S&P Global
Ratings

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Die Schweizerische Post AG

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Die Schweizerische Post AG

Ratings Score Snapshot

Issuer Credit Rating
AA+/Stable/A-1+

SACP: a- → **Support: +5** → **Additional factors: 0**

ALAC support	0
GRE support	+5
Group support	0
Sovereign support	0

Issuer credit rating
AA+/Stable/A-1+

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Key strengths	Key risks
Extremely high likelihood of extraordinary support from the Swiss government.	Limited strategic options to improve weak shareholder returns under the existing legal restrictions on financial services operations.
Essential role of fulfilling community service obligations.	Execution risks related to business transformation following declining mail volumes.
Strong market position and extensive network as the legally mandated provider of postal services in Switzerland.	Need of material investment to execute the growth strategy and secure the self-financed business model in the medium term.

The creditworthiness of Die Schweizerische Post AG (DSP) drives S&P Global Ratings' assessment of the consolidated Swiss Post group, consisting of banking and logistics activities. Reflecting PostFinance's importance for the overall group, we derive the group stand-alone credit profile (SACP) by weighting our credit assessment of DSP's nonbanking activities--namely, communications, transportation, and logistics--and the SACP of subsidiary PostFinance. Should we conclude that, due to the ongoing debate around PostFinance's potential privatization DSP's stake in its banking subsidiary could change, we would revisit our rating approach.

DSP's legal mandate and its importance for Switzerland will continue to support its creditworthiness. Our ratings reflect the group's status as the legally mandated provider of postal, financial, and payment services through its extensive post office network in the country. We continue to view DSP as a government related entity (GRE) with an extremely high likelihood of extraordinary support from the Swiss government, and expect that governmental support would guard against a potential deterioration in the SACP by five notches.

DSP needs material investment to manage its business model transformation, accelerating its "Post of Tomorrow" strategic program. To combat deteriorating performance, the group started seeking alternative ways of growth and efficiency by the launch of Post of Tomorrow in early 2020. In our view, the group is exposed to investment needs in processing parcels, and new technologies to adapt its business model and compensate for lower mail volumes. In our view, half-year results in 2022 are promising, indicating successful steps in the transformation process.

Outlook

Our stable outlook on DSP reflects that on its ultimate owner and support provider, Switzerland, over our 24-month forecast horizon. We expect that the Swiss Post group's very close links to the state, ownership, and mandate to provide key public services will not materially change for the foreseeable future. While we see increasing pressure on DSP's financial risk profile, our base-case scenario is that the group will manage its transformation program to compensate for decreasing revenue and higher investment in new technologies.

Downside scenario

We could lower our issuer credit rating if the group's ties to Switzerland were to weaken or respective legislation is changed. This could have one or more notches of negative rating implications for DSP, as the group's nonoperating holding company, and for its core subsidiary PostFinance. We would similarly revise our outlook to negative or lower the ratings if we perceived an increased likelihood of a transition. In any case, we do not expect legislative changes to take effect before 2024. We expect that a potential deterioration in the group SACP would be buffered by government support and would not trigger a downgrade to DSP.

We could revise down the group SACP if we concluded that Swiss Post group's restructuring is unlikely to sufficiently address ongoing earnings deterioration in case of increasing stress. The same holds true if we conclude that the business model is no longer supported by the government to the same extent, increasingly exposing the group to competitive pressure.

Upside scenario

We view the likelihood of a positive rating action on DSP as extremely remote.

Company Description: Legally Mandated Provider Of Postal, Financial, And Payment Services In Switzerland

DSP is Switzerland's main postal carrier and the legally mandated provider of postal, financial, and payment services through its post office network.

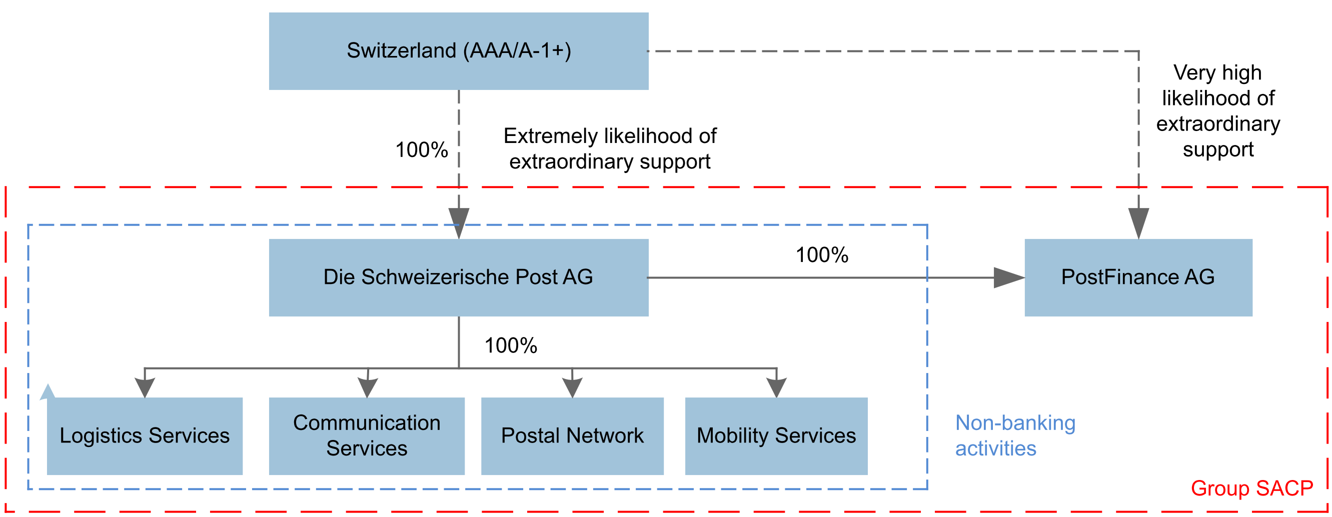
As the third-largest employer in the country, the group operates 800 branches and intends to increase the number of overall contact points to more than 5,000 (including, for instance, in retail stores) until 2024. DSP's business model is embedded within a regulatory framework that can provide implicit guarantees, immediate emergency credit provisions, and compensation for loss-making operations, which supports our analysis. At the same time, DSP is mandated to provide comprehensive and cost effective postal and payment services in Switzerland on (at least) five working days a week. Also, 90% of the population should have post offices within 20 minutes of them and must have access to universal payment services within 30 minutes by walking or public transport.

The activities of Schweizerische Post are organized in five key divisions:

- Logistics services, including mail and parcel.
- Communication services, trust-based information services and digital offerings to public authorities.
- The postal network, managing its nationwide presence.
- Mobility services, including the Swiss-wide network of PostBus as well as company cars.
- PostFinance, providing payment services and conducting retail banking.

Its former subsidiary, Swiss Post Solutions (SPS), offering document managing systems, was eventually sold to a private vendor in March 2022 as part of the group's strategic overhaul.

Swiss Post Group Organization Structure



Rationale

We base our ratings on DSP on our assessment of the group credit profile and our view on the likelihood of extraordinary support from Switzerland.

We employ a cross-sector group approach to reflect the group's wide range of activities

We determine DSP's group SACP according to a cross-sector group approach. In doing so, we first assess the intrinsic creditworthiness of the group's various businesses. Then, we derive the group SACP by weighting our credit assessment of DSP's nonbanking activities--namely, logistics, communications and mobility services--and the SACP of PostFinance.

The group is transitioning toward digitalized business model to defend its market position

In January 2021, DSP embarked on its 10-year strategy aiming at transforming the postal services toward customer demand so to protect its franchise and legal mandate. The group assets totaled Swiss franc (CHF) 129 billion as of June 30, 2022.

While we view DSP's core markets as having relatively high entry barriers, we see an increasing risk of the group not being able to defend its position in some areas, like the parcel delivery market, against competitors and cost pressure in the medium term. Rising energy and transportation costs will oblige DSP to pass on additional costs to its customers. Also, changes to the public mandate, while not our base-case scenario, could expose the group to more competitive stress.

High fixed costs and need for investment in the transition toward a digitalized business model is putting increasingly strain on the group's financial results. In our opinion, the widening of its product portfolio beyond its legal monopoly, for example by the offering of digital health or e-government services, could support overall profitability if successful.

In our view, Swiss Post's key weakness will remain its limited strategic options to improve its weak shareholder returns under existing legal restrictions for PostFinance, which means it might not pursue lending activities and can only invest excess liquidity in the Swiss National Bank (SNB) and the international capital markets.

Improving metrics in 2022 following a recovery, but major challenges remain

We expect the operating performance in 2022, bolstered by above-average results from PostFinance, to continue improving, underpinned by e-commerce activity. With CHF259 million in profits in first-half 2022, up CHF12 million from first-half 2021, the group continued its path of recovery from the pandemic. DSP has embarked on a comprehensive transformation program, Post of Tomorrow, over 2021-2024 to drive growth in its core segments. It will secure its leading market position in the transport of goods, expand its freight logistics operations across borders, and ensure that Swiss companies have access to international markets.

In our view, the group's main nonbanking weaknesses come from structurally declining mail volumes, which fell to 893.5 million in June 2022, down 2.8% from the year before. This led to a further erosion of cash flow from the mail business, which income from the logistics business might not fully compensate for. At the same time, DSP faces increasing headwinds from rising energy prices, supply bottlenecks and

To execute this growth strategy and secure the self-financed basic service for the future, the group will accelerate its investment volume in infrastructure and refreshed business model. Total investments amount to more than CHF3.5 billion over 2021-2024, although CHF1.4 billion for Logistics, Communication, Network, and Sustainability should be self-financing.

Following DSP's economic challenges, Switzerland temporarily reduced the dividend to CHF50 million per year, starting in 2020, which still guarantees a minimal, rather symbolic return on equity.

Large liquidity buffers from the PostFinance business and implicit government support

Due to the financial services businesses' regulated nature, we look at the liquidity of each segment individually, while recognizing that the fungibility of liquidity is more restricted than within a standard corporate group.

Our assessment is informed by funding and liquidity metrics for the group, although these cannot fully capture the group's nonfinancial activities. PostFinance's operations and DSP's close ties to the Swiss government, supporting customer trust and deposit stability, are positive to our overall assessment.

DSP's Logistics business is supported by PostFinance providing financial flexibility to the group. PostFinance is not allowed to extend loans, so it invests most of its liquidity in high-quality securities. Despite increasing interest rates, availability for these assets with adequate returns is still low and we only expect a gradual increase of PostFinance's net interest income over the medium term.

If the Swiss parliament accepts the legislative proposal and initiates a privatization of PostFinance, we would reconsider the group's liquidity and funding position given that the changes in ownership status could affect customer confidence.

Support: Five Notches Of Uplift For Potential Government Support

Our supported GCP of 'aa+' includes five notches of uplift for extraordinary government support from Switzerland above the group SACP of 'a-'.

We view DSP as a GRE with an extremely high likelihood of extraordinary government support. We expect that governmental support would guard against a potential deterioration in the SACP. Our view reflects our assessment of the group's:

- Critical role for the government, being mandated to provide essential services to the Swiss population. Therefore, in our view, the group remains one of the most important GREs in Switzerland, with a central role of meeting the government's political objectives; and
- Very strong link with the Swiss government, bound by an implicit financing agreement, the obligation to provide emergency liquidity and its ultimate status as a shareholder.

Should the ongoing debate around PostFinance reveal a risk that the government's stance toward DSP could change, we would revisit its GRE status, with potential implications for the SACP, outlook, and ratings on the group.

Environmental, Social, And Governance

The Swiss government is DSP's sole owner, and the group reports quarterly to the government, which also appoints DSP's management and supervisory boards. Its board of directors supervises the fulfillment of its public service, which backs our assessment on the probability of extraordinary support. At the same time, political influence into DSP's strategic setting is very high and entails tail risk.

Key Statistics

Table 1

Die Schweizerische Post AG--Key Figures					
	--Year ended Dec. 31--				
(Mil. CHF)	2021	2020	2019	2018	2017
Adjusted assets	127,805	123,791	132,060	123,684	126,910
Customer loans (gross)	15,221	16,045	15,780	15,956	12,261
Adjusted common equity	7,824	6,048	6,020	5,904	5,599
Operating revenue	6,862	7,044	7,147	7,493	7,643
Noninterest expense	6,231	6,785	6,718	7,021	7,191
Core earnings	549	157	276	372	352

CHF--Swiss franc.

Table 2

Die Schweizerische Post AG--Business Position					
	--Year ended Dec. 31--				
(%)	2021	2020	2019	2018	2017
Total revenue from business line (currency in millions)	6,893	7,077	7,147	7,538	7,681
Commercial and retail banking/total revenue from business line	20.3	18.5	19.7	19.2	25.8
Other revenue/total revenue from business line	79.7	81.5	80.3	80.8	74.2
Return on average common equity	7.3	2.6	3.8	6.1	6.5

Table 3

Die Schweizerische Post AG--Capital And Earnings					
	--Year ended Dec. 31--				
(%)	2021	2020	2019	2018	2017
Net interest income/operating revenue	7.6	7.4	7.1	8.5	10.4
Fee income/operating revenue	9.4	8.5	8.7	7.7	7.5
Market-sensitive income/operating revenue	3.2	2.8	3.4	2.3	4.3
Cost-to-income ratio	90.8	96.3	94.0	93.7	94.1
Preprovision operating income/average assets	0.5	0.2	0.3	0.4	0.4
Core earnings/average managed assets	0.4	0.1	0.2	0.3	0.3

Table 4

Die Schweizerische Post AG--Risk Position					
	--Year ended Dec. 31--				
(%)	2021	2020	2019	2018	2017
Growth in customer loans	(5.1)	1.7	(1.1)	30.1	(7.7)
Total managed assets/adjusted common equity (x)	16.4	20.5	22.0	21.0	22.8
New loan loss provisions/average customer loans	(0.1)	0.2	0.0	0.0	(0.3)
Gross nonperforming assets/customer loans + other real estate owned	0.0	0.1	0.0	0.0	0.1
Loan loss reserves/gross nonperforming assets	114.3	111.1	114.3	114.3	323.1

Table 5

Die Schweizerische Post AG--Funding And Liquidity					
	--Year ended Dec. 31--				
(%)	**2021**	**2020**	**2019**	**2018**	**2017**
Core deposits/funding base	80.7	97.7	90.3	99.0	98.7
Customer loans (net)/customer deposits	16.2	14.7	14.5	14.3	10.8
Long-term funding ratio	83.8	99.4	92.3	99.8	99.6
Stable funding ratio	196.1	210.5	209.7	209.8	214.8
Short-term wholesale funding/funding base	17.3	0.7	8.1	0.2	0.4
Broad liquid assets/short-term wholesale funding (x)	3.7	92.5	7.8	251.8	152.7
Broad liquid assets/total assets	57.6	54.5	57.4	54.1	55.6
Broad liquid assets/customer deposits	78.6	61.9	70.0	60.5	62.6
Net broad liquid assets/short-term customer deposits	57.2	61.3	61.1	60.3	62.2
Short-term wholesale funding/total wholesale funding	90.0	28.9	83.4	23.7	32.2
Narrow liquid assets/3-month wholesale funding (x)	3.7	117.8	244.7	478.7	724.8

Related Criteria

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Research Update: Swiss PostFinance 'AA/A-1+' Ratings Affirmed; Outlook Remains Negative, June 9, 2022
- PostFinance AG, Sept. 16, 2021
- Swiss PostFinance AG 'AA/A-1+' Ratings Affirmed; Outlook Remains Negative On Ongoing Privatization Discussions, July 13, 2021

- PostFinance Downgraded As Privatization Discussions Reveal Its Weaker Role For The Swiss State; Outlook Negative , Feb. 10, 2021

Ratings Detail (As Of September 20, 2022)*	
Die Schweizerische Post AG	
Issuer Credit Rating	AA+/Stable/A-1+
Issuer Credit Ratings History	
28-Jun-2013	AA+/Stable/A-1+
21-Mar-2013	AA+/Negative/A-1+
Sovereign Rating	
Switzerland	AAA/Stable/A-1+
Related Entities	
PostFinance AG	
Issuer Credit Rating	AA/Negative/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.