



Debt Watch Europe

Q2 2020 review

Corporate Debt Activity

€213bn

Total corporate debt raised in Q2 2020

232

Total corporate debt deals in Q2 2020

€201bn

Raised in Investment Grade deals in Q2 2020

€12bn

Raised in High Yield deals in Q2 2020

Overview

The second quarter of 2020 saw an uptake in activity in the European bond markets as companies looked to source liquidity through a total of 232 deals and €213bn raised. Traction came as the quarter progressed: April 2020 saw total bond issuance volumes of €66bn; May 2020 saw total volumes reach €71bn; and by June 2020 total bond issuance volumes appeared healthy at €76bn, which was on a par with June 2019.

The gradual surge in activity levels during the quarter was a result of issuers primarily needing to raise capital to support their business functions and, for some, to bolster their balance sheets as a result of uncertainty created by the coronavirus (COVID-19) pandemic. These factors contributed to the increase in momentum in volume of issuances during the quarter. Issuers were also reluctant to test investor sentiment at the beginning of the quarter, when the COVID-19 pandemic was emerging in some territories.

The COVID-19 pandemic resulted in a number of reactive actions. Firstly, an increase in non-standard disclosures within bond offering documents such as specific risks and impacts of COVID-19 to the issuer; secondly, heightened considerations around going concern, and finally, a risk of increased occurrence of emphasis of matter disclosures within audit opinions. These will give investors food for thought and will shape the markets over the coming months.

Q2 2020 overall activity in number of issuances and volumes was above Q1 2020, with 232 deals amounting to €213bn compared to 165 deals amounting to €148bn, respectively. Q2 2020 activity surpassed that of Q2 2019 in terms of issuance volumes of €210bn, however the number of deals fell short as Q2 2019 saw 340 deals. Q2 2020 nearly matched the high levels of deal issuance volume seen in Q3 2019 of €220bn, again the numbers of deals being far less this quarter compared to 328 deals in Q3 2019. In addition, Q2 2020 saw an uptick in activity in the UK Investment Grade space, being the strongest quarter since Q2 2019 with €43bn in Q2 2020 compared to €48bn in Q2 2019. The UK High Yield space was less active than the prior quarter, with seven issuances amounting to €8bn compared with 11 issuances amounting to €9bn in Q1 2019.

Investment Grade

Activity in the Investment Grade European bond markets during Q2 2020 was prolific. Q2 2020 saw 217 deals with €201bn of issuance volume, with volume far exceeding any recent previous quarter. In June 2020, the European Central Bank (ECB) took further emergency action by bolstering its Pandemic Emergency Purchase Programme (PEPP) by €600bn taking the total to €1.35trn. The ECB interventions and other central bank stimulus packages have greatly assisted the Investment Grade bond markets with many issuers accepting higher financing costs. This was notable in issuances with a credit rating of AA, which saw higher yield-to-maturity at issuance in Q2 2020 compared with Q1 2020 and Q2 2019; with 1.17%, 0.32% and 1% respectively.



Corporate Debt Activity (continued...)

The Investment Grade market is bifurcated with resilient companies able to capitalise on favourable positions – as seen in the US markets where Amazon issued bonds raising \$10bn at record low interest rates, capitalising on its success during lockdown. Meanwhile in Europe, Siemens raised c.€4bn in May 2020 with an average yield-to-maturity of 0.47%. The activity levels seen in Q2 2020 allude towards plenty of demand from the buy-side.

During Q2 2020 there were exceptional levels of rating agency downgrades to issuers. As a result, there were a high number of ‘fallen angels’ among corporations with some high profile names. However, it is not only corporates that have been affected by the COVID-19 pandemic. Close to record numbers of sovereign rating downgrades have occurred or received ‘negative’ outlook, as governments have moved to protect their economies. The spending is expected to have an adverse effect on their financial position as governments increase their debt and create large deficits or surpluses shrink. The UK’s debt exceeded the size of the economy in June 2020 due to the high levels of borrowing in May 2020 coupled with declines in income from taxes.

As the fuller effects of the pandemic are revealed over the course of the next six to twelve months, the effect on corporations’ leverage could be greatly affected as EBITDA is eroded. This will prompt companies to concentrate on the marketing of deals with a key focus around liquidity. The low issuance volume to number of deals ratio compared to previous quarters points towards a higher minimum issuance benchmark during Q2 2020 for liquidity purposes.

British Petroleum was the largest issuer in Q2 2020 with a raise of c.€6bn in June and total bonds issued in the quarter amounted to c.€12bn across three separate deals. Looking at sectors, the Oil & Gas sector was active in Q2 2020 with 13% of issuances, while the most active sector was financial services with a 31% share, and industrials in second place with 16%.

High Yield

Contrary to Investment Grade, the impact of the COVID-19 pandemic on the High Yield primary market in Europe during Q2 2020 has been significant and longer lasting. Q2 2020 saw the lowest number of deals and issuance volumes for a number of years with 15 deals amounting to €12bn, and only one deal occurring in April 2020. This was a steep decline compared to Q2 2019, which saw 77 deals amounting to €34bn.

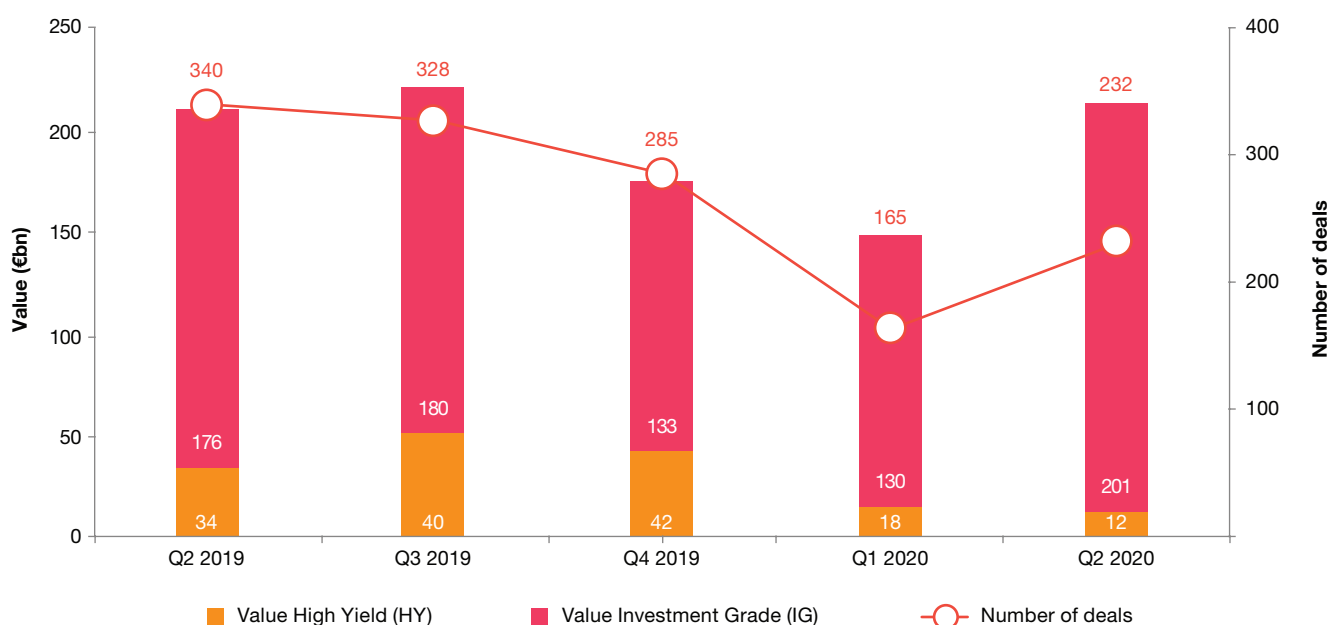
A number of issuers have deferred bond offerings or sought other means to raise capital, as the effects of the COVID-19 pandemic have impacted financial reporting. However, those issuers who were able to tap the high yield bond market found that it came at a cost, as yields increased compared to Q1 2020. B rated issuances saw an increase in average yield-to-maturity at issuance from 3.67% to 5.79% for Q1 2020 and Q2 2020 respectively.

The most active issuer sectors were industrials and telecommunications. This is not evidence that these sectors have been most affected by the COVID-19 pandemic and require funding, but indicates that issuers have been able to access bond markets in a difficult environment.

For the first time in April, the US Federal Reserve announced it would buy and accept as collateral High Yield bonds if they were classed as Investment Grade on 22 March 2020. The move was a supportive one, to assist fallen angels and kick start the US High Yield primary market. However, the ECB did not follow suit for their purchase programmes.

Despite the slowdown in the High Yield market due to the COVID-19 pandemic, the pipeline for High Yield issuances exists, with issuers waiting for an opportune moment. Confidence can be taken by ThyssenKrupp Elevator AG finally getting away after months of waiting, issuing c.€4bn High Yield bonds. This pipeline may create higher volumes of activity in the primary markets during the late summer months, which historically have been subdued. Companies may, on the other hand, take stock of where they are before they decide any further action. There is also the risk and uncertainty of a potential second wave of the COVID-19 pandemic, which may deter some buy-side investors.

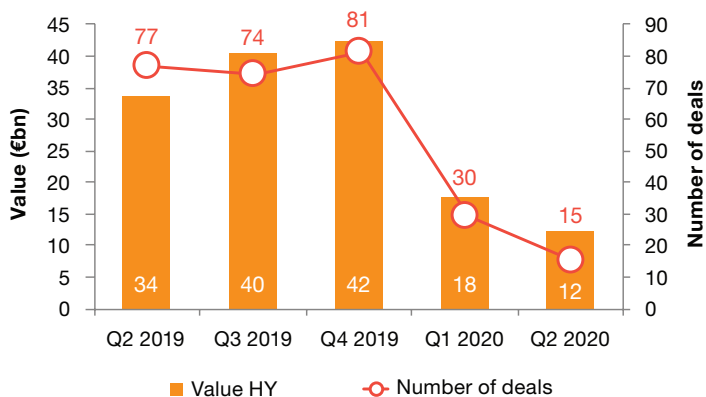
Corporate debt activity by quarter



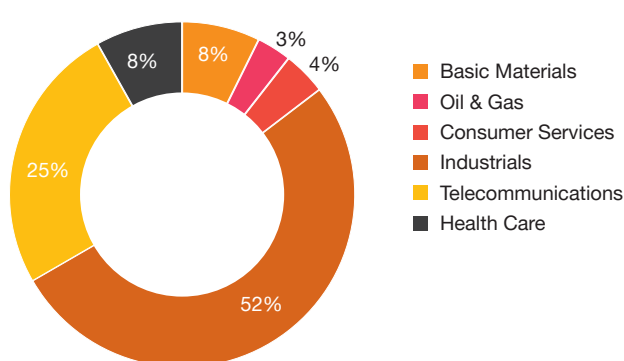
High Yield

(Rated BB+ (inclusive) and below)

HY activity by quarter



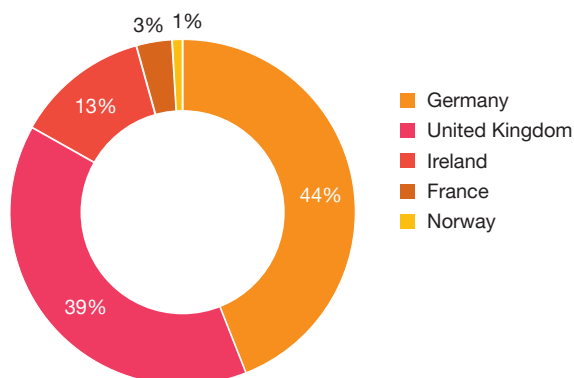
HY by sector Q2 2020



Top ten HY issues Q2 2020

Pricing date	Ten largest HY issues Q2 2020	Value (€m)	Sector	Listing	Nationality of operations	Credit rating (S&P)	YTM (%)
Jun-20	ThyssenKrupp Elevator AG	4,037	Industrials	TISE – The International Stock Exchange	Germany	B/CCC	5.97
Jun-20	Virgin Media Secured Finance plc	1,077	Telecommunications	TISE – The International Stock Exchange	United Kingdom	BB-	4.32
Jun-20	Virgin Media Vendor Financing Notes III dac	890	Telecommunications	Irish Stock Exchange-All Market	United Kingdom	B	4.98
May-20	Ardagh Packaging Finance plc	883	Industrials	Irish Stock Exchange-All Market	Ireland	B	5.89
May-20	Synlab Bondco plc	842	Health Care	Irish Stock Exchange-All Market	Germany	B	
Jun-20	HTA Group Ltd	660	Industrials	London Stock Exchange	United Kingdom	B	7.13
May-20	Ardagh Packaging Finance plc	656	Industrials	Irish Stock Exchange-All Market	Ireland	BB	4.03
Jun-20	Virgin Media Finance plc	608	Telecommunications	TISE – The International Stock Exchange	United Kingdom	B	5.00
Jun-20	Dolya Holdco 17 dac	559	Telecommunications	Irish Stock Exchange-All Market	United Kingdom	B	4.88
Jun-20	Synthomer plc	520	Basic Materials	London Stock Exchange	United Kingdom	BB	3.88

HY by issuer operations nationality Q2 2020



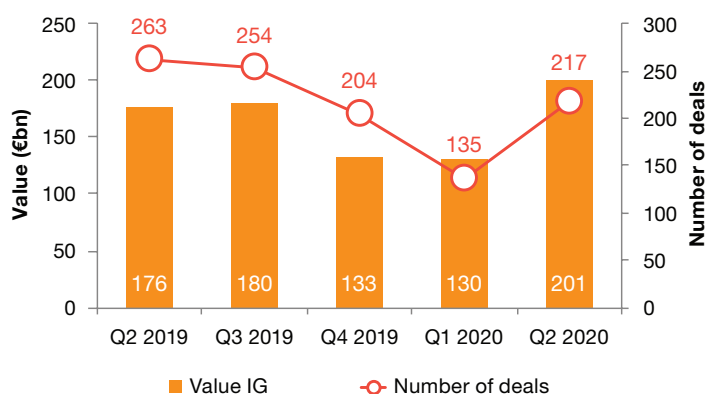
Average yield-to-maturity by issue rating (%)

S&P rating	Q2 2020	Q1 2020	Q2 2019
BB	4.09	2.65	4.17
B	5.79	3.67	7.12
CCC	7.13	5.25	9.75

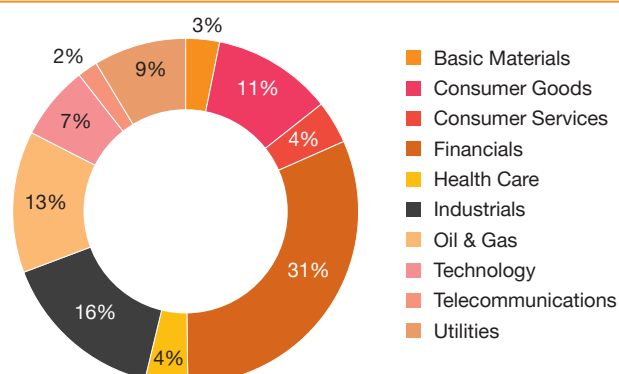
Investment Grade

(Rated BBB- (inclusive) and above)

IG activity by quarter



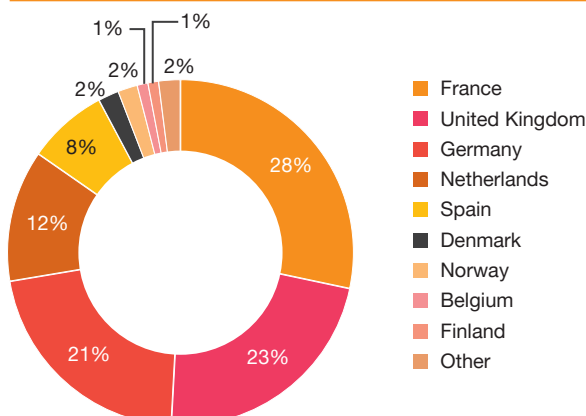
IG by sector Q2 2020



Top ten IG issues Q2 2020

Pricing date	Ten largest IG issues Q2 2020	Value (€m)	Sector	Listing	Nationality of operations	Credit rating (S&P)	YTM (%)
Jun-20	BP Capital Markets plc	6,141	Oil & Gas	London Stock Exchange	United Kingdom	BBB	
May-20	Siemens Financieringsmaatschappij NV	3,997	Industrials	Luxembourg Stock Exchange	Germany	A+	0.47
Jun-20	Airbus SE	3,482	Industrials	Luxembourg Stock Exchange	France	A	1.84
Apr-20	Capgemini SE	3,474	Technology	Paris	France	BBB	1.92
Apr-20	BP Capital Markets plc	3,250	Oil & Gas	London Stock Exchange	United Kingdom	A-	2.41
Jun-20	Volkswagen International Finance NV	3,000	Consumer Goods	Luxembourg Stock Exchange	Germany	BBB-	3.50
Apr-20	Total Capital International SA	3,000	Oil & gas	Paris	France	A+	1.74
May-20	EssilorLuxottica SA	2,989	Health Care	Paris	France	A	0.42
May-20	Daimler AG	2,988	Consumer Goods	Luxembourg Stock Exchange	Germany		2.07
Apr-20	Shell International Finance BV	2,987	Oil & Gas	London Stock Exchange	Netherlands	AA-	1.56

IG by issuer operations nationality Q2 2020



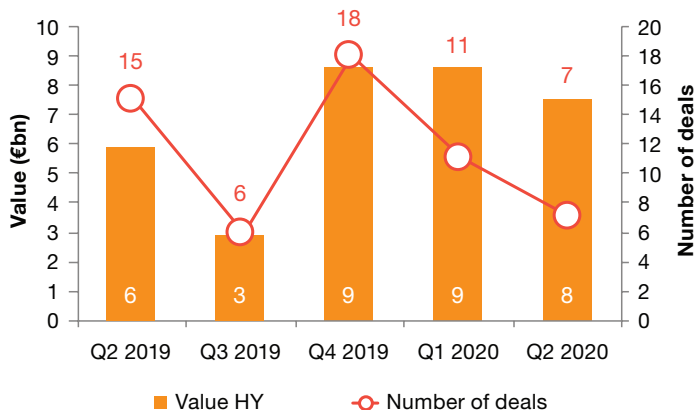
Average yield-to-maturity by issue rating (%)

S&P rating	Q2 2020	Q1 2020	Q2 2019
AAA	-	-	2.13
AA	1.17	0.32	1.00
A	1.43	1.17	1.17
BBB	2.11	1.71	2.11

UK Focus

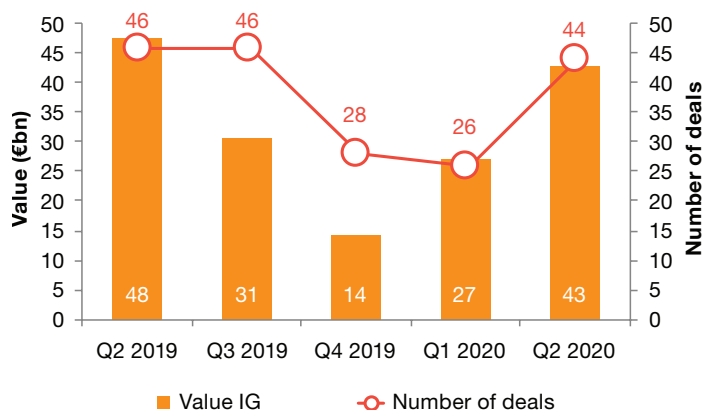
High Yield (rated BB+ (inclusive) and below)

UK HY activity by quarter

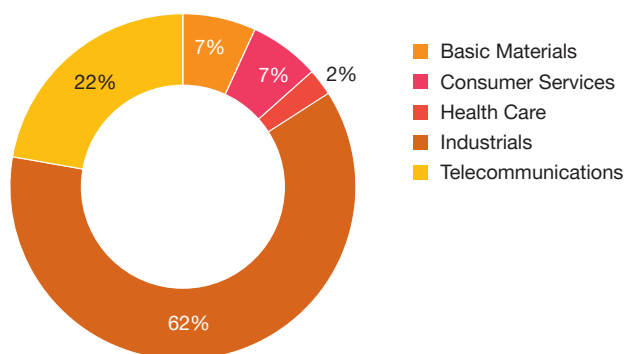


Investment Grade (rated BBB- (inclusive) and above)

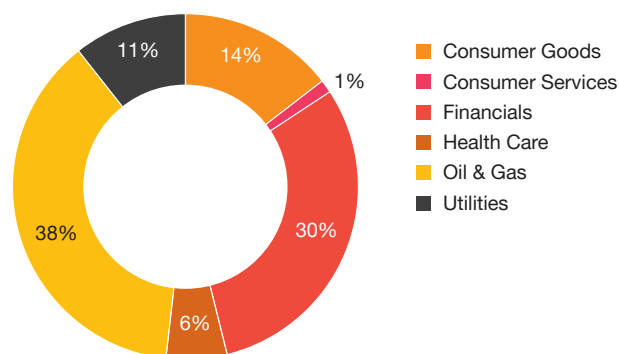
UK IG activity by quarter



UK HY by sector Q2 2020



UK IG by sector Q2 2020



Top five UK HY issues Q2 2020

Pricing date	Top five HY issues	Value (€m)	Listing	Credit rating (S&P)	YTM (%)
Jun-20	ThyssenKrupp Elevator AG	4,037	TISE – The International Stock Exchange	B	5.97
Jun-20	Virgin Media Secured Finance plc	1,077	TISE – The International Stock Exchange	BB-	4.32
Jun-20	HTA Group Ltd	660	London Stock Exchange	B	7.13
Jun-20	Virgin Media Finance plc	608	TISE – The International Stock Exchange	B	5.00
Jun-20	Synthomer plc	520	London Stock Exchange	BB	3.88

Top five UK IG issues Q2 2020

Pricing date	Top five IG issues	Value (€m)	Listing	Credit rating (S&P)	YTM (%)
Jun-20	BP Capital Markets plc	6,141	London Stock Exchange	BBB	
Apr-20	BP Capital Markets plc	3,250	London Stock Exchange	A-	2.41
Apr-20	Shell International Finance BV	2,987	London Stock Exchange	AA-	1.56
May-20	GlaxoSmithKline Capital plc	2,443	London Stock Exchange	A	1.07
Apr-20	Diageo Capital plc	2,297	London Stock Exchange	A-	1.90

About Debt Watch Europe

Debt Watch Europe surveys all new main and exchange regulated market bond deal issuance on Europe's major debt listing venues (primarily London, TISE – The International Stock Exchange, Dublin and Luxembourg).

The survey was conducted between 1 April and 30 June 2020. All market data is sourced from Dealogic and has not been independently verified by PricewaterhouseCoopers LLP.

Methodology

The classification of Investment Grade (IG) and High Yield Bond (HY) bonds are based solely on the ratings given by S&P – with BBB- and above (inclusive) as IG and BB+ and below (inclusive) as HY.

Yield to maturity is calculated as an average for issues with numerous tranches as of the pricing date.

For any issue with different ratings applied to different tranches, the multiple credit ratings for such issuances are displayed.

Sources: Dealogic, LCD and PwC analysis. Excludes Russian-listed bonds.

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