



Debt Watch Europe

Q3 2020 review

Corporate Debt Activity

€150bn

Total corporate debt raised in Q3 2020

258

Total corporate debt deals in Q3 2020

€112bn

Raised in Investment Grade deals in Q3 2020

€38bn

Raised in High Yield deals in Q3 2020

Overview

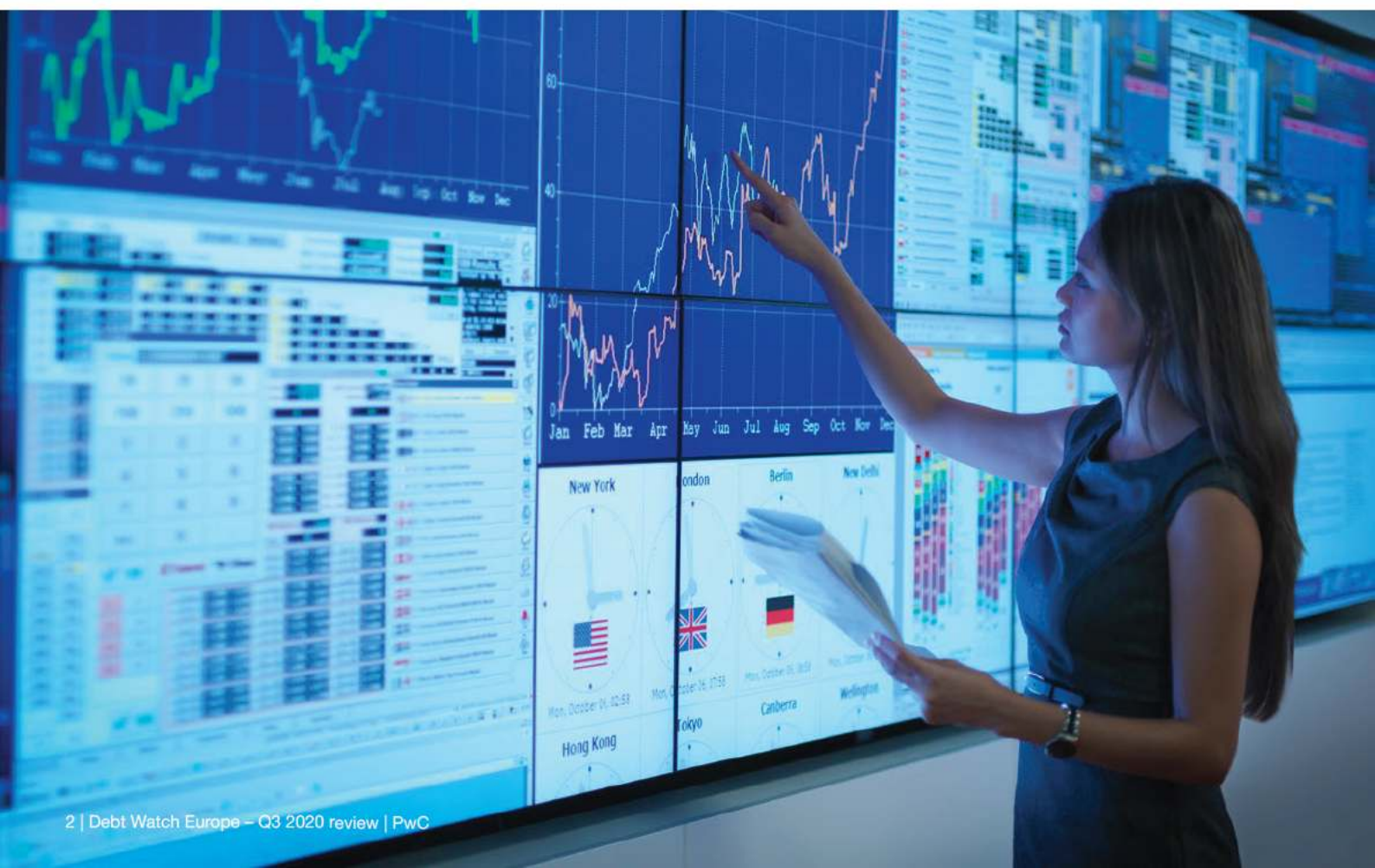
European bond market activity in the third quarter of 2020 saw a slowdown compared to Q2, with 258 deals and €150bn raised. In spite of the summer slowdown, July 2020 saw total bond issuance volumes of €51bn from 75 deals; August 2020 resulted in total volumes reaching €20bn from 43 deals; and by September 2020 total bond issuance volumes increased to €79bn from 140 deals. Given the high activity levels in Q2 2020 and the usual falloff in activity during the summer months, levels were expected to drop in Q3 2020. The spike in coronavirus (COVID-19) cases throughout Europe during the quarter coupled with the upcoming U.S. election gave investors food for thought and resulted in a number of deal delays as appetite dwindled.

Overall activity in Q3 2020 dropped significantly compared to Q3 2019, with 258 deals amounting to €150bn compared to 336 deals amounting to €220bn respectively. Following a very strong Q2 2020 with 363 deals and €307bn in volume it was always going to be difficult to follow similar levels in Q3 2020. However, Q3 2020 resulted in increased high yield bond activity compared to the prior quarter, with €38bn and 71 issuances, compared to €34bn and 40. In Q3 2020, the number of high yield issuances and volume was flat compared to Q3 2019 with 74 deals and €39bn of issuance volume.

With a number of companies reporting quarterly or half year results; disclosures relating to COVID-19 have become a focal point as the financial impact of the pandemic becomes evident. Prospectus disclosures specific to the issuer pertaining to COVID-19 have become the norm, and are important for investors in gauging the potential ongoing impact.

Investment Grade

A summer decline occurred in the investment grade European bond markets during Q3 2020. There were 187 deals amounting to €112bn in Q3 2020, compared to 323 deals amounting to €273bn in Q2 2020. Early in the pandemic many companies had been as proactive as possible, looking to access the bond markets as the opportunities presented themselves. Companies looked to bolster their balance sheets to ensure they remained liquid for the foreseeable future given the level of uncertainty at the time. As companies have digested the financial and operational impacts of COVID-19 and have been able to revise projections, there is now a sense of issuers taking stock. Some companies are building 'war chests' for potential opportunities that may present themselves or indeed preparing themselves to be able to access the debt markets through the establishment of EMTN programmes if the situation requires it.



Corporate Debt Activity (continued...)

In Q3 2020, Bayer AG was the largest issuer, issuing a jumbo deal of c.€6bn across four tranches in July 2020. The tranches were rated BBB and yet the average yield-to-maturity on issuance was low at 0.97%. This is likely a result of the favourable sector and strong credit story. The low yield correlated with Bayer AG share price peaking at the end of June 2020 based on the company's last six months financial results.

The yield-to-maturity at issuance on A and BBB credit rated bonds dropped from 1.37% and 2.17% in Q2 2020 compared to 1.17% and 1.73% in Q3 2020 which was favourable to issuers. This shows that well placed blue-chip companies were able to weather the COVID-19 pandemic and, in some cases, benefit from the low yields available due to the stimulus packages put in place by the European Central Bank (ECB) over the last six months. This is compared to the yield-to-maturity in Q3 2019 on the same credit rates bonds of 1.08% and 1.63% pre-COVID-19 uncertainty.

Given the unknown impact of a second wave of COVID-19, the expectation is that further stimulus packages from both the ECB and the U.S. Federal Reserve are on the horizon. Government bond yields have remained low during the quarter with marginal increases compared to the lows previously seen in Q1 2020.

High Yield

The increased high yield activity levels this quarter can in part point to investors' continued search for yield, in light of the current yields on government bonds and investment grade corporate bonds and the delayed re-opening of the European high yield market post March 2020. Yields have remained fairly low, in part due to the number of central bank stimulus packages in place and the national Government support countries have provided for companies to access liquidity.

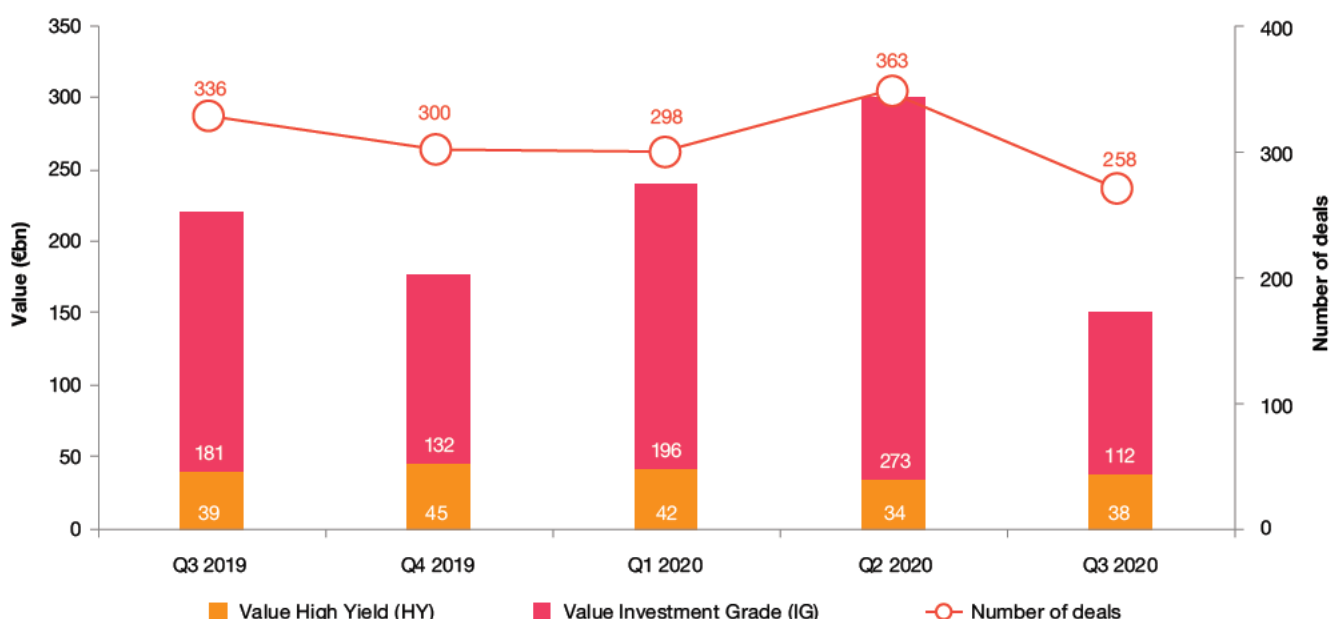
This has a knock-on effect for investors, leading to a search for added risk to offset their portfolio positions and gravitate towards high yield bonds. Given that investors are able to see the effects of COVID-19 on a company's financial statements and the crunch point tends to be around liquidity and business model rather than the financial statements themselves, certain issuers have used this to their advantage to access the bond market.

An increase in activity during Q3 2020, despite the pandemic, has demonstrated the appetite for risk. In the most challenged sectors, such as hospitality, Stonegate Pubs issued c.€1bn, albeit at a steep price as the yield-to-maturity at issuance was 8.25%. This was a strong signal to the market that however badly affected the sector is by the pandemic, investors may be willing to consider the investment at the right price and for the right company. It is likely that this will encourage similar issuers to come to the market if they deem it necessary.

BB credit rated corporate bonds dominated the high yield sector again this quarter. This is a result of the 'fallen angels', including several high profile names such as Rolls Royce, that are now classed as sub-investment grade. Some central banks are able to take stock of high yield bonds and as such the average issuance yield-to-maturity spread between BBB and BB credit rated corporate bonds has risen from 1.97% in Q2 2020 to 2.34% in Q3 2020.

The remaining months of 2020 could be turbulent, with a second wave of COVID-19 emerging, the upcoming U.S. Presidential election and the ongoing Brexit talks all contributing to market uncertainty. This combination could lead to an uptake in volatility, dampening the high yield market in Q4 2020. Whether the year closes with a whimper or a bang remains to be seen.

Corporate debt activity by quarter



Note: Prior quarter figures modified due to change in methodology (see page 7).

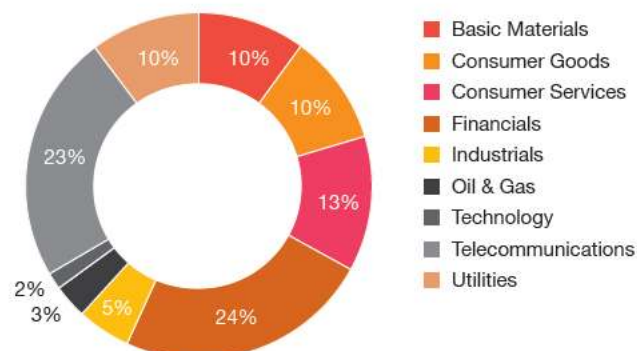
High Yield

(Rated BB+ (inclusive) and below)

HY activity by quarter



HY by sector Q3 2020

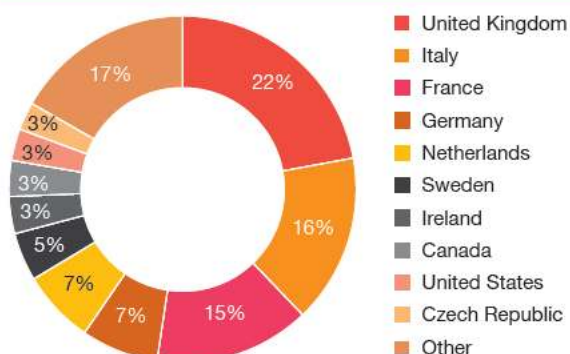


Note: Prior quarter figures modified due to change in methodology (see page 7).

Top ten HY issues Q3 2020

Pricing date	Ten largest HY issues Q3 2020	Value (€m)	Sector	Listing	Nationality of operations	Credit rating (S&P)	YTM (%)
Sep-20	VMED O2 UK Financing I plc	2,759	Telecommunications	TISE-The International Stock Exchange	United Kingdom	BB-	3.83
Sep-20	Electricite de France SA – EDF	2,081	Utilities	Paris	France	BB-	3.25
Aug-20	Vodafone Group plc	2,000	Telecommunications	London Stock Exchange	United Kingdom	BB+	2.82
Aug-20	Intesa Sanpaolo SpA	1,500	Financials	Luxembourg Stock Exchange	Italy	BB-	
Sep-20	ZF Friedrichshafen AG	1,489	Consumer Goods	Luxembourg Stock Exchange	Germany	BB+	3.51
Jul-20	Stonegate Pub Co Financing 2019 plc	1,324	Consumer Services	TISE-The International Stock Exchange	United Kingdom	NR	8.25
Aug-20	Barclays plc	1,276	Financials	London Stock Exchange	United Kingdom	B+	6.17
Sep-20	First Quantum Minerals Ltd	1,264	Basic Materials	TISE-The International Stock Exchange	Canada	CCC+	6.87
Jul-20	TenneT Holding BV	1,000	Utilities	Amsterdam	Netherlands	BB+	2.38
Sep-20	AIB Group plc	1,000	Financials	Irish Stock Exchange- All Market	Ireland	BB	2.89

HY by issuer operations nationality Q3 2020



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

S&P rating	Q3 2020	Q2 2020	Q3 2019
BB	4.07	4.14	3.66
B	6.52	5.78	6.52
CCC	6.87	7.13	9.13

Note: Prior quarter figures modified due to change in methodology (see page 7).

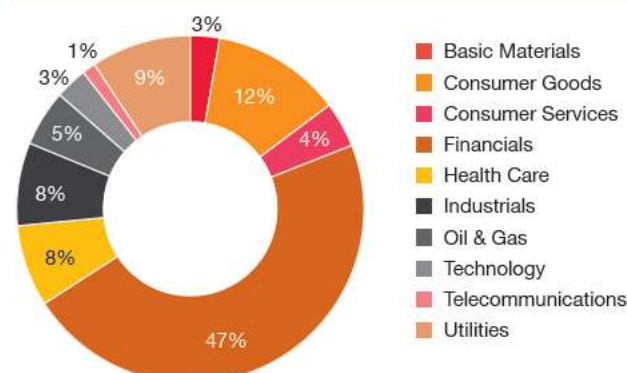
Investment Grade

(Rated BBB- (inclusive) and above)

IG activity by quarter



IG by sector Q3 2020

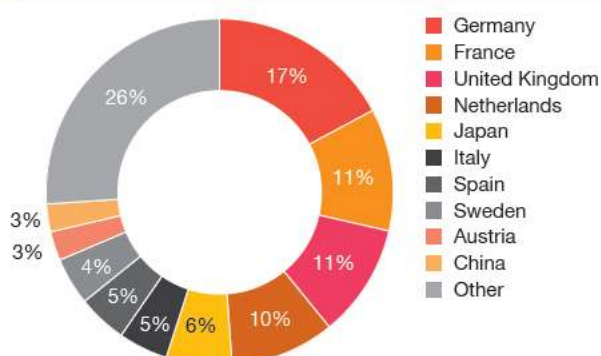


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Top ten IG issues Q3 2020

Pricing date	Ten largest IG issues Q3 2020	Value (€m)	Sector	Listing	Nationality of operations	Credit rating (S&P)	YTM (%)
Jul-20	Bayer AG	5,980	Health Care	Luxembourg Stock Exchange	Germany	BBB	0.97
Jul-20	MUFG	2,655	Financials	Euro MTF/Luxembourg Stock Exchange	Japan	A-	1.73
Sep-20	Nissan Motor Co Ltd	2,000	Consumer Goods	Euro MTF/Luxembourg Stock Exchange	Japan	BBB-	2.60
Sep-20	Volkswagen International Finance NV	1,984	Consumer Goods	Luxembourg Stock Exchange	Germany	BBB+	1.16
Jul-20	State Grid Overseas Investment (2016) Ltd	1,600	Utilities	Irish Stock Exchange-All Market	China	A+	1.05
Jul-20	Vonovia Finance BV	1,492	Financials	Luxembourg Stock Exchange	Germany	BBB+	0.89
Sep-20	MUFG	1,267	Financials	Euro MTF/Luxembourg Stock Exchange	Japan	A-	0.85
Sep-20	AerCap Ireland Capital dac	1,258	Industrials	Irish Stock Exchange-All Market	Netherlands	BBB	4.14
Sep-20	Anglo American Capital plc	1,253	Basic Materials	London Stock Exchange	United Kingdom	BBB	3.38
Aug-20	OMV AG	1,250	Oil & Gas	Luxembourg Stock Exchange Vienna Stock Exchange	Austria	NR	2.69

IG by issuer operations nationality Q3 2020



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

S&P rating	Q3 2020	Q2 2020	Q3 2019
AAA	—	0.87	1.43
AA	1.25	1.02	0.82
A	1.17	1.37	1.08
BBB	1.73	2.17	1.63

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UK Focus

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

UK HY activity by quarter



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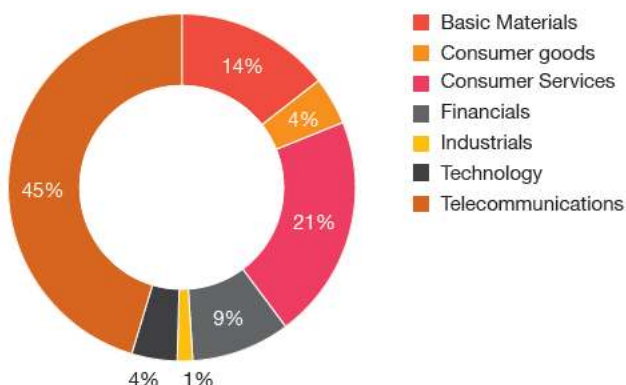
Investment Grade (rated BBB- (inclusive) and above)

UK IG activity by quarter

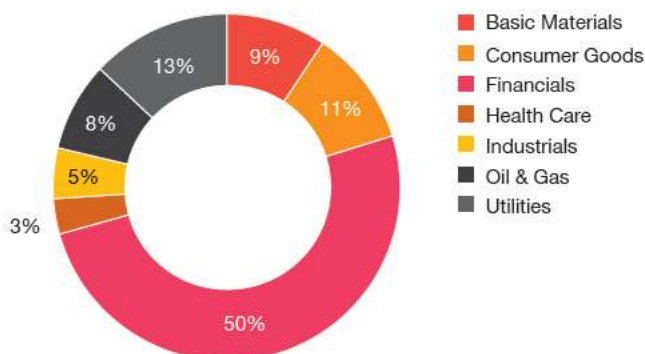


Note: Prior quarter figures modified due to change in methodology (see page 7).

UK HY by sector Q3 2020



UK IG by sector Q3 2020



Top five UK HY issues Q3 2020

Pricing date	Top five HY issues	Value (£m)	Listing	Credit rating (S&P)	YTM (%)
Sep-20	VMED O2 UK Financing I plc	2,759	TISE-The International Stock Exchange	BB-	3.83
Aug-20	Vodafone Group plc	2,000	London Stock Exchange	BB+	2.82
Jul-20	Stonegate Pub Co Financing 2019 plc	1,324	TISE-The International Stock Exchange	NR	8.25
Aug-20	Barclays plc	1,276	London Stock Exchange	B+	6.17
Sep-20	First Quantum Minerals Ltd	1,264	TISE-The International Stock Exchange	CCC+	6.87

Top five UK IG issues Q3 2020

Pricing date	Top five IG issues	Value (£m)	Listing	Credit rating (S&P)	YTM (%)
Sep-20	Anglo American Capital plc	1,253	London Stock Exchange	BBB	3.38
Jul-20	National Grid Electricity Transmission plc	1,132	London Stock Exchange	A-	1.01
Sep-20	Diageo Capital plc	1,128	London Stock Exchange	A-	0.77
Sep-20	Shell International Finance BV	1,107	London Stock Exchange	AA-	1.45
Jul-20	China Construction Bank (Hong Kong)	1,027	'Hong Kong Exchange-Main Board London Stock Exchange NASDAQ Dubai'	NR	1.20

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). Previously the data for Q1 2020 and Q2 2020 was based on the deal nationality as defined by Dealogic.

The survey was conducted between 1 July and 30 September 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, Bloomberg and PwC analysis.

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