



# Debt Watch Europe

## 2020 Annual Review



# Review of 2020 and outlook for 2021

€859bn

**Total raised in 2020  
across Europe**

1,207

**Total deals in 2020  
across Europe**

€699bn

**Raised in Investment Grade  
deals in 2020 across Europe**

€160bn

**Raised in High Yield deals  
in 2020 across Europe**

## Overview

In the wake of a coronavirus pandemic (COVID-19) during 2020, European bond markets remained very active. 1,207 deals and c.€859bn raised during 2020 surpassed 2019 activity in terms of volume (c.€814bn raised by comparison) even though overall numbers of deals were lower than 2019's 1,305. The first two quarters of 2020 were far more active than the latter two, though activity continued throughout. Market conditions drove the strong start in Q1 2020 and then we saw a further response in Q2 2020 to COVID-19 as companies searched for liquidity to shore up their balance sheets. This was especially evident in the investment grade markets, which showed heightened levels during Q2 2020 as issuers flocked to the markets. Q2 2020 proved the slowest quarter for high yield with 42 deals amounting to c.€35bn, due to the high yield market's dormant activity during March and April 2020. Nonetheless, in the shadow of COVID-19, 2020 proved to be one of the strongest high yield bond years on record in terms of volumes. c.€160bn were issued, behind only 2017 which saw c.€179bn issued without the markets effectively shutting down. Q4 2020 high yield activity saw an uptick as investor sentiment improved with news of effective vaccines.

Since March 2020 Keynesian central banks have continuously offered stimulus packages to the markets, providing unprecedented support to economies with issuers taking advantage. The latest instalments being the European Central Bank (ECB) adding c.€500bn to its bond buying program in December 2020, followed by the U.S. Federal Reserve (the Fed) adding c.US\$900bn as an additional stimulus package.

Conversely, reduced yields led to unfavourable terms for investors. Average yield-to-maturity on issuances for BB rated bonds has decreased from 4.02% in 2019 to 3.50% in 2020, and for B rated bonds from 6.61% in 2019 to 5.77% in 2020.

Financial services dominated both the high yield and investment grade markets throughout 2020; perhaps unsurprisingly consumer goods and services were the second most active sector with 21% and 15% of the markets, respectively. As one of the most affected sectors by COVID-19, the consumer sector saw a great deal of activity to weather the storm as national lockdowns and restrictions resulted in many businesses needing to bolster liquidity, refinance any national state schemes that had been offered or repay drawings on revolving credit facilities. The market saw deals from unexpected places with Carnival cruises issuing US\$4bn senior secured notes in April 2020, US\$900m senior secured notes in August 2020 and c.US\$2.04bn (US dollar equivalent) senior notes in November in 2020. Even while much slowed down in the wake of global lockdowns, the bond markets remained open and adapted to the new trading environment.

The 2020 European high yield bond market was dominated by BB credit rated instruments, accounting for over 60% of deals. This was a consequence of the 'fallen angels' that came to light during 2020 coupled with investors' willingness to buy into riskier bonds. Examples of 'fallen angels' were seen in Q4 2020 when Marks & Spencer and Renault issued high yield bonds.



# Review of 2020 and outlook for 2021 (continued...)

## Green/ESG bonds

The European green bond market is growing swiftly as companies search for favourable terms and want to be seen as acting in a socially responsible manner. Predictions for 2021 are that as much as US\$500bn could be raised worldwide in the sector in 2021. The appetite is certainly there, as investors also have ever-increasing environmental, social and governance (ESG) mandates driving demand. 2020 saw 146 green bond deals amounting to c.€80bn in contrast to 127 deals amounting to c.€63bn in 2019. Against this, concerns remain. With no set ESG framework that all issuers need to follow, accusations of 'greenwashing' and differentiation in practice have made benchmarking difficult. That said, new standards and frameworks are being developed to address investor concerns and the European Union (EU) has developed the EU taxonomy for sustainable activities.

New issuers of green bonds are able to expand their investor bases and attract a wider audience, which is an additional incentive along with the credentials. 2020 saw issuers from sectors not previously seen before such as consumer goods and industrials, which will in time help grow the market as investors look to diversify. **Burberry pioneered green bonds in the fashion retail sector** with an issuance amounting to £300m paving the way for many others.

## Outlook for 2021

Looking ahead to 2021 and the changes as a result of the Democrats winning the United States presidential election and gaining control of the Senate coupled with continued lockdown scenarios, there are likely to be further stimulus packages from national Governments and central banks to support and balance markets into 2021 until the COVID-19 vaccine has been fully rolled out and stability achieved. Yields on Government bonds throughout Europe are very low and are expected to remain at these levels for the year ahead. The rate at which the ECB has purchased Government bonds during 2020 is unprecedented, resulting in low yields.

This leaves bond investors with much to consider going into 2021 as they are squeezed out by central banks and continue to search for improved yield. Consequently, investors may look to other instruments and markets to enhance returns on their portfolios. Some of the initial excitement around the vaccine development has become muted as the reality of the mammoth task of its rollout dawns. So the early optimism of investors at the end of 2020 was checked in the first quarter of 2021. Generally positivity remains and, for the right issuer with the right story, there will certainly be an appetite for new deals. We have already seen oversubscribed bonds issued in the first week of January with Wizz Air receiving €2bn of orders for its €500m 1.35% issue.

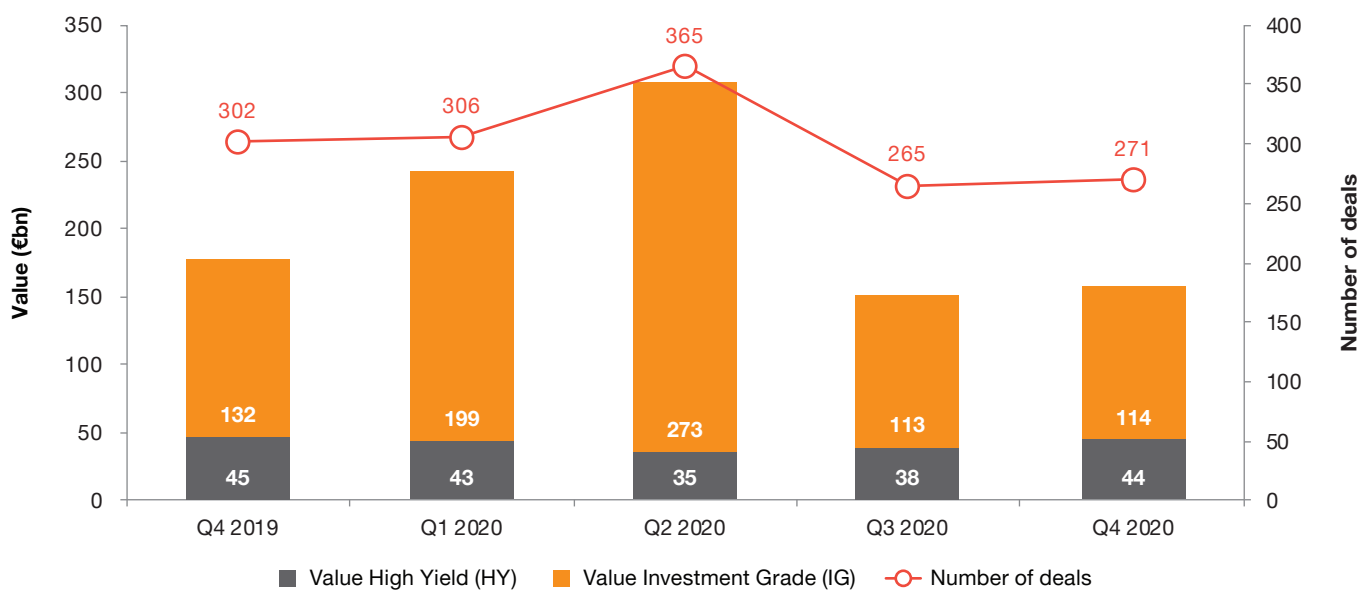
The market for issuers is expected to remain attractive during 2021. In spite of continued restrictions and national lockdowns due to COVID-19, activity is expected to remain high. Credit default ratings could increase in 2021 as the COVID-19 situation evolves and as the full effects of the pandemic are reported in companies' annual financial statements. As 2021 progresses, the focus may switch from refinancing to M&A and LBO with yields likely to be dependent on the sector.



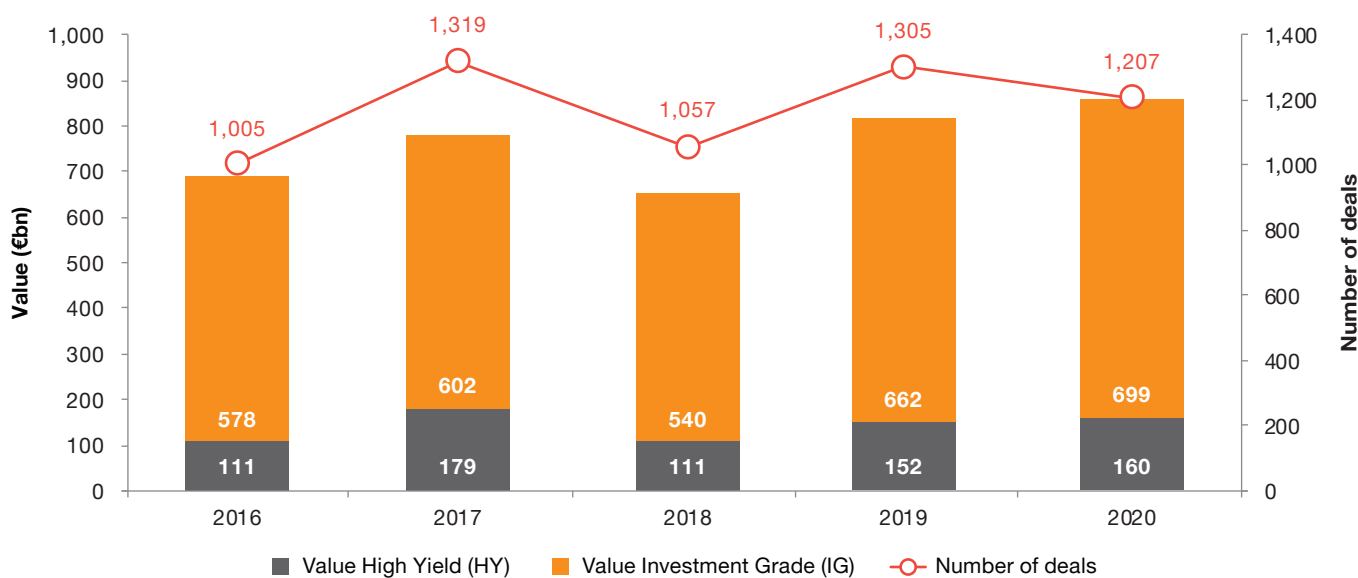


# Corporate Debt Activity

## Corporate debt activity by quarter

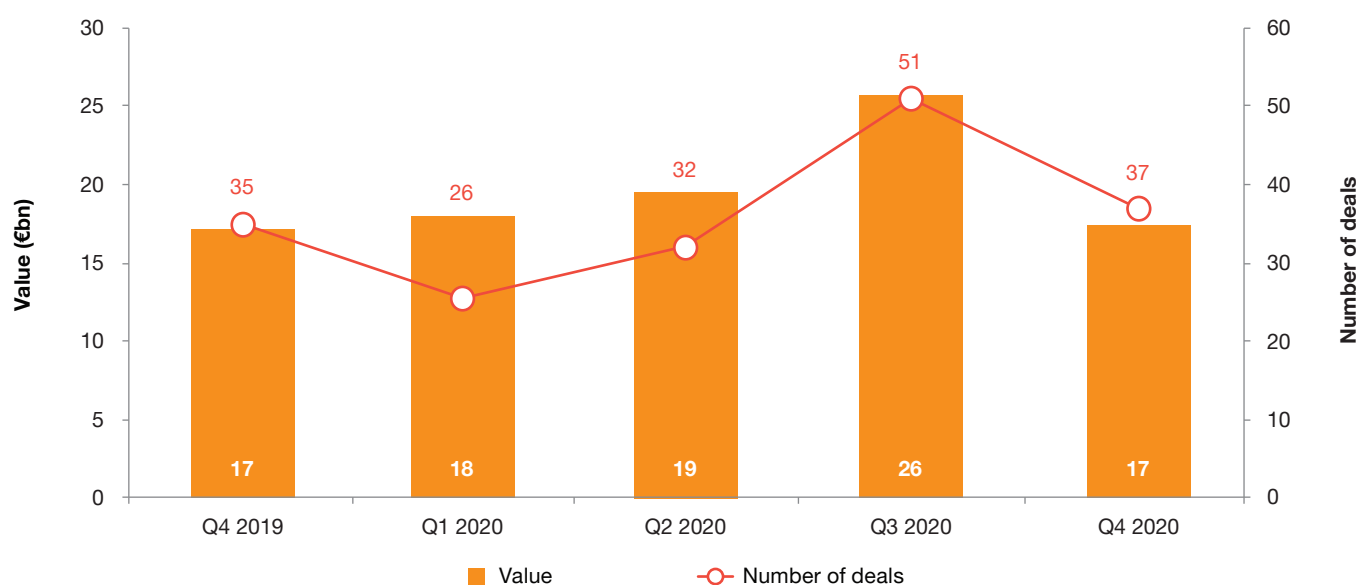


## Corporate debt activity by year

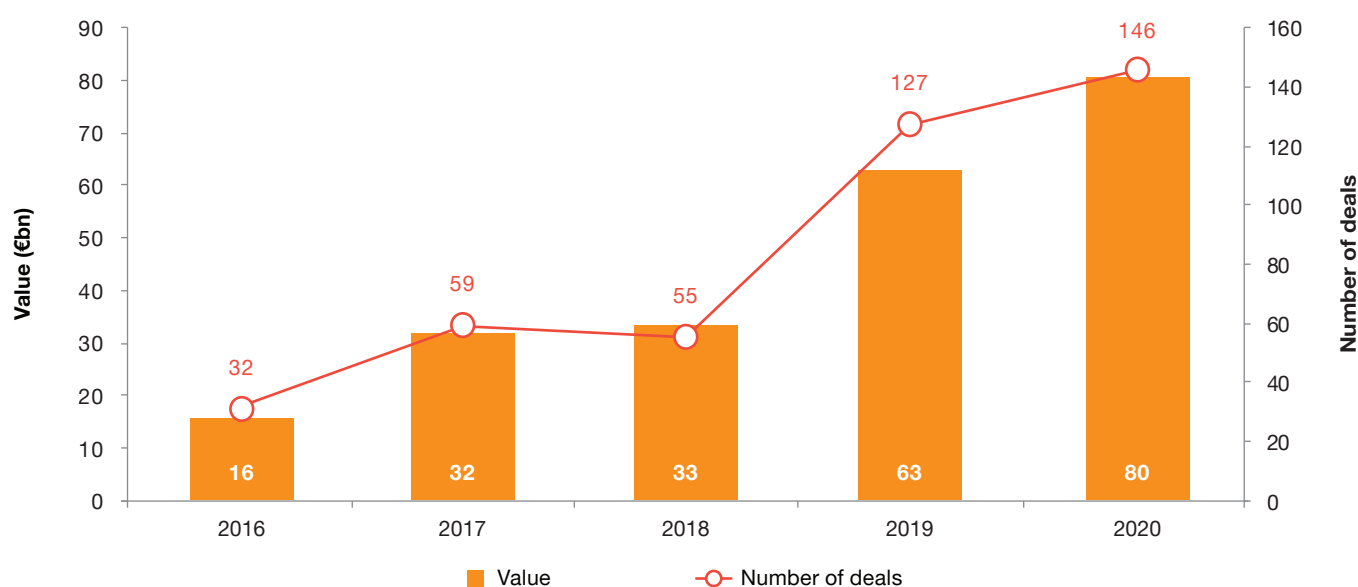


# Green/ESG Bonds

Green/ESG bonds activity by quarter\*



Green/ESG bonds activity by year\*

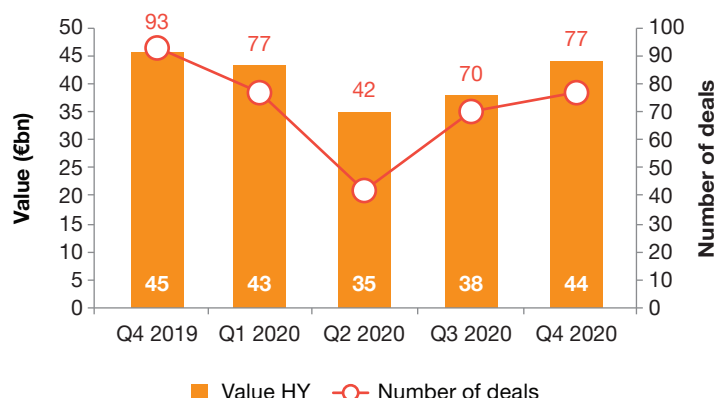


\* Green/ESG bonds includes Social, Sustainable and Green bonds

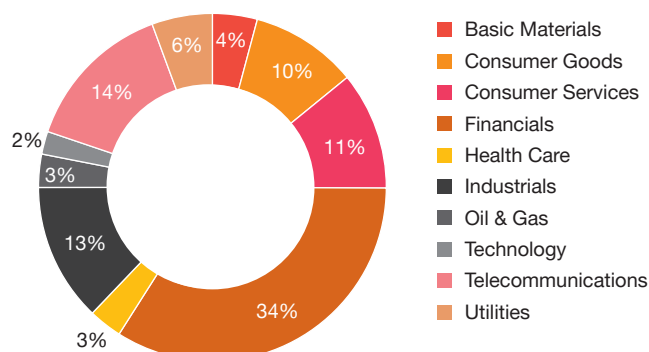
# High Yield – Europe

(Rated BB+ (inclusive) and below)

HY activity by quarter



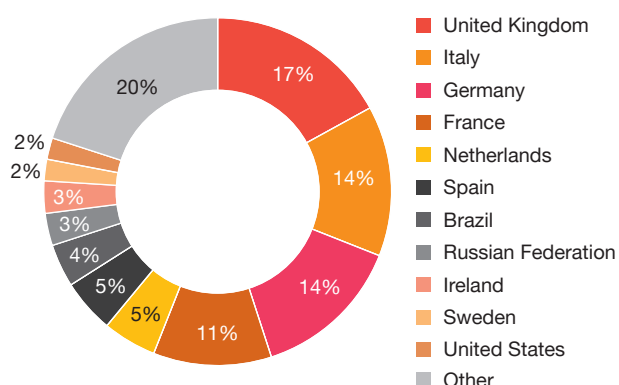
HY by sector 2020



Top ten HY issues 2020

Pricing date	Ten largest HY issues 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	Fiat Chrysler Automobiles NV	3,500	Consumer Goods	Irish Stock Exchange-All Market	Italy	BB+	3.92
Jan-20	Altice Financing SA	2,774	Financials	Luxembourg Stock Exchange	France	B	3.42
Sep-20	VMED O2 UK Financing I plc	2,759	Telecommunications	TISE-The International Stock Exchange	United Kingdom	BB-	3.83
Oct-20	Rolls-Royce plc	2,199	Industrials	London Stock Exchange	United Kingdom	BB-	5.38
Oct-20	Gaz Finance plc	2,184	Oil & Gas	Irish Stock Exchange-All Market	Russian Federation	BB	
Jan-20	Altice France SA	2,102	Telecommunications	TISE-The International Stock Exchange	France	B	4.08
Sep-20	Electricite de France SA – EDF	2,081	Utilities	Paris	France	BB-	3.25
Oct-20	Veolia Environnement	2,000	Utilities	Paris	France	BB+	2.50
Aug-20	Vodafone Group plc	2,000	Telecommunications	London Stock Exchange	United Kingdom	BB+	2.82

HY by issuer operations nationality 2020



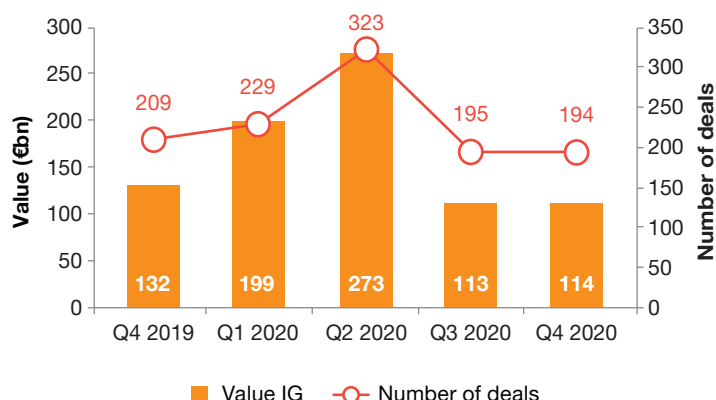
Average yield-to-maturity by issue rating (%)

S&P rating	Q4 2020	2020	2019
BB	3.50	3.70	4.02
B	6.26	5.77	6.61
CCC	-	5.91	8.95
CC	9.33	9.33	-

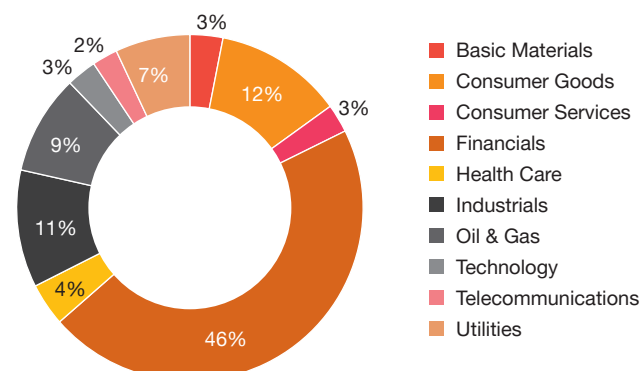
# Investment Grade – Europe

(Rated BBB- (inclusive) and above)

IG activity by quarter



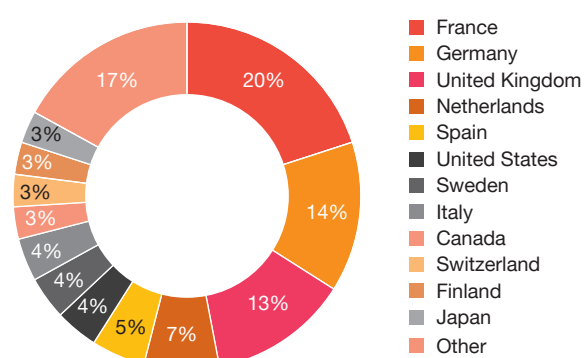
IG by sector 2020



Top ten IG issues 2020

Pricing date	Ten largest IG issues 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
Nov-20	Saudi Aramco	6,702	Oil & Gas	London Stock Exchange	Saudi Arabia	NR	2.42
Jun-20	BP Capital Markets plc	6,141	Oil & Gas	London Stock Exchange	United Kingdom	BBB	
Jul-20	Bayer AG	5,980	Health Care	Luxembourg Stock Exchange	Germany	BBB	0.97
Feb-20	Siemens Financieringsmaatschappij NV	5,004	Industrials	Luxembourg Stock Exchange	Germany	A+	0.34
Jan-20	Petroleos Mexicanos – PEMEX	4,508	Oil & Gas	Luxembourg Stock Exchange	Mexico	BBB+	6.45
Mar-20	Anheuser-Busch InBev SA/NV	4,489	Consumer Goods	London Stock Exchange	Belgium	A-	2.92
May-20	Siemens Financieringsmaatschappij NV	3,997	Industrials	Luxembourg Stock Exchange	Germany	A+	0.47
Jun-20	Upjohn Finance BV	3,600	Health Care	Irish Stock Exchange- All Market	United States	BBB-	1.28
Jun-20	Airbus SE	3,482	Industrials	Luxembourg Stock Exchange	France	A	1.84

IG by issuer operations nationality 2020



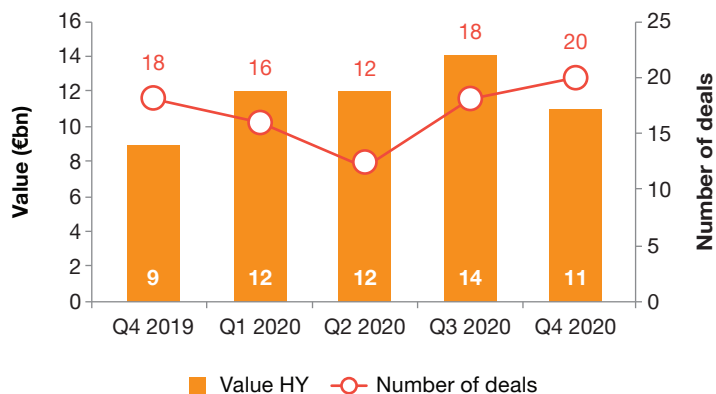
Average yield-to-maturity by issue rating (%)

S&P rating	Q4 2020	2020	2019
AAA	0.02	0.64	1.94
AA	0.29	0.84	1.02
A	0.83	1.21	1.34
BBB	1.46	1.86	2.01

# UK Focus

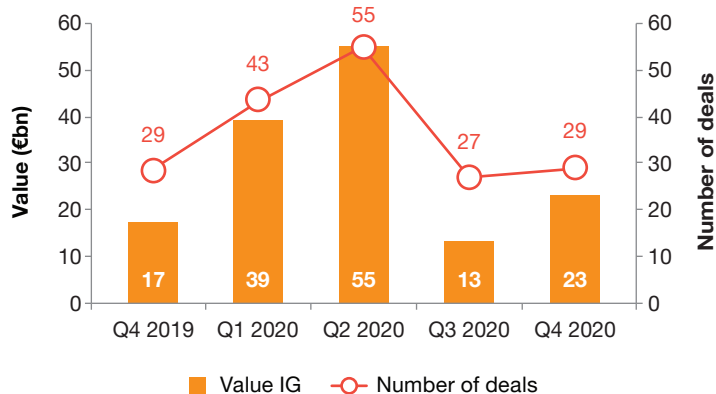
## High Yield (rated BB+ (inclusive) and below)

### UK HY activity by quarter

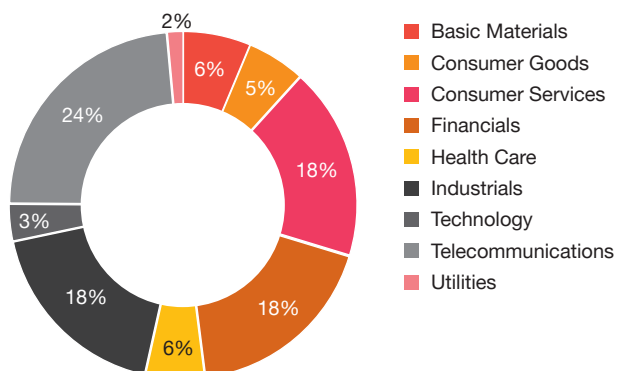


## Investment Grade (rated BBB- (inclusive) and above)

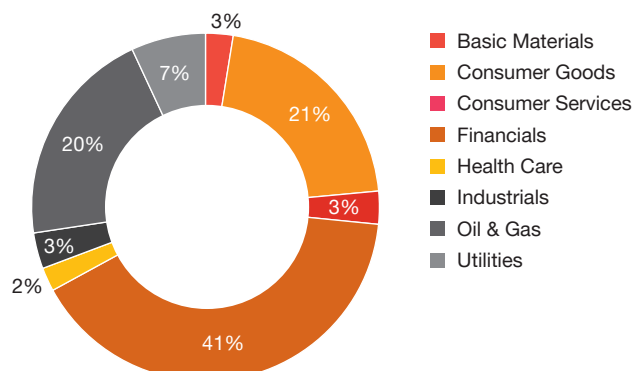
### UK IG activity by quarter



### UK HY by sector 2020



### UK IG by sector 2020



### Top five UK HY issues 2020

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### Top five UK IG issues 2020

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Nov-20	Saudi Aramco	6,702	London Stock Exchange	NR	2.42
Jun-20	BP Capital Markets plc	6,141	London Stock Exchange	BBB	
Mar-20	Anheuser-Busch InBev SA/NV	4,489	London Stock Exchange	A-	2.92
Apr-20	BP Capital Markets plc	3,250	London Stock Exchange	A-	2.41
Apr-20	Wells Fargo & Co	3,000	London Stock Exchange	A-	1.54



# About Debt Watch Europe

Debt Watch Europe surveys all main and exchange regulated market bond deal issuance across Europe's debt listing venues (excluding Russia and Switzerland). Previously the data was based on the deal nationality being within certain European countries.

The survey was conducted between 1 January and 31 December 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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