief executive and chairman of the board. La Poste will also remain subject to audits from supervising ministries and the state's supervisory bodies.

Support Track Record and Expectations: Strong

The French state exercises regulatory influence on La Poste, which supports the latter's financial stability. The missions and financial links between the state and La Poste are defined in a public service agreement, which defines the public service missions performed by La Poste and the subsidies it receives. In 2018, the French state's subsidies amounted to EUR605 million (2.5% of the group's turnover) and aimed to compensate for the non-balanced press distribution and financial accessibility's public service missions.

La Poste could also benefit from the French state's emergency liquidity mechanisms (emergency loans, purchase of bonds, capital injections) in case of need. In Fitch's view, the EUR2.7 billion capital increase subscribed by the state (EUR1.2 billion) and CDC (EUR1.5 billion) between 2011 and 2013 is a positive track record of support as it highlights the French state's willingness to ensure La Poste's development. The take-over of CNP by La Poste, decided by the French state, should also improve La Poste's financial situation.

However, La Poste can benefit from state financial support only within the limits set by EU competition law as it has been operating in a competitive business environment since 1 January 2011. The state can only provide financial support to La Poste to compensate for unfair public service costs. The compatibility of public service missions' compensation schemes with EU regulation has been confirmed by the European Commission (EC) on services of general economic interest.

Socio-political Implications of Default: Strong

Fitch considers that a default of La Poste would temporarily endanger the continued provision of essential public services and would lead to significant political repercussions.

La Poste provides key public services, such as the universal postal service, regional planning through its extensive post office network, and banking access. It is also entrusted to provide press distribution at discounted tariffs. It also contributes to a significant share of public-sector funding, through LBP. La Poste is one of France's largest employers. The group had around 250,000 employees at end-2018, including 223,000 in France.

The partial takeover of CNP by LBP will reduce the share of La Poste's public service missions within the group. However, it will increase the systemic risk of La Poste's financial subsidiary. Thus we expect socio-political implications of a default to remain strong for the French state after the reform.

Financial Implications of Default: Strong

Fitch does not consider La Poste a financing vehicle for the French state. La Poste is operating in a competitive market and benefits from autonomy on its finances.

However, we believe that a default of La Poste would affect the funding of the French state and that of other French GREs as investors would be likely to lose faith in the French state's ability and willingness to prevent a default of one of these entities.

LP is a sizeable issuer with EUR6.3 billion of financial debt at end-2018, which mainly consists of bonds. In 2018, La Poste issued EUR1.3 billion on the financial market.

Standalone Credit Profile (SCP) assessed at 'bbb'

Based on its Public Sector, Revenue-Supported Entities Rating Criteria, Fitch assesses La Poste's SCP at 'bbb', reflecting a Midrange assessment of the revenue defensibility and operating risk rating factors, and leverage (Fitch's adjusted net debt / EBITDAR) at around 5x in our rating case scenario.

La Poste benefits from diversified sources of revenue, comprising regulated activities, such as mail and parcel delivery, competitive activities, such as express delivery, and dividends from LBP. It faces a continuous decline in mail volumes due to e-substitution. This is partially offset by significant price increases that are allowed by the regulator.

Flexibility on major expenditure is limited due to the weight of staff costs (66% of operating spending in 2018; Fitch adjusted) and the public service requirements set by the state. However, the company exercises tight control of costs, and the volatility of operating spending remains limited overall. It faces some labour constraints on its express delivery business unit, which is operating in a very competitive market.

2018 was a challenging year for La Poste due to the sharp declines in mails volumes (-7%), and some ad-hoc measures that affected staff costs (including an exceptional bonus to employees). As a result, Fitch-adjusted net debt to EBITDAR increased to 5.4x, up from 4.2x in 2017. However, La Poste should benefit from the take-over of CNP, which will increase the dividends received.

In our rating case scenario, based on conservative assumptions, we expect La Poste's leverage ratio to remain close to 5x in the medium term.

Derivation Summary

La Poste has a score of 30 points under the GRE criteria and its SCP is six notches below the sponsor's (i.e. French state) rating. Accordingly, its Long-Term IDR is two notches below the French state, i.e. 'A+', according to a top-down approach.

The 'F1+' short-term rating reflects the application of the higher short-term rating of two options mapping to a Long-Term IDR of 'A+' using a top-down approach, in line with Fitch's new 'Short-Term Ratings Criteria'.

Key Assumptions

Our rating case scenario is based on the following assumptions:

-2% annual growth in operating revenue in 2019-2023;

-2.4% annual growth in operating expenditure in 2019-2023;

-Annual dividends received by La Poste from LBP (including CNP) of around EUR500 million as of 2021;

-Net capital expenditure of EUR850 million a year on average in 2019-2023.

RATING SENSITIVITIES

Changes to the French sovereign's ratings would be mirrored in La Poste's ratings.

A downgrade could result from a lower assessment of linkage or incentive to support factors. This could be triggered by, among other things, a dilution of control, a regulatory change or a weakening of La Poste's importance to the French state.

An upgrade could also result from La Poste's SCP being assessed at a maximum of four notches below the sovereign rating.

Summary of Financial Adjustments

Our analysis is based on La Poste Group's logistics and commercial activities, including main SofiPost (services-mail-parcels and digital services) and Geopost (express delivery). We exclude financial services provided by LBP as they are ring-fenced. However, our EBITDA includes dividends from LBP to the holding company to take into account the financial support from LBP to the group.

Fitch's adjusted debt includes La Poste's short-term debt (EUR1.225 billion at end-2018), senior long term debt (EUR4.475 billion), half the amount of a hybrid issue made in 2016 (EUR237 million), half the amount of a hybrid issue made in 2018 (EUR275 million), Fitch's-calculated leases value (EUR4.648 million at end-2018), and Fitch's calculated unfunded pension liabilities (EUR477 million).

Half the amounts of hybrid issues are incorporated in the adjusted debt calculation as Fitch assigned 50% equity content to them.

Leases are capitalised using an average multiple of 7.9x in line with Fitch's methodology.

La Poste's defined pension funding totalled EUR728 million at end-2018. However, these expenses may be deducted from taxes. Hence Fitch incorporates a value of EUR477 million in its adjusted calculation.

RATING ACTIONS

ENTITY/DEBT	RATING		PRIOR
La Poste	LT IDR A+ ○ Affirmed		A+ ○
	ST IDR F1+ Upgrade		F1
senior unsecured	LT A+ Affirmed		A+
senior unsecured	ST F1+ Upgrade		F1

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FITCH RATINGS ANALYSTS

Primary Rating Analyst
Pierre Charpentier
Associate Director
+33 1 44 29 91 45
Fitch France S.A.S.
60 rue de Monceau
Paris 75008

Secondary Rating Analyst
Christophe Parisot
Managing Director
+33 1 44 29 91 34

Committee Chairperson
Guido Bach
Senior Director
+49 69 768076 111

MEDIA CONTACTS

Athos Larkou
London
+44 20 3530 1549
athos.larkou@thefitchgroup.com

Applicable Criteria

Government-Related Entities Rating Criteria (pub. 25 Oct 2018)

Public Sector, Revenue-Supported Entities Rating Criteria (pub. 28 May 2019)
Short-Term Ratings Criteria (pub. 02 May 2019)

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