



Debt Watch Europe

2021 Annual Review

Review of 2021 and outlook for 2022

1,322

Total corporate debt deals in 2021

€851bn

Total corporate debt raised in 2021

€651bn

Raised in investment grade deals in 2021

€200bn

Raised in high yield deals in 2021

Overview

As 2021 closed, we saw another strong year for corporate debt issuances. With the continued roll out of the COVID-19 vaccine and the general ease in restrictions, investment grade debt issuances normalised to pre-pandemic levels. In contrast, 2021 had record levels of high yield bond issuances as the market recovered from the significant hit (almost closure of the European market) at the start of the pandemic last year. High yield bond issuers also took advantage of lower yields and high levels of supply in the market in 2021. Overall, despite the continued impact of COVID-19, the number of deals in the European bond markets of 1,322 issuances were higher than 2020's 1,207 issuances even though the c.€851bn raised during 2021 was lower than 2020 activity in terms of volume (c.€859bn raised in comparison).

In the high yield bond market, the c.€200bn raised surpassed the previous high of c.€179bn raised in 2017. Issuers took advantage of the lower yields as average yield-to-maturity on issuances for BB rated bonds decreased from 3.7% in 2020 to 3.2% in 2021 and for B rated bonds from 5.8% to 5.2%. With high levels of liquidity in the market and central bank stimulus programs pushing yields down, investors continued to search for yield, driving up demand for high yield bonds. Q2 2021 was the strongest quarter for high yield bonds in 2021, with c.€62bn raised and 125 deals.

Investment grade activity in 2021 saw a slight decrease in activity compared to 2020, with 937 deals amounting to c.€651bn compared to 941 deals and c.€699bn, respectively. The decrease in volume in 2021 is a sign that supply is normalising after unprecedented activity levels in 2020 as companies searched for liquidity to shore up their balance sheets in response to COVID-19.

Across both investment grade and high yield markets the first two quarters of the year were far more active than the latter two. There were a total of 772 deals amounting to c.€490bn in H1 2021 compared to 550 deals and c.€361bn raised in H2 2021. In the first half of the year, this was driven by investor optimism as there was a gradual global relaxation of worldwide COVID-19 restrictions and progression in the global vaccine rollout. Q4 2021 proved to be the slowest quarter with 253 deals amounting to c.€177bn raised as some issuers delayed issuances due to the emergence of the Omicron variant.

Financial services dominated the investment grade and high yield markets throughout the year and accounted for nearly two-thirds of investment grade issuances in 2021. The biggest issuer in the investment grade sector was aircraft leasing company AerCap Ireland Capital DAC, which completed the largest deal at c.€18bn in an unprecedented 9-tranche listing to help fund its acquisition of GE Capital Aviation Services from General Electric. German real estate company Vonovia SE was another active company in 2021, raising a total of c.€9bn in two separate deals during the year, the largest being c.€5bn raised in Q3 2021 to help finance its acquisition of Deutsche Wohnen, which completed in October 2021.



Review of 2021 and outlook for 2022 (continued)

Green/ESG bonds

The European green/ESG bond market saw nearly double the number and value of deals in 2021 compared to 2020, highlighting the clear focus on green/ESG finance from both investors and issuers. In 2021, there were 296 deals and c.€155bn raised compared to 149 deals and c.€82bn raised in 2020. High yield bonds with a green or ESG element continued to rise as issuers adapted to the changes in investor demands. High yield rated green/ESG bonds made up c.16% of the total proceeds from green/ESG bonds in 2021 compared to c.11% in 2020.

Within the wider bond markets, green/ESG bonds are no longer the exception and very much the rule. We expect these to be featured in bond raises across all sectors in 2022. Issuers will continue to address the challenges in ensuring the green/ESG frameworks governing green/ESG bonds are met. That said, currently there is positivity from both the issuer and investor community to ensure this happens. Regulatory framework remains light in this area, however the EU has led the way and issued its proposed Green Bond standard in 2021. We would expect other countries and regulators to reflect this stance and take greater interest in the area as the market matures.

Outlook for 2022

Looking ahead to 2022 and the economic uncertainty caused by the rapid spread of the Omicron variant of COVID-19 across the globe and the continuing disruption to supply chains causing inflation worries, it is likely that central banks and national Governments will look to tighten monetary policy to try and combat rising inflation. In December 2021, U.S. inflation rose by 7% compared to December 2020, growing at its fastest pace in nearly 40 years. The Federal Reserve signalled that it would accelerate tapering of its bond purchases and raise interest rates in 2022. The Bank of England raised its benchmark interest rate in December 2021 from the record low of 0.1% to 0.25%, which was the first rise in three years. UK inflation jumped to a near-30-year high in December, as consumer prices rose by 5.4% compared to a year earlier.

The average yield-to-issuance maturity spread between BBB and BB corporate bonds increased from 1.5% in Q3 2021 to 2.3% in Q4 2021 and looks likely to continue to increase in 2022 if concern spreads about companies with lower credit ratings being unable to repay their debts as borrowing costs rise.

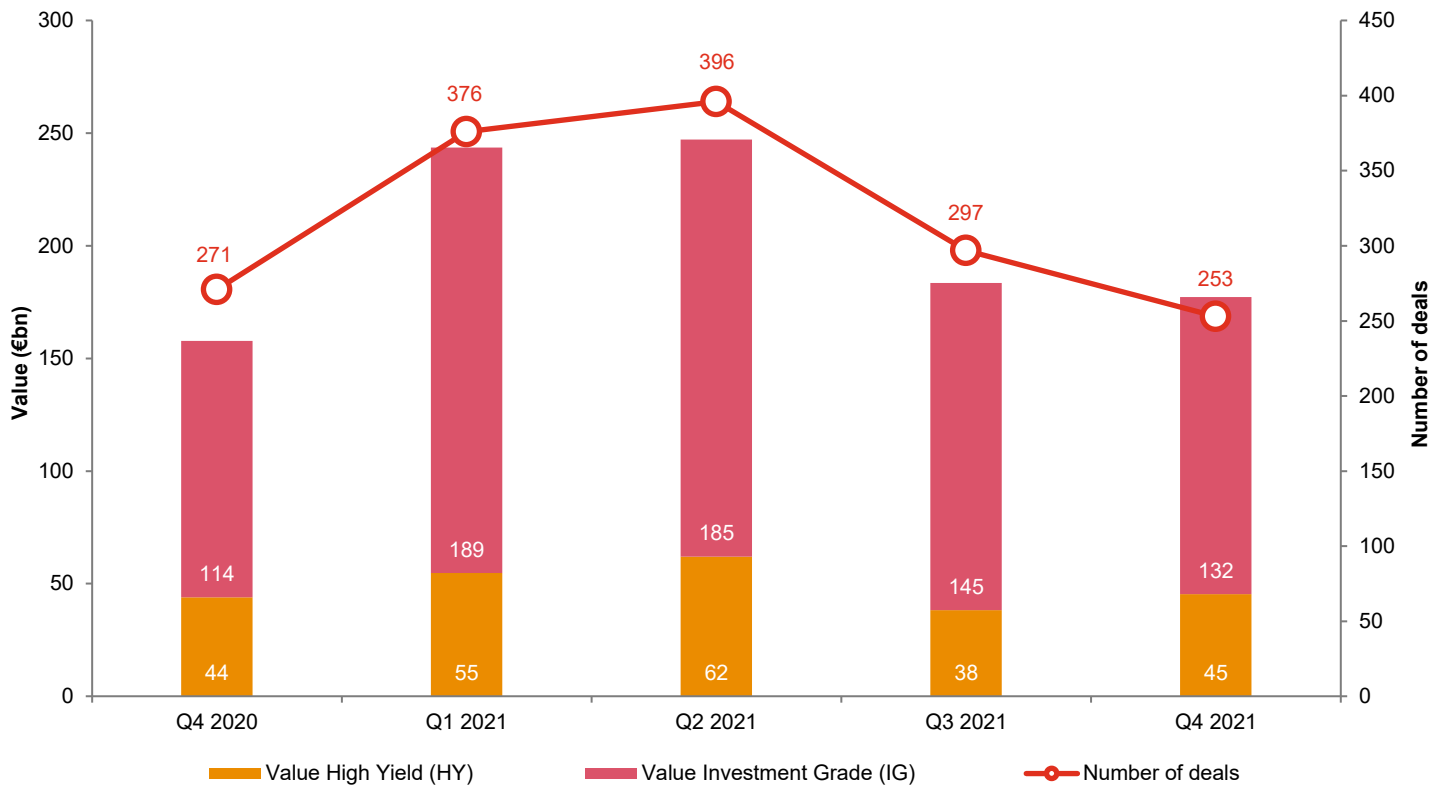
Given the tightening of monetary policy expected in 2022 and some issuers delaying their issuances to January 2022, it was unsurprising that in the first week of 2022 global corporate bond issuances reached \$101bn, as issuers took advantage of lower borrowing costs before anticipated interest rate rises and withdrawals of stimulus packages. It is likely that the first half of 2022 will be much more active in the corporate bond market as interest rates are expected to continue on an upwards trajectory throughout 2022, and therefore issuers will try to lock in more favourable borrowing conditions now.

Bond issuances with a green/ESG element are expected to continue to see strong demand as investor appetite for such products moves to the mainstream. In 2022, we expect investors to place increasing importance on understanding how their investments are being used and monitored. As such, expectations would be for a focus on regulatory reporting and transparency in this space.

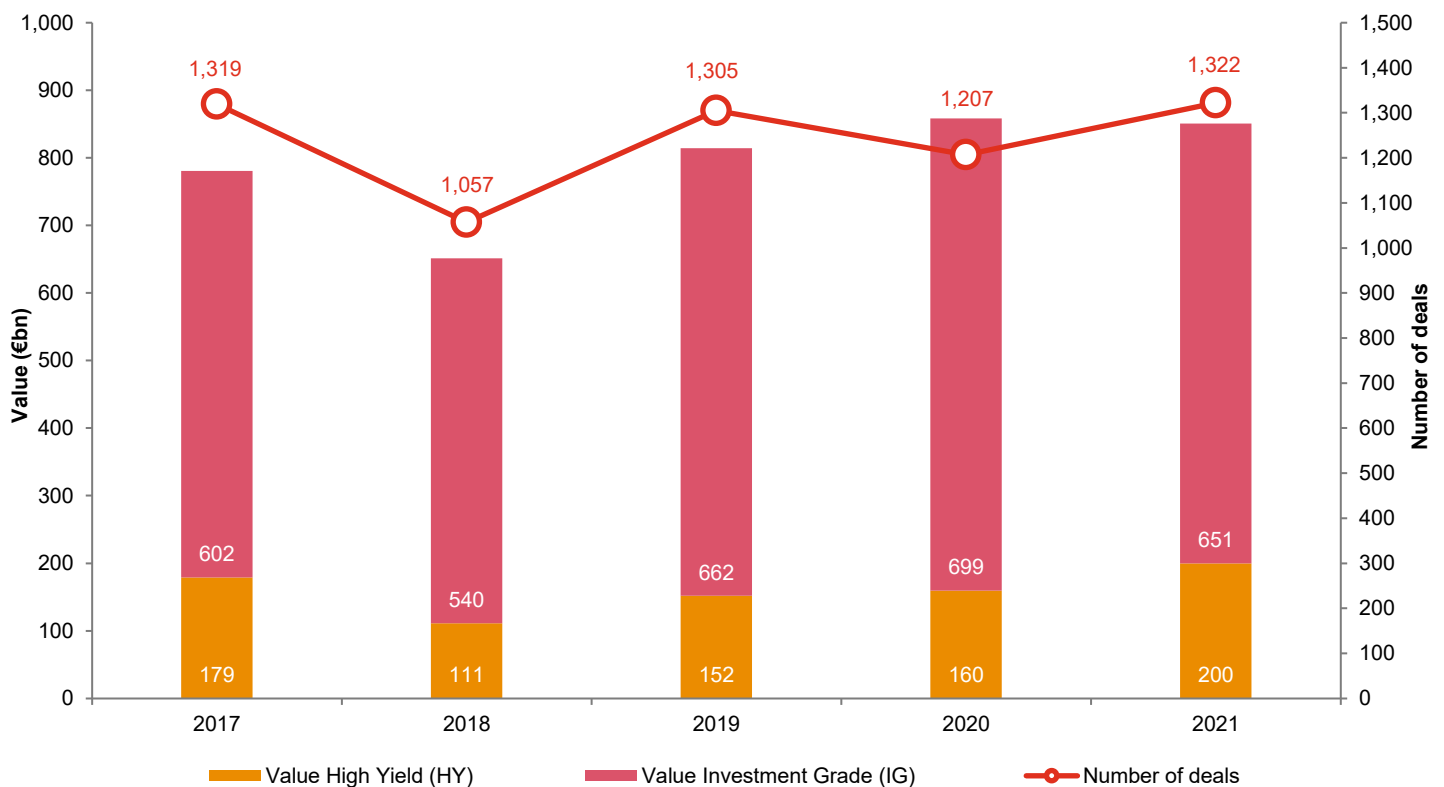


Corporate Debt Activity

Corporate debt activity by quarter

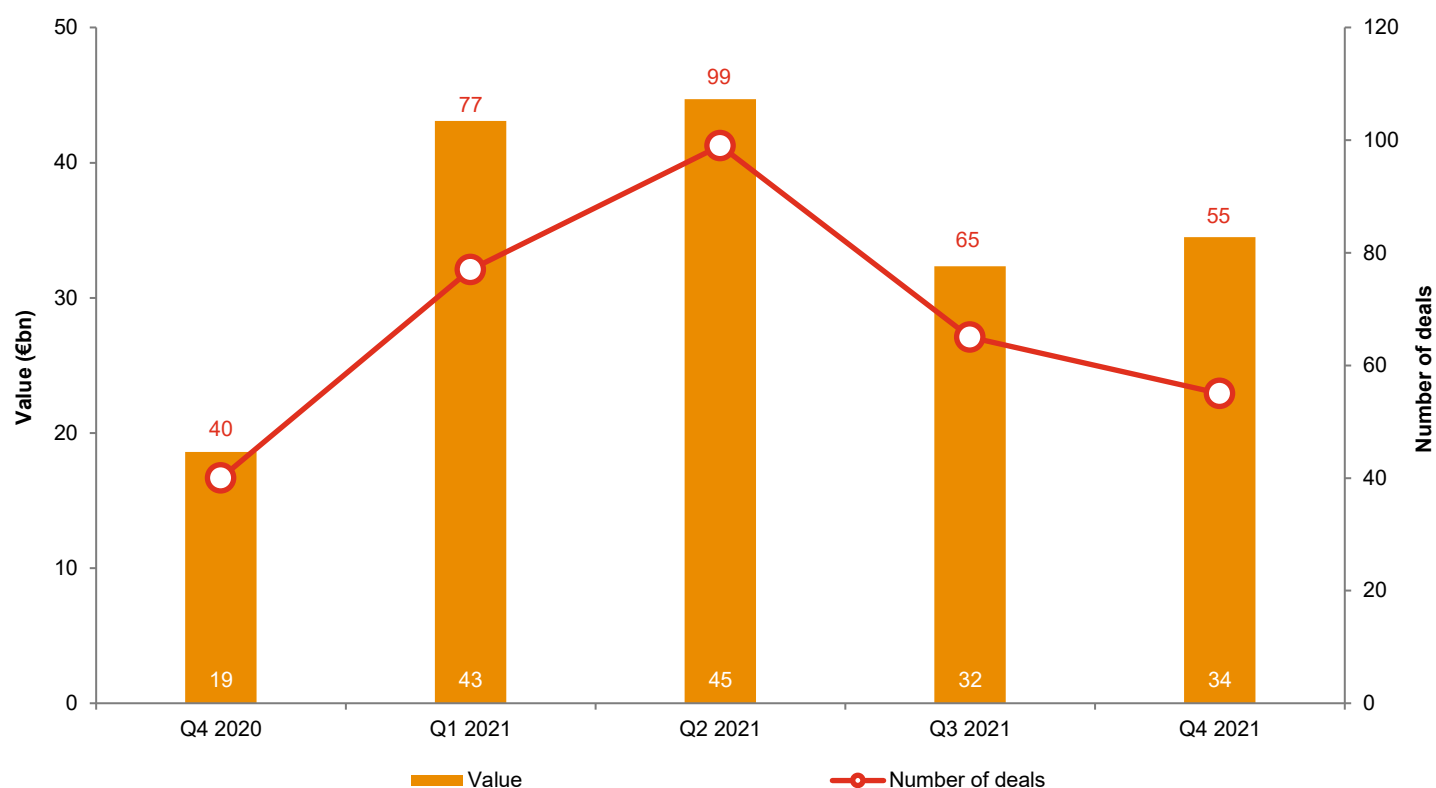


Corporate debt activity by year

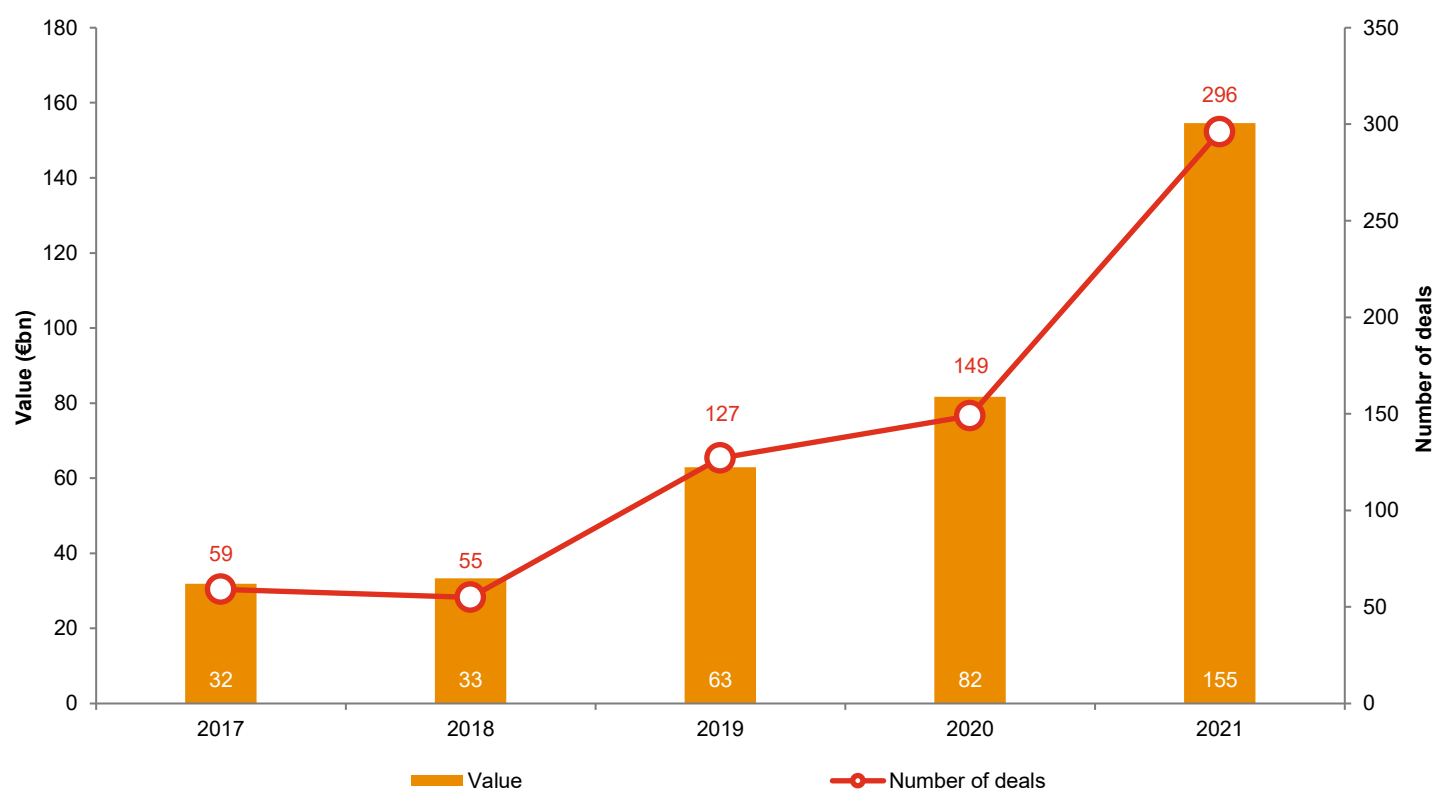


Green/ESG Bonds

Green/ESG bonds activity by quarter*



Green/ESG bonds activity by year*

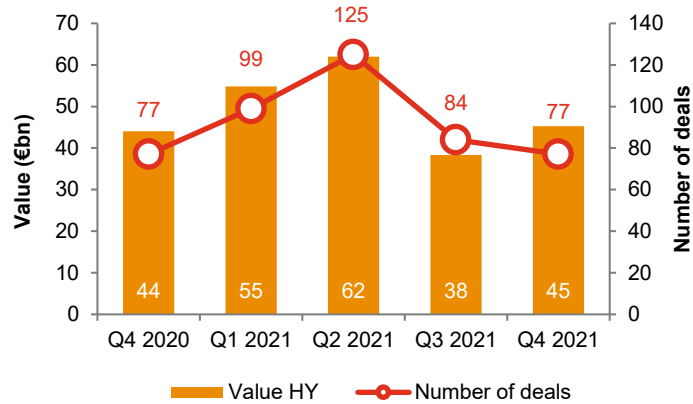


* Green bonds includes Social, Sustainable and Green bonds

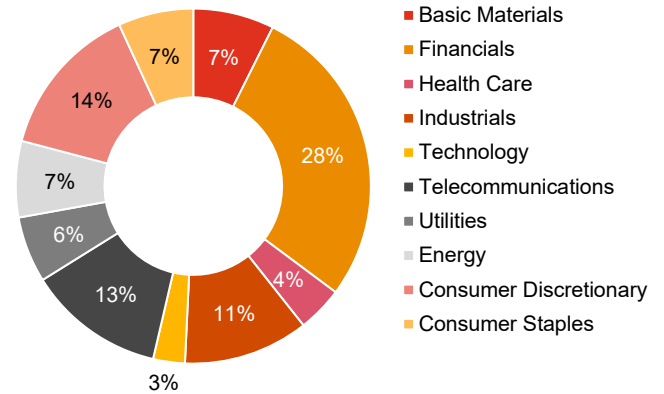
High Yield – Europe

(Rated BB+ (inclusive) and below)

HY activity by quarter



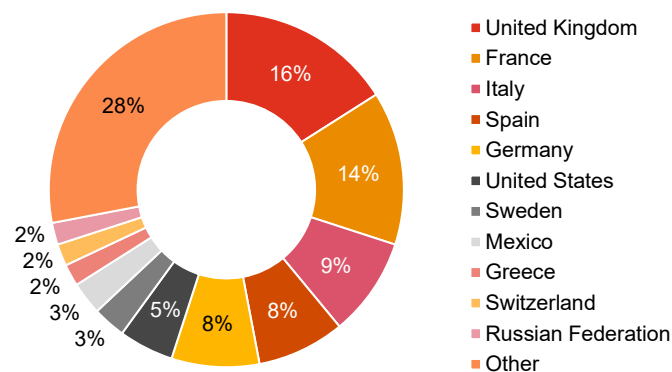
HY by sector 2021



Top ten HY issues 2021

Pricing date	Ten largest HY issues 2021	Value (€m)	Sector	Listing	Nationality of operations	Credit rating (S&P)	YTM (%)
Nov-21	Teva Pharmaceutical Finance Netherlands III BV	4,328	Health Care	Irish Stock Exchange-All Market	Israel	BB-	4.50
May-21	Allied Universal Holdco LLC	3,699	Industrials	TISE-The International Stock Exchange	United States	B/CCC+	4.75
Oct-21	Iliad SA	3,669	Telecommunications	TISE-The International Stock Exchange	France	B+	6.07
Feb-21	Bellis Acquisition Co Plc	3,134	Consumer Staples	TISE-The International Stock Exchange	United Kingdom	NR	3.63
Apr-21	Altice France SA	2,501	Telecommunications	TISE-The International Stock Exchange	France	B	4.57
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
Aug-21	Altice Financing SA	2,321	Telecommunications	Luxembourg Stock Exchange	France	B	5.00
Apr-21	Nexi SpA	2,100	Financials	Euro MTF; Luxembourg Stock Exchange	Italy	BB-	1.88
Sep-21	Cellnex Finance Company SAU	1,830	Telecommunications	Irish Stock Exchange-All Market	Spain	BB+	1.65

HY by issuer operations nationality 2021



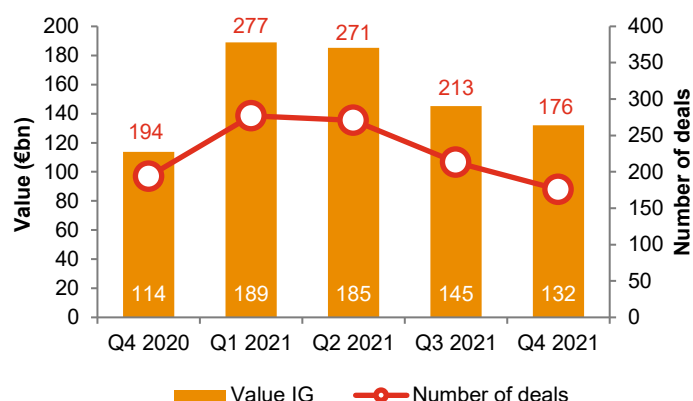
Average yield-to-maturity by issue rating (%)

S&P rating	Q4 2021	2021	2020
BB	3.72	3.19	3.70
B	5.49	5.15	5.77
CCC	5.94	6.56	5.91
CC	-	-	9.33

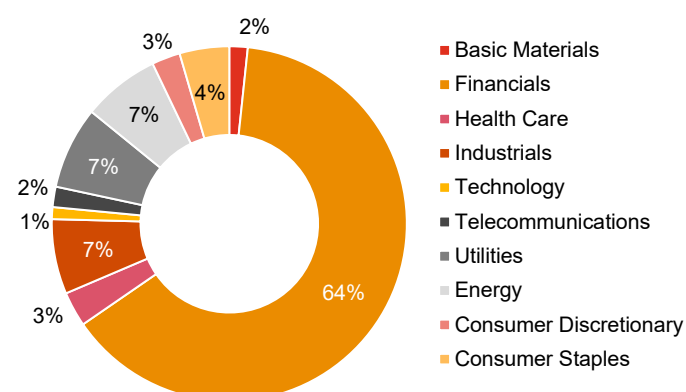
Investment Grade – Europe

(Rated BBB- (inclusive) and above)

IG activity by quarter



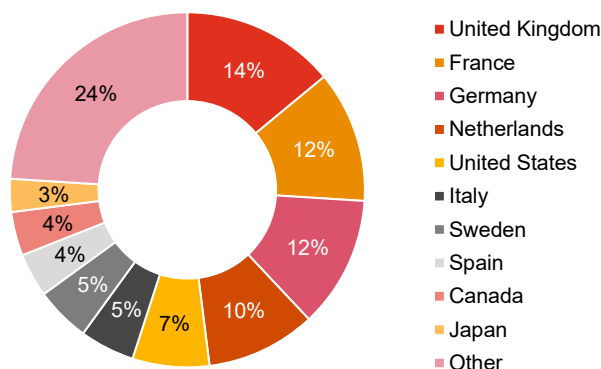
IG by sector 2021



Top ten IG issues 2021

Pricing date	Ten largest IG issues 2021	Value (€m)	Sector	Listing	Nationality of operations	Credit rating (S&P)	YTM (%)
Oct-21	AerCap Ireland Capital dac	18,001	Financials	Irish Stock Exchange-All Market	Netherlands	BBB	2.60
Jun-21	Qatar Petroleum	10,456	Energy	London Stock Exchange	Qatar	AA-	2.55
Oct-21	Thermo Fisher Scientific (Finance I) BV	5,215	Health Care	Irish Stock Exchange-All Market	United States	BBB+	1.43
Jul-21	MUFG	5,052	Financials	Luxembourg Stock Exchange	Japan	A-	1.60
Aug-21	Vonovia SE	4,982	Financials	Luxembourg Stock Exchange	Germany	BBB+	0.54
Sep-21	Sumitomo Mitsui Financial Group	4,953	Financials	Euro MTF; Luxembourg Stock Exchange	Japan	A-/BBB+	2.11
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
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

IG by issuer operations nationality 2021



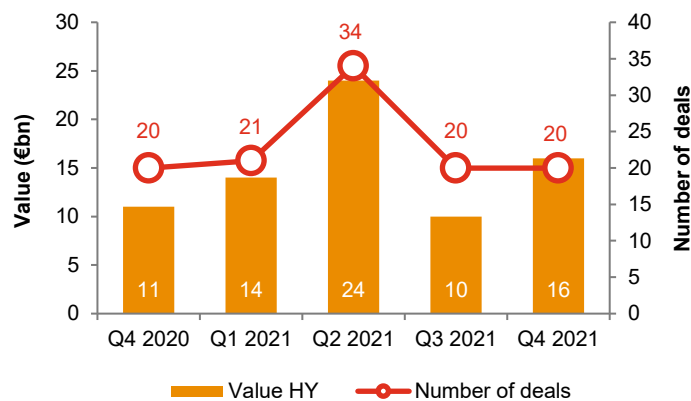
Average yield-to-maturity by issue rating (%)

S&P rating	Q4 2021	2021	2020
AAA	1.64	1.04	0.64
AA	0.69	0.84	0.84
A	1.02	1.00	1.21
BBB	1.41	1.19	1.86

UK Focus

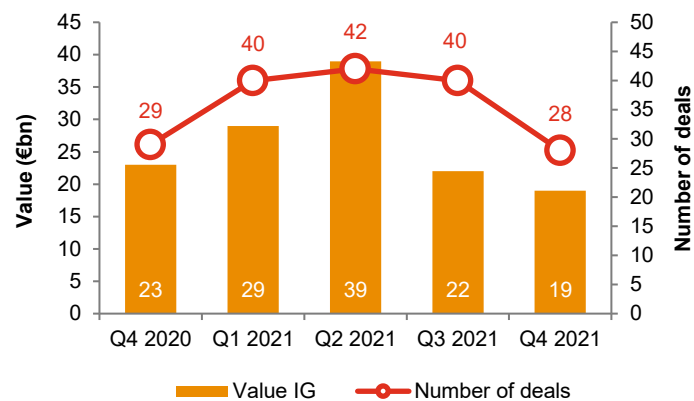
High Yield (rated BB+ (inclusive) and below)

UK HY activity by quarter

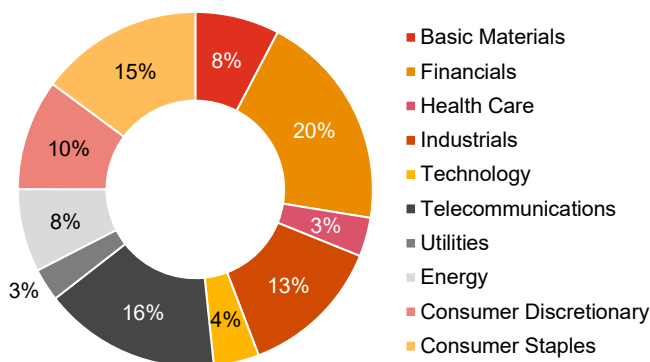


Investment Grade (rated BBB- (inclusive) and above)

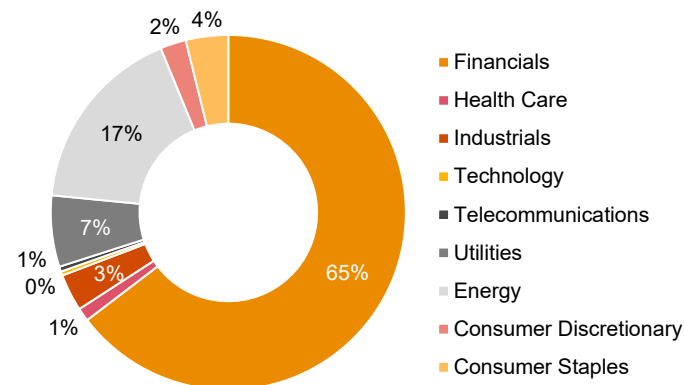
UK IG activity by quarter



UK HY by sector 2021



UK IG by sector 2021



Top five UK HY issues 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
Oct-21	Iliad SA	3,669	TISE-The International Stock Exchange	B+	6.07
Feb-21	Bellis Acquisition plc	3,134	TISE-The International Stock Exchange	NR	3.63
Apr-21	Altice France SA	2,501	TISE-The International Stock Exchange	B	4.57
Mar-21	Douglas GmbH	1,780	TISE-The International Stock Exchange	B-/CCC	7.50

Top five UK IG issues 2021

Pricing date	Top five IG issues	Value (€m)	Listing	Credit rating (S&P)	YTM (%)
Jun-21	Qatar Petroleum	10,456	London Stock Exchange	AA-	2.55
Jun-21	SA Global Sukuk Ltd	4,927	London Stock Exchange	NR	1.75
Mar-21	LSEGA Financing plc	3,797	London Stock Exchange	A	1.97
Oct-21	Blackstone Property Partners Europe Holdings SARL	2,540	TISE-The International Stock Exchange	BBB	1.21
Jan-21	Standard Chartered plc	2,436	London Stock Exchange	BBB+	1.23

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 December 2021. All market data is sourced from Dealogic and has not been independently verified by PricewaterhouseCoopers LLP.

Data comparability to previous Debt Watch Publications

The 2021 market data in this publication is sourced from Dealogic as at 5 January 2022. Accordingly there may be differences to Q3 2021, Q2 2021 and Q1 2021 data presented in Q3 2021 Debt Watch, Q2 2021 Debt Watch and Q1 2021 Debt Watch publications as data was run as at 4 October 2021, 1 July 2021 and 1 April 2021, respectively.

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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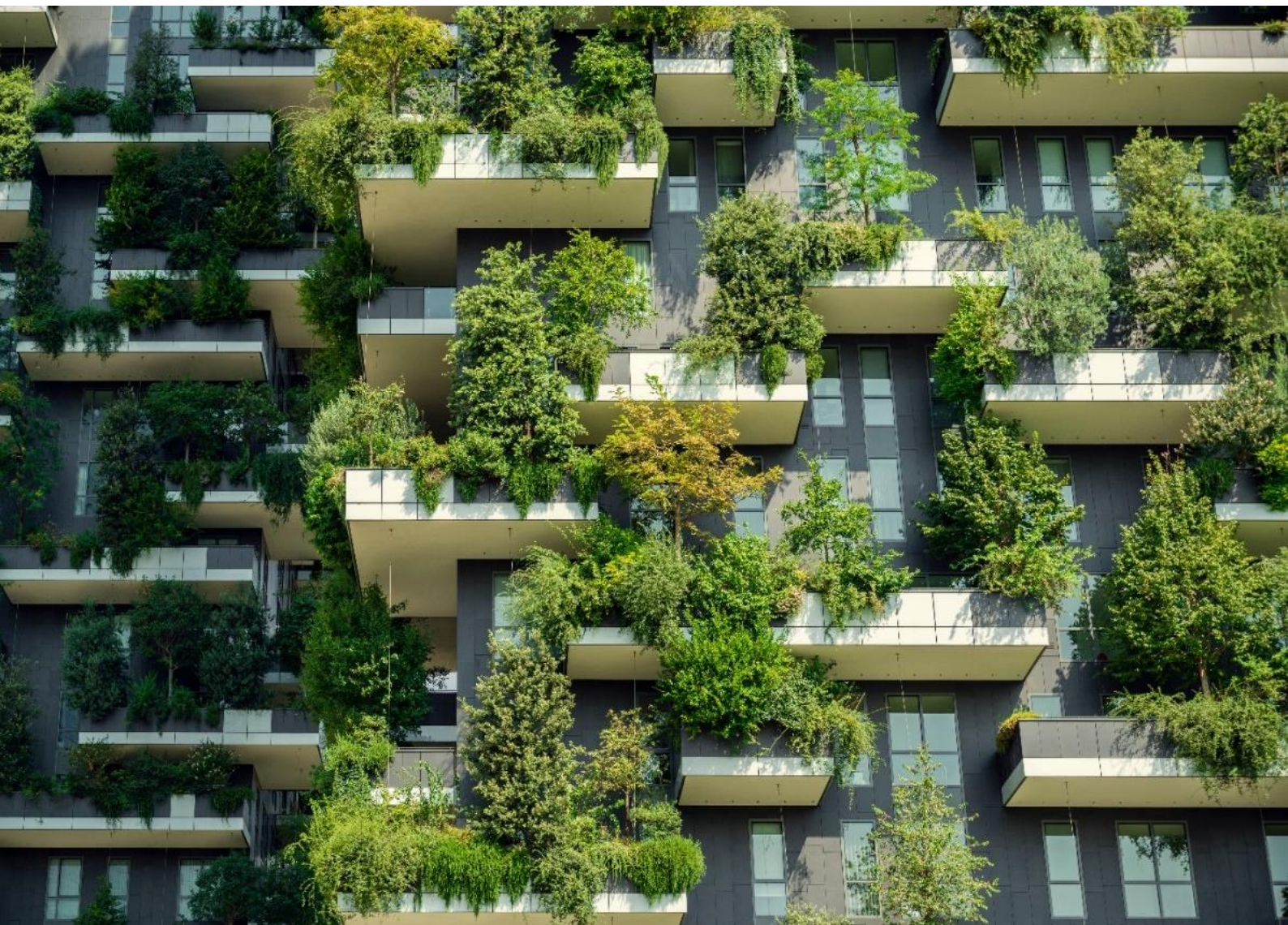
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