



Debt Watch Europe

Q1 2019 Review

Overview

€199bn

Total corporate debt raised in Q1 2019

267

Total corporate debt deals raised in Q1 2019

€168bn

Raised in Investment Grade deals in Q1 2019 across Europe

€31bn

Raised in High Yield deals in Q1 2019 across Europe

2019 started with an uplift in the number of issuances and volume compared to Q4 2018, 211 deals amounting to €168bn compared to 117 deals amounting to €76bn respectively. Q1 2019 compared to the other quarters in 2018 remained fairly flat. The quarter also saw the return of the negative yield corporate bond with LVMH and Sanofi of France both issuing bonds at rates below zero. This goes hand-in-hand with base rates dropping below zero, as investors are willing to pay a fee to lend money. Q1 2019 proved to be the first quarter that saw Sterling denominated volume using Sterling Overnight Index Average ('SONIA') as the benchmark in relation to FRN tranches exceed the volume using LIBOR, which may be as a result of the phasing out of LIBOR in 2021. The quarter also saw the first AAA rated bond issuance by CDP Financial Inc. and CPPIB Capital Inc. since Q2 2017. There was also an increase in the number of AA issued bonds compared to Q4 2018.

Some commentators have expressed concerns at the current levels of BBB rated debt. For some issuers this could present problems in the event of an economic downturn because former Investment Grade debt issuers could see a rating shift move them into the High Yield space. The knock on impact may create challenges in refinancing debt. Given the majority of investors have investment mandates based on investment grade ratings, an unforeseen effect of wide spread downgrades could see a large sell off as a consequence.

The continued uncertainty around Brexit undoubtedly has had some impact on choice of listing venue. The reduced number of investment grade bond issuances on the LSE has been noticeable this quarter, with issuers favouring Luxembourg, Ireland and Paris. However, there is some optimism for the coming quarters of 2019. Saudi Aramco launched a London listed MTN programme in April raising \$12bn of A rated bonds through the LSE, which was welcome news for the exchange. The bonds generated a high amount of interest from investors, yielding lower than Saudi Arabia's sovereign debt. Proceeds are expected to partly fund the acquisition of a majority stake in Sabic, the Saudi Arabian domestic petrochemicals group, from the Saudi sovereign wealth fund.

High Yield

The year started off slowly due to various geopolitical factors in the U.S.A. and China that had an impact throughout Europe, coupled with the Eurozone weakness concerns, and the ever present issue of Brexit. It appeared issuers waited for the first deal to price to guide the market, as Q1 saw a steady increase as the quarter progressed. Volumes have increased from Q4 2018 to Q1 2019 from €11bn to €31bn, coupled with an increase in issuance in the quarter from 25 to 56 deals.

Overall 2018 saw a downward trend in the number of High Yield issuances, yet, some encouragement can be taken from the uplift seen by the market in the opening quarter of 2019.

However, total issuance value and number of deals are still down compared with the previous year's comparative quarter, with 91 issuances amounting to €46bn in Q1 2018, compared to 56 issuances amounting to €31bn in Q1 2019.

The market saw the imbalance of demand far outweigh supply. Issuers that have come to the market this quarter have seen high levels of oversubscription. High Yield issuances have been dominated by BB rated bonds in the first quarter, as pricing has been favourable on new-issue BB rated bonds. Whereas B rated bonds have seen an increase in pricing, although the number of B rated issuances was low to gain a robust sense on pricing. The ECB confirming it will not issue rate hikes for the short term may also give incentive for issuers to come to the market.

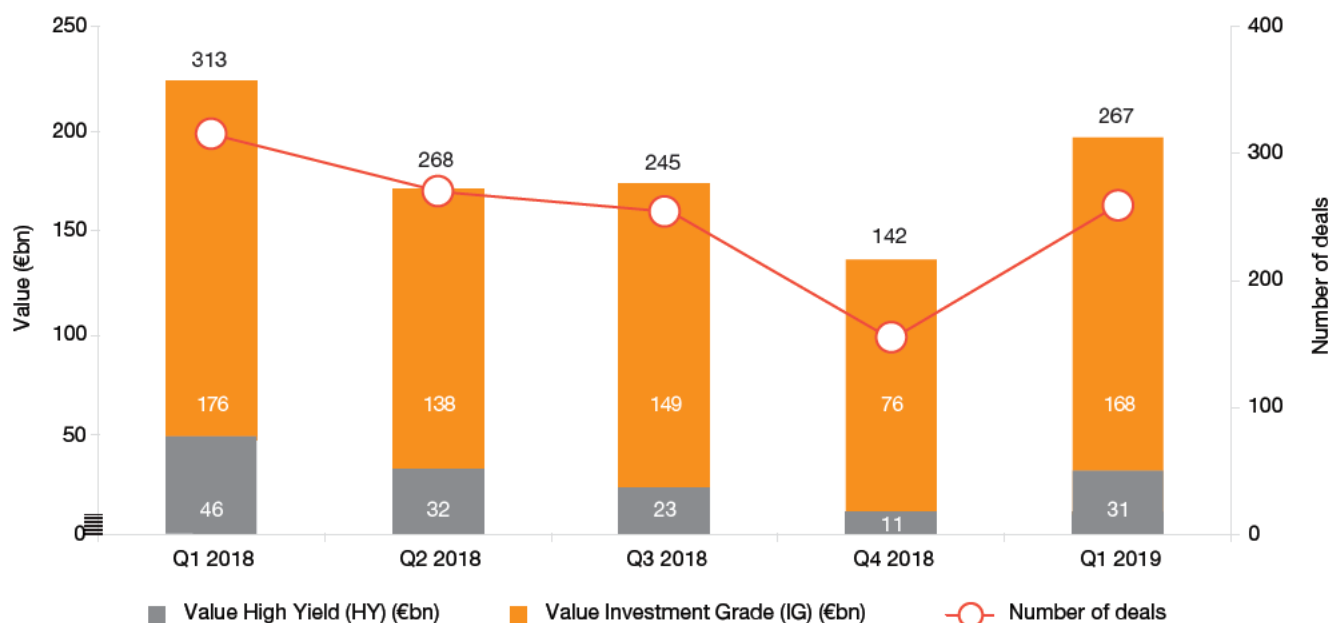
Green Bonds

The bond landscape has seen a sharp rise in the number of Green Bonds being issued over 2017 and 2018 with 54 and 45 respectively, compared to seven in 2014. Corporations are increasingly giving greater consideration to their social and environmental responsibilities and to how some of these projects may be funded. Thames Tideway, which is building London's super sewer, issued a £250m Green Bond in 2018, where proceeds would be used partly to help build the sewer tunnel along with governance purposes. The sector is still dwarfed by Investment Grade, High Yield and sovereign bond issuances. So the area is certainly seen as a potential area for growth. One big advantage for issuers is that investors are increasingly looking for diversification in their portfolios and are now actively looking for investments with Green, Social and Sustainable benefits. Given the second half of 2018 was a volatile period in the debt markets a number of issuers such as ICBC and HSBC accessed the Green Bond markets and did so successfully with likely better results than if they had pushed a straight forward vanilla bond product.

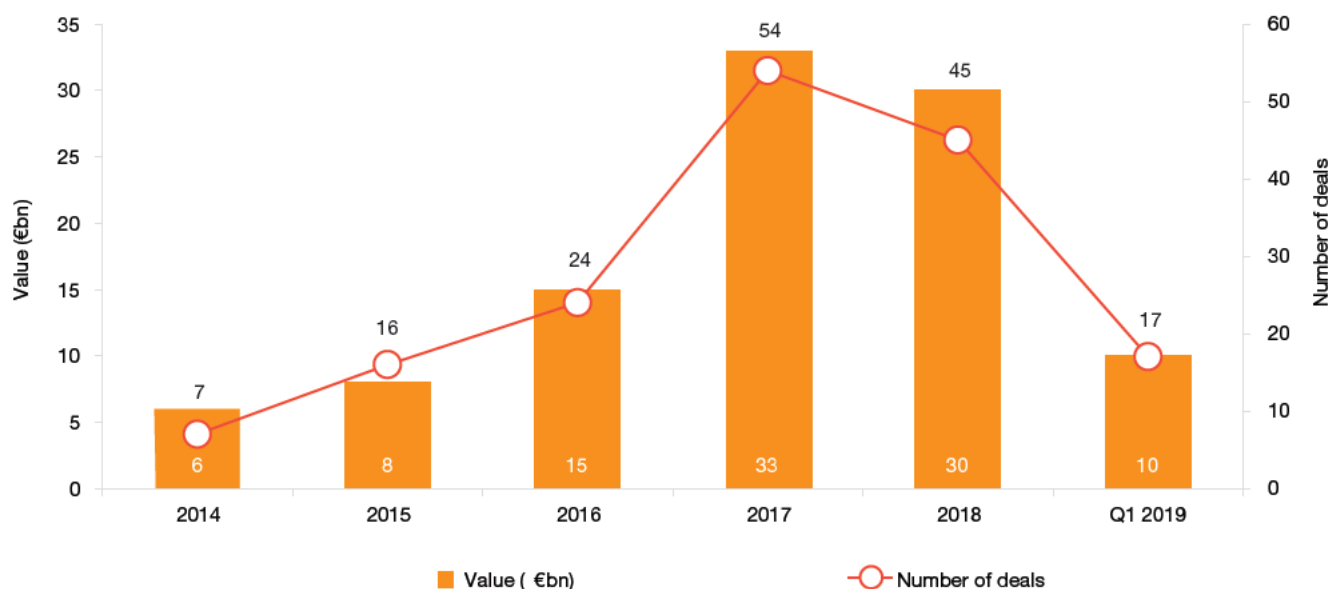
In addition to enhancing the marketability of bonds, external factors are also likely to drive further growth in the sector. A task force on climate related financial disclosures has already been set up in relation to the G20 financial stability board. This would require a report where all companies and investors are to report on their climate risk and likely to be made mandatory in a couple of years. The UN have also messaged the need to reduce investment in infrastructure that is not sustainable. So as increased regulation comes into play more issuers are likely to look to raise finance and fund green, social and sustainable projects through Green Bonds. We would expect continued growth over the coming years and the outlook for the Green Bond sector looks bright

Corporate Debt Activity

Corporate debt activity by quarter



Green bonds activity by year*

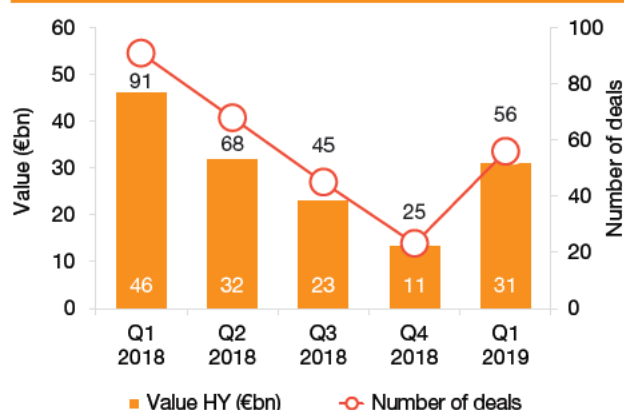


*Green bonds include Social, Sustainable or Green bonds

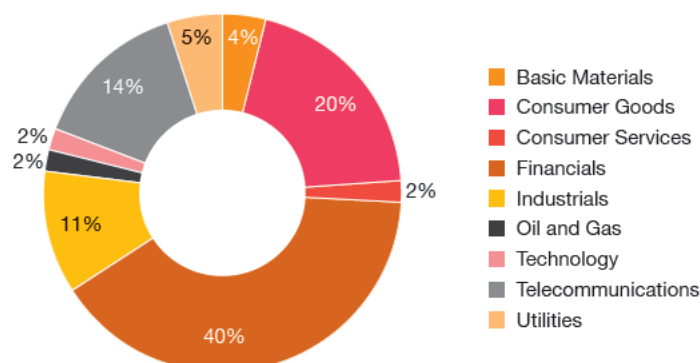
High Yield

(Rated BB+ (inclusive) and below)

HY activity by quarter



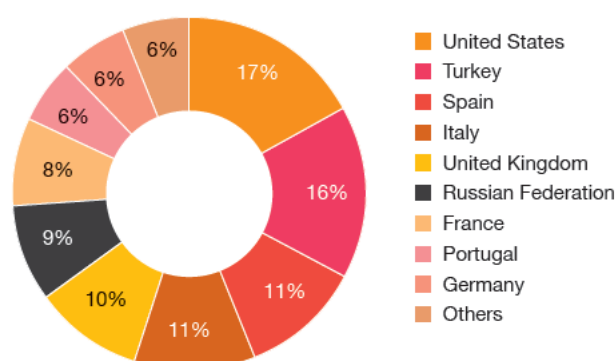
HY by sector Q1 2019



Top ten HY issues Q1 2019

Pricing date	Top ten HY issues (Q1 2019)	Value (€m)	Sector	Listing market	Nationality of operations	Rating (S&P)	YTM (%)
Mar-19	Power Solutions	3,300	Consumer Goods	TISE	United States	B	6.38
Mar-19	Barclays plc	1,762	Financials	TISE	United Kingdom	B+	7.99
Feb-19	ThyssenKrupp AG	1,496	Industrials	Luxembourg Stock Exchange	Germany	BB	2.93
Mar-19	LeasePlan Corporation N.V.	1,350	Financials	TISE	Netherlands	BB+	3.63
Mar-19	Telefonica Europe BV	1,300	Telecommunications	Irish Stock Exchange	Spain	BB+	4.38
Jan-19	Telecom Italia SpA	1,243	Telecommunications	Luxembourg Stock Exchange	Italy	BB+	4.13
Jan-19	Energias de Portugal SA – EDP	1,000	Utilities	Irish Stock Exchange	Portugal	BB	4.50
Feb-19	Bankia	1,000	Financials	IAIF Mercado de Renta Fija	Spain	BB+	3.75
Mar-19	Banco BPM SpA	750	Financials	Luxembourg Stock Exchange	Italy		2.02
Mar-19	Nokia Oyj	746	Technology	Irish Stock Exchange	Finland	BB+	2.08

HY by issuer operations nationality Q1 2019



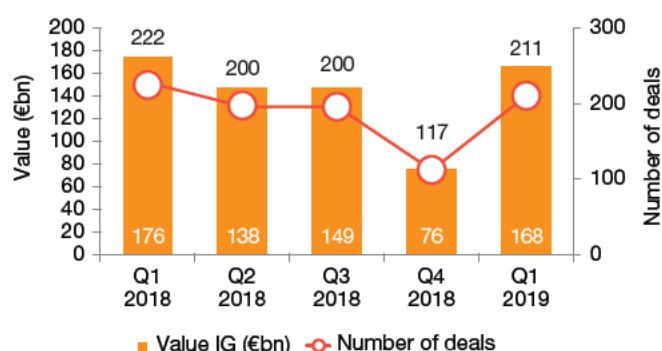
Average yield-to-maturity by issue rating

S&P rating	Q1 2019	Q4 2018	Q1 2018
BB	4.98	4.50	4.53
B	7.88	6.36	6.48
CCC	-	5.81	9.25

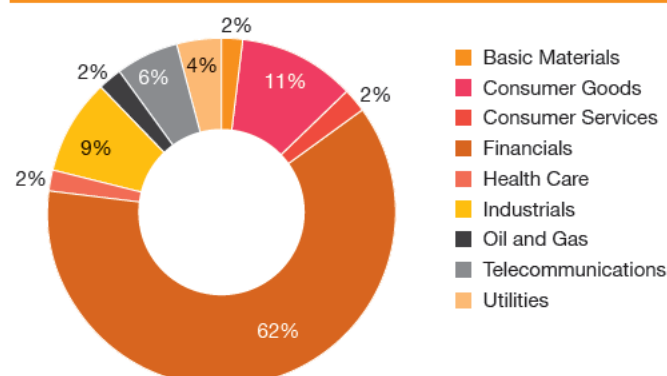
Investment Grade

(Rated BBB – (inclusive) and above)

IG activity by quarter



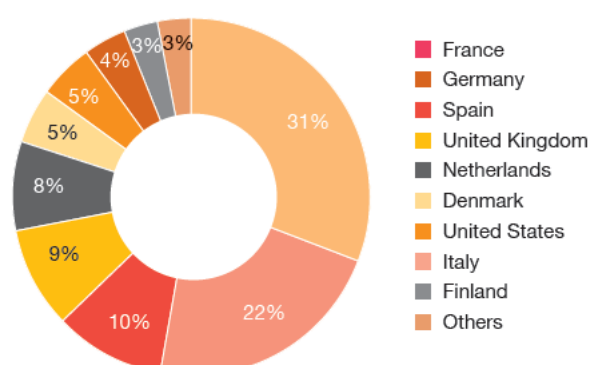
IG by sector Q1 2019



Top ten IG issues Q1 2019

Pricing date	Top ten IG issues (Q1 2019)	Value (€m)	Sector	Listing market	Nationality of operations	Rating (S&P)	YTM (%)
Feb-19	MUFG	4,845	Financials	Luxembourg Stock Exchange	Japan	A-	3.55
Jan-19	Orange SA	3,979	Telecommunications	Paris	France	BBB+	1.74
Feb-19	Deutsche Bank	3,562	Financials	Luxembourg Stock Exchange	Germany	BBB-	2.57
Jan-19	BNP Paribas SA	3,356	Financials	Paris	France	A-	2.82
Feb-19	Daimler International Finance BV	3,240	Consumer Goods	Luxembourg Stock Exchange	Germany	A	1.38
Mar-19	Abertis	3,058	Industrials	Irish Stock Exchange	Spain	BBB	2.34
Feb-19	Siemens Financieringsmaatschappij NV	2,988	Industrials	Luxembourg Stock Exchange	Germany	A+	1.09
Jan-19	BMW Finance NV	2,982	Consumer Goods	Luxembourg Stock Exchange	Germany	A+	1.16
Jan-19	Danske Bank	2,596	Financials	Irish Stock Exchange	Denmark	BBB+	5.26
Jan-19	Volkswagen Bank GmbH	2,497	Consumer Goods	Luxembourg Stock Exchange	Germany	BBB+	1.92

IG by issuer operations nationality Q1 2019



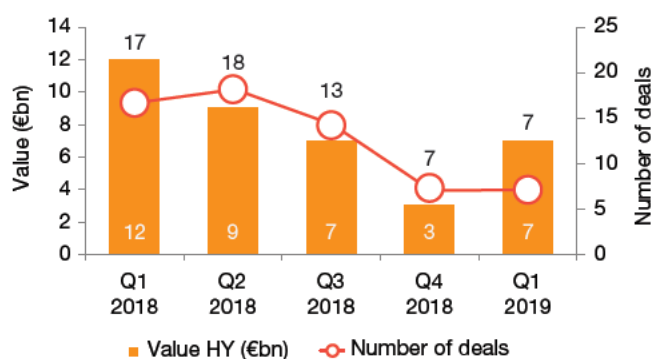
Average yield-to-maturity by issue rating

S&P rating	Q1 2019	Q4 2018	Q1 2018
AAA	2.16	-	-
AA	1.14	1.96	1.72
A	2.06	2.08	1.84
BBB	2.58	2.87	2.38

UK Focus

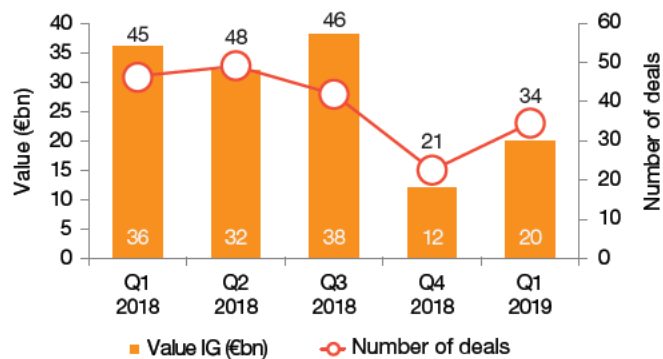
High yield (rated BB+ (inclusive) and below)

UK HY activity by quarter

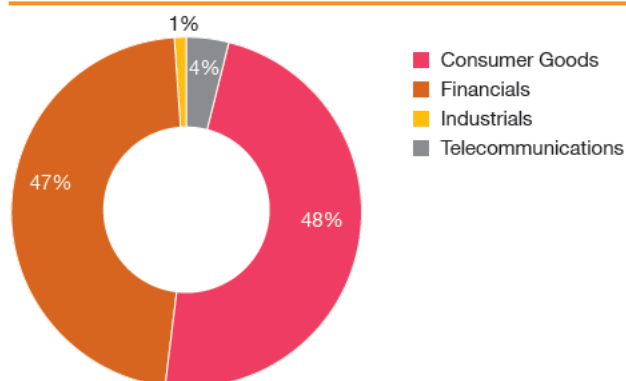


Investment grade (rated BBB – (inclusive) and above)

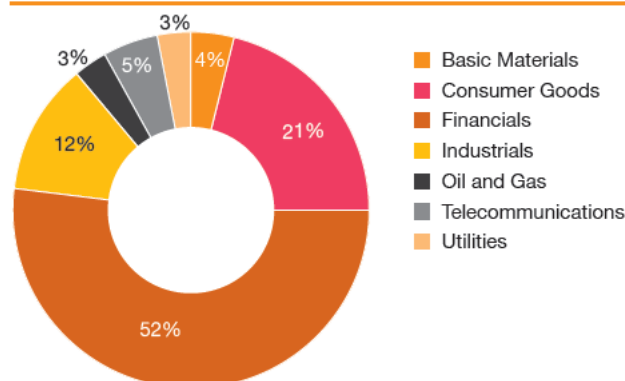
UK IG activity by quarter



UK HY by sector Q1 2019



UK IG by sector Q1 2019



Top five UK HY issues Q1 2019

Pricing date	Top five HY issues	Value (€m)	Listing market	Rating (S&P)	YTM (%)
Mar-19	Power Solutions	3,300	TISE	B	6.38
Mar-19	Barclays plc	1,762	TISE	B+	7.99
Mar-19	LeasePlan Corporation N.V.	1,350	TISE	BB+	3.63
Mar-19	Kerala Infrastructure Investment Fund Board (KIIFB)	275	London Stock Exchange; Singapore Exchange	BB	9.72
Mar-19	C&W Senior Financing dac	263	TISE	BB-	7.00

Top five UK IG issues Q1 2019

Pricing date	Top five IG issues	Value (€m)	Listing market	Rating (S&P)	YTM (%)
Mar-19	Anheuser-Busch InBev SA/NV	2,243	London Stock Exchange	A-	1.43
Feb-19	JPMorgan Chase & Co	2,000	London Stock Exchange	A-	1.09
Mar-19	Compagnie de Saint-Gobain SA	1,492	London Stock Exchange	BBB	1.32
Feb-19	Imperial Brands Finance plc	1,490	London Stock Exchange	BBB	1.74
Mar-19	NatWest Markets	1,149	London Stock Exchange	BBB+	3.64

About Debt Watch Europe

Debt Watch Europe surveys all new main and exchange regulated market Bond deal issuance, on Europe's major Debt listing venues (primarily London, Dublin and Luxembourg).

The survey was conducted between 1 January and 31 March 2019. 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) are solely based on the ratings given by S&P – with BBB- and above (inclusive) as IG and BB+ and below (inclusive) as HY. Green bonds include Social, Sustainable or Green bonds.

Yield to maturity is calculated as an average for issues with numerous tranches.

For any issue with different ratings applied to different tranches, the credit rating for such issuance is not displayed.

Sources: Dealogic, LCD and PwC analysis. Excludes Russian-listed bonds.

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