FITCH AFFIRMS LA POSTE AT 'A+'; OUTLOOK STABLE

Fitch Ratings-Paris-11 September 2018: Fitch Ratings has affirmed La Poste's (LP) Long-Term Issuer Default Rating (IDR) at 'A+', and Short-Term IDR at 'F1'. The Outlook is Stable. Fitch has also affirmed all senior unsecured debt ratings at 'A+'/'F1'. A full list of rating actions is at the end of this commentary.

Fitch classifies LP as a government-related entity (GRE) of the state of France (AA/Stable/F1+) under its GRE criteria and rates it two notches below the sovereign. In Fitch's view, LP is strongly linked with the French state and the latter has a strong incentive to support LP. Accordingly, we believe that the French state would be likely to provide LP with timely extraordinary support, if needed.

The two-notch rating difference reflects Fitch's view that LP's links with the French state are not as strong as that of some other French GRE. This is especially attributable to the lack of solvency guarantee from the state and support limitations resulting from EU competition law.

The French government recently announced that CNP Assurances and La Banque Postale (LBP; A-/Stable) will combine their activities in the coming years, which will affect the shareholding structure of LP as of 2020. Fitch will monitor these developments, but does not expect any related positive or negative rating action at this stage.

KEY RATING DRIVERS
LP's ratings are two notches below the sovereign, which reflects the following assessment of the rating factors.

Status, Ownership and Control: Strong
The 2010 postal law turned LP from a public agency into a state-owned public limited company. At the time of writing, the French postal law requires LP to be fully owned by public-sector entities, with the French state as the mandatory majority shareholder. LP's shareholders are the state (73.7%) and Caisse des Depots et Consignations (AA/Stable/F1+; 26.3%), which is a French state public agency.

As a result of CNP Assurances and LBP combining their activities, CDC would become LP's majority shareholder with the French state remaining a significant shareholder (above 33% expected). This reform would require a change in legislation, which could take place in the coming months.

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

Support Track Record and Expectations: Strong
Fitch believes the state will continue to provide LP with necessary support. The EUR2.7 billion capital increase subscribed by the state (EUR1.2 billion) and CDC (EUR1.5 billion) between 2011 and 2013 highlighted its willingness to ensure LP's development.

We also note that LP could benefit from the French state's emergency liquidity mechanisms (emergency loans, purchase of bonds) in case of need. However, the French state must respect the limits set by European competition regulations as it has been operating in a competitive business environment since 1 January 2011, which may cap the extent of extraordinary support.

The French state exercises regulatory influence on LP to support the latter's financial stability. The missions and financial links between the state and LP are defined in a public service agreement, which defines the public service missions performed by the latter and the subsidies it receives. In 2017, the French state's subsidies amounted to EUR461 million (1.9% of the group's turnover) and aimed to compensate for the press distribution and financial accessibility's public service missions.

Socio-political Implications of Default: Strong
Fitch considers that a default from LP would temporarily endanger the continued provision of essential public services or key government activity and would lead to significant political repercussions.

LP provides important public services, such as the universal postal service and regional planning through its extensive post office network. It is also entrusted to provide retail banking accessibility and press distribution. LP also contributes to a significant share public-sector funding in France, through its subsidiary LBP. It accounted for about a quarter of the French Local and Regional Governments' and hospitals' funding in recent years. LP is also one of France's largest employers, including a still significant share of civil servants.

LP has also evolved into a diversified international group with four business units: mail services and parcel delivery (46.1% of turnover in 2017), express delivery in Europe (GeoPost; 28.1%), retail financial services through subsidiary LBP (23.4%) and digital services (2.2%). Combining LBP and CNP Assurances would pursue this diversification of activities and increase the part of financial activities within the group. It will reduce the share of LP's public service missions, but we expect socio-political implications of a default to remain strong for the French state after this reform.

Financial Implications of Default: Strong
Fitch does not consider LP as a proxy funding for the French state. This is especially due to the autonomy of its budget and finances. We also note that LP's debt is not consolidated into France's general government debt.

However, we believe that a default of LP would significantly 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 from one of these entities.

Operations
The group's financial performance stabilised in 2017, following improvements made in 2014-2016. Turnover increased by 3.5%, which was mainly attributable to 10.5% growth in Geopost's turnover and an increase in tariffs for mail. However, this was offset by a rise in operating expenditure and the profit after tax remained stable at EUR893 million.

LP's net debt/EBITDA was fairly stable at 2.4x in 2017 (Fitch-adjusted; excluding LBP), from 2.3x in 2016. Gross debt was EUR6,061 million at end-2017, down 9% from 2016 (Fitch-adjusted), but this was more than offset by a decline in cash and liquid assets. Debt service coverage remained stable with an EBITDA representing 1.6x the debt service (Fitch-adjusted). Debt structure is sound, with a smooth repayment profile, medium-term maturity and low exposure to interest-rate risk.

Despite falling in 2017, liquidity remained sound with cash and liquid assets amounting to EUR2,477 million of at end-2017 (end-2016: EUR3,180 million), and representing 2.7x 2017 debt service. Short-term funding is comfortable, supported by EUR3.5 billion commercial paper programme, a EUR1 billion syndicated revolving credit line and EUR800 million of cumulative credit lines provided by LBP.

RATING SENSITIVITIES
Changes to the French sovereign' ratings will be mirrored in LP'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 LP's importance to the French state.

An upgrade could result from a higher assessment of linkage or incentive to support factors. However, Fitch views this possibility as unlikely in the medium term. An upgrade could also result from a standalone credit profile (SCP) assessed at a maximum of four notches away from the sovereign.

DATA ADJUSTMENTS
On 1 December 2016, LP issued USD500 million deeply subordinated notes at a fixed rate of 5.3% and with a maturity on 1 December 2043. LP has the right to redeem these notes early, from 1 December 2023. Fitch assigns a 50% equity content to this issue based on its Non-Financial Corporates Hybrid Treatment and Notching Criteria (see below).

Fitch's EBITDA is calculated excluding LBP's cash inflows and outflows due to the strong differences between LP's corporate and financial activities, but it includes dividends distributed by LBP to LP as we believe it better reflects the financial position of the group.

The rating actions are as follows:

- Long-Term IDR: affirmed at 'A+'; Outlook Stable
- Short-Term IDR: affirmed at 'F1'
- EUR8 billion EMTN programme: affirmed at 'A+'/'F1'
- EUR3 billion negotiable European commercial paper (NEU CP) programme: affirmed at 'F1'
- EUR500 million euro commercial paper programme: affirmed at 'F1'

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Additional information is available on www.fitchratings.com

Applicable Criteria

Government-Related Entities Rating Criteria (pub. 07 Feb 2018)

https://www.fitchratings.com/site/re/10019302

International Local and Regional Governments Rating Criteria - Outside the United States (pub. 18 Apr 2016)

https://www.fitchratings.com/site/re/878660