ISSUER COMMENT
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Deutsche Post AG

Additional share buyback is credit negative

On 6 March, Deutsche Post AG (DHL Group, A2 stable), one of the leading postal, express and logistics operators globally, released its 2024 results and announced a €2 billion step-up in its ongoing share buyback programme, which will moderately increase group leverage. While the results were in line with our expectations, the increased shareholder distribution is credit negative, because it reflects a more aggressive financial policy. However, the company has sufficient financial flexibility to accommodate the additional share buyback under the current rating.

DHL Group's operating performance in 2024 continued to be challenged by subdued macroeconomic conditions and persistent cost inflation. The company's EBIT declined to €5.9 billion from €6.3 billion in 2023, in line with the company's revised guidance. However, operating performance has been gradually improving on a sequential basis, with Q3 EBIT flat year over year and Q4 EBIT improving by almost 13%, compared with the 20% decline in the first half of the year. This improvement was driven by the ramp-up of business-to-consumer (B2C) business and some pricing and yield management initiatives implemented by the company. Positive momentum should continue and DHL Group guided for EBIT of at least €6 billion in 2025. Management also reiterated its mid-term EBIT guidance of above €7 billion, although this target may not be reached in 2026 as previously indicated. To secure this EBIT improvement, the company started a cost programme (Fit for Growth) that targets at least €1 billion run-rate savings by the end of 2026.

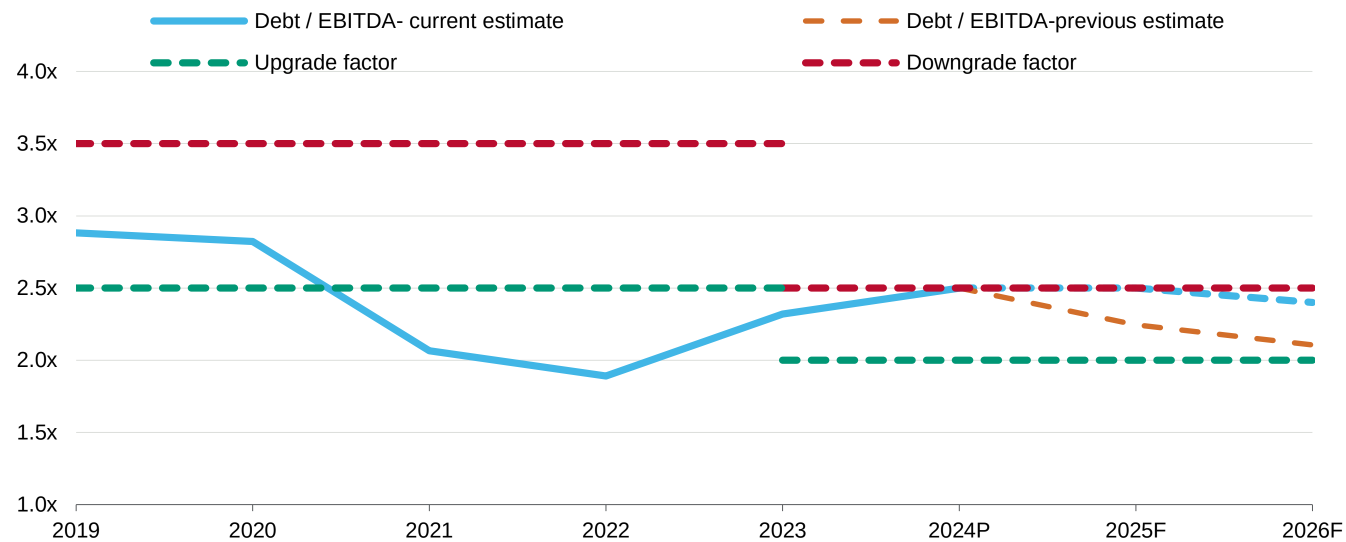
Despite the decline in EBIT and increased working capital absorption, the company's strict capital spending discipline supported stable free cash flow (FCF) before dividends and M&A, of €3.0 billion in 2024. DHL Group guided for FCF of around €3 billion this year and confirmed its mid-term target of FCF in excess of €3 billion.

Because of this solid cash flow generation, and in line with its capital allocation priorities, the company decided to increase the ongoing €4 billion share buyback programme by €2 billion and to extend it to 2026 from 2025. In addition, management will propose a stable dividend of €1.85/share, with a payout ratio of 64%, which is higher than the 40%-60% payout ratio range indicated under its financial policy.

We expect the increased shareholder distribution to slow down the group's deleveraging. While we previously expected DHL Group's Moody's-adjusted gross debt/EBITDA to decline towards 2.0x by 2026 from 2.5x in 2024, we now forecast leverage will remain at around 2.4x-2.5x in the next 24 months (see Exhibit 1). This level is still within the boundaries we set for the A2 rating, although at the weaker end of the range. Therefore, the rating is now more weakly positioned, leaving the group less leeway in case of underperformance relative to its business plan.

Exhibit 1

Leverage will remain at the weaker end of the range for the current rating
Moody's-adjusted gross debt/EBITDA



Source: Moody's Financial Metrics™

The company's credit quality is underpinned by its large scale and global presence as the world's largest logistics company, and its leading positions in the large domestic mail and European parcel segments.

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