Deutsche Post AG

Focus on cash generation is credit positive

On 1 October 2019, Deutsche Post AG (Deutsche Post, A3 stable) presented its new group strategy for the period through 2025 and the new financial targets through 2022. The strategy aims at strengthening the core business in all the five group’s divisions. Growth and efficiency will be supported by investment in digitalisation of approximately €2 billion through 2025 (including both opex and capex) that are expected to return a yearly run-rate benefit of €1.5 billion in 2025.

In terms of financial targets, Deutsche Post confirmed its guidance of EBIT in the €4.0 billion-€4.3 billion range and free cash flow (FCF) in excess of €500 million for 2019 and EBIT in excess of €5.0 billion in 2020. The new target for 2022 points at an EBIT of at least €5.3 billion. Cash flow generation remains the key financial priority for the group and management introduced a new mid-term target for cash flow, with a cumulated FCF at €4.5 billion-€5.5 billion in the 2020-22 period. This represents a major improvement compared to recent results, as Deutsche Post’s FCF in the 2016-18 period totaled approximately €4.2 billion.

The improvement will be driven mainly by the increase in EBIT, as well as a continued disciplined investment and capital allocation policy. The company expects to spend a total €8.5 billion-€9.5 billion in capex in the 2020-22 period. Lastly, the company confirmed its financial policy, including (1) its commitment to a Baa1 rating (our A3 rating factors in a one notch uplift due to government support); (2) a dividend payout between 40% and 60% of net profit; and (3) the use of excess cash for extraordinary dividends or share buybacks.

We consider the confirmation of the current financial policy and the new targets with strong focus on cash flow improvement to be credit positive and supportive of Deutsche Post’s current rating positioning. We expect the company’s capacity to generate cash flow to remain solid, with Moody’s-adjusted cash flow from operations at €5.4 billion-€5.9 billion in 2019 and 2020. However, the air fleet renewal capital spending, that will peak to €1.1 billion in 2019, will drain cash flow and we expect FCF after dividend payment to remain negative to the tune of €1.6 billion in 2019 and around €0.5 billion in 2020 (from a negative €735 million in 2018) and to return positive from 2021 when the capex cycle normalises.
The company’s current credit metrics are sound and we expect them to remain solidly within the boundaries of the current rating, with leverage (measured as Moody’s-adjusted gross debt/EBITDA) declining to around 2.6x-2.7x in 2019 and 2020 from 3.0x in 2018 on the back of improving operating performance. This will leave Deutsche Post with ample financial flexibility to undertake additional capital spending, or increase shareholder remuneration after 2020.

Deutsche Post’s solid credit profile is underpinned by its large scale and global presence as the world’s largest logistics company, as well as its conservative financial policy and sound liquidity profile. In addition, DP’s overall rating is driven by our assessment of the default dependence between the company and the Government of Germany (Aaa, stable), and by the probability of DP receiving government support in the event of need, resulting in a one-notch uplift from the baseline credit assessment (BCA) of baa1.

Deutsche Post is the incumbent postal operator in Germany and the world’s largest logistics service provider, with a total revenue of €62.6 billion for the 12 months ended 30 June 2019.