

Research Update:

La Poste, La Banque Postale Outlooks To Stable As COVID-19 Impact Offsets New Structure Benefits; Affirmed At 'A/A-1'

March 27, 2020

Overview

- The streamlining of La Poste's and La Banque Postale's group ownership structure--with continued full control by the French state--and closer ties with the creditworthy insurer CNP Assurances is now complete, creating a more resilient consolidated group, industrially and financially.
- At the same time, given the magnitude of the COVID-19 pandemic, and the general operational and financial challenges it poses to all parts of the group, we believe that reaping the benefits of this transformation will take more time than initially expected.
- Our view of a very high likelihood of government support for the group is unchanged.
- We are therefore revising our outlooks on La Poste and La Banque Postale to stable from positive and affirming our 'A/A-1' ratings on the entities.

Rating Action

On March 27, 2020, S&P Global Ratings revised its outlooks on La Poste and La Banque Postale (LBP) to stable from positive. We also affirmed our 'A/A-1' long- and short-term issuer credit ratings on La Poste and its core subsidiary LBP.

We affirmed the issue ratings on all instruments issued by La Poste and La Banque Postale.

The ratings and outlook on insurer CNP Assurances are unaffected.

Rationale

Our review follows the announcement on March 4, 2020 that the French government-initiated project, announced in 2018, to create a large public financial hub, has been legally executed. Our rating affirmation and outlook revision to stable from positive combines the clear benefits we

PRIMARY CREDIT ANALYST

Nicolas Hardy
Paris
(33) 1-4420-7318
nicolas.hardy@spglobal.com

SECONDARY CONTACTS

Christophe Dore
Paris
(33) 1-4420-6665
christophe.dore@spglobal.com

Mathieu Plait
Paris
(33) 1-4420-7364
mathieu.plait@spglobal.com

Marc-Philippe Juilliard
Paris
+(33) 1-4075-2510
m-philippe.juilliard@spglobal.com

Varvara Nikanorava
London
(44) 20-7176-3988
varvara.nikanorava@spglobal.com

Pierre Gautier
Paris
(33) 1-4420-6711
pierre.gautier@spglobal.com

expect from greater integration of CNP with the major business uncertainty now stemming from the COVID-19 pandemic.

As a leading life insurer in France, CNP will contribute to diversify the revenue base and sustain group's performance, somewhat compensating for the structural decline in mail volumes and revenue. At the same time, the COVID-19 pandemic will cause an abrupt economic slowdown in France, and also Italy, which is an important market for the group, creating inevitable operational and financial challenges for the group. It also complicates the execution of business combinations between the various group entities according to initial plans.

We therefore consider that revenue generation may be lower than we expected at the time when we assigned a positive outlook. We believe the further integration of CNP, which is the entity with the strongest intrinsic credit quality in the group, is positive and should be increasingly so over the medium term. But we see increasing risks in 2020 for the group due to the weak environment. Therefore, we believe that recent events do not allow for a full reflection in our ratings of the strengthened business combination, and the group stand-alone credit profile (SACP) remains unchanged at 'bbb-'.

The announced completion of the transactions led to the following ownership changes:

- Caisse des Dépôts et Consignations (CDC), France's largest public financial institution, became La Poste's majority owner (66% stake), and the French state the sole minority shareholder (34% stake).
- La Poste continues to control 100% of La Banque Postale.
- La Banque Postale becomes the majority owner of CNP Assurances with a 62.1% stake.

The aim of this project is to create a stronger La Poste group, by further combining La Poste's historic corporate scope--as the incumbent postal operator in France, enjoying leading market positions in mail, parcels, and express in France and Europe, strong brand recognition, and an extensive distribution network--with La Banque Postale, the sixth-largest French retail bank, and CNP Assurances, an insurance company with a prominent position in the French market.

We now assess the group SACP of La Poste according to a cross-sector group approach, in line with our group rating methodology (see paragraph 22 of "General Criteria: Group Rating Methodology," published July 1, 2019). In doing so, we first assess the intrinsic creditworthiness of the various businesses. Then, we derive the group SACP by weighting our individual credit assessment of each of the group's three main operating segments (banking activities; insurance services; and mail and parcels), and by considering external factors, notably the weaker environment in which the transformation of the group is taking place, which are not already captured in the individual components.

The breakdown of operating income, a key measure of a company's ability to repay debt or generate capital, is critical in our approach to weigh the strengths and weaknesses of each segment. We also look at the various levels of financial flexibility at each group level, and the expected levels of dividend flows throughout the group. In our view, the regulated status of banking and insurance activities limits, to some extent, the fungibility of financial resources within the entire group.

We continue to regard La Poste as a government-related entity (GRE) with a very high likelihood of support from the French government if needed. This provides four notches of uplift to the rating, above the group SACP.

This reflects our view of La Poste's:

- Very important role for the French government, due to the economic, political, and social importance of La Poste's four public policy mandates entrenched in the 2010 postal law: i) universal postal service provision; ii) maintenance of an extensive network; iii) provision of almost free, basic banking services and the distribution of state-subsidized savings accounts ("Livret A"); and iv) distribution of press at discounted prices. The state partly compensates three of these policy mandates. La Poste is France's second-largest employer after the state, and a large portion of its workforce comprises civil servants. Acting through its core subsidiary LBP, the group has been increasingly active in the funding of French local and regional governments since 2013, at the French government's request. LBP was again the largest lender to French local governments in 2019, accounting for over 25% of all loans extended.
- Very strong link with the French state. The 2010 postal law mandates that the state retain full ownership--direct, or indirect through CDC--of La Poste. While the government is now a minority shareholder (34%) and CDC has become La Poste's majority shareholder, this does not affect our opinion that there is a very high likelihood that the French government would support La Poste if needed. Overall, we expect La Poste will remain fully state-owned (directly or through CDC) in the foreseeable future. We understand the state continues to closely monitor La Poste on a regular basis, including its financial situation, business plan, and strategy, as reflected in the multiyear contracts between the state and La Poste (the most recent of which covers 2018-2022). Following its status change in March 2010 to a limited company (from its previous public agency status), La Poste received a €2.7 billion capital increase over 2011-2013 (€1.2 billion from the state and €1.5 billion from CDC). In our view, this highlights the government's track record of strong, ongoing support to La Poste, as it enabled the group to pursue sizable capital expenditure, mitigate downside risk related to the structural decline in the core mail business, and accelerate La Poste's deleveraging.

Under our group rating methodology, we view La Banque Postale as a core entity to La Poste and we equalize the long-term rating on LBP with that of La Poste, including potential government support.

Outlook

La Poste Group

The stable outlook on La Poste reflects our view that the group will weather the negative pressure stemming from the deteriorating economic environment, given its competitive positions in the respective sectors it operates in, its increasingly diversified revenue streams, and the continued very high likelihood of extraordinary support from the French government in times of need. Our ratings on La Poste are not directly sensitive to a hypothetical one-notch downgrade of France, all else remaining equal.

Downside scenario. We could lower the ratings on La Poste in the next two years if the financial performance of the three different businesses of the group were to materially weaken, simultaneously wiping out the benefits of the business diversification for La Poste and putting the overall group SACP under pressure. For instance, the creditworthiness of La Poste's mail and parcel business could be affected by a further sharp decline in mail volumes, or by a surge of competition in the express business that dampened profitability in this segment.

Upside scenario. We could raise the ratings on La Poste in the next two years, if there is a dynamic economic rebound in 2021 that allows the group to fully execute its project to develop further synergies between group members, as initially expected.

La Banque Postale

The stable outlook on LBP mirrors that on La Poste. We continue to see LBP as a core subsidiary of the La Poste group, and any rating or outlook action on the parent would lead to a similar action on LBP. We expect the La Poste group will maintain a strong, lasting interest in LBP in the next two years. LBP is part of the group's overall strategy, and we see it as strongly integrated within the group.

A change in our issuer credit rating on LBP would not trigger a change in our ratings on its senior nonpreferred and hybrid instruments. The issue ratings on LBP's hybrids and senior nonpreferred debt are notched from the bank's SACP, and would only be affected if the SACP was to change. That is because we do not expect government support through La Poste would be available to the holders of hybrids. Only the senior unsecured debt ratings would be affected in the event of a change in the issuer credit rating.

Downside scenario. A downward revision of the SACP could result if there was a weakening of our current combined view of capitalization and earnings, and risk profile. This could happen for example, due to a deterioration of its asset quality or higher-than-expected pressure on earnings generation, due to the low-for-longer interest environment or the repercussions on the bank's performance from a less supportive economic environment. A lower SACP could be also triggered if LBP's robust funding and liquidity compared with other French banks cannot be preserved.

Upside scenario. Although unlikely over our 18-to-24-month outlook horizon, we could revise upward our SACP assessment if LBP's diversification toward lending to professionals, consumer finance activities, and local authorities contributes to a stronger overall risk-adjusted profitability while maintaining its funding and liquidity at a higher level than other domestic peers.

Related Criteria

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- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
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- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
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- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
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- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

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- Global Macroeconomic Update, March 24: A Massive Hit To World Economic Growth, March 24, 2020
- La Banque Postale, Dec. 18, 2019
- CNP Assurances, Dec. 18, 2019
- Summary: France, Oct. 4, 2019
- French Regulator's Decision Is Favorable For La Poste's Takeover Of CNP Assurances But Uncertainties Remain, June 27, 2019
- CNP Assurances' Shareholder Restructuring Won't Shift Its Business Model, June 6, 2019
- La Poste, April 24, 2019
- French Postal Operator La Poste Outlook Revised To Positive; 'A/A-1' Ratings Affirmed, Oct. 30, 2018
- France-Based La Banque Postale Outlook Revised To Positive After Similar Action On Parent La Poste, Oct. 30, 2018
- What Could Potential Ownership Changes Mean For The Creditworthiness Of CNP Assurances, La Poste, La Banque Postale, And CDC? Aug. 6, 2018

Ratings List

Ratings Affirmed; Outlook Action

	To	From
La Poste		
Issuer Credit Rating	A/Stable/A-1	A/Positive/A-1
La Banque Postale		
Issuer Credit Rating	A/Stable/A-1	A/Positive/A-1

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