

Corporate Credit Monthly Update

May 2022

In the Eurozone, the conflict between Russia and Ukraine has pushed up inflation and created new problems with access to commodities. Many countries are trying to find new sources of supply. Higher costs and potential shortages have merely added to the pressure on economies, coupled with the bottlenecks already present along supply chains. Investors remain worried about slower growth. Inflation set new records in April. In Germany, it reached levels unseen since 1981. These figures fuelled expectations of monetary policy tightening at the ECB, which led to a historic rise in yields. Germany's 10-year Bund yield ended the month at 0.94%, and put all European bonds under pressure.

The first quarter of the year was a difficult one for investors on the various markets and these difficulties continued in April. Spreads widened considerably amid volatility, especially in the riskiest bond assets such as high yield instruments. In this context, the European corporate index yield closed the month 86 basis points higher, at 5.18%.

In the United States, the Russia-Ukraine conflict, inflation, higher interest rates, persistent labour shortages, supply chain problems and the Fed's monetary policy tightening continued to weigh on financial markets, which were still fraught with volatility in April. Moreover, the economy shrank unexpectedly in the first quarter, after six consecutive quarters of growth. The Fed is increasingly concerned, and is taking a more hawkish approach. The speed and extent of the rise in bond yields exerted heavy pressure on equity and corporate bond prices. Treasury yields increased significantly on both short and long maturities. The 10-year yield ended the month 60 basis points higher, at 2.94% – a level last seen in 2018.

Investment grade bonds have lost more ground than high yield bonds since the beginning of the year, although the latter have still corrected by nearly 9% in that time. However, the asset class is becoming more attractive given the indiscriminate discounts and high yields available. The yield on the US corporate index rose 94 basis points to end the month at 6.49%.

As in developed markets, the main concern for emerging markets remains inflation. This casts doubts over the health of the global economy and consumers' ability to spend. Due to its aggressive policies – tighter lending conditions and zero-Covid – China recorded more capital outflows in the first quarter than in recent years. Strict lockdowns in cities, the perceived risk of investing in a country whose relations with the West are deteriorating by the day and supply chain bottlenecks explain this disenchantment. These factors may worsen if Covid-19 keeps spreading in China.

On emerging credit markets, the first quarter was highly volatile and April did nothing to buck the downward trend. Spreads widened during the month, to an extent rarely seen. Performance was negative in all sectors but, in terms of rating, investment grade bonds corrected the most. The uncertainty surrounding inflation and reactions to the Fed's decisions will be the main determinants of volatility. The emerging market corporate index yield was 9.95% at the end of the month.

Edited: 09/05/2022

Companies in the Spotlight

Paprec

Paprec, the French recycler, reported strong FY 2021 results, with sales rising 41.3% to EUR 1.9 billion mostly due to higher prices for recycled materials and increased volumes. EBITDA surged 48.9% to EUR 370 million with the margin up 100 bps to 19.6%. This, combined with a substantial improvement in cash flow generation, led to net leverage being down 0.5x to 3x. It is worth noting that the company has executed two capital increases, in December 2021 and March 2022, with Matthieu Leclercq, son of the founder of Decathlon, becoming a shareholder and the Petithuguenin family remaining the majority shareholder of Paprec. During the conference call, management provided a constructive outlook despite the uncertain macroeconomic environment.

Avis

Avis, the world's largest car rental company, released record first quarter results. Activity picked up in the second part of the quarter, with demand for travel in the Americas at the highest level ever, according to the management. Thanks to supportive volume and pricing, Q1 revenue rose 77% YoY and 27% compared with Q1 2019. All segments contributed positively and international EBITDA, which lagged behind the Americas until recently, reached the highest ever quarterly level. Meanwhile, corporate demand also rebounded nicely, with longer rental periods (and thus higher profitability) than prior to the pandemic. At the end of March, Avis reported a net leverage ratio of 1.3x, which is well below its medium-term target of 3x-4x. With the company upgrading its guidance following a strong start to the year and continuing outperformance in April and early May, the focus might shift toward shareholder reward, as an increase in the share buyback authorisation of USD 2 billion has been announced.

Avia Solutions Group

Avia Solutions Group, a leading European aviation services provider, reported sound Q42021 and FY2021 results. In 2021, revenue rose 46% to EUR 1.015 billion while adjusted EBITDA increased 42% to EUR 155 million. FCF (pre-WC) was positive at EUR 33 million and liquidity was boosted by a EUR 300 million convertible preferred share made by Certares Compass LLC at the end of the year. After such a liquidity boost, the company reached a net leverage ratio of 0.2x and is well positioned to benefit from internal and external growth opportunities as demand for air cargo and air travel pick up. For example, in 2021, the company increased its aircraft fleet from 54 to 93, and the figure could reach 137 in 2022.

Significative Primary Issues

EUR

Issuer	Coupon	Maturity	Amount	Rating
Castle UK	7%	2029	GBP 425M	B1

US

Issuer	Coupon	Maturity	Amount	Rating
Carvana	10.25%	2030	\$3.275Bn	CCC
VistaJet Global	7.875%	2027	\$500M	B-

EM

Issuer	Coupon	Maturity	Amount	Rating
Arcos Dorados SLN	6.125%	2029	\$350M	Ba2
Natura Cosméticos	6%	2029	\$600M	BB

Rating moves

Atlantia	Moody's	↗	Ba1
Bilfinger SE	S&P	↗	BB+
Citycon	Fitch	↘	BB+
Derichebourg	Fitch	↗	BB+
Equinix	Moody's	↗	Baa2
Europcar	Moody's	↗	B3
Grünenthal	S&P	↗	BB-
LKQ	S&P	↗	BBB-
Loxam	S&P	↗	BB-
Oriflame	Fitch	↘	B
Paprec	Moody's	↗	B1
Sanef	Moody's	↘	Baa2
Scientific Games	S&P	↗	BB-
Warner Media	Fitch	↘	BBB-

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Macro Economic Events

Eurozone: the eurozone economy grew by 0.2% in the first quarter of 2022, its weakest performance since the EU emerged from recession in 2021. It is also below market expectations, which had reckoned on an increase of 0.3%. The annual inflation rate stands at 7.5% (against 7.4% in March), reaching its highest point since 1997. The war in Ukraine and the sanctions against Russia have helped push up the prices of raw materials.

ECB : the European Central Bank made no changes to its main monetary policy instruments. It confirmed that it would probably be ending its net asset purchases under the Asset Purchase Programme (APP) during Q3 2022.

Germany: import prices leapt 31.2% year-on-year, following a 26.3% rise in February. This new figure exceeded market forecasts of 28.6%. This is the largest annual rise in import prices since September 1974, as the impact of the Russia-Ukraine war is starting to make itself felt.

France: consumer confidence collapsed unexpectedly to 88 points in April: analysts had been expecting that it would rise to 92 points. This is the weakest figure since February 2018 and well below the long-term average of 100. The war in Ukraine and the rise in inflation have depressed consumer confidence, heightening concerns over the drop in living standards and decline in saving capacity. Fears of unemployment are at their highest level since September 2021.

United States: the PMI index fell to 58.5 points in April, down from 65.9 points in March, failing to meet the market forecast of 62. This is the lowest figure since August 2020, and suggests a slowdown in economic activity.

China: in April 2022 the manufacturing PMI fell to 46 – its lowest level in 26 months – compared with 48.1 in March. This was below market expectations (47). This figure also represents the third contraction in Chinese factory activity since the beginning of the year. The COVID-19 pandemic and the ensuing harsh restrictions taken their toll on the economy.

Colombia: the central bank raised its key interest rate by a further 100 basis points to 6%, in line with market predictions. This is the sixth rate hike since monetary tightening was started in September 2021, driven by high, persistent pressure on prices and uncertainty surrounding the international outlook. The annual inflation rate hit its highest level in six years at 8.5%, nearly three times the central bank's 3% target.

Market Data Indices (end of April)		Performance		Duration	Yield
High Yield		MTD*	YTD*	DTW*	YTW*
HE00	High Yield Europe	-2.87%	-7.56%	3.68	5.21%
JOA0	High Yield United States	-3.65%	-8.01%	4.59	6.94%
H7PC	High Yield Europe BB/B Excluding Financials	-2.89%	-7.05%	3.57	5.18%
JC4N	High Yield United States BB/B Excluding Financials	-3.57%	-7.90%	4.70	6.49%
HYEF	High Yield Emerging Countries Excluding Financials	-2.68%	-13.99%	3.93	9.95%
Investment Grade					
ER00	Investment Grade Europe	-2.77%	-7.89%	4.98	2.09%
COA0	Investment Grade United States	-4.97%	-12.33%	7.42	4.29%
EMIC	Investment Grade Emerging Countries	-2.78%	-11.60%	5.69	4.35%
Governments					
G4D0	10-Year German Bond	-2.99%	-8.61%		0.94%
G402	10-Year US Bond	-4.04%	-10.27%		2.93%

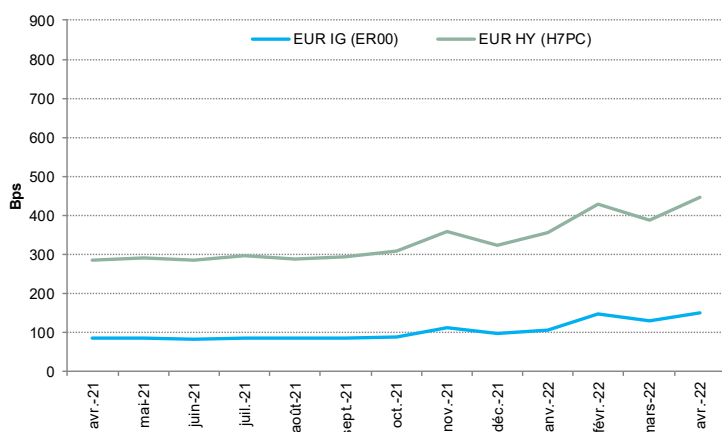
Inflation (end of April)						
Realized inflation		April	March	February	6M	12M
EUR CPI	Realized inflation in Europe (rolling 12-month)	7.50%	7.40%	5.90%	4.10%	1.60%
US CPI	Realized inflation in the United States (rolling 12-month)		8.50%	7.90%	6.20%	4.20%

*MTD = Month-to-date, YTD = Year-to-date, DTW = Duration-to-worst, YTW = Yield-to-worst

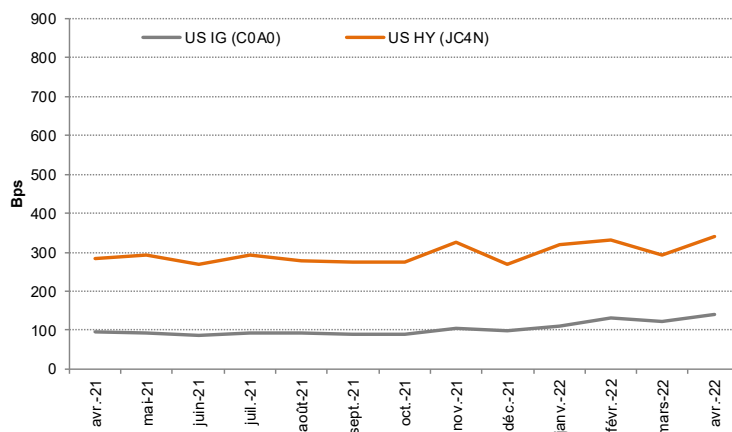
Source : Merrill Lynch

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EUR Corporate Bond Spreads (OAS) by Index



US Corporate Bond Spreads (OAS) by Index



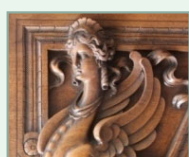
Corporate Bond Spreads		April	March	February	12 months
Europe					
ER00	Investment Grade Europe	146	127	146	84
HE00	High Yield Europe	458	410	450	311
H7PC	High Yield Europe BB/B Excluding Financials	444	395	431	294
ER30	Bonds rated A Europe	123	107	123	71
ER40	Bonds rated BBB Europe	173	151	170	98
HE10	Bonds rated BB Europe	364	323	358	241
HE20	Bonds rated B Europe	592	525	586	416
United States					
C0A0	Investment Grade United States	139	121	128	90
J0A0	High Yield United States	410	361	389	339
JC4N	High Yield United States BB/B Excluding Financials	364	323	353	303
C0A3	Bonds rated A United States	112	96	100	67
C0A4	Bonds rated BBB United States	172	151	160	113
JUC1	Bonds rated BB United States	303	267	298	252
JUC2	Bonds rated B United States	453	404	436	387
Emerging Countries					
EMIC	Investment Grade Emerging Countries	166	163	206	152
HYEF	High Yield Emerging Countries	723	760	863	545
EMAO	Bonds rated A Emerging Countries	120	120	118	108
EM2B	Bonds rated BBB Emerging Countries	228	221	308	202
EM3C	Bonds rated BB Emerging Countries	390	383	497	361
EM6B	Bonds rated B Emerging Countries	896	921	1218	712

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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