FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Deutsche Post at 'BBB+'; Outlook Stable

Mon 11 May, 2020 - 12:20 PM ET

Fitch Ratings - Warsaw - 11 May 2020: Fitch Ratings has affirmed Deutsche Post AG's (DP) Long-Term Issuer Default Rating (IDR) and senior unsecured rating at 'BBB+'. The Outlook on the Long-Term IDR is Stable. A full list of rating actions is detailed below.

The affirmation of DP reflects a balanced business profile in terms of its presence in various segments of the logistic business and geographical diversification globally, as well as its solid financial profile and liquidity. These factors should support the company's ability to withstand the substantial negative impact of the COVID-19 outbreak and a deep recession in the global economy in 2020. We forecast temporary deterioration in credit metrics in 2020 to levels that are weak for the rating before recovering to within our rating sensitivities in 2021-2022, but with limited headroom.

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Deutsche Post Finance B.V.				
• senior unsecured	LT	BBB+	Affirmed	BBB+
Deutsche Post AG	LT IDR	BBB+	Affirmed	BBB+
	ST IDR	F2	Affirmed	F2
• senior unsecured	LT	BBB+	Affirmed	BBB+

VIEW ADDITIONAL RATING DETAILS

KEY RATING DRIVERS

Solid Position in Early 2020: DP entered the COVID-19 crisis with a solid business and financial position, and a positive outlook for a growth in EBIT in 2020-2022, a trend initiated in 2019 due to its focus on profitable growth, plus better cost and yield management. In early April 2020 DP withdrew its 2020 EBIT guidance due largely to uncertainty over the COVID-19 impact, but confirmed its medium-term target for group EBIT of at least EUR5.3 billion in 2022, up from EUR4.1 billion reported in 2019.

COVID-19 Impact: DP reported a preliminary profit for 1Q20 of about EUR0.8 billion, excluding one-off costs, such as the realignment of the StreetScooter activities. It estimated COVID-19 will shave about EUR0.2 billion off EBIT in 1Q20 as all its five business divisions were negatively affected by the outbreak (with the most significant impact on the DHL Express and Post & Parcel Germany (P&P) segments).

Substantially Weaker Expected 2020 Profits: We expect a more pronounced negative impact of COVID-19 in 2Q20 due to lockdowns in many countries of DP's operations. Deepening global recession in 2Q20 will also erode volumes and cash flows. We assume an easing impact of COVID-19 in 2H20 due to gradual reductions of containment measures but we project the global economy to contract by an unparalleled 3.9% in 2020 before a 5% economic recovery in 2021. For the eurozone we forecast a 7% contraction in 2020 followed by a 4.3% growth in 2021. This will hit profitability of DP's segments that are exposed to economic cycles, such as DHL Express, Supply Chain, Global Forwarding, Freight (GFF). In our conservative projections we assume a combined negative impact of COVID-19 and economic recession on EBIT of close to EUR2 billion in 2020.

Temporarily High Leverage: As a result of lower EBIT and operating cash flow, we forecast funds from operations (FFO) adjusted net leverage to increase above our negative rating sensitivity of 3.5x in 2020 (to close to 4x). However, we expect net leverage to return to below our negative sensitivity in 2021-2022 (at about 3.3x), as the economy recovers in 2021 and also on lower capex after a peak in 2019.

Stable Outlook: Anticipated recovery in credit metrics in 2021-2022 supports a Stable Outlook; however rating headroom in this period will be limited. Delayed recovery from the COVID-19 impact beyond 2H20 and slower-than-expected economic recovery in 2021 delaying expected improvement in credit metrics beyond 2021 may be negative for the rating. DP's financial policy is driven by a publicly stated target of maintaining a 'BBB+' rating, while dividend payout is 40%-60% of net profit.

Diversified Business Profile: The ratings of DP reflect its global scale, geographic and operational diversity, and market leadership in the areas of its operations. They also reflect a balanced business-risk profile between the high-growth parcel and Express businesses, fuelled by ecommerce, the contracted Supply Chain operations, the highly cyclical GFF business, and the structurally declining conventional mail.

DERIVATION SUMMARY

DP's global scale of operations, leading market positions and operationally diversified business provide a competitive advantage versus peers such as FedEx and government-related operators La Poste S.A. (A+/Stable) and Poste Italiane SpA. La Poste S.A.'s Long-Term IDR is two notches below the French state (AA/Stable), according to Fitch's top-down rating approach.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within our Rating Case for the Issuer:

- A combined negative impact of COVID-19 and economic recession on EBIT of close to EUR2 billion in 2020.

- EBIT for 2021 is lower by about EUR0.8 billion than our previous expectations due to slow economic recovery, particularly in the eurozone, after a deep recession in 2020.

- Exclude IFRS 16 and capitalising lease expenses using the multiples for each asset class based on the useful lives of the assets.

- Capex over the next two years largely in line with DP's projections

- Dividend payout ratio in line with DP's guidance

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- FFO adjusted net leverage below 2.5x and FFO fixed charge coverage above 3.5x on a sustained basis

- Successful restructuring of P&P with continued increase in cash-flow contribution from the domestic parcel business compensating declining traditional mail profits; growth in Express and sustainable improvement in EBIT growth at GFF and Supply Chain (under normal business conditions)

- Positive free cash flow (FCF) generation

Factors that could, individually or collectively, lead to negative rating action/downgrade:

-Delayed recovery from the COVID-19 impact beyond 2H20, slower-than-expected economic recovery in 2021, delaying expected improvement in credit metrics beyond 2021

- FFO adjusted net leverage above 3.5x on a sustained basis

- Significant deterioration in business fundamentals due to structural changes leading to significant volume and margin reduction and consistently negative FCF (under normal business conditions)

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

LIQUIDITY AND DEBT STRUCTURE

Solid Liquidity: As at end-2019, DP had available EUR1.8 billion of unrestricted cash and cash equivalents. Liquidity is further supported by EUR2 billion of committed (until 2024) and fully undrawn syndicated credit lines as well as currently more than EUR1.5 billion of undrawn and uncommitted bilateral credit lines. Total financial debt due in 2020 amounted to EUR1.1 billion at end-2019 (excluding EUR2.2 billion lease liabilities under IFRS 16). The first large bond maturity is in April 2021 when EUR750 million is due. We forecast negative FCF (after dividends) of about EUR1.8 billion in 2020.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

FITCH RATINGS ANALYSTS

Arkadiusz Wicik, CFA
Senior Director
Primary Rating Analyst
+48 22 338 6286
Fitch Polska SA Krolewska 16, 00-103 Warsaw

Jan Juergensen
Senior Analyst
Secondary Rating Analyst
+49 69 768076 175

Pilar Auguets
Senior Director
Committee Chairperson
+34 93 467 8747

MEDIA CONTACTS

Adrian Simpson
London
+44 20 3530 1010
adrian.simpson@thefitchgroup.com

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

Corporates Notching and Recovery Ratings Criteria (pub. 14 Oct 2019) (including rating assumption sensitivity)

Corporate Hybrids Treatment and Notching Criteria (pub. 11 Nov 2019)

Short-Term Ratings Criteria (pub. 06 Mar 2020)

Corporate Rating Criteria (pub. 01 May 2020) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Deutsche Post AG	EU Issued
Deutsche Post Finance B.V.	EU Issued

DISCLAIMER

READ LESS

COPYRIGHT

ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

READ LESS

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

Structured Finance: ABS Corporate Finance Industrials and Transportation Structured Finance Europe Germany Netherlands