Corporate Credit Monthly Update
November 2020

The economic recovery in eurozone countries is starting to slow. A second wave of coronavirus cases led to the introduction of fresh lockdown measures, which could hamper growth prospects for the region. As a result, the German 10-year yield fell sharply to -0.63% at the end of October, versus -0.40% at the start of September. However, the risk premia of investment grade private issuers and peripheral issuers remained stable. The majority of issuers have already secured most of their financing for 2020, and the various asset purchase programmes introduced by central banks serve as powerful bulwarks against a widening of spreads. The European Central Bank is also prepared to step up its accommodative stance if necessary. The European corporate index yield ended the month at 3.78%.

In the United States tensions are still running high, as the presidential election shone a light on the country's deep political divide despite Joe Biden's victory. The final stretch of the race for the White House was relentless, against the backdrop of the pandemic and riots that broke out in several American cities. After raising hopes by stepping up discussions on a fiscal stimulus, the US government failed to reach an agreement on a new package of measures to help the economy. New stimulus measures are sure to come, but the post-election turmoil could keep policymakers busy for some time. The US 10-year benchmark yield climbed to 0.87% at the end of the month, up 19 basis points. This is the largest increase since September 2018. At the same time, short-term rates remained unchanged. The US bond market seems to have held its breath until the presidential election was called.

October was a relatively quiet month for credit premia. The uptick in long-term bond yields and the steepening of the yield curve suggest that bond investors have begun to embrace the possibility that the economy will improve in the future. Corporate bonds proved resilient, with high yield bonds in particular performing well. The US corporate index yield stands at 4.99%.

As regards emerging markets, China is leading the global recovery with many economic indicators already back above their pre-COVID-19 levels. The industrial and service sectors rebounded strongly, supported by the country's apparent success in the fight against the virus. Chinese issuers are dominating the USD bond market, and these issues – along with those of other Asian companies – were crucial in helping attract capital to emerging markets. Cashflows more than doubled to reach USD 17.9 billion in October (up from USD 7.5 billion the previous month) thanks to an improved economic outlook and a strong performance by the technology sector. Amid a flurry of bond issues, debt accounted for the majority of inflows with about USD 11.7 billion. However, capital flows tailed off towards the end of the month as volatility grew. The outcome of the US elections and the new lockdown measures in Europe introduced to combat the rise in COVID-19 cases have spooked investors. In this context, the EM corporate index yield stood at 7.34%.

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Companies in the Spotlight

Recordati

Recordati, an Italian company that manufactures and markets pharmaceuticals for speciality and primary care, has reported a decent set of 9M20 results. While revenue declined a modest 0.6% yoy or up +1.1% organically, to EUR 1.1bn, EBITDA increased by a healthy 7.1% to EUR 439m. On the earnings call, management reiterated the resilience of the business despite COVID-19-related challenges, which have resulted in an overall decline in consumption and an adverse FX impact. The improvement in EBITDA also resulted in a higher margin of 40.1% (vs. 37.2% in 9M19). Net leverage thus declined from 1.6x as of LTM H120 to 1.5x as of LTM 9M. The company reiterated its FY 2020 guidance, which was a good sign.

Nielsen

Nielsen announced that Advent International will buy Nielsen Global Connect for $2.7bn. Net proceeds could reach $2.0bn and will allow debt to be reduced, according to Nielsen’s management. The transaction is expected to close in the first quarter of 2021. Nielsen also released solid Q320 earnings, with revenue of $1.6bn and adjusted EBITDA of $501M. The company ended the quarter with total net leverage of 4.3x. Pro forma for the transaction, it targets a total net leverage of 4.0x by year-end.

Ulker Biskuvi

Turkey-based Ulker Biskuvi is a leading confectionary business with leading positions in biscuits, chocolate and cakes. The company recently placed a $650m senior unsecured issue to complete the refinancing of its capital structure. On top of leading market shares in each of its product categories (biscuits 43.3%, chocolate 41.3% and cakes 22.2%) at home, Ulker also enjoys a solid position in Saudi Arabia and Egypt. In FY 2019, Ulker reported net revenues of TRY 7.8bn and adjusted EBITDA of TRY 1.29bn. S&P anticipates that Ulker is likely to maintain an adjusted (gross) debt-to-EBITDA ratio of 4.0x-5.0x, EBITDA interest coverage of at least 3x, and positive FOCF for the next 12-18 months. But it must be pointed out that Ulker holds high cash positions, implying a net leverage closer to the 1.0x-2.0x range.

Significative Primary Issues

EUR

Issuer	*Coupon*	*Maturity*	*Amount*	*Rating*
Adevinta	3.00%	2027	€400M	Ba3
Aston Martin	10.50%	2025	$1.85Bn	CCC

US

Issuer	*Coupon*	*Maturity*	*Amount*	*Rating*
Gray Television	4.75%	2030	$800M	B+
MGM resorts	4.75%	2028	$750M	BB-

EM

Issuer	*Coupon*	*Maturity*	*Amount*	*Rating*
Fortune Star	5.95%	2025	$400M	BB
Ulker Biskuvi	6.95%	2025	$650M	B+

Rating moves

Bertelsmann	S&P	↘	BBB
Dufry	S&P	↘	B+
Hapag-Lloyd	Moody’s	↗	Ba3
Lyondellbasell	S&P	↘	BBB-
Merlin	Moody’s	↘	B3
Oi European Group	Moody’s	↗	B1
Renault	Fitch	↘	BB

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Macro Economic Events

Eurozone: at the end of October, the announcement of a record 12.7% increase in GDP from Q2 to Q3 was overshadowed by the uncertainty surrounding the pandemic. This jump exceeded economists' expectations, but still left production 4.3% below the previous year's level.

ECB: although the ECB left its rates unchanged, Christine Lagarde stated that the central bank would not hesitate to act should the eurozone economy deteriorate faster than expected. She also suggested that more stimulus could be introduced as early as December.

Germany: private sector operating conditions in Germany improved at a slightly slower pace in October, with the PMI index climbing to 54.5 from 54.7 in September. This is still above the important threshold of 50 that separates expansion from contraction.

France: the central bank announced that it expects the country's economic activity to decline by 9–10% this year. This figure was larger than expected due to the new lockdown measures.

United States: the economic recovery in the US continued at a brisk pace as October came to a close. The labour market in particular saw considerable improvements. The number of people receiving unemployment benefits stood at 8.4 million, having peaked at 25 million in May.

China: the expected pace of economic growth is the slowest it has been in more than four decades, despite the country's gradual recovery from a COVID-19-induced slump earlier this year. However, production could ramp up significantly in 2021. The world's second-largest economy is expected to expand by 2.1% in 2020, making China the only major economy with positive growth in 2020.

Brazil: the central bank kept its key rate at the historically low level of 2% for the second time in a row while it waited to see how the nascent economic recovery develops. Inflation rose to 3.9% in October, up from 3.1% in September. This marked the highest inflation rate since February 2020.

Turkey: business confidence rose from 105.3 in September to 108.1 in October, its highest point since May 2018. The index remains above the crucial 100 threshold that separates business optimism from pessimism. On the price front, inflation expectations for the next 12 months rose to 13.6% in October from 13.0% in September as the lira continued to fall.

Market Data Indices (end of October)		Performance		Duration	Yield
High Yield		MTD*	YTD*	DTW*	YTW*
HE00	High Yield Europe	0.25%	-2.31%	3.91	4.13%
J0A0	High Yield United States	0.47%	0.24%	3.81	5.70%
H7PC	High Yield Europe BB/B Excluding Financials	0.38%	-2.81%	3.86	3.78%
JC4N	High Yield United States BB/B Excluding Financials	0.44%	0.92%	3.89	4.99%
HYEF	High Yield Emerging Countries Excluding Financials	0.30%	1.11%	3.41	7.34%
Investment Grade					
ER00	Investment Grade Europe	0.78%	1.46%	5.29	0.41%
C0A0	Investment Grade United States	-0.17%	6.43%	8.12	2.08%
EMIC	Investment Grade Emerging Countries	0.21%	4.47%	5.79	2.29%
Governments					
G4D0	10-Year German Bond	0.78%	3.28%		-0.63%
G402	10-Year US Bond	-1.30%	9.96%		0.87%

Inflation (end of October)						
Expected inflation		October	September	August	6M	12M
EURO INF	Expected inflation for 2020 in Europe	0.30%	0.40%	0.40%	0.50%	1.20%
US INF	Expected inflation for 2020 in the United States	1.20%	1.10%	1.00%	1.00%	1.80%
Realized inflation		October	September	August	6M	12M
EUR CPI	Realized inflation in Europe (rolling 12-month)	-0.30%	-0.30%	-0.20%	0.30%	0.70%
US CPI	Realized inflation in the United States (rolling 12-month)		1.40%	1.30%	0.30%	1.80%

**MTD = Month-to-date, YTD = Year-to-date, DTW = Duration-to-worst, YTW = Yield-to-worst* *Source : Merrill Lynch*

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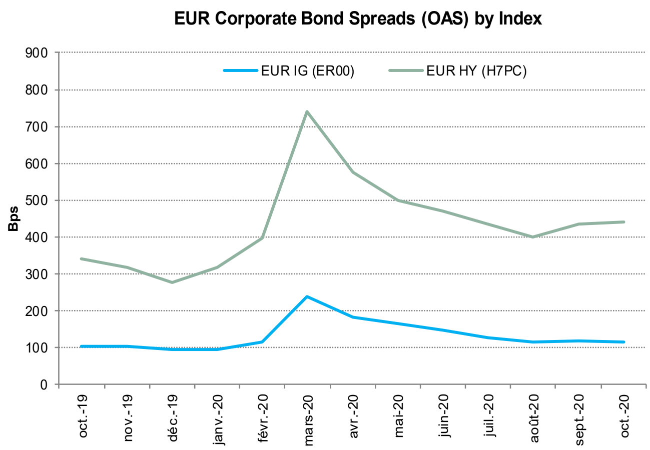

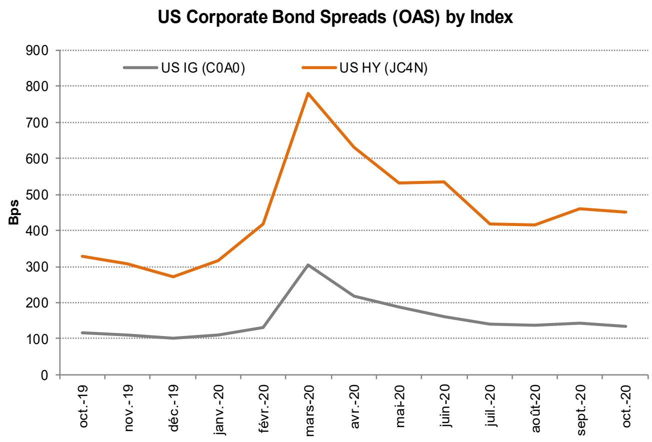

Corporate Bond Spreads		October	September	August	12 months
Europe					
ER00	Investment Grade Europe	115	117	114	103
HE00	High Yield Europe	486	477	450	378
H7PC	High Yield Europe BB/B Excluding Financials	444	439	406	348
ER30	Bonds rated A Europe	96	96	92	85
ER40	Bonds rated BBB Europe	141	146	142	126
HE10	Bonds rated BB Europe	366	363	330	256
HE20	Bonds rated B Europe	644	618	582	549
United States					
C0A0	Investment Grade United States	128	139	131	115
J0A0	High Yield United States	529	542	503	427
JC4N	High Yield United States BB/B Excluding Financials	458	467	419	346
C0A3	Bonds rated A United States	94	103	95	88
C0A4	Bonds rated BBB United States	164	178	170	147
JUC1	Bonds rated BB United States	388	400	355	255
JUC2	Bonds rated B United States	574	578	532	458
Emerging Countries					
EMIC	Investment Grade Emerging Countries	182	193	187	158
HYEF	High Yield Emerging Countries	702	709	672	528
EMAQ	Bonds rated A Emerging Countries	137	145	139	122
EM2B	Bonds rated BBB Emerging Countries	235	250	242	206
EM3C	Bonds rated BB Emerging Countries	452	473	461	340
EM6B	Bonds rated B Emerging Countries	914	884	789	607

Source : Merrill Lynch

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Anaxis Asset Management

Anaxis specialises in corporate credit for investors who firmly believe in fundamental investing based on in-depth knowledge of issuers. For more than 10 years, Anaxis has focused on corporate credit strategies and has developed comprehensive expertise and methods renowned for their reliability by its clients.


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