



# Debt Watch Europe

Q1 2021 review



# Corporate Debt Activity

## 355

Total corporate debt deals in Q1 2021

## €237bn

Total corporate debt raised in Q1 2021

## €185bn

Raised in Investment Grade deals in Q1 2021

## €52bn

Raised in High Yield deals in Q1 2021

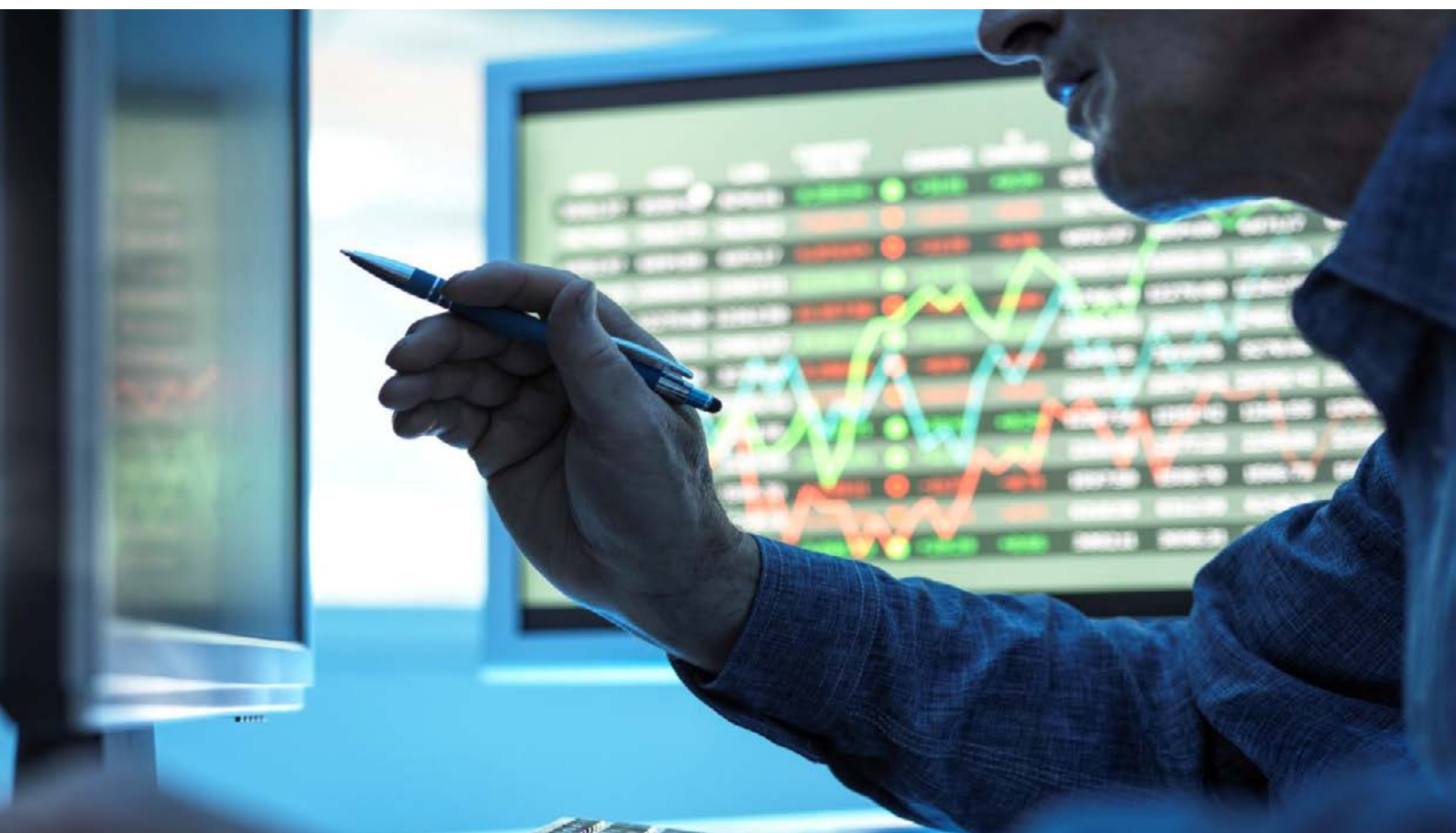
## Overview

Activity levels throughout the European bond market during the first quarter of 2021 were strong. 355 deals and c.€237bn raised during Q1 2021 exceeded Q1 2020 in terms of the number of deals during the quarter (306 deals by comparison) but fell short of the c.€242bn raised in Q1 2020. The high activity levels during Q1 2021 shows investor optimism as the COVID-19 global vaccine roll-out progresses and picks up speed. A number of companies have decided to access the debt markets to raise capital off the back of their calendar year end reporting; and it seems that investors have not been deterred by some companies in certain troubled sectors reporting a material uncertainty in relation to their going concern. As Q4 2020 slowed to c.€158bn raised, the investor demand built up over Q4 2020 and into Q1 2021, which led to increased supply from January 2021.

Based on the gradual global relaxation of worldwide COVID-19 restrictions and the aforementioned vaccine roll-out, credit rating agencies have revised their default rate forecasts for the end of 2021 and 2022 to show a more favourable outlook. The basis of the reforecasts being the expected strong economic recovery led by company operational recoveries, coupled with continued Government fiscal stimulus support. This itself is welcomed news to both issuers and investors alike and should lead to continued high activity levels well into Q2 2021.

Q1 2021 saw selloffs of U.S. Treasury notes as improved economic data was released from the U.S. In addition to improved unemployment data and further economic relief in the form of the \$1.9trn relief bill, resulted in the 10-year U.S. Treasury yield reaching a peak of 1.74% in March 2021 from 0.93% at the beginning of 2021 as investors moved away from Government bonds.

ESG bond activity continued to grow throughout the first quarter of 2021. Iberdrola issued the largest green bond in history with a c.€2bn dual tranche issuance which was over four times subscribed. Subsequently, Intesa Sanpaolo issued the largest single tranche green bond of Q1 2021 amounting to c.€1.2bn. ESG linked pricing criteria has started to appear in leveraged finance deals whereby margin ratchets are built into pricing terms and are activated when for example certain ESG KPIs are met during the instrument's life. This has been seen in the European leveraged loan market and therefore it is likely only a matter of time before it becomes common practice within the bond markets. This ESG pricing criteria has led to some concern amongst investors as the incentive for issuers 'greenwashing' increases. As a result, associations are drawing up documentation regarding best practice to limit the risk of greenwashing within the markets.



# Corporate Debt Activity (continued...)

## Investment Grade

Investment Grade activity saw a large uptick in activity compared to Q4 2020 as there were 266 deals amounting to c.€185bn compared to 194 deals and c.€114bn, respectively. This level of activity also exceeded that of pre-COVID-19 Q1 2020 in terms of number of deals which saw 229 deals however Q1 2021 was slightly behind in volume as c.€199bn was raised. This is a result of multiple factors as demand floods the European bond markets, companies are reporting financial year end results and investor confidence builds over market expectations of COVID-19 recovery.

This quarter saw Bayer AG return to the market with a c.€4bn four tranche issue off the back of c.€6bn four tranche issue in Q3 2020. Interestingly the average yield-to-maturity at issuance was 0.57% compared to 0.97% previously, even though their share price has fallen significantly since the beginning of July 2020. Both issues received a BBB credit rating and demonstrates the current strength of the pharmaceuticals sector.

The largest investment grade deal of the quarter saw London Stock Exchange issue bonds in March 2021 to refinance bridge financing as a result of their acquisition of Refinitiv from the Blackstone Group. LSEGA Financing plc and LSEG Netherlands BV issued multi currency tranche bonds amounting to c.€3.8bn and c.€1.5bn, respectively.

## High Yield

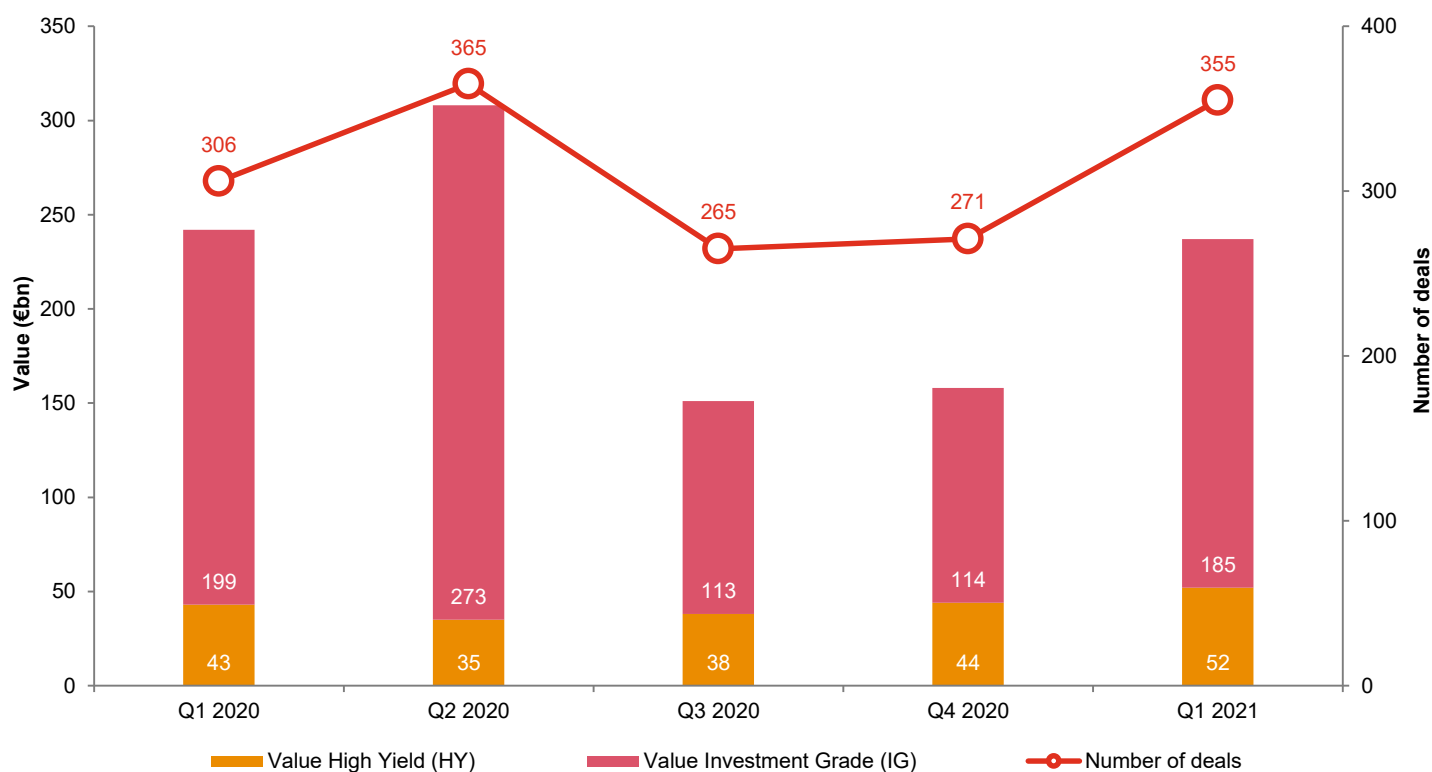
Q1 2021 saw European high yield bond market activity return to and surpass pre-COVID-19 levels with 89 deals amounting to c.€52bn. In comparison, Q1 2020 saw 77 deals and c.€43bn

raised and Q4 2020 saw 77 deals and c.€44bn raised. Investors were enticed with good credit stories of lower rated issues in turn for greater return as confidence within the market grew. Issuers appeared opportunistic to obtain what can be seen as relatively cheap financing still, as BB credited rated issues saw an average yield-to-maturity at issuance of 3.34% which was lower than Q4 2020 of 3.50% and only slightly higher than pre-COVID-19 Q1 2020 of 3.12%. The sheer amount of market liquidity appears to be keeping yields low and many deals are being priced at the tight end of initial talk. Although BB credit rated issues dominated the Q1 2021 issues, there was an uptake in CCC rated credits with a total of 7 deals. Over the last year the most CCC or below credit rated bonds issues amounted to 4 in Q1 2020. This again shows that investor demand is there within COVID-19 impacted sectors, more so than in the previous 12 months, although at the right price to counter the risk.

The largest high yield issue of Q1 2021 was used to part finance the acquisition of the UK supermarket chain Asda Group by the Issa brothers and TDR Capital. The dual tranche c.€3.1bn bond issue was an all sterling deal and with one tranche alone amounting to £2.25bn making it the largest single tranche sterling corporate bond.

Gatwick Airport debuted in the high yield market during Q1 2021 with a £500m issue with the deal upsized after being over three times subscribed. This being one of many deals during the quarter which was a sterling issue and also in a troubled sector, which is expected to improve as we progress through 2021 and into 2022. Investors appeared to be partial to these deals during the quarter with possible improvements in the secondary market in the future as COVID-19 begins to retreat from the limelight.

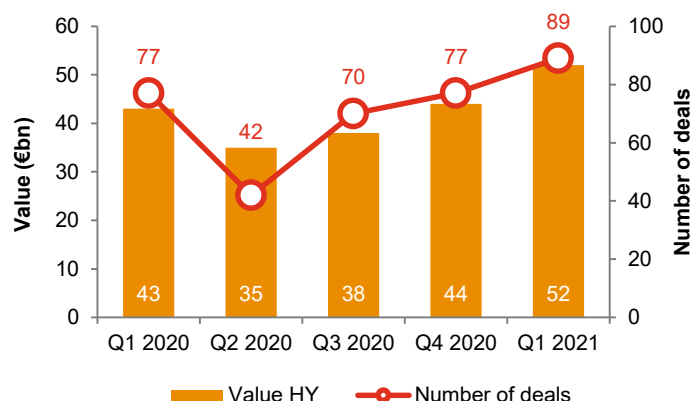
## Corporate debt activity by quarter



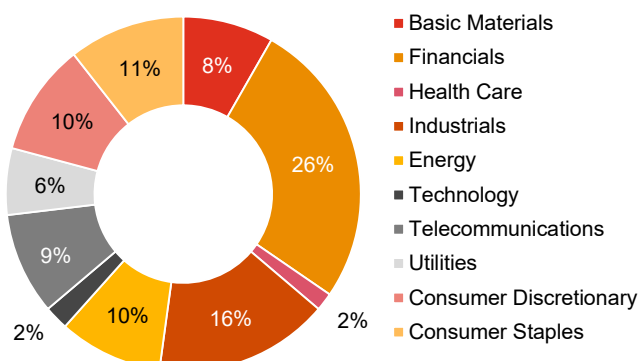
# High Yield

(Rated BB+ (inclusive) and below)

## HY activity by quarter



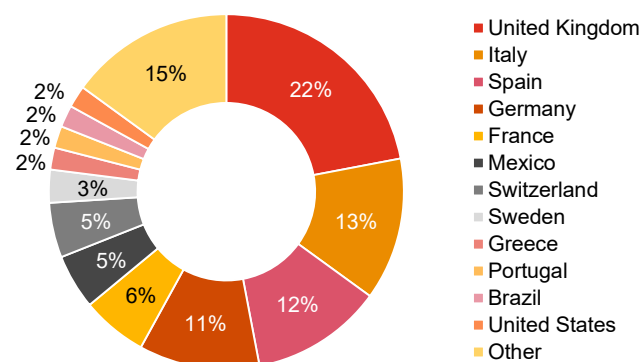
## HY by sector Q1 2021



## Top ten HY issues Q1 2021

Pricing date	Ten largest HY issues Q1 2021	Value (€m)	Sector	Listing	Nationality of operations	Credit rating (S&P)	YTM (%)
Feb-21	Bellis Acquisition Co Plc	3,134	Consumer Staples	TISE-The International Stock Exchange	United Kingdom	NR	3.63
Jan-21	Verisure Holding AB	2,473	Industrials	Luxembourg Stock Exchange	Switzerland	B/CCC+	4.25
Feb-21	Cellnex Telecom SA	2,462	Telecommunications	Irish Stock Exchange-All Market	Spain	BB+	1.50
Mar-21	Douglas GmbH	1,780	Consumer Staples	TISE-The International Stock Exchange	Germany	B-/CCC	7.50
Jan-21	INEOS Finance plc	1,712	Basic Materials	Luxembourg Stock Exchange	United Kingdom	BB/B+	3.21
Feb-21	Deutsche Lufthansa AG	1,590	Consumer Discretionary	Luxembourg Stock Exchange	Germany	BB-	3.44
Jan-21	ALDER Group SA	1,477	Financials	Luxembourg Stock Exchange	Germany	BB+	2.32
Jan-21	Cemex	1,421	Industrials	Irish Stock Exchange-All Market	Mexico	BB	3.88
Mar-21	IAG – International Consolidated Airlines Group SA	1,200	Consumer Discretionary	Irish Stock Exchange-All Market	United Kingdom	BB	3.25
Jan-21	Teamsystem SpA	1,150	Technology	Luxembourg Stock Exchange	Italy	B-	3.50

## HY by issuer operations nationality Q1 2021



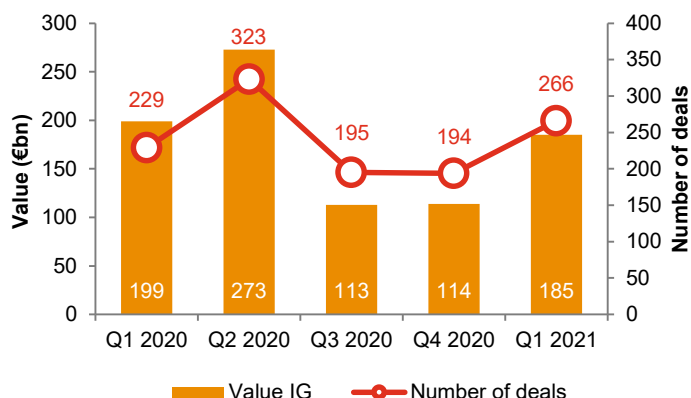
## Average yield-to-maturity by issue rating (%)

S&P rating	Q1 2021	Q4 2020	Q1 2020
BB	3.34	3.50	3.12
B	5.25	6.26	4.88
CCC	7.28	-	5.06
CC	-	9.33	-

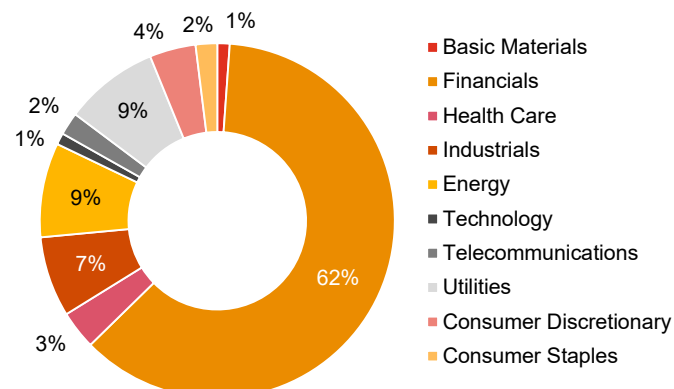
# Investment Grade

(Rated BBB- (inclusive) and above)

## IG activity by quarter



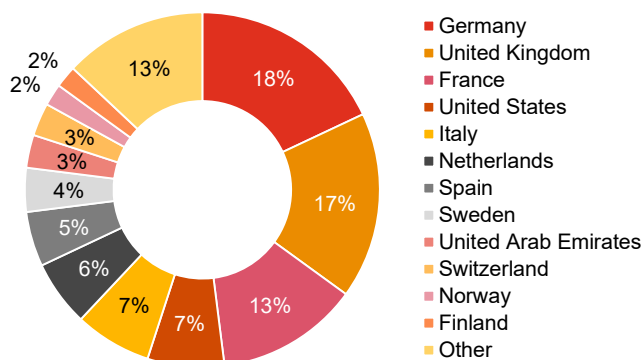
## IG by sector Q1 2021



## Top ten IG issues Q1 2021

Pricing date	Ten largest IG issues Q1 2021	Value (€m)	Sector	Listing	Nationality of operations	Credit rating (S&P)	YTM (%)
Jan-21	Bayer AG	3,979	Health Care	Luxembourg Stock Exchange	Germany	BBB	0.57
Mar-21	LSEGA Financing plc	3,797	Financials	London Stock Exchange	United Kingdom	A	1.97
Feb-21	Galaxy Pipeline Assets Bidco Ltd	3,256	Energy	Irish Stock Exchange-All Market	United Arab Emirates	NR	2.55
Mar-21	Goldman Sachs Group Inc	3,131	Financials	Luxembourg Stock Exchange	United States	BBB+	1.30
Mar-21	UBS AG (London)	3,074	Financials	Irish Stock Exchange-All Market	United Kingdom	A+	0.42
Jan-21	Total SA	3,000	Energy	Paris	France	A-	1.88
Mar-21	Traton SE	2,984	Industrials	Luxembourg Stock Exchange	Germany	BBB	0.79
Jan-21	Volkswagen Leasing GmbH	2,495	Financials	Luxembourg Stock Exchange	Germany	BBB+	0.29
Jan-21	Standard Chartered plc	2,436	Financials	London Stock Exchange	United Kingdom	BBB+	1.23
Mar-21	Vantage Towers AG	2,245	Telecommunications	Irish Stock Exchange-All Market	Germany	BBB-	0.42

## IG by issuer operations nationality Q1 2021



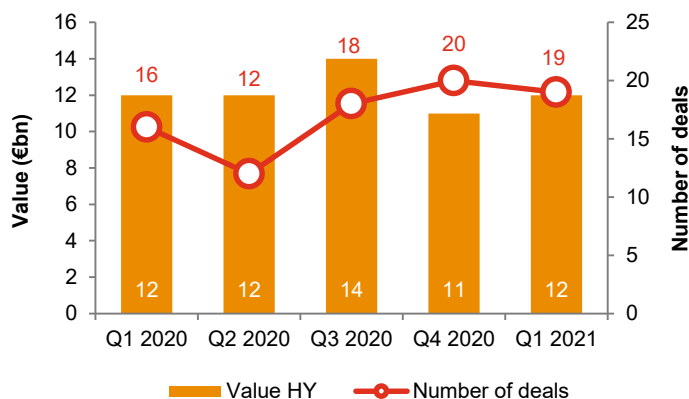
## Average yield-to-maturity by issue rating (%)

S&P rating	Q1 2021	Q4 2020	Q1 2020
AAA	0.58	0.02	0.86
AA	0.42	0.29	1.04
A	0.85	0.83	1.26
BBB	1.12	1.48	1.82

# UK Focus

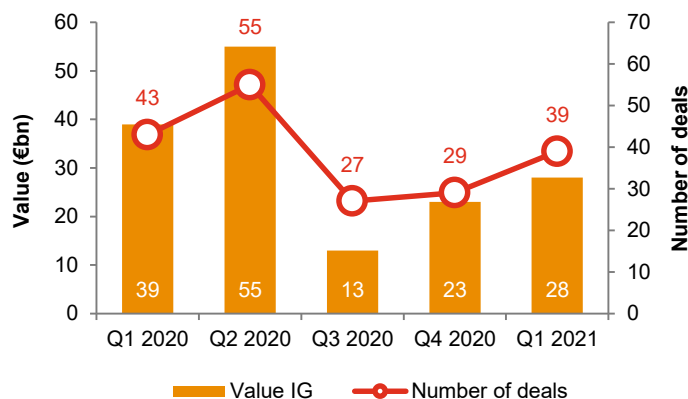
## High Yield (rated BB+ (inclusive) and below)

### UK HY activity by quarter

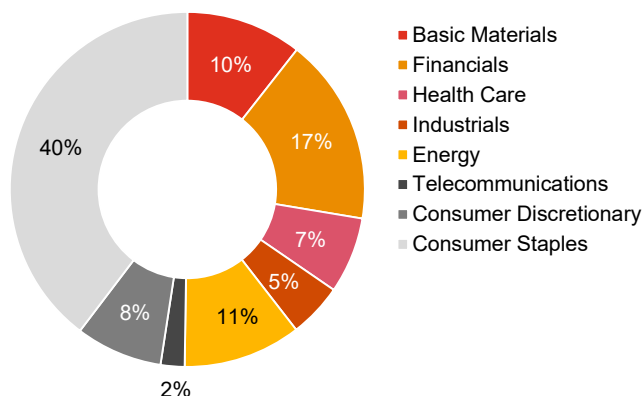


## Investment Grade (rated BBB- (inclusive) and above)

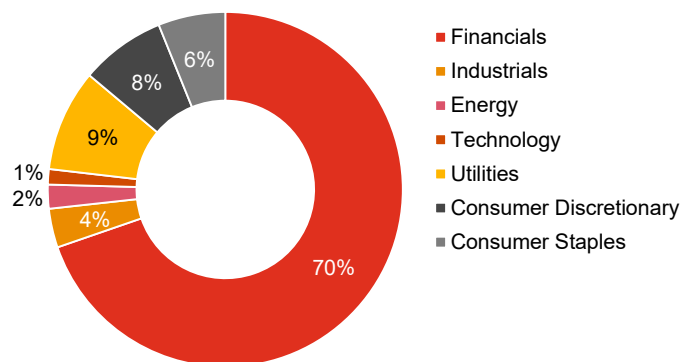
### UK IG activity by quarter



### UK HY by sector Q1 2021



### UK IG by sector Q1 2021



### Top five UK HY issues Q1 2021

Pricing date	Top five HY issues	Value (€m)	Listing	Credit rating (S&P)	YTM (%)
Feb-21	Bellis Acquisition Co Plc	3,134	TISE-The International Stock Exchange	NR	3.63
Mar-21	Douglas GmbH	1,780	TISE-The International Stock Exchange	B-/CCC	7.50
Mar-21	Cidron Aida Finco Sarl	863	TISE-The International Stock Exchange	B+/B-	5.63
Feb-21	EG Global Finance plc	781	TISE-The International Stock Exchange	B-	6.25
Feb-21	Kleopatra Holdings 2 SCA	700	TISE-The International Stock Exchange	B/CCC+	5.38

### Top five UK IG issues Q1 2021

Pricing date	Top five IG issues	Value (€m)	Listing	Credit rating (S&P)	YTM (%)
Mar-21	LSEGA Financing plc	3,797	London Stock Exchange	A	1.97
Jan-21	Standard Chartered plc	2,436	London Stock Exchange	BBB+	1.23
Feb-21	Morgan Stanley	1,750	London Stock Exchange	BBB+	0.50
Mar-21	LSEG Netherlands BV	1,494	London Stock Exchange	A	0.39
Feb-21	EasyJet FinCo BV	1,190	London Stock Exchange	BBB-	2.00

# About Debt Watch Europe

Debt Watch Europe surveys all main and exchange regulated market bond deal issuance across Europe's debt listing venues based on bond tranches being listed on a European listing venue (excluding Russia and Switzerland).

The survey was conducted between 1 January and 31 March 2021. 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, Bloomberg and PwC analysis

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