



# Debt Watch Europe

Q2 2021 review



# Corporate Debt Activity

379

Total corporate debt deals in Q2 2021

€233bn

Total corporate debt raised in Q2 2021

€172bn

Raised in investment grade deals in Q2 2021

€61bn

Raised in high yield deals in Q2 2021

## Overview

The second quarter activity levels in European bond markets remained strong. There were 379 deals and c.€233bn raised in total corporate debt in Q2 2021, which marginally exceeded Q1 2021 in terms of number of deals during the quarter (372 deals by comparison), but total corporate debt raised fell slightly in comparison to the c.€241bn raised in Q1 2021. The decrease in corporate debt raised in Q2 2021 reflected the levelling off in debt raised from investment grade deals after a very strong first quarter, when many issuers accessed the market. Overall the fall was partially offset by the increase in high yield bond debt raised in Q2 2021 as more investors turned to high yield bonds, taking on more credit risk as central banks' bond-buying programs pushed yields down.

Activity in Q2 2021 dropped compared to Q2 2020, with total raised in Q2 2020 amounting to c.€308m. However Q2 2020, at the height of the pandemic, proved to be a record quarter as companies raised capital due to uncertainty caused by the

coronavirus (COVID-19). The second quarter activity levels in 2021 were more aligned to pre-pandemic levels and perhaps a sign that the corporate bond market is stabilising.

As their vaccination rollout continues to gather pace, the US added c.850,000 jobs in June 2021, suggesting an economy rebounding from the pandemic. The improved confidence in the US economy was also reflected in the demand for corporate bonds increasing. The premium between corporate debt and US Treasuries dropped to its lowest level in 10 years in June 2021, perhaps signalling that fears of inflation hampering the economic recovery are subsiding.

The summer months have historically seen a lower level of activity as issuers gear up for the autumn period and this may be further subdued by the uncertainty of the economic impact of the global spread of the Delta variant of COVID-19, which may deter some buy-side investors and could also dampen the growth in the high yield market in Q3 2021.



# Corporate Debt Activity (continued...)

## Investment Grade

Investment grade activity saw a slight decrease in activity compared to Q1 2021 with 262 deals amounting to c.€172bn compared to 277 deals and c.€187bn, respectively. When compared to the corresponding period of Q2 2020 there were a lower number of deals (as Q2 2020 saw 323 deals) and Q2 2021 raised fewer proceeds of c.€172bn versus c.€273bn raised in Q2 2020. This is perhaps a sign of markets stabilising for investment grade issuances after unprecedented activity levels throughout 2020 and early into 2021, with issuers coming out of the blocks to raise debt and growing investor confidence over the recovery from COVID-19.

This quarter saw the return of Saudi Aramco (SA Global Sukuk Ltd) to the international debt markets through a c.€5bn three tranche issuance on the London Stock Exchange, the largest deal in Europe in the quarter. The issuance is connected with Saudi Aramco's continued promise to pay dividends to its shareholders, but will rely on oil prices remaining stable after climbing throughout 2021. There was high investor demand for this issuance, attracting combined orders of over \$60bn.

The second largest investment grade deal of the quarter in Europe saw German real estate company Vonovia SE issue a five tranche, c.€4bn offering on the Luxembourg Stock Exchange at an average coupon rate of 0.6875%. The proceeds will mainly be designated for financing Vonovia's planned merger with

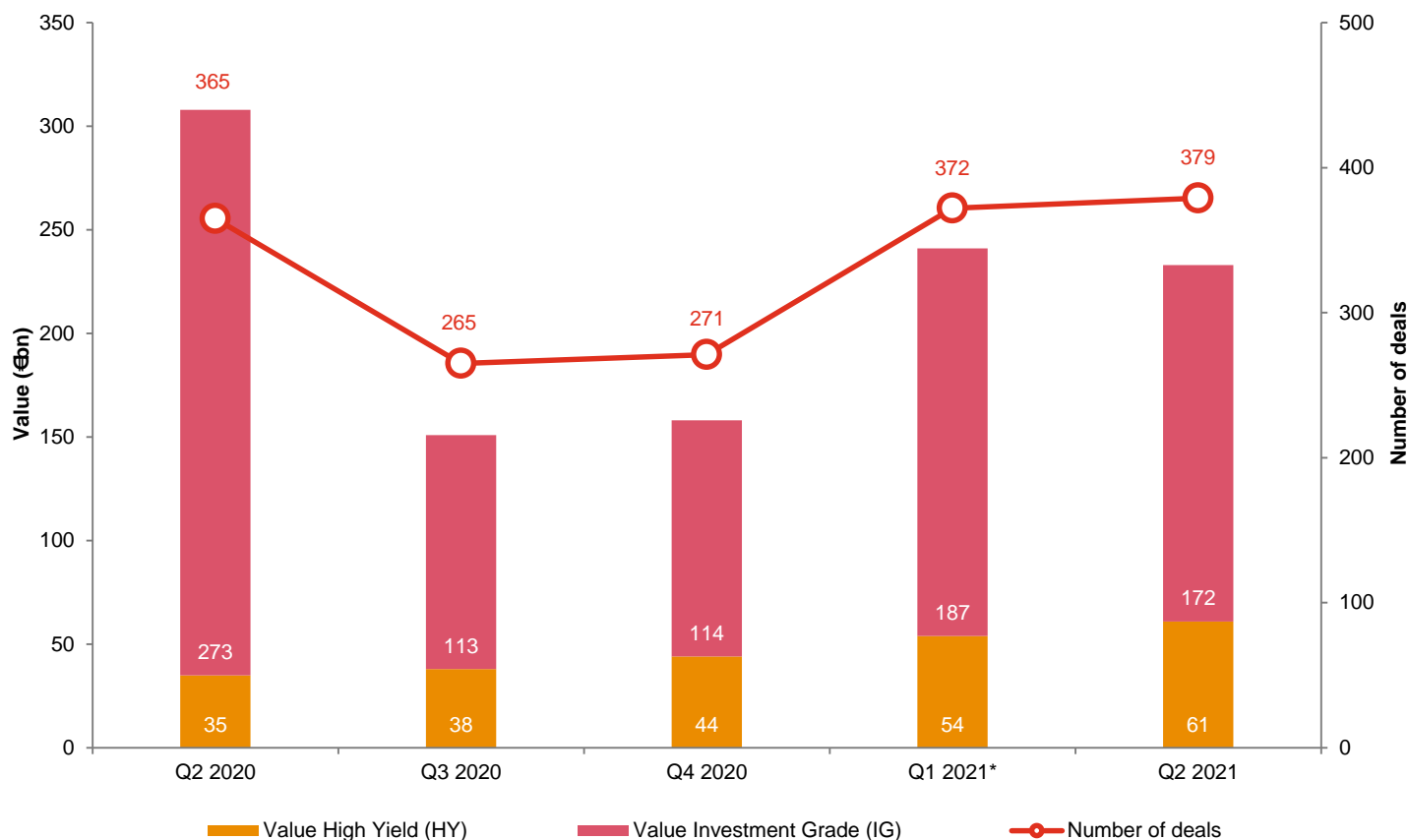
Deutsche Wohnen. This will help the combined group significantly increase its property portfolio in Berlin where rents have steadily risen.

## High Yield

The European high yield bond market saw strong levels of activity in Q2 2021, surpassing the levels in Q1 2021, as confidence within the market continued to grow and investors searched for yield. Q2 2021 saw 117 deals amounting to c.€61bn, in comparison to Q1 2021 which saw 95 deals and c.€54bn raised. There was a significant increase in activity compared to Q2 2020 which saw 42 deals and c.€35bn raised as the European high yield bond markets were heavily impacted by the pandemic in Q2 2020. The largest high yield deal of Q2 2021 was by Allied Universal Holdco LLC, used to finance the acquisition of G4S, a global security company.

The average yield-to-maturity continued to decrease in Q2 2021 compared to Q1 2021, with issuers taking advantage of the lower yields. BB credit rated issues saw an average yield-to-maturity at issuance of 2.95% which was lower than Q1 2021 of 3.29% and significantly lower than Q2 2020 of 4.24%. The lower yields were driven by liquidity remaining high in the markets and central bank stimulus programs remaining in place. With the easing of restrictions across countries and economies growing, the average issuance yield-to-maturity spread between BBB and BB credit rated corporate bonds has fallen from 2.17% in Q1 2021 to 1.84% in Q2 2021.

## Corporate debt activity by quarter



# Corporate Debt Activity (continued...)

The consumer discretionary industry sector increased its activity in the bond market in Q2 2021 compared to Q1 2021.

Governments have been reluctant to ease restrictions on flying because of the global spread of the Delta variant of COVID-19, and several airlines have looked to the bond market to raise capital. In Q2 2021 Air France-KLM raised c.€796m at an average yield-to-maturity of 3.6%. As international travel resumes it will be interesting to see investor appetite for this industry in Q3 2021.

## Green/ESG bonds

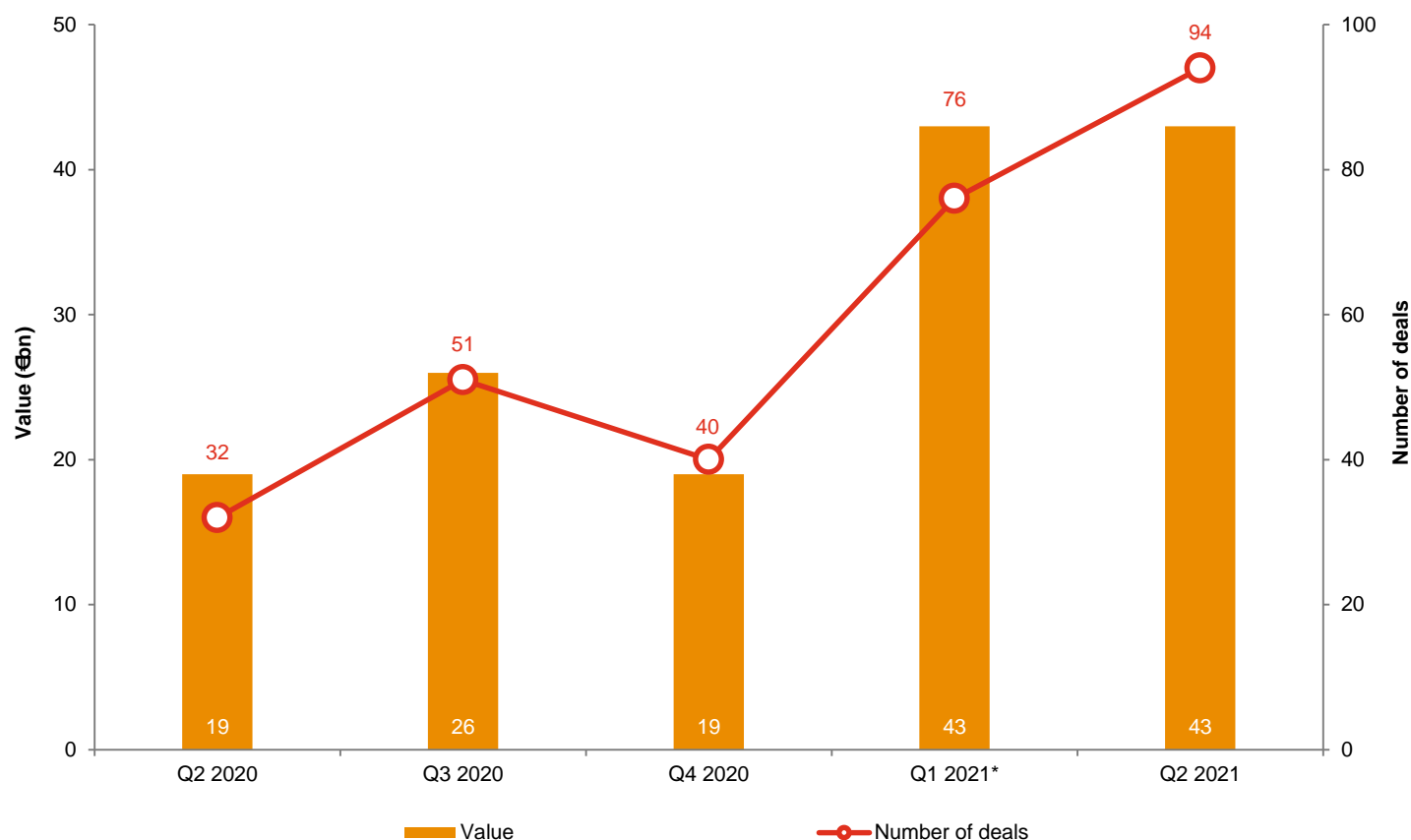
In 2021 there is clearly a focus on green/sustainable finance. The markets and investors have shown greater interest in bonds with a green or ESG element and as issuers continue to focus on their ESG commitments and ambitions this is also an increasingly attractive way to raise finance. Consequently, a larger proportion of debt deals now have a green or ESG element to them. Q2 2021 saw 94 deals amounting to c.€43bn raised. The amount raised was in line with Q1 2021, however more than double the volume of deals and value raised compared to Q2 2020, which saw 32 deals and c.€19bn raised. TenneT, a European electricity transmission system operator issued the largest green/ESG bond in the quarter with a triple tranche issuance amounting to c.€1.8bn.

The demand for green/ESG bonds is also reflected in the rise of high yield green/ESG bonds and issuers adapting to the changes in customer demands, focusing on sustainable investing. High yield rated green/ESG bonds made up c.19% of the total proceeds from green/ESG bonds in Q2 2021, in comparison to c.16% in Q1 2021 and c.2% in Q2 2020, where there was only one high yield bond green/ESG issuance.

Against the backdrop of this burgeoning market some criticism of 'greenwashing' remains. The investor community is likely to seek increased assurance as the market matures. Currently there are a number of standards which prospective issuers can use as the framework to any new green/ESG issuance. To that end, the European Union has enacted a new standard – The European Green Bond Standard (EUGBS) as best practice when raising green/ESG bonds on the capital markets. The goal behind the standard is to address some of the concerns and to help ensure that the bonds truly represent a sustainable investment.

However, given that the standard is voluntary, is it yet to be seen what impact this will have and whether this will be sufficient to address the concerns and criticism.

## Green/ESG bonds activity by quarter<sup>1</sup>

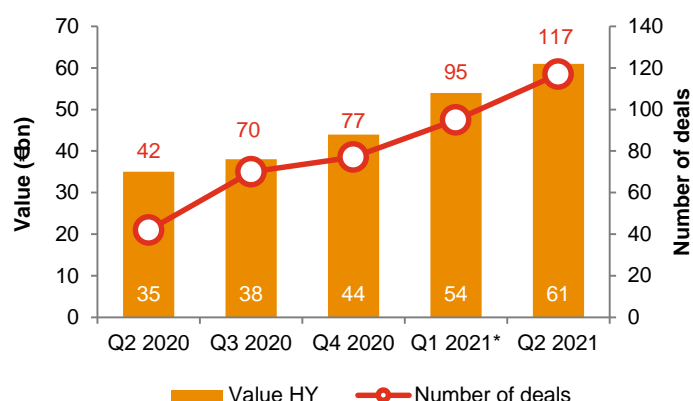


<sup>1</sup> Green/ESG bonds includes Social, Sustainable and Green bonds

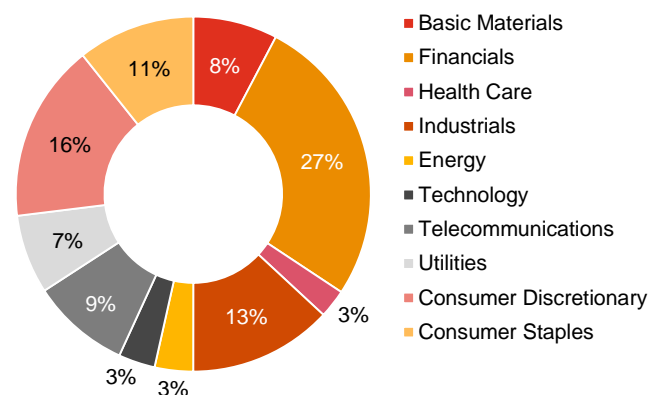
# High Yield

(Rated BB+ (inclusive) and below)

HY activity by quarter



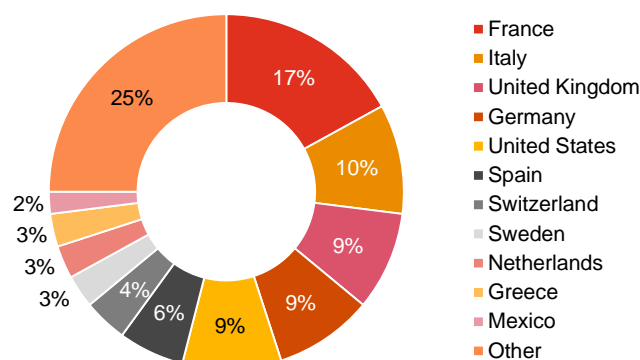
HY by sector Q2 2021



Top ten HY issues Q2 2021

Pricing date	Ten largest HY issues Q2 2021	Value (€m)	Sector	Listing	Nationality of operations	Credit rating (S&P)	YTM (%)
May-21	Allied Universal Holdco LLC	3,699	Industrials	TISE-The International Stock Exchange	United States	B/CCC+	4.75
Apr-21	Altice France SA	2,501	Telecommunications	TISE-The International Stock Exchange	France	B	4.57
Apr-21	Nexi SpA	2,100	Financials	Euro MTF Luxembourg Stock Exchange	Italy	BB-	1.88
Jun-21	Picard Groupe SAS	1,710	Consumer Staples	TISE-The International Stock Exchange	France	B	4.63
May-21	Electricite de France SA – EDF	1,240	Utilities	Paris	France	BB-	2.75
Jun-21	OCP SA – Groupe OCP	1,216	Basic Materials	Irish Stock Exchange-All Market	Morocco	BB+	4.54
May-21	NatWest Group plc	1,159	Financials	London Stock Exchange	United Kingdom	BB+	2.11
Apr-21	Dufry One BV	997	Consumer Discretionary	TISE-The International Stock Exchange	Switzerland	B+	3.51
May-21	Cellnex Telecom SA	996	Telecommunications	Irish Stock Exchange-All Market	Spain	BB+	1.56
May-21	Societe Generale	823	Financials	Paris	France	BB	

HY by issuer operations nationality Q2 2021



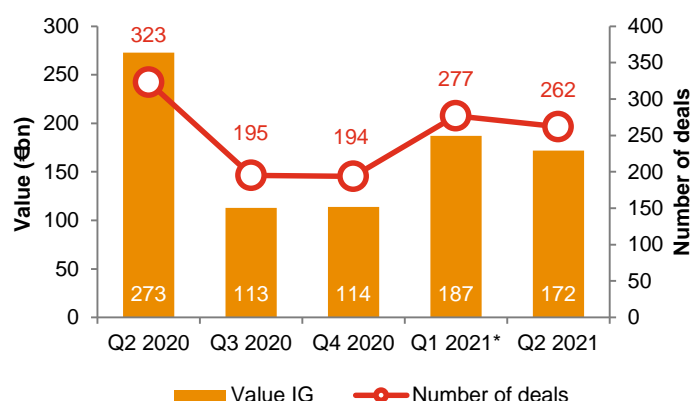
Average yield-to-maturity by issue rating (%)

S&P rating	Q2 2021	Q1 2021*	Q2 2020
BB	2.95	3.29	4.24
B	4.89	5.26	5.91
CCC	6.18	7.29	7.13

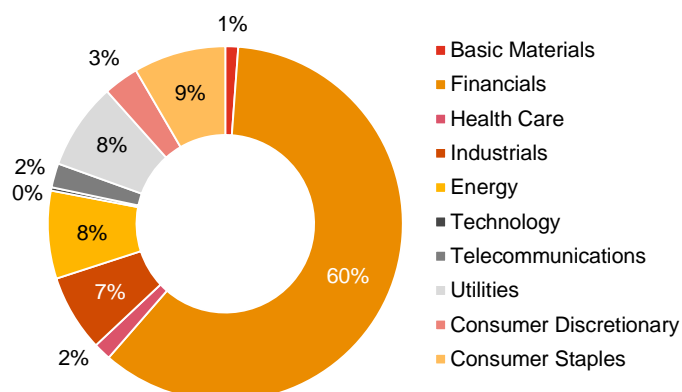
# Investment Grade

(Rated BBB- (inclusive) and above)

IG activity by quarter



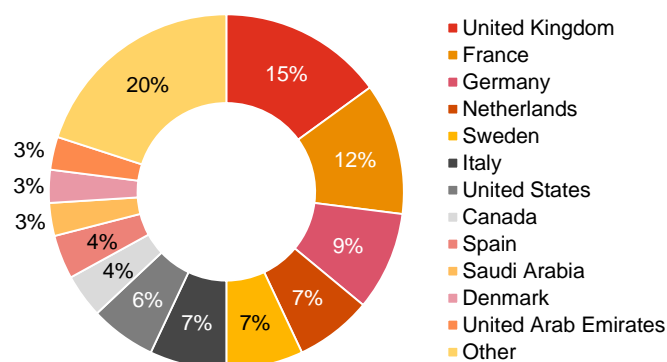
IG by sector Q2 2021



Top ten IG issues Q2 2021

Pricing date	Ten largest IG issues Q2 2021	Value (€m)	Sector	Listing	Nationality of operations	Credit rating (S&P)	YTM (%)
Jun-21	Sa Global Sukuk Ltd	4,927	Energy	London Stock Exchange	Saudi Arabia	NR	1.75
Jun-21	Vonovia SE	3,986	Financials	Luxembourg Stock Exchange	Germany	BBB+	0.72
Apr-21	CCEP Finance (Ireland) dac	3,240	Consumer Staples	Irish Stock Exchange-All Market	United Kingdom	NR	0.75
Jun-21	ENEL Finance International NV	3,216	Utilities	Irish Stock Exchange-All Market	Italy	BBB+	0.58
Jun-21	Nestle Finance International Ltd	3,135	Consumer Staples	Luxembourg Stock Exchange	Switzerland	AA-	0.47
May-21	Volkswagen Leasing GmbH	2,991	Financials	Luxembourg Stock Exchange	Germany	BBB+	0.39
May-21	Ontario Teachers Finance Trust	2,492	Financials	Irish Stock Exchange-All Market	Canada	AA+	0.53
Jun-21	Stellantis NV	2,483	Consumer Discretionary	Irish Stock Exchange-All Market	Netherlands	BBB-	1.06
May-21	UBS AG (London)	2,459	Financials	Irish Stock Exchange-All Market	United Kingdom	A+	0.88
May-21	Credit Suisse (London)	2,363	Financials	Luxembourg Stock Exchange	United Kingdom	A+	0.77

IG by issuer operations nationality Q2 2021



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

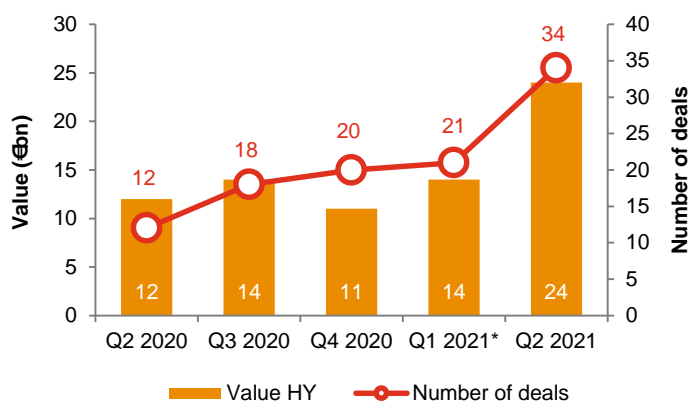
S&P rating	Q2 2021	Q1 2021*	Q2 2020
AAA	0.99	0.58	0.88
AA	0.80	0.49	0.89
A	0.89	0.88	1.34
BBB	1.12	1.12	2.14



# UK Focus

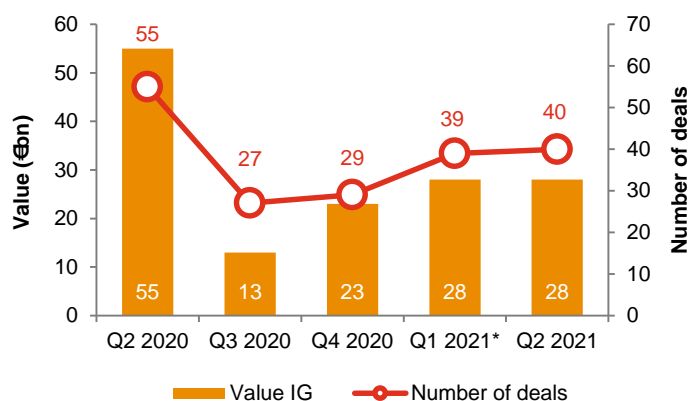
## High Yield (rated BB+ (inclusive) and below)

### UK HY activity by quarter

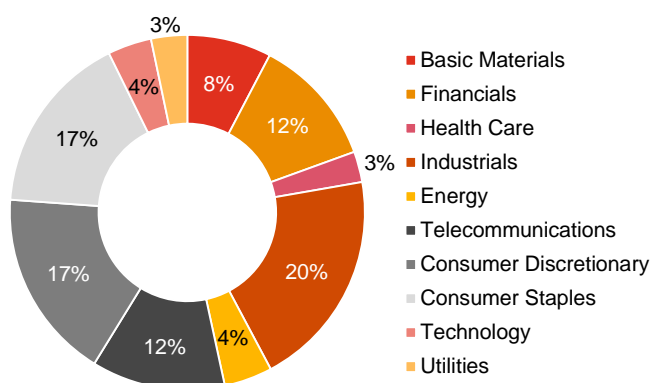


## Investment Grade (rated BBB- (inclusive) and above)

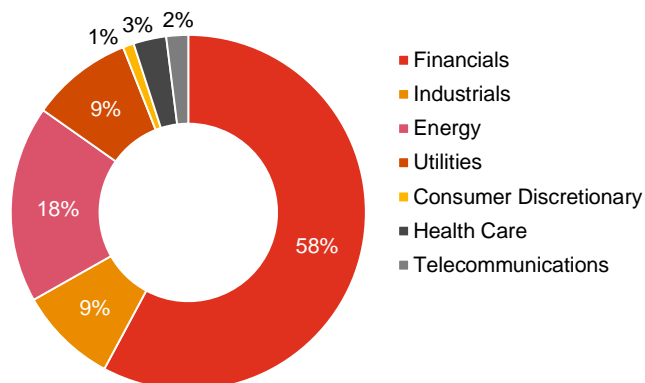
### UK IG activity by quarter



### UK HY by sector Q2 2021



### UK IG by sector Q2 2021



### Top five UK HY issues Q2 2021

Pricing date	Top five HY issues	Value (€m)	Listing	Credit rating (S&P)	YTM (%)
May-21	Allied Universal Holdco LLC	3,699	TISE-The International Stock Exchange	B/CCC+	4.75
Apr-21	Altice France SA	2,501	TISE-The International Stock Exchange	B	4.57
Jun-21	Picard Groupe SAS	1,710	TISE-The International Stock Exchange	B	4.63
May-21	NatWest Group plc	1,159	London Stock Exchange	BB+	2.11
Apr-21	Dufry One BV	997	TISE-The International Stock Exchange	B+	3.51

### Top five UK IG issues Q2 2021

Pricing date	Top five IG issues	Value (€m)	Listing	Credit rating (S&P)	YTM (%)
Jun-21	SA Global Sukuk Ltd	4,927	London Stock Exchange	NR	1.75
May-21	Barclays plc	2,011	London Stock Exchange	BBB	1.11
Apr-21	Morgan Stanley	1,750	London Stock Exchange	BBB+	0.41
Apr-21	TAQA	1,248	London Stock Exchange	NR	2.72
Jun-21	NatWest Markets	1,245	London Stock Exchange	A-	0.20

# 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 April and 30 June 2021. All market data is sourced from Dealogic and has not been independently verified by PricewaterhouseCoopers LLP.

\*The Q1 2021 market data is sourced from Dealogic as at 1 July 2021. Accordingly there may be differences to Q1 2021 data presented in Q1 2021 Debt Watch as data was run on 1 April 2021.

## 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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