



# Debt Watch Europe

Q2 2019 Review



# Corporate Debt Activity

€201bn  
Total corporate debt raised in Q2 2019

305  
Total corporate debt deals raised in Q2 2019

€170bn  
Raised in Investment Grade deals in Q2 2019 across Europe

€31bn  
Raised in High Yield deals in Q2 2019 across Europe

## Overview

Q2 2019 saw an increase in the number of issuances and volume compared to Q2 2018, with 305 deals amounting to €201bn compared to 268 deals amounting to €170bn respectively. Q2 2019 compared to Q1 2019 remained flat in terms of volume, however, noted an increase in number of deals from 276 in Q1 2019.

There was positive signs for the LSE, which had a slower Q1, with an uptake in Investment Grade bond issuances through London in Q2 2019. Four of the top ten issuances chose the LSE, which amounted to €18.2bn, most notably Saudi Aramco being the largest issuance of 2019 to date.

Demand for highly rated bonds has increased recently due to the ever present uncertainty surrounding the global economy, sparked by the USA-China trade dispute and a general consensus that the Federal Reserve will slash rates this year. Whilst there has been a rally in the volumes of corporate debt in the quarter and into the third quarter, there are also concerns over the quality of such Investment Grade issuance. Overall, there has been a decrease in the numbers of highly rated AAA and AA issuance. The continuous trend of large numbers of Investment Grade issuances going to the market with BBB ratings (lowest possible investment grade rating) was again present and is increasing financial stability risk. The European Central Bank's (ECB) talk of possibly changing its imposed limits regarding quantitative easing has made investors wary.

Staff at the Bank of England this month, also voiced a cautionary note and concerns that volumes could present stability risks in the Sterling Bond markets.

In a scenario whereby downgrades occur and the levels of so called "fallen angels" rise (Investment Grade becoming High Yield), this could lead to a sell off as many investors are mandated to hold debt above a certain rating level. There could be a scenario whereby many investors may struggle to offload an estimated £10bn of such debt. In turn, this could then lead to erratic price movement within the sector.

## High Yield

The ECB alluded to quantitative easing due to continued uncertainty around Europe's economy, resulting in positive conditions for issuers in Q2 2019. This was evidenced by the number of deals in Q2 2019 being 65, close to that of Q2 2018, which had 68 issuances and up on Q1 2019 of 59 deals. Volumes were comparable between all three quarters ranging from €31bn-€32bn.

Refinancing's dominated Q2 2019 with a small proportion related to M&A activity, due to a mix of other financing sources preferred by buyer's and a decline in M&A activity. Borrowers saw favourable pricing conditions of both B and BB rated bonds in Q2 2019 compared to the prior quarter and BB's priced more favourably on average in Q2 2019 than in Q2 2018, a fundamental driver for this being the record low yield on the five-year Bund in mid-June, along with the ECB promising to hold rates at all-time lows until mid-2020.

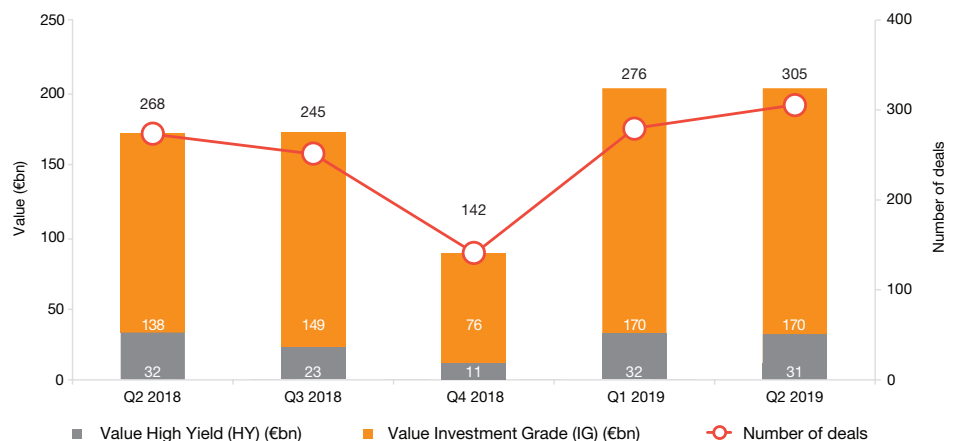
High Yield issuances saw a resurgence of B rated bonds in Q2 2019, with 20 issuances compared to eight in Q1 2019 and BB increased slightly to 36 issuances from 31 in Q1 2019. A more comparable mix of B and BB issuances indicate more confidence in market conditions than the previous quarter. The market is still more receptive to issuer's with a strong credit story and less vulnerable to downturns in the economy, therefore B rated issuers are still finding it challenging.

Due to the aforementioned plans of the ECB, the market conditions look set to stay favourable to issuer's for the coming quarter.

## LIBOR

Finally, as the end of LIBOR approaches, some progress has been made in dealing with the complexities around this transition. Transition concerns not just new transactions, but also about converting outstanding or legacy LIBOR contracts. Some markets will be hit harder than others. The conversion challenge is particularly stark in the bond markets, where consent solicitations are required. In spite of that, last month a UK issuer, Associated British Ports (ABP), proved it can be done and showed both issuers and investors can benefit from conversion. The successful ABP consent solicitation sets a useful precedent and model that others can follow. PwC will continue to follow movements in this area as things evolve.

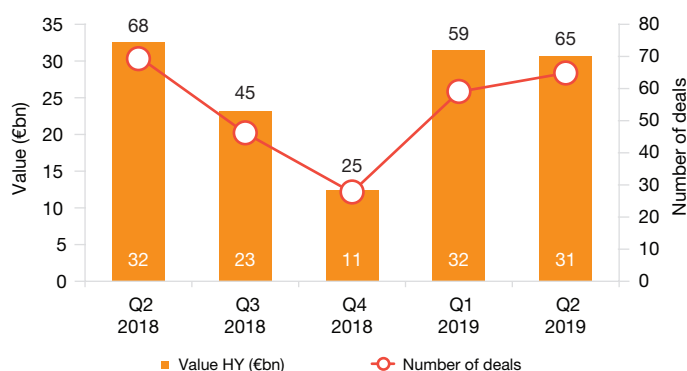
## Corporate debt activity by quarter



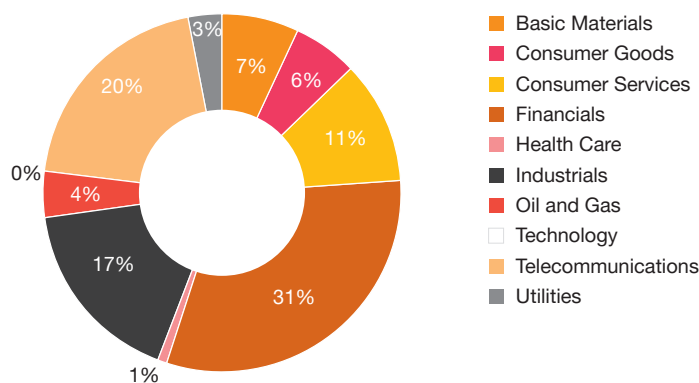
# High Yield – Europe

(Rated BB+ (inclusive) and below)

## HY activity by quarter



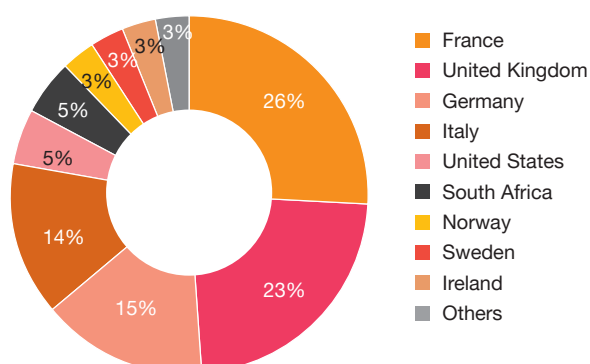
## HY by sector Q2 2019



## Top ten HY issues Q2 2019

Pricing date	Top ten HY issues (Q2 2019)	Value (€m)	Sector	Listing market	Nationality of operations	Rating (S&P)	YTM (%)
May-19	Altice Luxembourg SA	2,830	Telecommunications	Luxembourg Stock Exchange	France	B-	9.25
May-19	IHO Verwaltungs GmbH	2,053	Industrials	Euro MTF, Luxembourg Stock Exchange	Germany	BB+	5.04
Jun-19	Barclays plc	1,129	Financials	TISE	United Kingdom	B-	7.19
May-19	Virgin Media Secured Finance plc	1,088	Telecommunications	Luxembourg Stock Exchange	United Kingdom	BB-	5.34
Apr-19	Telecom Italia SpA	993	Telecommunications	Luxembourg Stock Exchange	Italy	BB+	2.88
May-19	Gold Fields Orogen Holding (BVI) Ltd	893	Basic Materials	Irish Stock Exchange	South Africa	BB+	5.63
May-19	NBM US Holdings Inc	879	Consumer Goods	Euro MTF, Luxembourg Stock Exchange	United States	BB-	7.25
Apr-19	INEOS Finance plc	770	Basic Materials	Luxembourg Stock Exchange	United Kingdom	BB+	2.88
Jun-19	International Game Technology plc	750	Consumer Services	Irish Stock Exchange	Italy	BB+	3.50
Apr-19	Eircom Finance dac	750	Telecommunications	TISE	Ireland	B+	3.50

## HY by issuer operations nationality Q2 2019



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

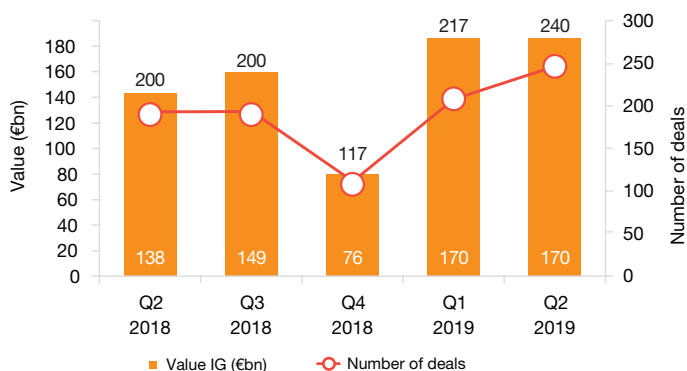
S&P rating	Q2 2019	Q1 2019	Q2 2018
BB	4.15	4.98	4.73
B	7.56	7.88	6.91
CCC*	9.75	-	6.84

\*This represents one rating in Q2 2019 – Piraeus Group Finance plc – with a YTM of 9.75. In Q2 2018, there was also just one issuance with a CCC rating – Constantin Investissement 3 SAS – with a YTM of 6.84.

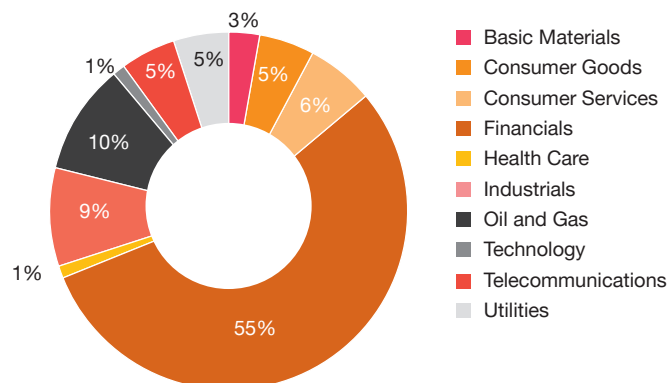
# Investment Grade – Europe

(Rated BBB– (inclusive) and above)

## IG activity by quarter



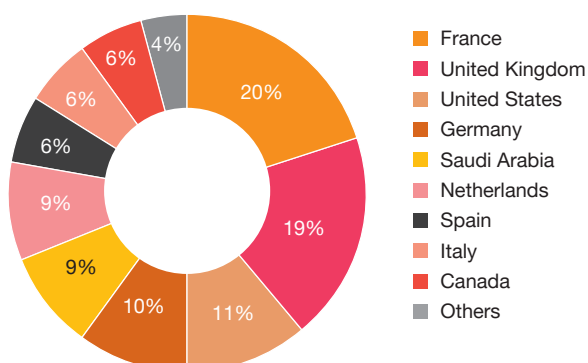
## IG by sector Q2 2019



## Top ten IG issues Q2 2019

Pricing date	Top ten IG issues (Q2 2019)	Value (€m)	Sector	Listing market	Nationality of operations	Rating (S&P)	YTM (%)
Apr-19	Saudi Aramco	10,579	Oil & Gas	London Stock Exchange	Saudi Arabia	-	3.65
Apr-19	ING Bank	3,006	Financials	Amsterdam	Netherlands	A+	0.05
May-19	BP Capital Markets plc	2,665	Oil & Gas	London Stock Exchange	United Kingdom	A-	1.30
May-19	Bank of America Corp	2,500	Financials	London Stock Exchange	United States	A-	1.10
May-19	Telenor ASA	2,491	Telecommunications	Luxembourg Stock Exchange	Norway	A	1.24
May-19	Vodafone Group plc	2,482	Telecommunications	London Stock Exchange	United Kingdom	BBB+	1.74
Apr-19	Citigroup	2,432	Financials	Luxembourg Stock Exchange	United States	BBB+	3.35
Jun-19	Intesa Sanpaolo SpA	2,241	Financials	Luxembourg Stock Exchange	Italy	BBB	1.43
Jun-19	MMS USA Financing Inc	2,236	Consumer Services	Paris	United States	BBB+	1.29
Jun-19	Vivendi	2,090	Consumer Services	Paris	France	-	0.67

## IG by issuer operations nationality Q2 2019



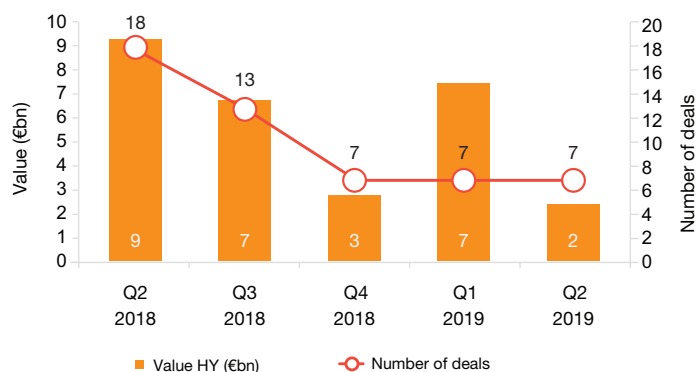
## Average yield-to-maturity by issue rating (%)

S&P rating	Q2 2019	Q1 2019	Q2 2018
AAA	2.13	2.16	-
AA	0.93	1.14	1.80
A	1.15	2.06	1.98
BBB	2.04	2.58	2.31

# UK Focus

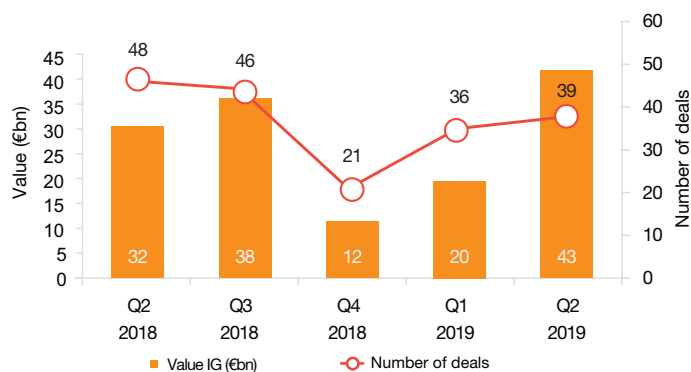
## High yield (rated BB+ (inclusive) and below)

### UK HY activity by quarter

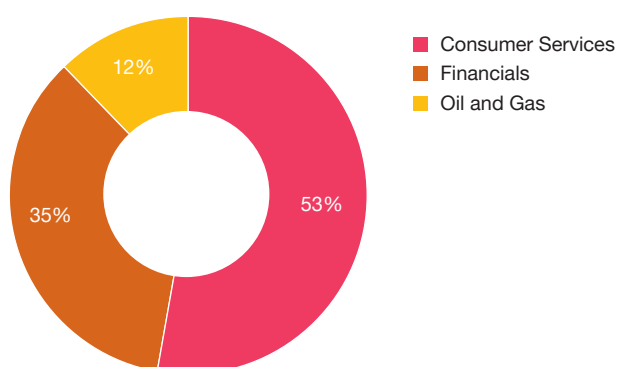


## Investment grade (rated BBB- (inclusive) and above)

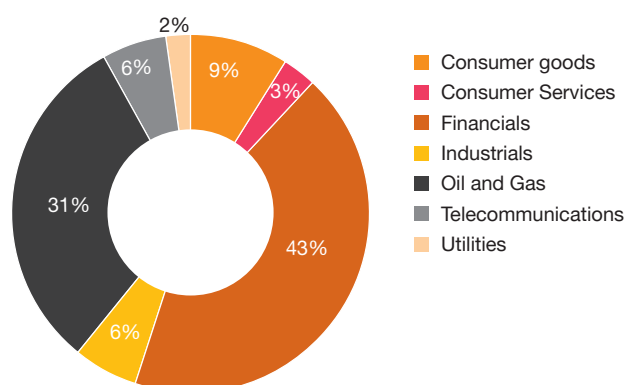
### UK IG activity by quarter



### UK HY by sector Q2 2019



### UK IG by sector Q2 2019



### Top five UK HY issues Q2 2019

Pricing date	Top five HY issues	Value (€m)	Listing market	Rating (S&P)	YTM (%)
Apr-19	Tesco Corporate Treasury Services plc	458	London Stock Exchange	BB+	2.63
Apr-19	William Hill plc	405	London Stock Exchange	BB	4.75
Apr-19	Ecobank Transnational Inc	395	London Stock Exchange	B-	9.75
May-19	Standard Bank	358	London Stock Exchange	-	5.95
May-19	Co-operative Group Ltd	351	London Stock Exchange	BB	5.12

### Top five UK IG issues Q2 2019

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Apr-19	Saudi Aramco	10,579	London Stock Exchange	-	3.65
May-19	BP Capital Markets plc	2,665	London Stock Exchange	A-	1.30
May-19	Bank of America Corp	2,500	London Stock Exchange	A-	1.10
May-19	Vodafone Group plc	2,482	London Stock Exchange	BBB+	1.74
May-19	Standard Chartered plc	1,785	London Stock Exchange	BBB+	3.01

# 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, Luxembourg and The International Stock Exchange (TISE)).

The survey was conducted between 1 April and 30 June 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.

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

For any issue with different ratings applied to different tranches, the multiple credit ratings for such issuances are displayed.

Issuer operations nationality is defined as the nationality of business of the issuer and not the nationality of incorporation of the issuer.

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

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