

# Debt Watch Europe

Q1 2020 Review





# Corporate Debt Activity

€148bn

Total corporate debt raised in Q1 2020

165

Total corporate debt deals in Q1 2020

€130bn

Raised in Investment Grade deals in Q1 2020

€18bn

Raised in High Yield deals in Q1 2020

## Overview

Q1 2020 proved to be eventful in the European bond markets. 2020 began with a flurry of activity: January 2020 saw high levels of deal flow as total bond issuance volumes reached €68bn compared to €64bn for the same period in 2019. Issuers were seeking to take advantage of the continued low-yield environment that stemmed from the end of 2019 and was considerably lower than Q1 2019. Activity levels began to drop in February 2020, driven by the widespread effect of the coronavirus (COVID-19) pandemic, and were further impacted in March 2020 by oil prices plummeting over price war speculation. As a consequence, total bond issuance volume was down from €64bn in February 2019 and €75bn in March 2019 to €34bn and €45bn for the respective periods in 2020. Q1 2020 overall activity in number of issuances and volumes was below Q1 2019, with 165 deals amounting to €148bn compared to 286 deals amounting to €202bn, respectively. Q1 2020 activity was also short of Q4 2019, which saw 285 deals amounting to €175bn. Q1 2020 saw greater activity in the UK compared to Q1 2019, with High Yield issuance volume of €9bn compared to €7bn; Investment Grade volume also increased to €27bn from €20bn.

## Investment Grade

Q1 2020 saw the ongoing trend of yield to maturity on issuance in negative territory, with five Investment Grade bond tranches falling below zero per cent – in Germany and France, most notably, with ILB at negative 0.3%. This was in line with the 10-year Bund and 10-year OATs (German and French Treasury Notes), which spent the majority of Q1 2020 below zero per cent. The largest deal of Q1 2020 came from LVMH, with proceeds of €9.3bn spread across seven tranches. This was nearly twice the size of any issuance in Q1 2019 or Q4 2019.

March 2020 saw a period of more than a week without any bond issuances in Europe; in addition yield spiked due to the market turmoil and investors waited for the market to settle before deciding where to invest their cash. The last seven days in March 2020 saw a large amount of supply from Investment Grade bonds, amounting to €36bn and 26 issuances. The search for liquidity in times of uncertainty is proving key for many, even with high premiums being paid by issuers to attract investors back to the market with pricing adjusted for the added risk. Four of the largest Investment Grade deals (AB InBev, ENGIE,

Airbus Group and Aeroports de Paris) of Q1 2020 all came towards the end of March 2020, amounting to €12bn. However, Q1 2020 Investment Grade volume was flat compared to Q4 2019, with €130bn compared to €133bn, respectively, and the number of deals down from 204 in Q4 2019 to 135 in Q1 2020.

Rating agencies have moved quickly with a number of downgrades in February and March 2020 as a result of the ongoing impact of the COVID-19 pandemic. This could have a significant impact on the bond market, especially if companies are downgraded from Investment Grade to Non-Investment Grade, as these are not eligible for purchase by central banks and could restrict certain investors. There is heightened expectation from rating agencies that the Non-Investment Grade default rate will rise dramatically in the coming 12 months, once the full effects of the COVID-19 disruption have been digested by companies.



# Corporate Debt Activity (continued...)

## High Yield

The High Yield primary market in January 2020 saw a huge amount of activity. It was the busiest January on record, with €11bn issued compared to €5bn in January 2019. This copious supply squeezed the delta of issuance yield between BB and B rated bonds from an average 2.2% in Q4 2019 to 1.0% in Q1 2020. Given the reduction in yield on BB rated bonds, investors sought greater risk seeking enhanced returns. The spread between BBB and BB rated bonds also decreased from 1.8% in Q4 2019 to 1.0% in Q1 2020. Overall, the number of High Yield deals and volume was down from 61 deals and €32bn in volume during Q1 2019 to 30 deals and €18bn in volume during Q1 2020.

The number of High Yield issuances in Q1 2020 came to an all-but-abrupt end in mid-February 2020, with only one issuance subsequently. This was a result of the unforeseen and rapidly evolving COVID-19 situation and investor uncertainty as volatility started to impact the bond markets greatly in March 2020 as the High Yield market effectively closed.

## COVID-19 Effects

During Q1 2020, the worldwide emergence of COVID-19 resulted in significant impacts on global economies. March 2020 saw a swift decline in market conditions driven by the pandemic. The primary bond market effectively closed partway through March 2020 and there was no activity for over a week in both the USA and Europe. However, following the US Federal Reserve and ECB announcements of unprecedented stimulus packages, coupled with rate cuts, the Investment Grade primary markets saw an uptake of Investment Grade issuances towards the end of March 2020 in the USA and in Europe.

The primary High Yield market continues to look for stabilisation in the market. This was seen in the USA at the end of March 2020 with the market reopening, whereas the European market has not fully reopened. Given current market conditions, issuers are having to pay a premium to issue in this environment. March 2020 saw corporate bond prices fall, as there was a sell-off, and investors flocked to Government bonds as a safe haven given the uncertain market conditions. This resulted in the entire US Treasury yield curve falling below 1% for the first time ever. However, this has been attractive to investors of corporate bonds, as the yield spiked in March 2020 and resulted in investors yielding returns on Investment Grade bonds that in 2019 were seen only in the High Yield space. As the Fed continues to explicitly buy High Yield rated debt, the US High Yield market is gaining momentum by providing substantial liquidity to corporates. This could be positive for the European High Yield market, which saw the first green shoots with Verisure being the first to price €200m on 16 April 2020 after the markets had effectively been closed for two months.

Investor appetite will be key in the coming months, providing a platform for the European primary bond markets to fully reopen again. The sector and story of the issuance will likely be fundamental for High Yield issuers in the coming months, and issuers may have to pay a high price. In the short term, only high-quality BB rated issuances will likely be able to get away in the High Yield market. The wider effect of the pandemic on businesses and implications around covenants on current bonds in the market may lead to a flurry of downgrades from credit rating agencies,

which will steer the market. This may drive the secondary bond markets, as investors are conscious of mandates in place and the effect that any 'fallen angels' may have on their portfolios.

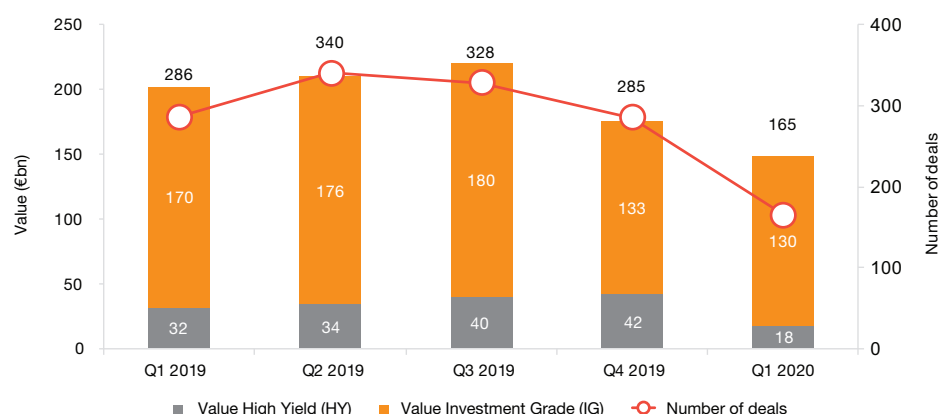
Over the last month, fallen angels have been in the headlines. For example, in Europe, Marks & Spencer and ZF Friedrichshafen joined a list of former Investment Grade names downgraded below the threshold into what would be deemed Non-Investment Grade. Some of these downgrades have been swift, in a process that has historically taken a few months.

## Carnival Cruises shakes up the market

Unprecedented times bring out unprecedented deals. April 2020 saw the issuance of Investment Grade debt at High Yield prices. For those issuers who are willing to pay up and pledge assets, there is a market – as Carnival Cruises showed with a \$4bn, 11.5% issuance. Carnival Cruises remains rated at Investment Grade.

A number of businesses with Investment Grade status may well be looking for further liquidity. With this deal, we have seen that the market and investors have shown they will respond favourably to issuers looking to be bold with their pricing. This trend is expected to be seen across Europe as more issuers come to market.

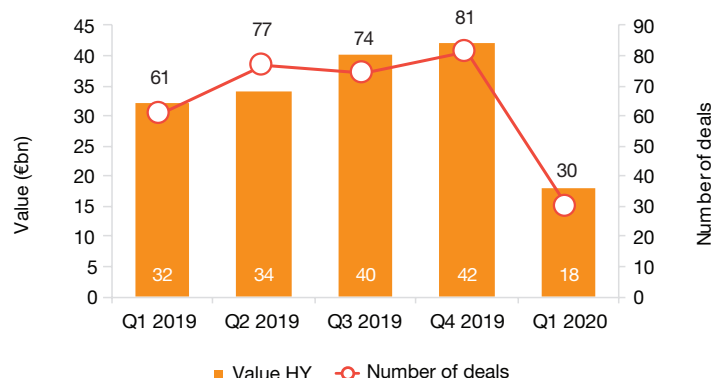
## Corporate debt activity by quarter



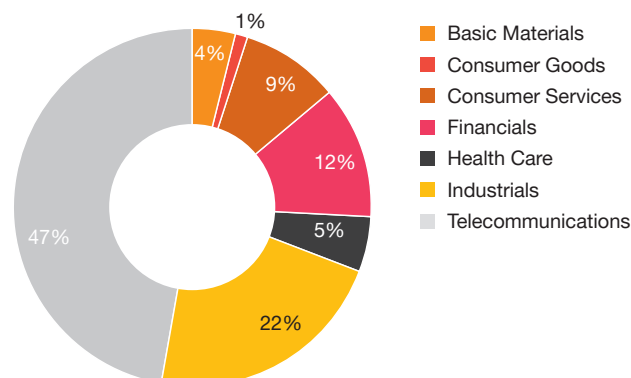
# High Yield

(Rated BB+ (inclusive) and below)

## HY activity by quarter



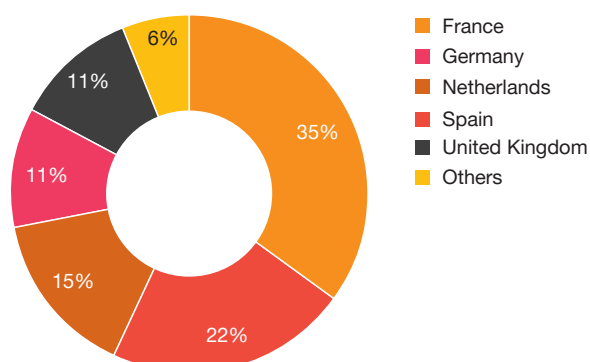
## HY by sector Q1 2020



## Top ten HY issues Q1 2020

Pricing date	Top larger HY issues (Q1 2020)	Value (€m)	Sector	Listing	Nationality of operations	Credit rating (S&P)	YTM (%)
Jan-20	Altice Financing SA	2,774	Telecommunications	Luxembourg Stock Exchange	France	B	3.42
Jan-20	Altice France SA	2,102	Telecommunications	TISE – The International Stock Exchange	France	B	4.08
Feb-20	Q-Park Holding I BV	1,455	Industrials	TISE – The International Stock Exchange	Netherlands	BB-	1.75
Feb-20	Banijay Entertainment SAS	1,339	Consumer Services	TISE – The International Stock Exchange	France	B	5.12
Jan-20	Techem Verwaltungsgesellschaft 675 mbH	1,145	Industrials	TISE – The International Stock Exchange	Germany	B+	2.00
Feb-20	Deutsche Bank	1,143	Financials	Euro MTF Luxembourg Stock Exchange	Germany	B+	6.00
Feb-20	Ziggo Bond Co BV	900	Telecommunications	Luxembourg Stock Exchange	Netherlands	B-	3.38
Feb-20	TalkTalk Telecom Group plc	684	Telecommunications	TISE – The International Stock Exchange	United Kingdom	BB-	3.87
Jan-20	Ineos Styrolution Group GmbH	600	Basic Materials	Luxembourg Stock Exchange	Germany	BB	2.25
Jan-20	Arena Luxembourg Finance SARL	575	Industrials	Luxembourg Stock Exchange	Spain	BB	1.88

## HY by issuer operations nationality Q1 2020



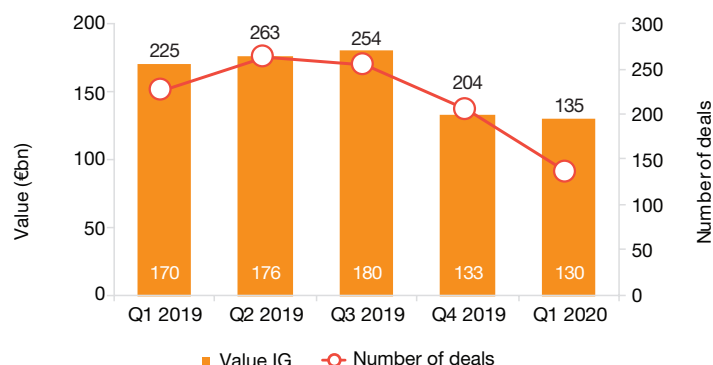
## Average yield-to-maturity by issue rating (%)

S&P rating	Q1 2020	Q4 2019	Q1 2019
BB	2.65	3.49	4.88
B	3.67	5.68	7.88
CCC	5.25	–	–

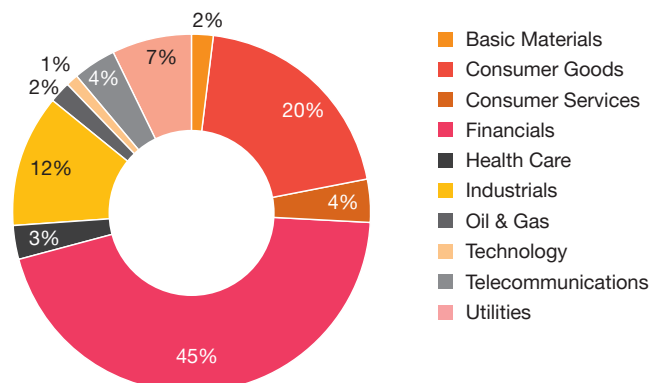
# Investment Grade

(Rated BBB- (inclusive) and above)

## IG activity by quarter



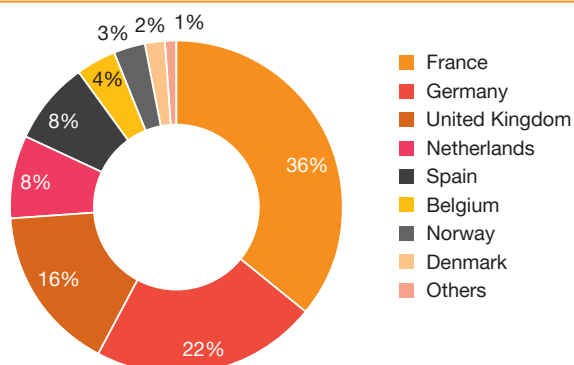
## IG by sector Q1 2020



## Top ten IG issues Q1 2020

Pricing date	Ten largest IG issues Q1 2020	Value (€m)	Sector	Listing	Nationality of operations	Credit rating (S&P)	YTM (%)
Feb-20	LVMH	9,299	Consumer Goods	Luxembourg Stock Exchange	France	A+	0.50
Feb-20	Siemens Financieringsmaatschappij NV	5,004	Industrials	Luxembourg Stock Exchange	Germany	A+	0.34
Mar-20	Anheuser-Busch InBev SA/NV	4,489	Consumer Goods	London Stock Exchange	Belgium	-	2.92
Jan-20	Societe Generale	2,684	Financials	Paris	France	BBB+	2.86
Mar-20	ENGIE SA	2,487	Utilities	Paris	France	A-	1.82
Mar-20	Airbus Group SE	2,484	Industrials	Luxembourg Stock Exchange	France	A+	2.08
Mar-20	Aeroports de Paris SA – ADP	2,462	Industrials	Paris	France	A	2.63
Jan-20	BMW Finance NV	2,246	Consumer Goods	Luxembourg Stock Exchange	Germany	A+	0.46
Jan-20	BPCE	2,242	Financials	Paris	France	A+	0.49
Jan-20	E.ON SE	2,226	Utilities	Luxembourg Stock Exchange	Germany	BBB	0.53

## IG by issuer operations nationality Q1 2020



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

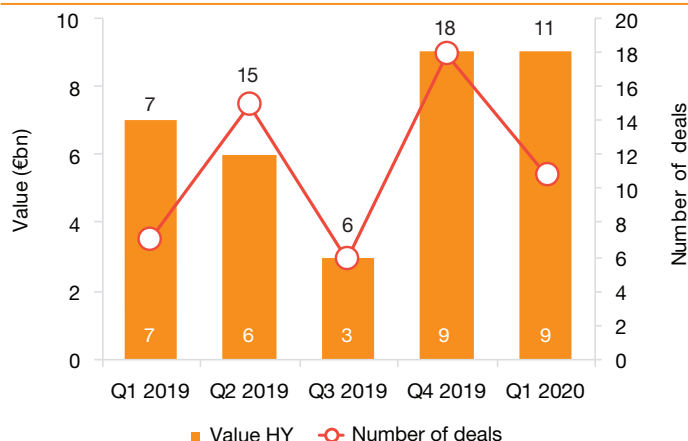
S&P rating	Q1 2020	Q4 2019	Q1 2019
AAA	-	2.09	2.16
AA	0.32	1.69	1.14
A	1.17	1.18	2.06
BBB	1.71	1.67	2.57



# UK Focus

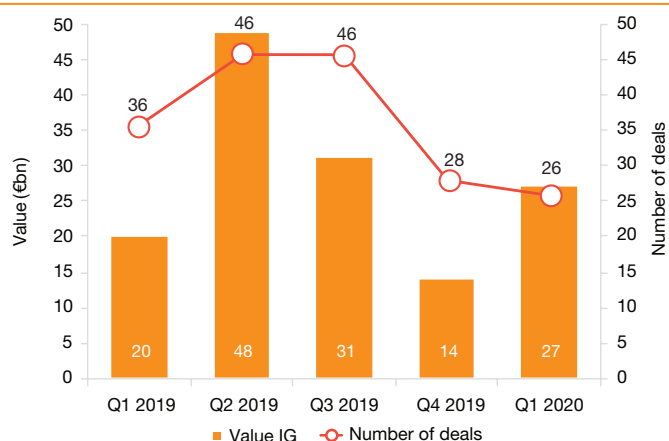
## High yield (rated BB+ (inclusive) and below)

### UK HY activity by quarter

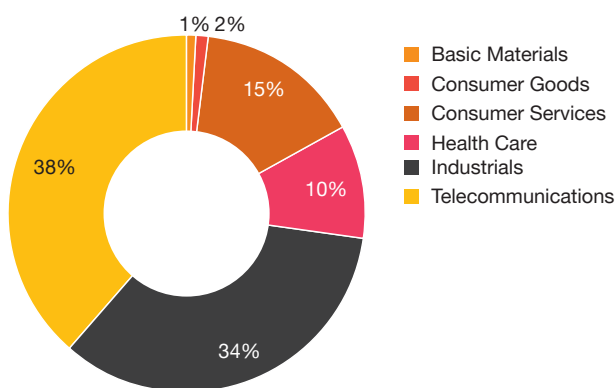


## Investment grade (rated BBB- (inclusive) and above)

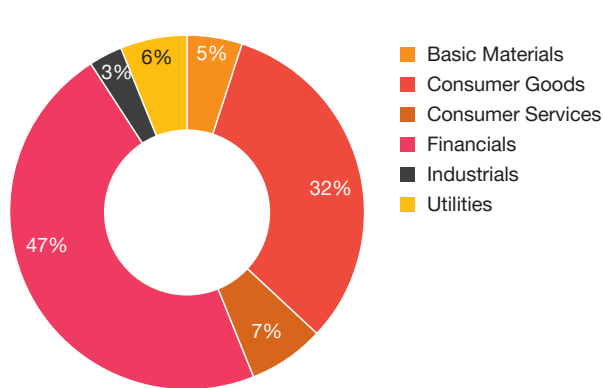
### UK IG activity by quarter



### UK HY by sector Q1 2020



### UK IG by sector Q1 2020



### Top five UK HY issues Q1 2020

Pricing date	Top five HY issues	Value (€m)	Listing	Credit rating (S&P)	YTM (%)
Jan-2	Altice France SA	2,102	TISE – The International Stock Exchange	B	4.08
Feb-20	Q-Park Holding I BV	1,455	TISE – The International Stock Exchange	BB-	1.75
Feb-20	Banijay Entertainment SAS	1,339	TISE – The International Stock Exchange	B	5.12
Jan-20	Techem Vergesellschaft 675 mbH	1,145	TISE – The International Stock Exchange	B+	2.00
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Mar-20	Anheuser-Busch InBev SA/NV	4,489	London Stock Exchange	-	2.92
Mar-20	Diageo Finance plc	2,065	London Stock Exchange	A-	2.42
Mar-20	Unilever NV	1,996	London Stock Exchange	A+	1.52
Mar-20	RELX Finance BV	1,984	London Stock Exchange	BBB+	0.58
Mar-20	Standard Chartered plc	1,846	London Stock Exchange	BBB+	4.64

# 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 January 2020 and 31 March 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 (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.

# Contacts



**Sarah Hitchen**

Partner, Capital Markets

M: +44 (0)7734 958782  
E: sarah.l.hitchen@pwc.com



**David Godbee**

Partner, Debt & Capital Advisory

M: +44 (0)7740 242013  
E: david.k.godbee@pwc.com



**James Millar**

Senior Manager, Capital Markets

M: +44 (0)7725 706184  
E: millar.james@pwc.com



**Dominic Griffiths**

Manager, Capital Markets

M: +44 (0)7483 407481  
E: dominic.x.griffiths@pwc.com

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