

Research Update:

PostFinance Downgraded As Privatization Discussions Reveal Its Weaker Role For The Swiss State; Outlook Negative

February 10, 2021

Overview

- Following a market consultation period, The Swiss Federal Council revised its original proposal on the partial amendment of the postal law. This unexpectedly opens discussions about the future full privatization of Swiss bank PostFinance AG.
- In our view, the ongoing discussions, regardless of their outcome, amplify longstanding arguments that PostFinance's role for the Swiss government is diminishing and that the bank must now operate as a profit-seeking enterprise to avoid the financial burden on the government.
- As a result, we are lowering our long-term issuer credit rating on PostFinance to 'AA' from 'AA+'. We are affirming the 'A-1+' short-term issuer credit rating.
- At the same time, we are affirming our long- and short-term 'AA+/A-1+' issuer credit ratings on PostFinance's parent, Swiss postal group Die Schweizerische Post AG.
- The negative outlook on PostFinance reflects our view that there is an increased likelihood of privatization, or that the ongoing discussions might give us additional certainty of a reduction in the likelihood of extraordinary government support to PostFinance in times of stress, as well as of implicit ongoing support.
- The stable outlook on Die Schweizerische Post reflects our expectation that the group's very close links to the government and its mandate to provide key public services will not change in the foreseeable future.

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Rating Action

On Feb. 10, 2021, S&P Global Ratings lowered its long-term issuer credit rating on PostFinance AG to 'AA' from 'AA+' and affirmed the 'A-1+' short-term issuer credit rating. The outlook on PostFinance is negative. At the same time, we affirmed our 'AA+/A-1+' long- and short-term issuer credit ratings on Die Schweizerische Post AG, PostFinance's parent. The outlook on Die

Schweizerische Post is stable.

Rationale

The downgrade of PostFinance reflects our view that the likelihood of the extraordinary support from the Swiss government to the bank has reduced. The downgrade follows our review of PostFinance's creditworthiness after the Swiss Federal Council amended its original proposal for a change to the postal law, the legal framework for PostFinance, on Jan. 20, 2021. The amendment followed a consultation period that started on June 5, 2020, and reflects the feedback collected, which we understand to be representative of the political majority. The ultimate objective of the amendment is to make PostFinance's business model more suited to times of low interest rates, and to allow the bank to grant loans to customers while reducing the burden on the government. Whereas the original proposal contemplated a partial privatization of PostFinance to facilitate its transformation, the new proposal opens the door to discussions about the full privatization of the bank.

In our opinion, the ongoing discussions about the full privatization of PostFinance, regardless of the outcome, add fuel to the argument that PostFinance's role for the Swiss government is diminishing. The debate has increased uncertainty about the future of the bank's role as a provider of key public services that could not be readily undertaken by a private entity. While we continue to see PostFinance's role for the government as very important, we think that it essentially operates as a profit-seeking enterprise in a competitive environment, and that, supported by the rapid change in and customer use of new technologies, a privately owned entity could provide the same services.

At the same time, we regard the potential governmental guarantee, which may be granted to PostFinance in the context of the resolution planning, supportive to our view of the still very strong link to the government and our assessment of the overall very high likelihood of extraordinary government support.

We still consider the privatization to be highly uncertain, as the outcomes of the parliamentary discussions and the potential public referendum remain highly unpredictable. We also think that it may prove challenging to find a new private sector owner for the bank, potentially leading to a gradual windup under state ownership. On balance, we think that the risks to PostFinance's creditworthiness have increased, and we reflect these risks in our negative outlook on the bank. If the privatization proceeds, or the ongoing discussions give us more certainty that the bank's link to and role for the government are likely to reduce in the future, we could lower our assessment of the likelihood of government support, or even remove the bank's status as a government-related entity (GRE). We will reassess the implicit benefits from state ownership that we currently incorporate into PostFinance's 'a+' stand-alone credit profile (SACP). This may result in a multi-notch lowering of our long-term issuer credit rating on PostFinance.

To reflect the diminishing role of PostFinance for the wider group's profitability, we now determine the group SACP of its parent, Die Schweizerische Post, according to a cross-sector group approach based on 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 Die Schweizerische Post's various businesses. Then, we derive the group SACP by weighting our credit assessment of Die Schweizerische Post's nonbanking activities--namely, communications, transportation, and logistics--and the SACP of its subsidiary PostFinance.

The breakdown of Die Schweizerische Post's operating profit, and deduction of operating expenses from each department's respective gross income, allows for a better reflection of PostFinance's contribution to the overall group results. If Die Schweizerische Post will no longer

be a controlling stakeholder in PostFinance in the medium term, we will reconsider our weighting factors, potentially leading to a change in the group SACP. We continue to view Die Schweizerische Post as a 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. Should the ongoing debate around PostFinance reveal a risk that the government's stance toward Die Schweizerische Post could change, we would revisit the outlook, GRE status, and SACP of Die Schweizerische Post.

In our view, if the privatization of PostFinance were to go ahead, it could gradually increase competition in the Swiss banking market over the longer term and put more pressure on the margins of Swiss banks' core products. If we were to believe that the operating landscape for banks had become more competitive, this may have an influence on our Bank Industry and Country Risk Assessment (BICRA) for Switzerland.

Outlook

PostFinance

The negative outlook on PostFinance reflects our view that there is an increased likelihood that a privatization will go ahead, or that the ongoing discussions might give us additional certainty of a reduction in the likelihood of extraordinary support to PostFinance from the Swiss government in times of stress, as well as of implicit ongoing support. While the final transformation of PostFinance is likely to occur beyond our rating horizon, we expect to gain more clarity on the direction the transformation will take over the next two years.

Downside scenario

We could lower our ratings on PostFinance if we conclude that PostFinance's ties to the Swiss government have weakened. This would likely lead us to reduce our uplift to the rating for extraordinarily government support and revise the bank's SACP downward, which would lead to a multi-notch downgrade.

Upside scenario

We could revise our outlook on PostFinance to stable if the privatization does not go ahead and if we come to conclusion that PostFinance's role for and link to the Swiss government is unlikely to deteriorate further.

Die Schweizerische Post

The stable outlook on Die Schweizerische Post reflects our stable outlook on the ultimate owner and support provider, Switzerland, over our 24-month forecast horizon. We expect that the group's very close links to the state, its ownership, and its mandate to provide key public services will not materially change in the foreseeable future.

While we see increasing pressure on Die Schweizerische Post's financial profile, our current base case is that the group will successfully manage its transformation program to compensate for decreasing revenues amid a low interest rate environment and COVID-19-induced headwinds.

Downside scenario

We could lower our ratings on Die Schweizerische Post if its role for or link to the Swiss government were to weaken, or if changes to the respective legislation were to be made. This could have one or more notches of negative rating implications for Die Schweizerische Post as the group's nonoperating holding company. We would revise the outlook to negative or lower the ratings if we perceived an increased likelihood of a transition.

We expect that potential deterioration of the group SACP would be buffered by the government support and would not trigger a downgrade. We could revise down the group SACP if we concluded that the group's restructuring is unlikely to sufficiently address ongoing earnings deterioration in case of increasing headwinds. The same holds true if we come to the conclusion that the business model is no longer supported by the government to the same extent, increasingly exposing the group to competitive pressures.

Upside scenario

We view the likelihood of a positive rating action for Die Schweizerische Post as extremely remote at this stage.

Related Criteria

- 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
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Die Schweizerische Post AG, Jan. 8, 2021
- PostFinance, Jan. 8, 2021
- COVID-19: Swiss Banking Sector To Remain Resilient, June 17, 2020
- Bulletin: Proposed Legal Framework For PostFinance Could Lead To Downgrade In The Future, June 10, 2020

Ratings List

***** Die Schweizerische Post AG *****

Downgraded; Outlook Action; Ratings Affirmed

	To	From
PostFinance AG		
Issuer Credit Rating	AA/Negative/A-1+	AA+/Stable/A-1+

Ratings Affirmed

Die Schweizerische Post AG

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