

Q2 2020

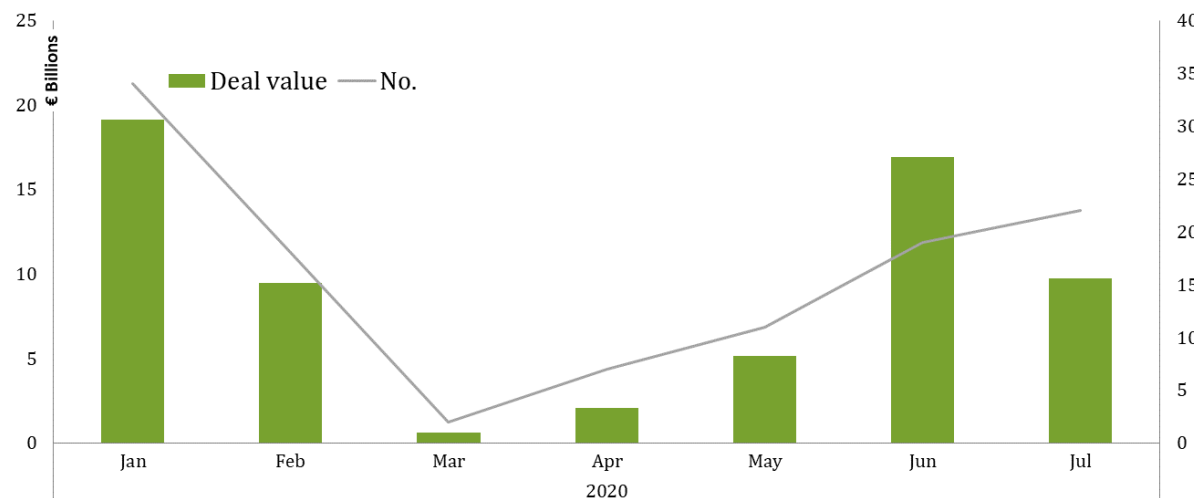
European High Yield and Leveraged Loan Report

European Leveraged Finance

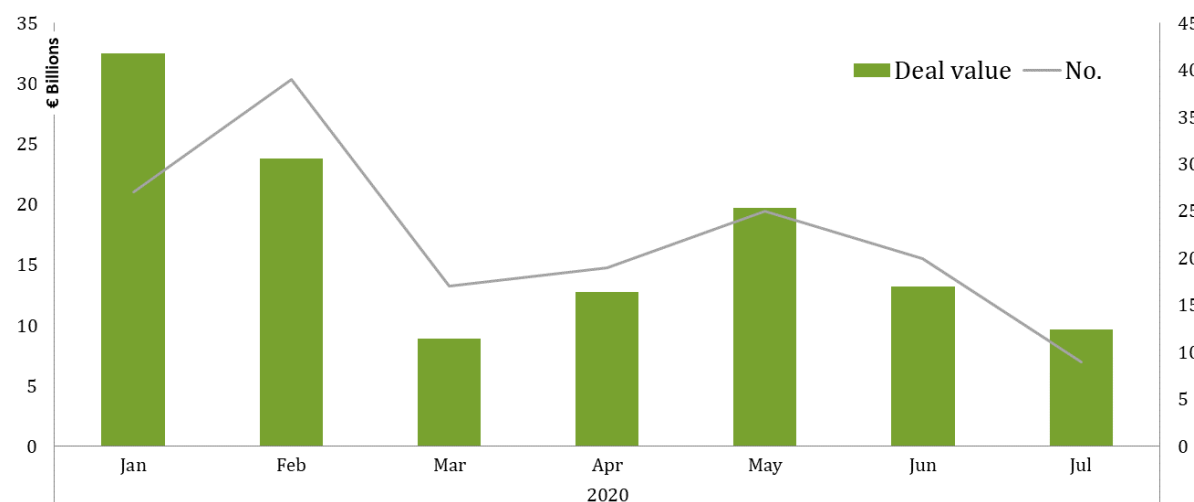


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1.1 European High Yield Bond Issuance: 2020



1.2 European Leverage Loan Issuance: 2020



Source: Dealogic

The European leveraged finance primary market has partially resumed during 2Q'20.

Since June 2020, the primary high yield bond market has seen monthly deal volumes close to those observed before the COVID-19 outbreak. (See top chart).

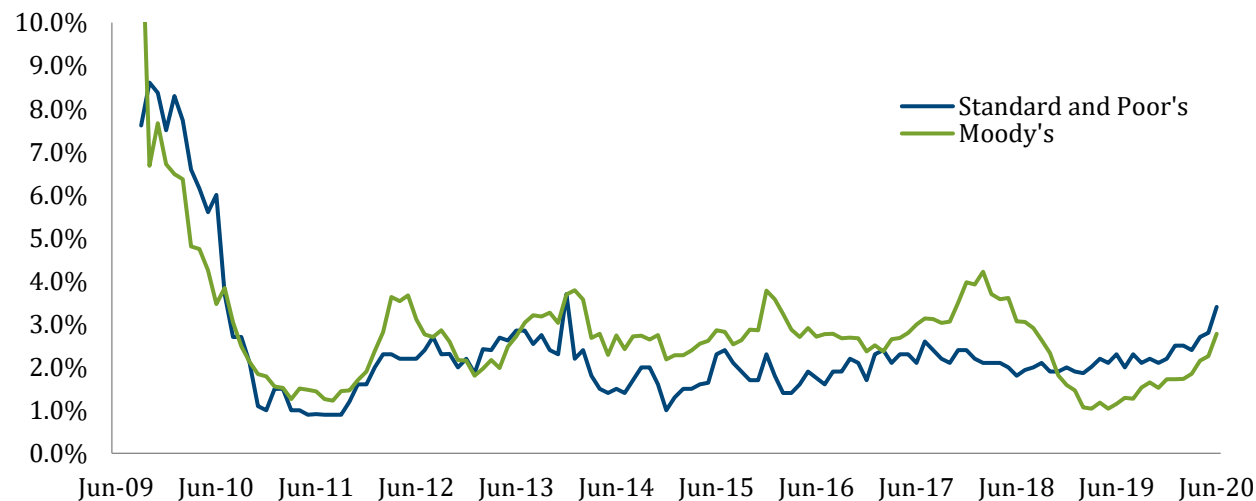
The primary leveraged loan market has also observed a partial recovery although monthly issuance volumes continue below pre-COVID levels. (See bottom chart).

Key findings

1.3 ICE BofA Euro High Yield Index Option-Adjusted Spread (%)



1.4 European High-yield default rates



Source: Bank of America [1.3] and Moody's [1.4]

European high yield spreads rose from 300bps in January 2020 to a maximum of 866bps at the end of March. Most recently, however, high yield bond spreads have declined to 450bps in mid-August 2020. (See top chart).

Moody's and S&P reported an increase in the trailing-12-month speculative-grade default rate to 2.8% and 3.4% respectively. (See bottom chart).

Fitch also reported an increase in leverage loan default rates to 6.4% in June 2020 (including c* and cc* rated issuers as if those had already defaulted).

Above 95% of S&P and Moody's European corporate ratings actions in 2Q'20 were downgrades, reflecting the ongoing credit concerns on the corporate sector.

Leveraged Finance Overview

Issuance Highlights

European leveraged finance issuance (leveraged loans and high yield bonds) accumulated €70.0 billion in proceeds in 2Q'20, a 25.9% decrease from €94.4 billion in 1Q'20 but an increase from €63.4 billion in 2Q'19. This quarterly decline was driven mainly by a decrease in leveraged loan issuance.

The high yield bond share of leveraged finance market issuance increased to 34.7% in 2Q'20, up from 30.9% in 1Q'20 but below 46.1% in 2Q'19.

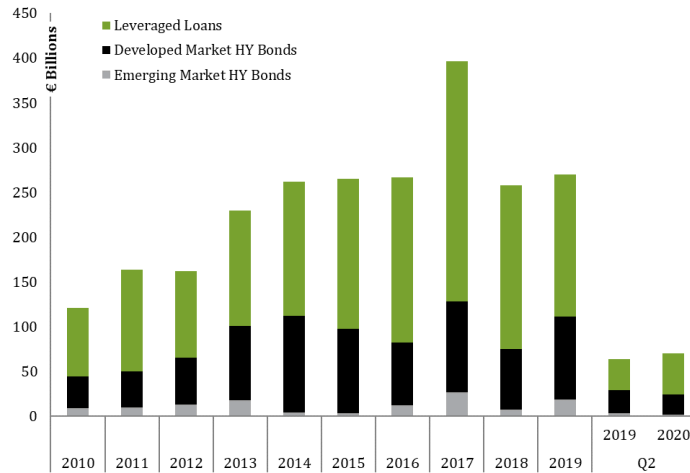
Credit Standards and Loan Demand

According to the July 2020 European Central Bank lending survey, credit standards for loans to enterprises and SMEs slightly eased in 2Q'20 compared to the 1Q'20 survey. Industry or firm-specific outlook and the general economic outlook continue as the most relevant factors contributing to tightening impact on credit standards for loans to enterprises. In contrast, risk on collateral demanded had a net positive easing impact.

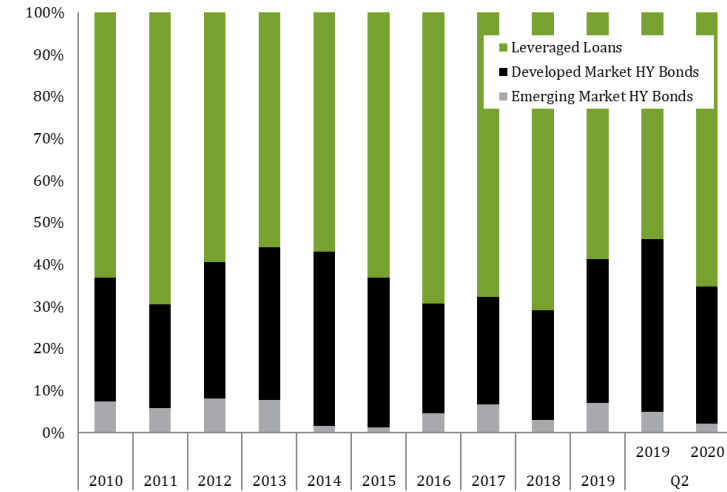
Net demand for loans to enterprises significantly increased in 2Q'20 continuing the net increase observed in 1Q'20 which reflects the ongoing impact of the COVID-19 outbreak on firms' cash needs. Net demand increased for both loans to SMEs and loans to large firms.

The factors contributing to the increase in loan demand were working capital and debt restructuring. In contrast, M&A and fixed investment had a net negative impact on loan demand.

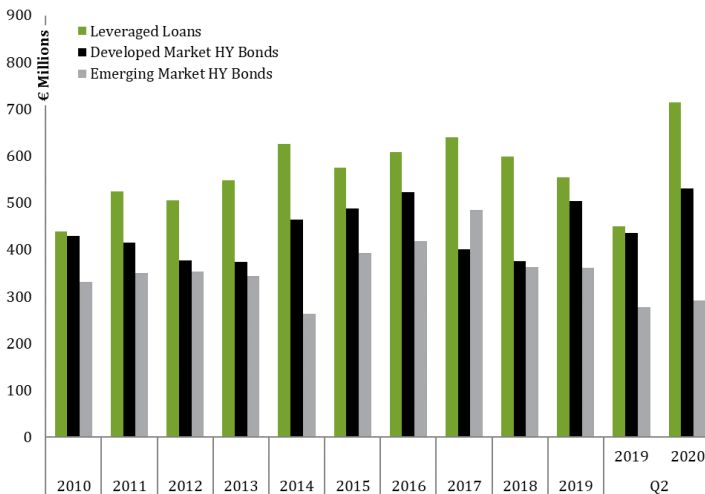
2.1 European Leveraged Issuance by Type



2.2 European Leveraged Issuance Percentage



2.3 European Leveraged Average Deal Size



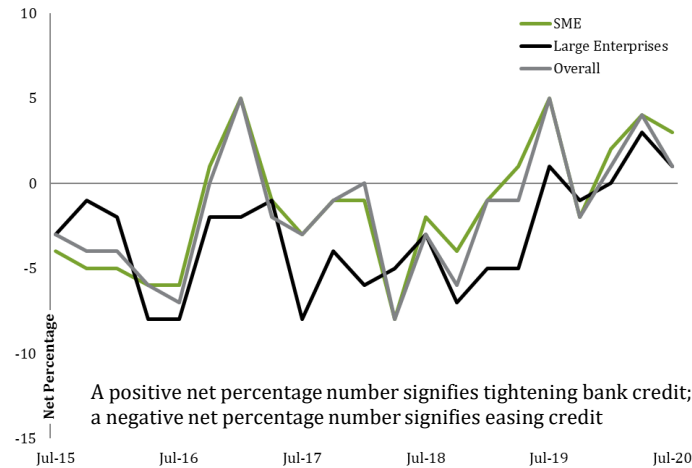
Source: Dealogic

2.4 Global Comparison High Yield Issuance

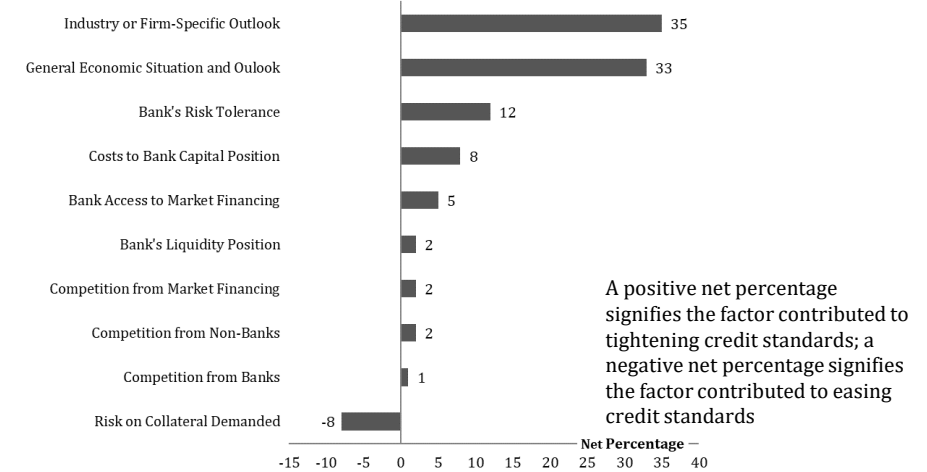
	2020		2019				Full Year	Prior Years			
	Q1	Q2	Q1	Q2	Q3	Q4		2018	2017	2016	2015
€ Billions											
United States	56.4	114.0	48.0	47.9	46.4	57.5	199.8	115.8	192.0	187.6	164.4
Europe	29.2	24.1	17.1	29.2	31.3	33.9	111.6	74.9	82.1	97.8	112.4
Asia Pacific	26.1	7.1	29.1	26.4	20.1	16.5	92.1	51.0	27.7	25.7	27.1

Credit Standards and Loan Demand

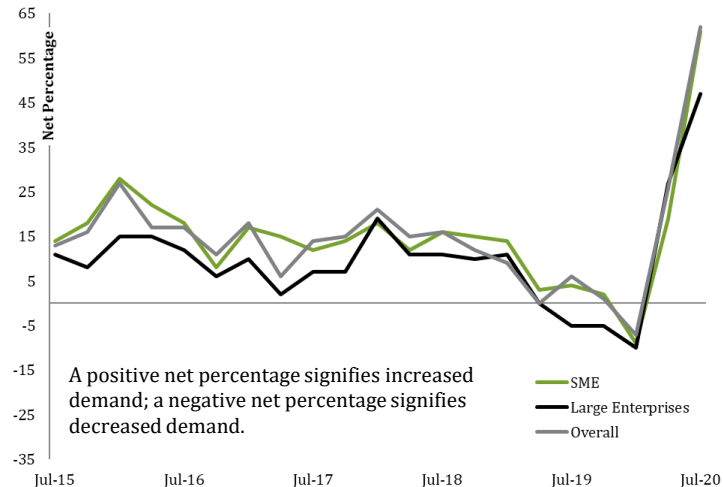
2.5 Bank Credit Standards



2.6 Factors Affecting Bank Credit Standards: July 2020

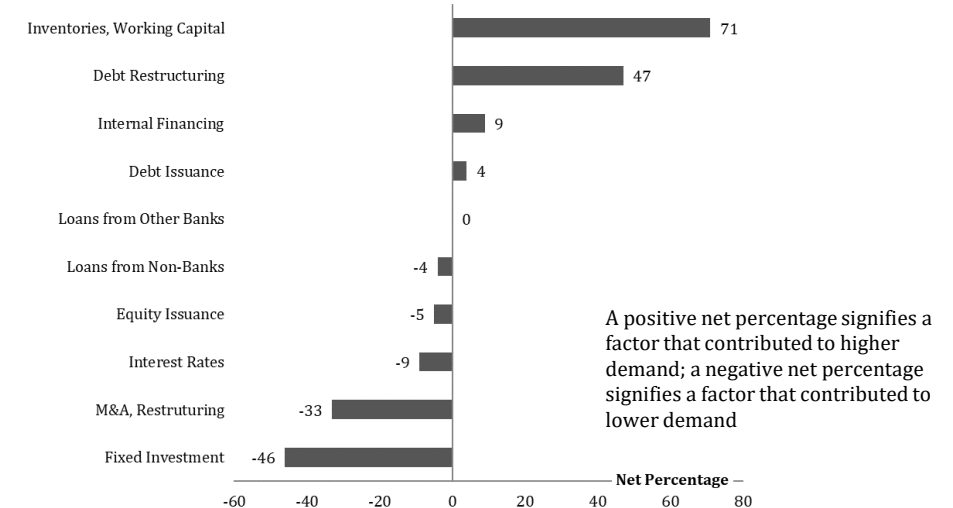


2.7 Loan Demand



Source: ECB

2.8 Factors Affecting Loan Demand: July 2020



Leveraged Loans

Issuance: Leveraged Loans

Leveraged loan issuance, including first lien, second lien, and mezzanine financing, totaled €45.7 billion on 64 deals in 2Q'20, down 29.9% from €65.2 billion on 83 deals in 1Q'20 but a 33.8% increase from €34.2 billion on 76 deals in 1Q'20.

All but two of the leveraged loans issued in 2Q'20 were 1st lien loans (€45.6 billion or 99.8% of total). The remaining two were 2nd lien loans (€0.1 billion) and no mezzanine loans were financed in 2Q'20.

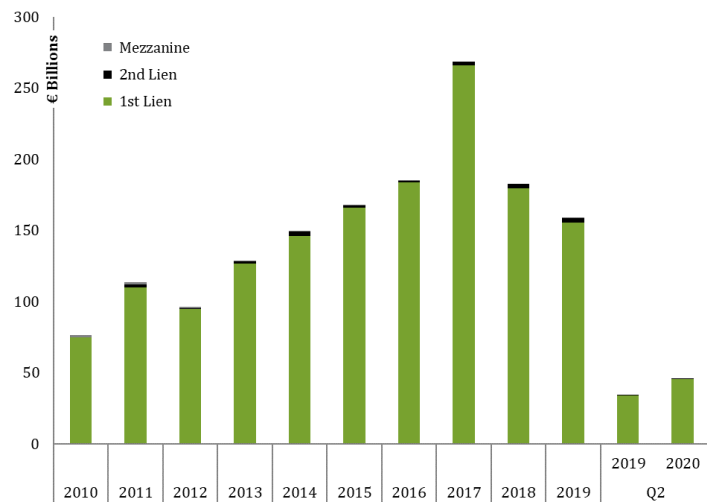
Pricing spreads for institutional loans widened by 76 basis points (bps) q-o-q and by 1 bps y-o-y. Spreads for pro rata loans tightened by 3 bps q-o-q and by 87 bps y-o-y.

In 2Q'20, €5.0 billion of amend-and-extend ("A&E") loans were financed, down from €10.2 billion in 1Q'20 but up by 42.9% from €3.5 billion in 2Q'19. There were €0.4 billion in loans amended to reduce pricing ("A&R") in 2Q'20, down from €14.5 billion in 1Q'20 and from €0.8 billion in 2Q'19.

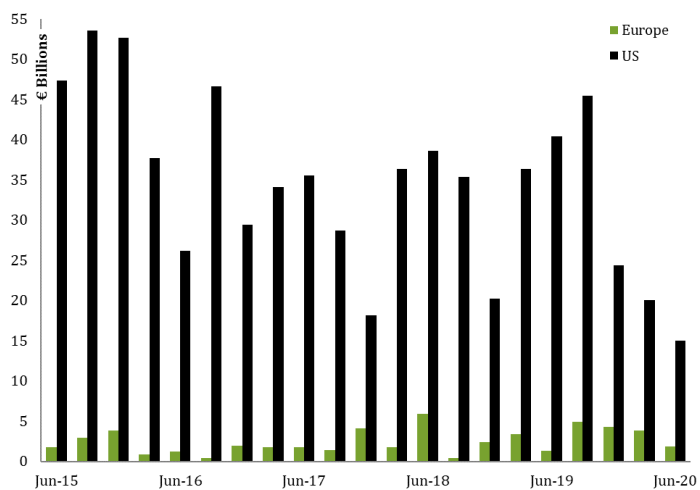
The top three sectors accounted for above half of leveraged loan issuance in 2Q'20; the leading sector was auto/truck (€12.7 billion or 27.7% of total), followed by metal & steel (€6.9 billion, 15.0%), and professional services (€4.5 billion, 9.9%), with the balance split between 19 other sectors.

25.1% of deals financed in 2Q'20 were issued for refinancing and/or repayment of debt, down from 55.1% in 1Q'20 and from 67.6% in 2Q'19. General corporate purposes were the largest use of proceeds in 2Q'20 with €18.9 billion, followed by refinancing/repayment of debt with €11.5 billion, and LBO/MBO with €6.9 billion or 15.1% of the total.

3.1 European Leveraged Loan Issuance By Type

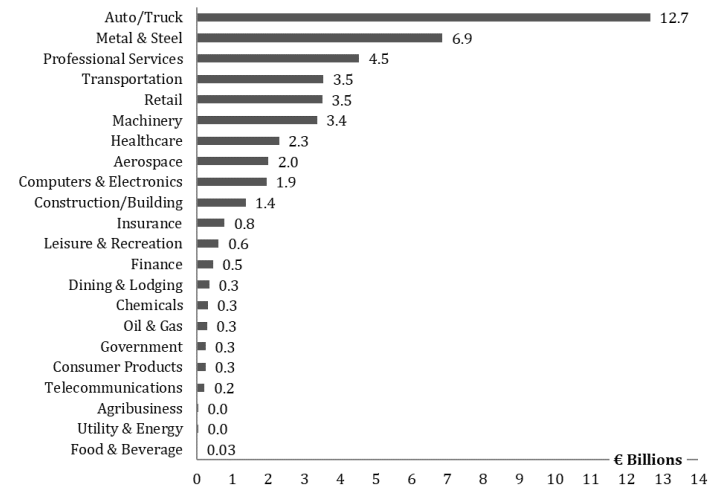


3.3 Forward Pipeline of Leveraged Loan Market

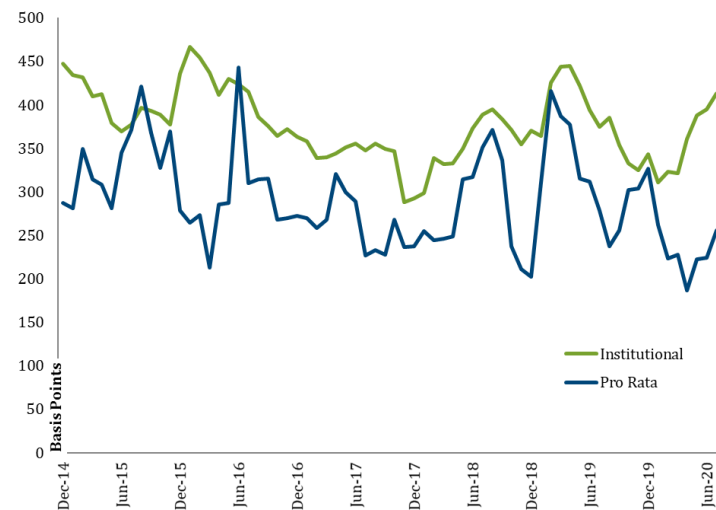


Source: Dealogic [3.1], [3.2] and [3.4], S&P LCD [3.3]

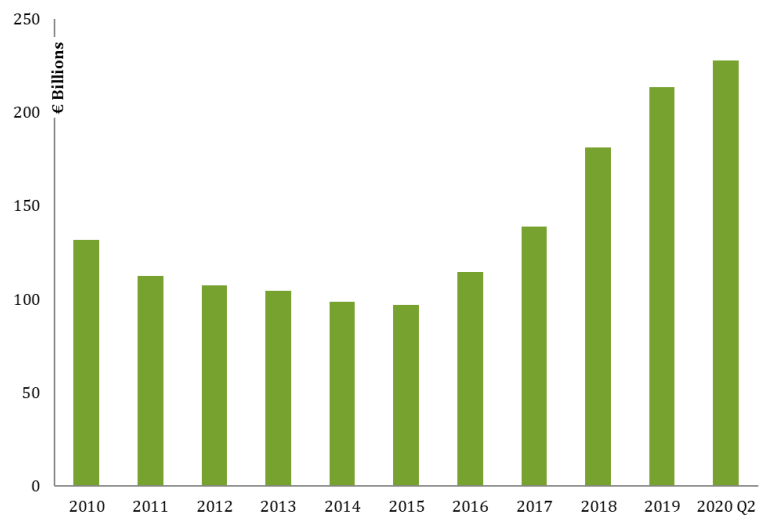
3.2 European Leveraged Loan Issuance by Industry: 2Q 2020



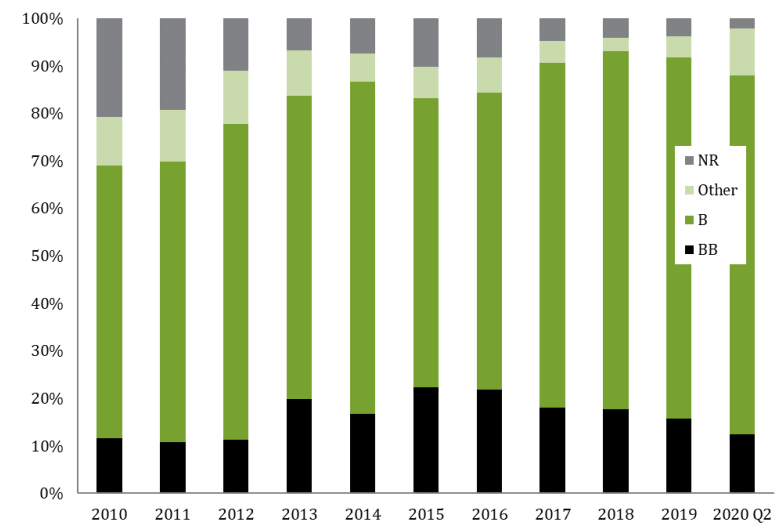
3.4 Institutional and Pro Rata Spreads (3-month rolling average)



3.5 ELLI Total Institutional Loans Outstanding



3.6 S&P ELLI Ratings Diversification



Source: S&P LCD

High Yield Bonds Overview

Issuance: High Yield Bonds

Primary high yield issuance totaled €24.2 billion on 48 deals in 2Q'20, a 16.9% decrease from €29.1 billion on 71 deals in 1Q'20 and a 17.0% decrease from €29.2 billion on 71 deals in 2Q'19. Developed market Europe issuance accounted for 94% of the 2Q'20 issuance (€22.8 billion on 43 deals) while the 6% remaining (€1.5 billion on 5 deals) was issued by Emerging market Europe firms.

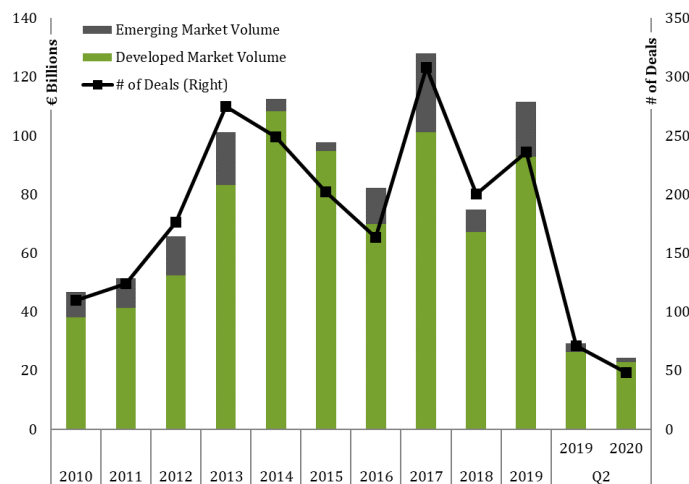
The leading use of proceeds for high yield bonds issuance in 2Q'20 was repayment/refinancing of debt with €15.0 billion, which was up 40% from €10.7 billion in 1Q'20 and up from €7.4 billion in 2Q'19.

Three sectors accounted for 57% of the total high yield issuance volume in 2Q'20 in developed market Europe: the telecommunications sector continued to lead issuance with €5.5 billion (23.9% of total), followed by machinery with €4.0 billion (17.7% of total), and auto/truck with €3.5 billion (15.4% of total). In emerging market Europe the top three sectors were: finance (€0.8 billion or 54.5% of total), followed by telecommunications (€0.6 billion, 41.1%) and retail (€0.1 billion, 4.4%).

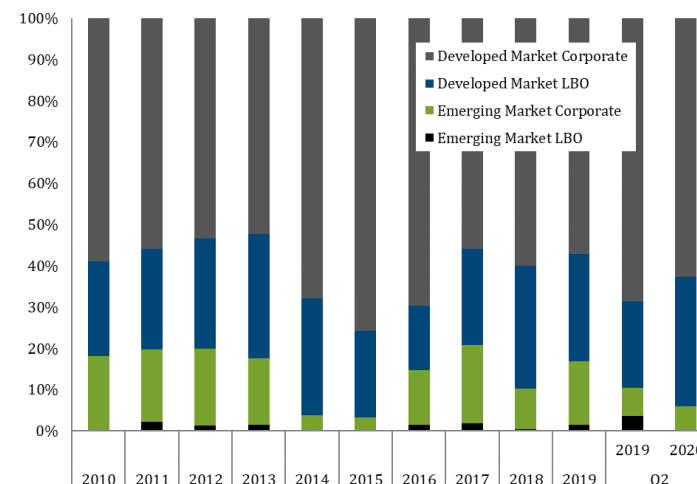
The proportion of USD-denominated issuance increased to 34.1% of all issuance in 2Q'20, up from 24.2% in 1Q'20 and from 28.6% in 2Q'19.

High Yield Bonds Overview

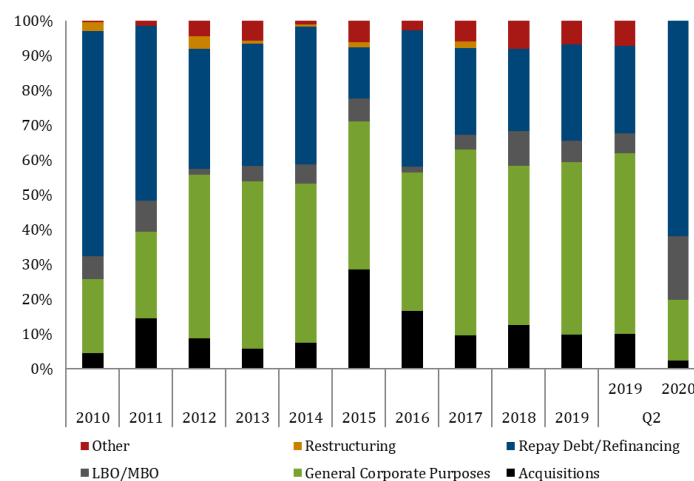
4.1 European HY Issuance, Developed and Emerging Markets



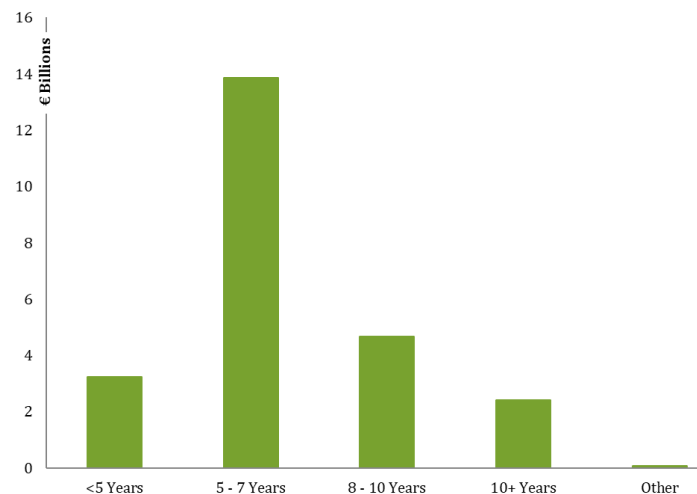
4.2 European HY Issuance, Sponsored vs Corporate



4.3 European HY Issuance, Use of Proceeds



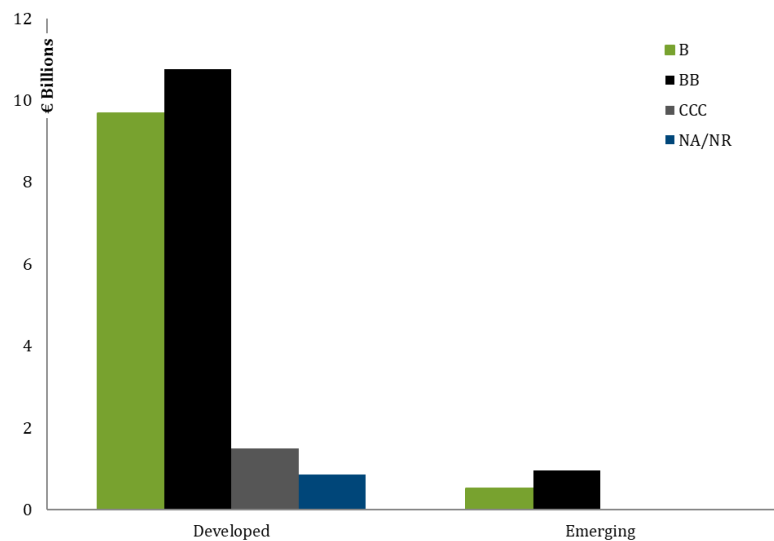
4.4 European Corporate Bond Issuance by Tenor: 2Q 2020



Source: Dealogic

High Yield Bonds Overview

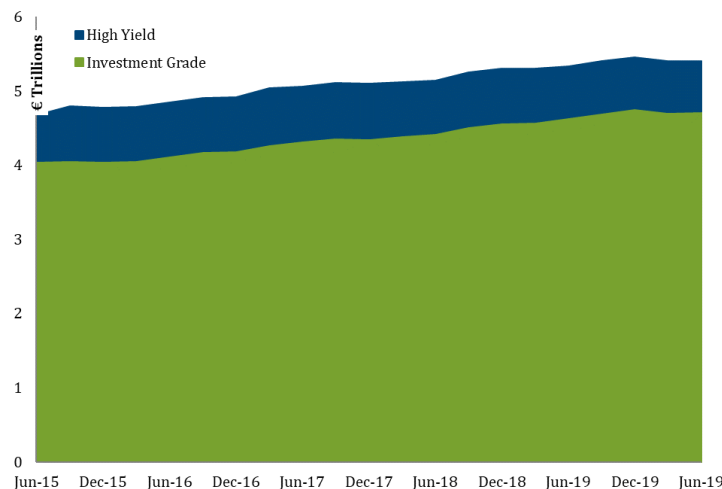
4.5 European Corporate Bond Issuance by Rating: 2Q 2020



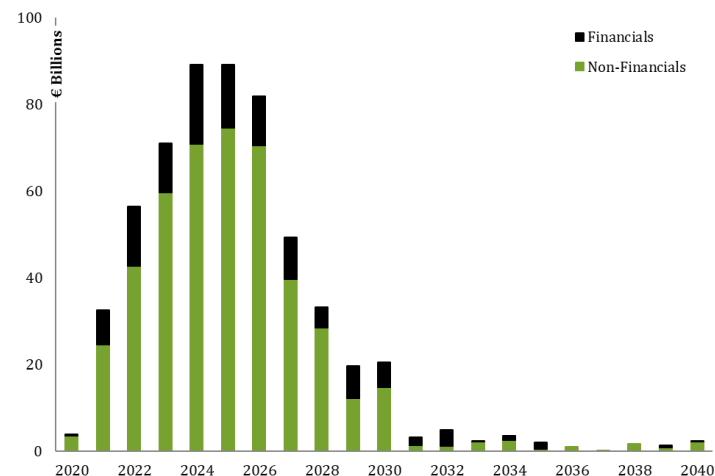
Source: Dealogic

High Yield Bonds Overview

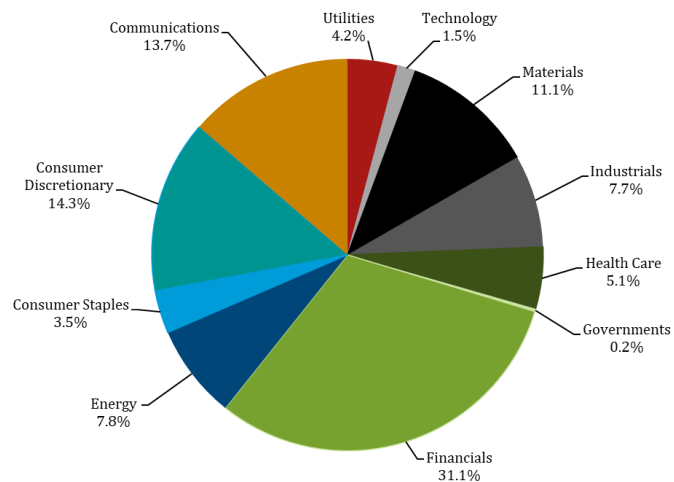
4.6 European Corporate Bonds Outstanding



4.7 European Corporate Bonds Maturity Wall

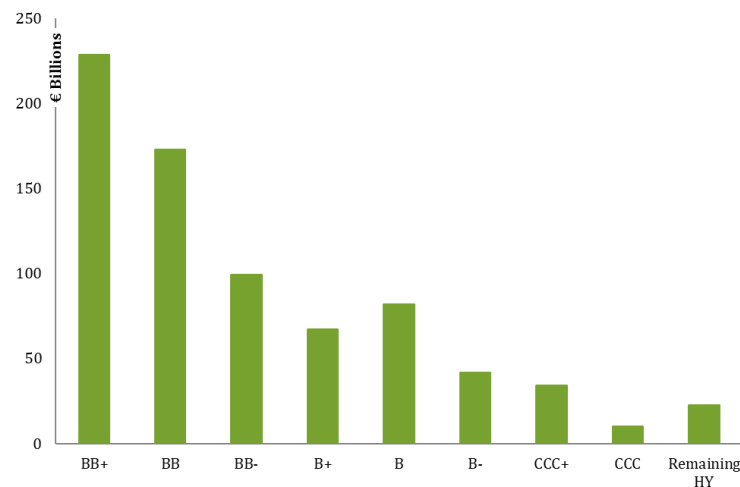


4.8 European Corporate HY Bonds Outstanding by Sector



Source: Bloomberg

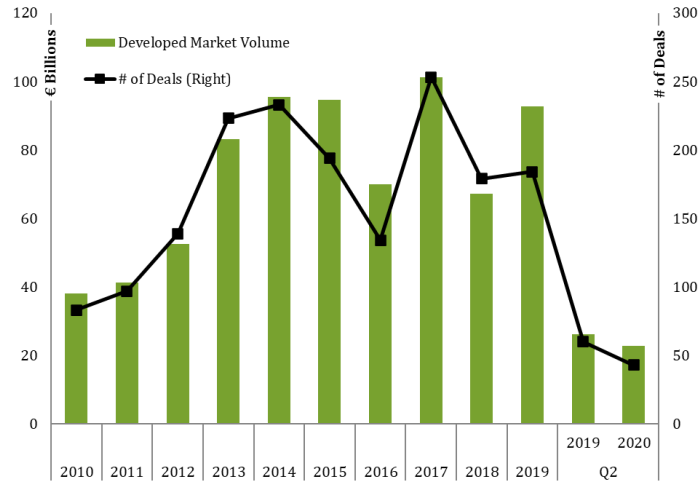
4.9 European Corporate HY Bonds Outstanding by Current Rating



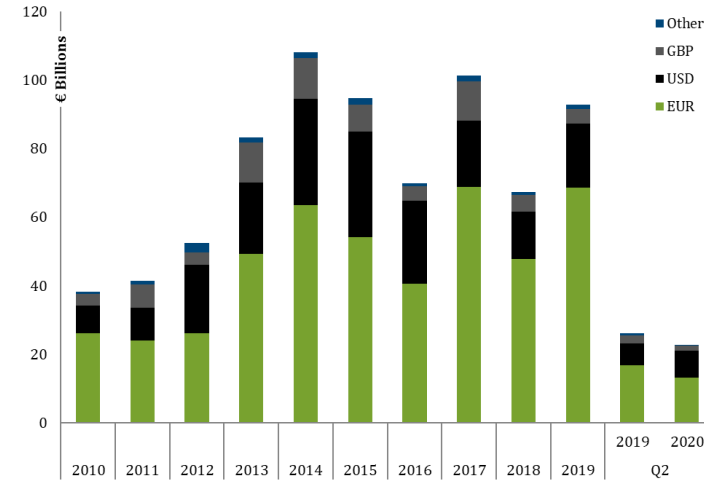
European Developed Market High Yield Bonds

Developed Market High Yield Bonds

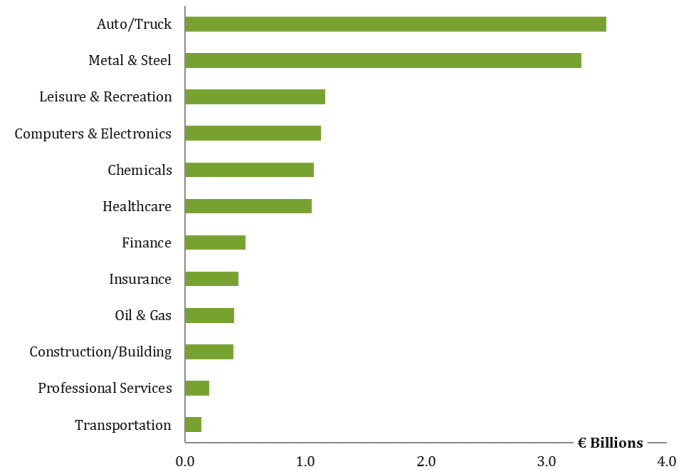
5.1 European Developed Market HY Bond Issuance



5.2 European Developed Market HY Issuance by Currency

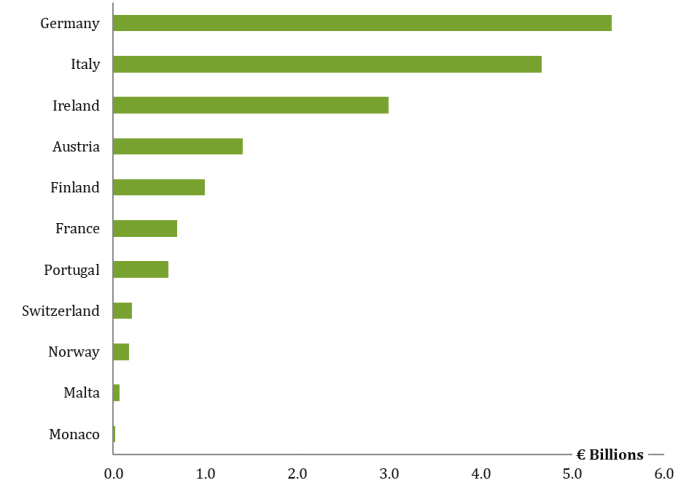


5.3 European Developed Market HY Issuance by Industry: 2Q 2020



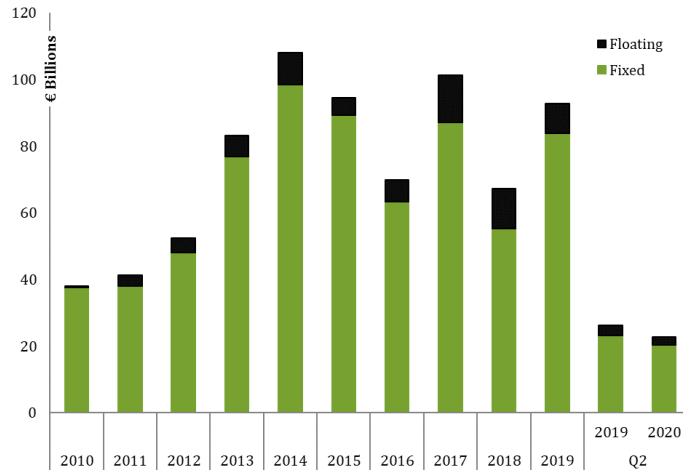
Source: Dealogic

5.4 European Developed Market HY Issuance by Country of Risk: 2Q 2020

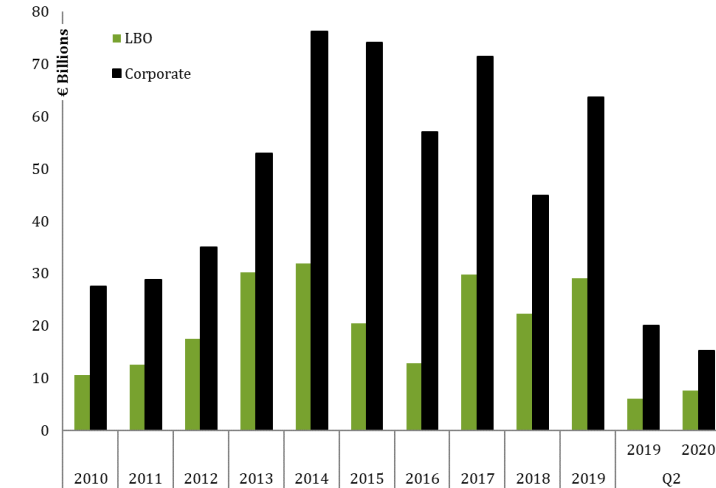


Developed Market High Yield Bonds

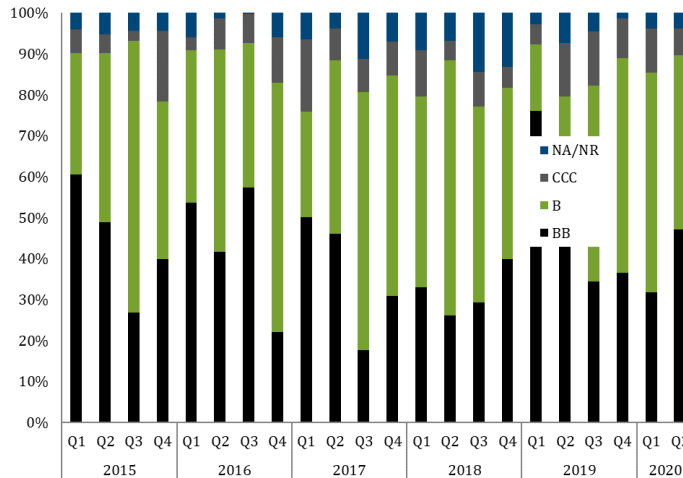
5.5 European Developed Market HY Issuance, Fixed vs. Floating



5.6 European Developed Market HY Issuance, Sponsored vs. Corporate

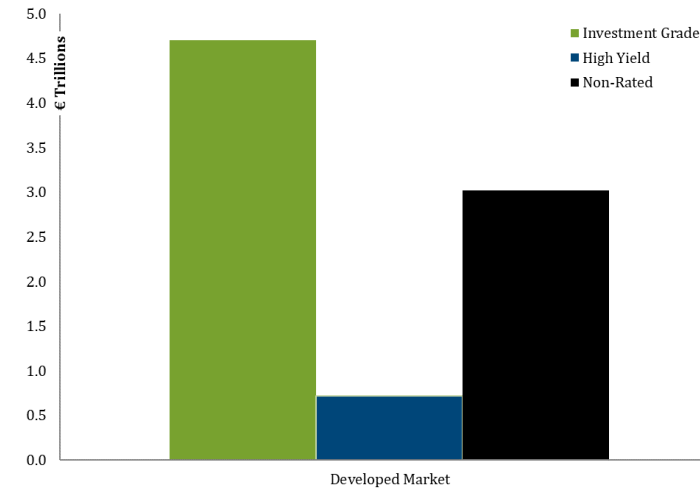


5.7 European Developed Market HY Rating Distribution at Issuance



Source: Dealogic [5.5], [5.6] and [5.7], Bloomberg [5.8]

5.8 European Developed Market Corporate Bonds Outstanding: 2Q 2020



5.9 European Developed Market HY Bond Issuance

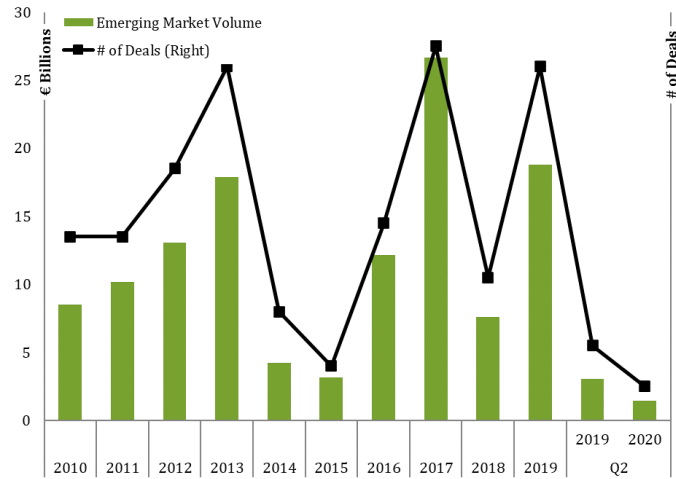
Issuer	Industry Group	Date	Currency	Amount (Millions)	Coupon	Moody's	S&P
Ardagh Packaging Finance plc	Metal & Steel	03/04/2020	USD	500	5.25	B1	BB
Ardagh Packaging Finance plc*	Metal & Steel	07/04/2020	USD	200	5.25	B1	BB
Verisure Holding AB	Professional Services	16/04/2020	EUR	200	3-mth Euribor +500	B1	B
MDN Senior Holding SA	Telecommunications	17/04/2020	EUR	600	3-mth Euribor +250	Nr	NR
Catena Media plc	Computers & Electronics	17/04/2020	SEK	684	3-mth STIBOR +800	NA	NA
Motion Finco SARL	Leisure & Recreation	24/04/2020	EUR	500	7.00	B1	B
DigiPlex Norway Holding 3 AS	Computers & Electronics	30/04/2020	NOK	655	3-mth NIBOR +450	NA	NA
Nidda Healthcare Holding GmbH	Healthcare	05/05/2020	EUR	200	3.50	B2	B+
Nokia Oyj	Telecommunications	06/05/2020	EUR	500	2.38	Ba2	BB+
Nokia Oyj*	Telecommunications	06/05/2020	EUR	500	3.13	Ba2	BB+
Venator Finance SARL	Chemicals	08/05/2020	USD	225	9.50	B1	B
Synlab Bondco plc	Healthcare	12/05/2020	EUR	850	3-mth Euribor +475	B2	B
PPF Telecom Group BV	Telecommunications	13/05/2020	EUR	500	3.50	Ba1	BB+
Rubis Terminal SA	Oil & Gas	14/05/2020	EUR	410	5.63	B1	B+
Ardagh Packaging Finance plc	Metal & Steel	26/05/2020	USD	1,000	5.25	Caa1	B
Scorpio Tankers Inc	Transportation	27/05/2020	USD	25	7.00	Nr	NR
Wienerberger AG	Construction/Building	28/05/2020	EUR	400	2.75	Ba1	NA
Ardagh Packaging Finance plc	Metal & Steel	28/05/2020	USD	715	4.13	B1	BB
Virgin Media Finance plc	Telecommunications	01/06/2020	USD	675	5.00	B2	B
Dolya Holdco 17 dac	Telecommunications	03/06/2020	GBP	500	4.88	B1	B
Ardagh Packaging Finance plc	Metal & Steel	05/06/2020	EUR	790	2.13	B1	BB
International Game Technology plc	Leisure & Recreation	08/06/2020	USD	750	5.25	Ba3	BB
Virgin Media Finance plc	Telecommunications	08/06/2020	EUR	500	3.75	B2	B
Virgin Media Finance plc*	Telecommunications	08/06/2020	USD	250	5.00	B2	B
PPF Telecom Group BV	Telecommunications	09/06/2020	EUR	100	3.50	Ba1	BB+
BPER Banca SpA	Finance	10/06/2020	EUR	500	1.88	Ba3	NA
Virgin Media Vendor Financing Notes III dac	Telecommunications	10/06/2020	GBP	400	4.88	B1	B
Virgin Media Vendor Financing Notes III dac*	Telecommunications	10/06/2020	USD	500	5.00	B1	B
Constellium SE	Metal & Steel	16/06/2020	USD	325	5.63	B2	B
Virgin Media Secured Finance plc	Telecommunications	17/06/2020	GBP	450	4.13	Ba3	BB-
Virgin Media Secured Finance plc	Telecommunications	17/06/2020	USD	650	4.50	Ba3	BB-
Stolt-Nielsen Ltd	Transportation	18/06/2020	NOK	1,250	3-mth NIBOR +450	NA	NA
Synthomer plc	Chemicals	18/06/2020	EUR	520	3.88	Ba2	BB
Ardonagh Midco 3 plc	Insurance	25/06/2020	USD	500	11.50	NA	NA
Profine GmbH	Chemicals	25/06/2020	EUR	340	9.25	B3	B-
ThyssenKrupp Elevator AG	Machinery	30/06/2020	EUR	1,100	4.38	B1	B
ThyssenKrupp Elevator AG	Machinery	30/06/2020	EUR	500	3-mth Euribor +475	B1	B
ThyssenKrupp Elevator AG	Machinery	30/06/2020	USD	1,560	5.25	B1	B
ThyssenKrupp Elevator AG	Machinery	30/06/2020	USD	445	7.63	Caa1	CCC
ThyssenKrupp Elevator AG*	Machinery	30/06/2020	EUR	650	6.63	Caa1	CCC
Fiat Chrysler Automobiles NV	Auto/Truck	30/06/2020	EUR	1,250	3.38	Ba2	BB+
Fiat Chrysler Automobiles NV	Auto/Truck	30/06/2020	EUR	1,250	3.88	Ba2	BB+
Fiat Chrysler Automobiles NV*	Auto/Truck	30/06/2020	EUR	1,000	4.50	Ba2	BB+
ams AG	Computers & Electronics	30/06/2020	EUR	650	6.00	Ba3	BB-
ams AG*	Computers & Electronics	30/06/2020	USD	400	7.00	Ba3	BB-

Source: Dealogic

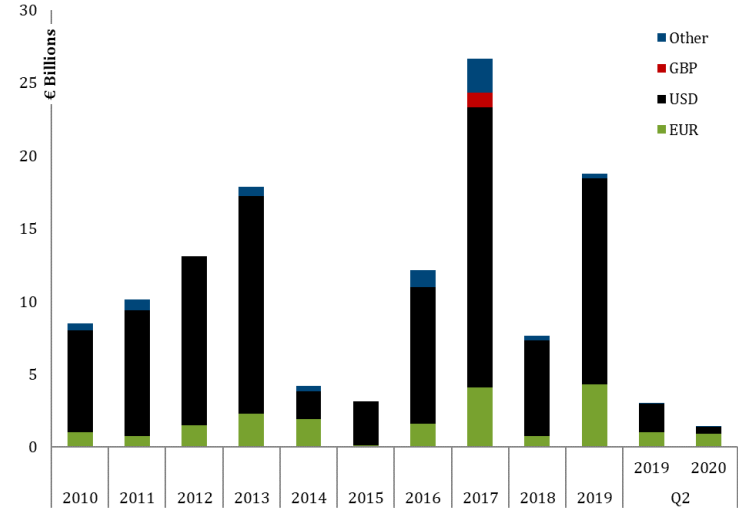
European Emerging Market High Yield Bonds

Emerging Market High Yield Bonds

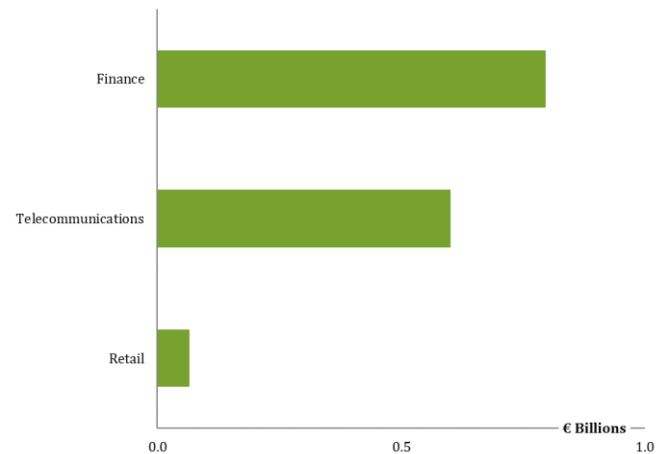
6.1 European Emerging Market HY Bond Issuance



6.2 European Emerging Market HY Issuance by Currency

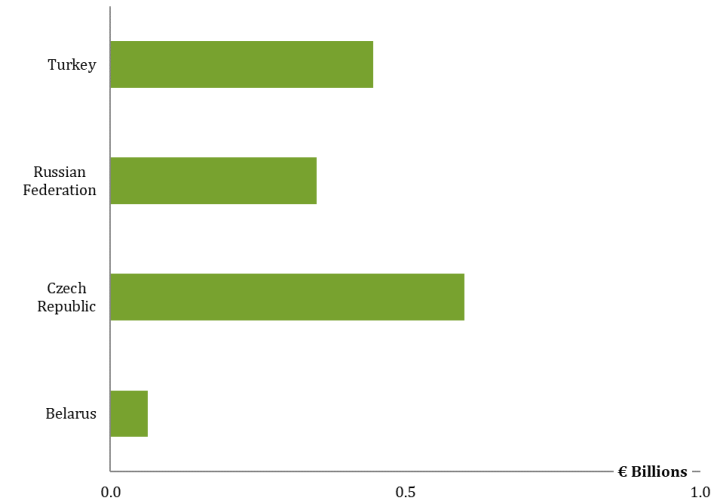


6.3 European Emerging Market HY Issuance by Industry: 2Q 2020



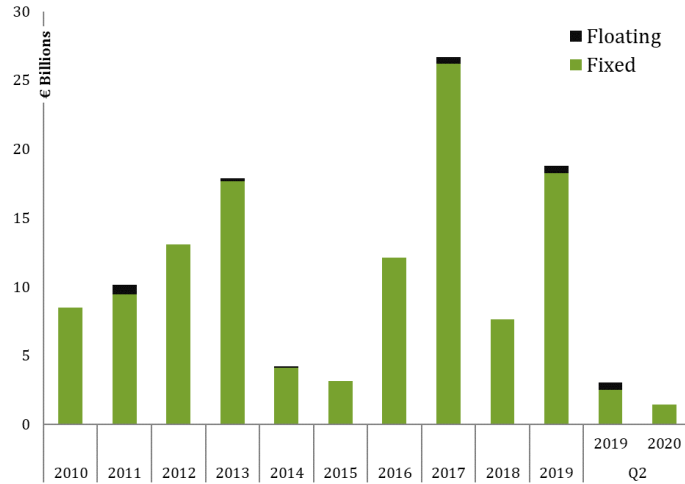
Source: Dealogic

6.4 European Emerging Market HY Issuance by Country of Risk: 2Q 2020

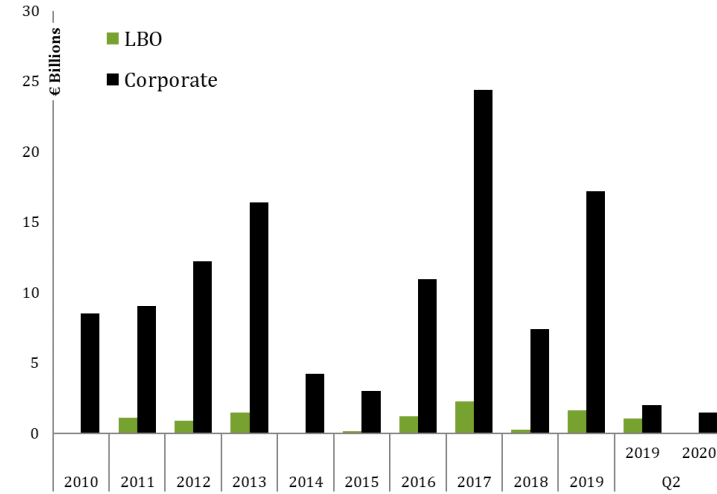


Emerging Market High Yield Bonds

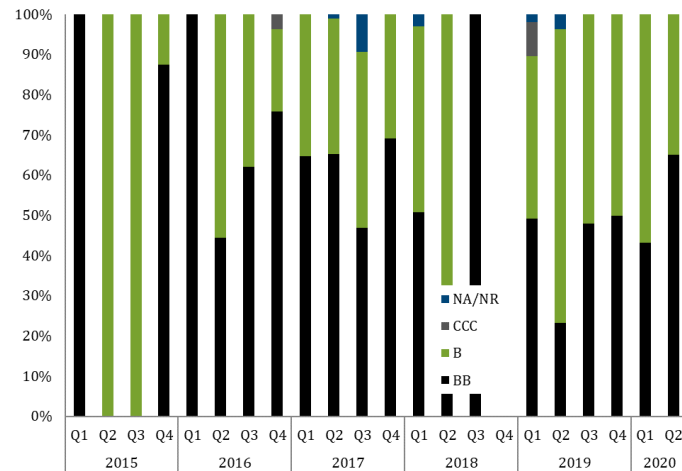
6.5 European Emerging Market HY Issuance, Fixed vs. Floating



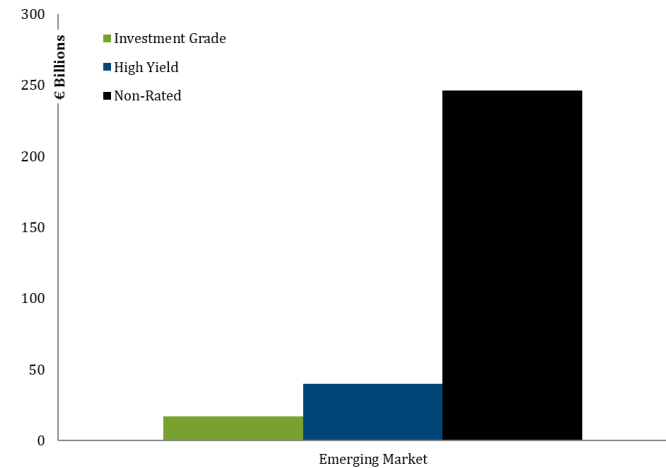
6.6 European Emerging Market HY Issuance, Sponsored vs. Corporate



6.7 European Emerging Market HY Rating Distribution at Issuance



6.8 European Emerging Market Corporate Bonds Outstanding: 2Q 2020



Source: Dealogic [6.5], [6.6] and [6.7], Bloomberg [6.8]

6.9 European Emerging Market HY Bond Issuance

Issuer	Industry Group	Date	Currency	Amount (Millions)	Coupon	Moody's	S&P	Fitch
Eurotorg OOO	Retail	29/05/2020	RUB	5,000	9.450	NA	NA	NA
ABH Financial Ltd	Finance	04/06/2020	EUR	350	2.700	NA	BB-	BB
Akbank	Finance	30/06/2020	USD	500	6.800	B2	NA	B+
PLT VII Finance Sarl	Telecommunications	07/07/2020	EUR	400	4.625	B2	B	B+
PLT VII Finance Sarl*	Telecommunications	07/07/2020	EUR	250	3-mth Euribor +462.5	B2	B	B+
Akbank	Finance	23/07/2020	USD	50	6.050	NA	NA	B+
Georgian Global Utilities Ltd	Utility & Energy	28/07/2020	USD	250	7.750	NA	B	B+

Credit Quality

Credit Quality

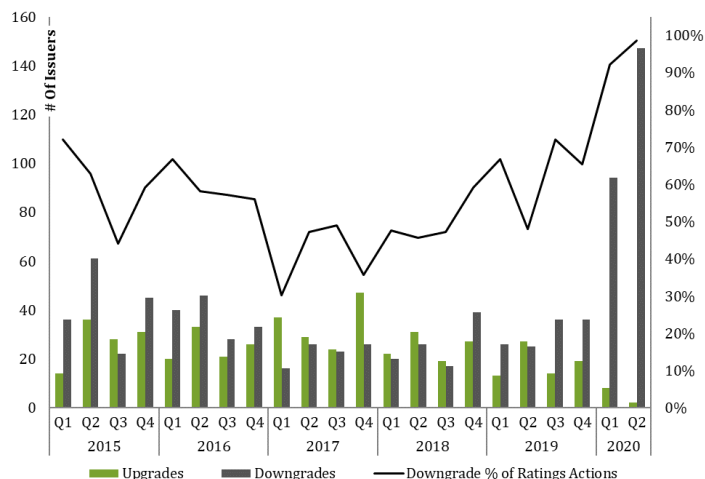
As of June 2020, S&P reported the trailing 12-month speculative-grade default rate at 3.4%, an increase from 2.4% in March 2020 and from 2.3% in June 2019. Moody's reported the trailing 12-month speculative-grade default rate at 2.8% in June 2020, up from 1.9% in March 2020 and from 1.2% in June 2019.

17 bond-related defaults were reported in the second quarter of 2020 by Standard and Poor's and Moody's, 15 in developed market Europe and two in emerging market Europe. Missed interest payment was the most frequent reason for default.

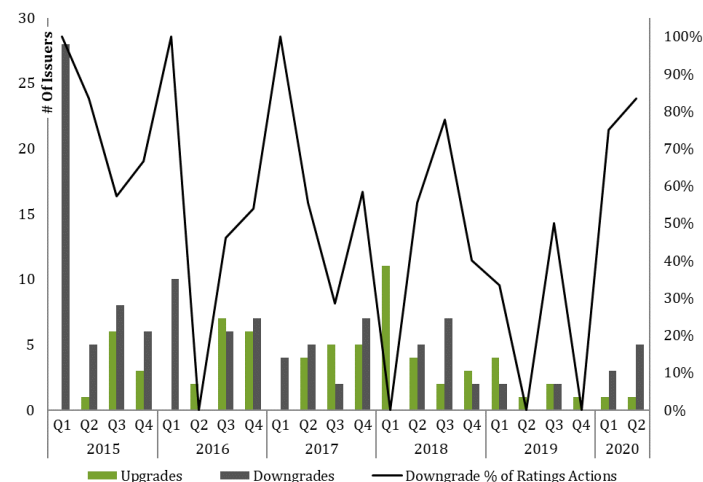
According to Moody's, in 2Q'20 downgrades exceeded upgrades in Europe (123 downgrades to 5 upgrades), a worse ratio than 78 downgrades to 4 upgrades in 1Q'20 and than 40 downgrades to 16 upgrades in 2Q'19.

S&P also reported a deterioration in the downgrades-upgrades ratio. According to S&P, in 2Q'20 downgrades exceeded upgrades in Europe (152 downgrades to 3 upgrades), a worse ratio than 97 downgrades to 9 upgrades in 1Q'20 and than 25 downgrades to 28 upgrades in 2Q'19.

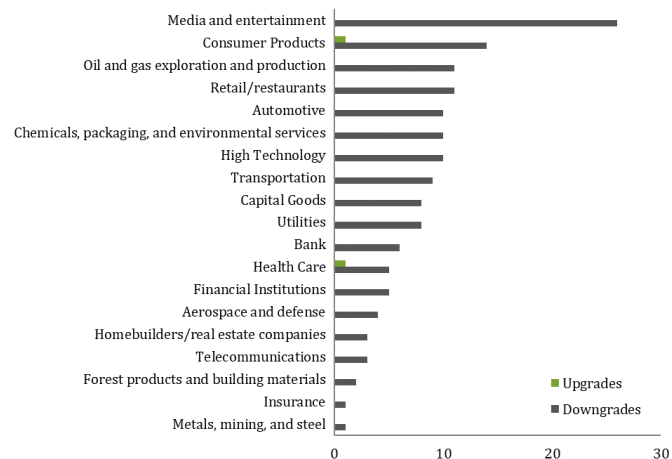
7.1 S&P Developed Europe Issuer Rating Actions



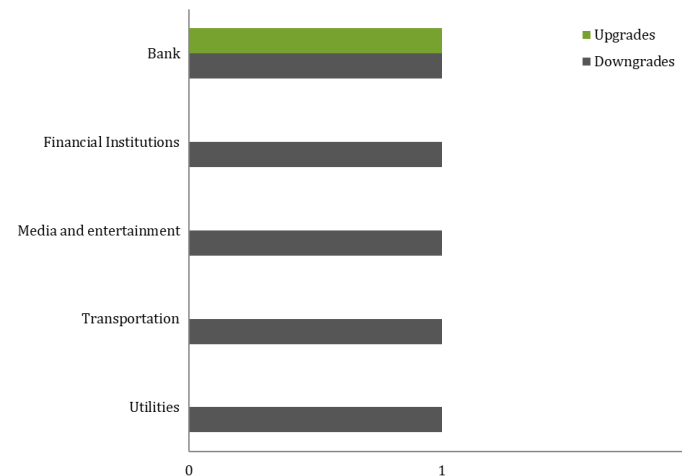
7.2 S&P Emerging Europe Issuer Rating Actions



7.3 S&P Developed European Industry Rating Actions by # of Ratings

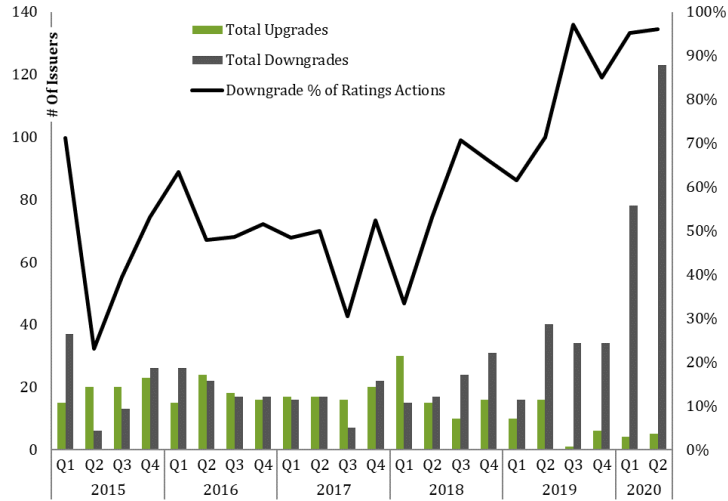


7.4 S&P Emerging European Industry Rating Actions by # of Ratings

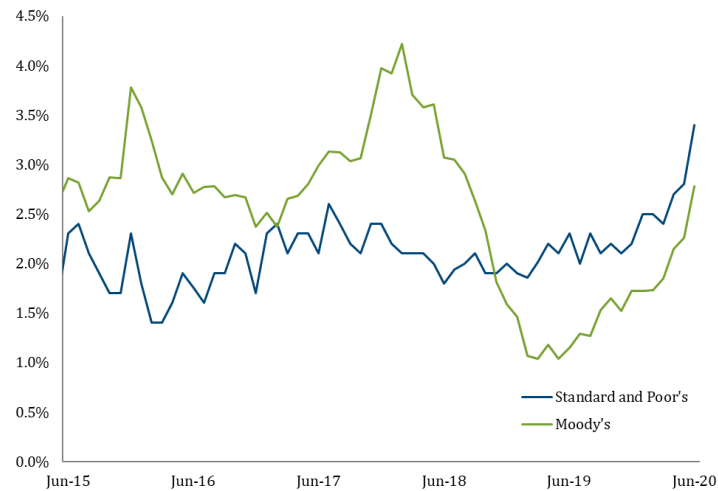


Source: S&P

7.5 Moody's: Europe Issuer Rating Actions (corporate)

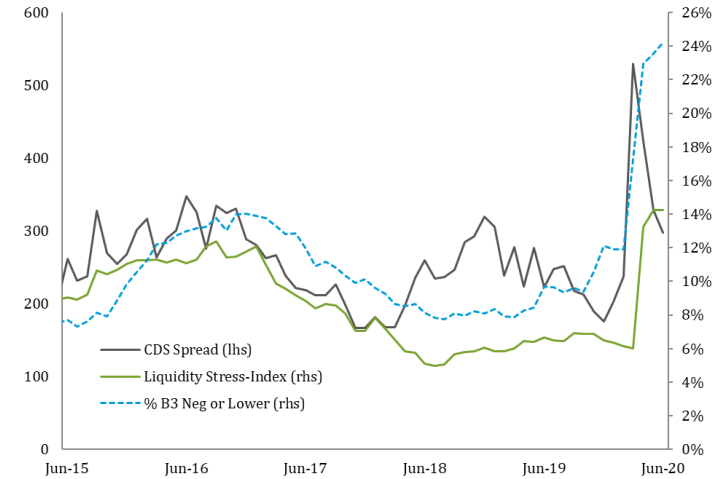


7.7 European High Yield Default Rates

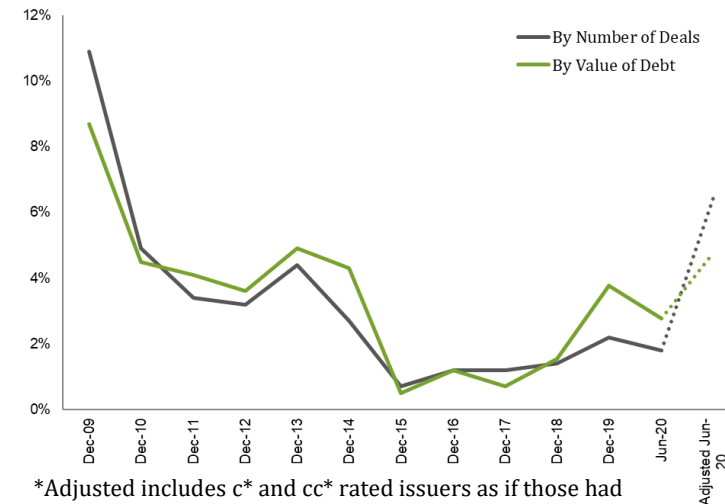


Source: Moody's [7.5], [7.6] and [7.7], Fitch [7.8], S&P [7.7]

7.6 High-Yield bond CDS spreads vs. liquidity-stress index and HY bonds rated B3 neg and lower in Europe



7.8 Fitch: European Leveraged Loan Default Rates*



Adjusted includes c and cc* rated issuers as if those had already defaulted.

7.9 European Defaults

Issuer	Industry Group	Country	Date	Reported By	Reason
Deoleo S.A.	Consumer Products	Spain	January 2020	S&P, Moody's	Distressed exchange
Moby S.p.A.	Transportation services	Italy	February 2020	S&P, Moody's	Missed principal and interest payments
Doncasters Group Ltd	Manufacturing: component division	United Kingdom	March 2020	S&P, Moody's	Distressed exchange
Grain Insurance Co. JSC	Insurance	Kazakhstan	March 2020	S&P	Missed interest payment
Inspired Entertainment, Inc	Technology services	United Kingdom	April 2020	Moody's	Missed interest payment
Debenhams plc	Retail: department stores	United Kingdom	April 2020	Moody's	Placed under administration
O1 Properties Limited	Real estate finance	Russia	April 2020	Moody's	Missed interest payment
Solocal Group S.A.	Media publishing: books	France	April 2020	Moody's	Missed interest payment
KCA DEUTAG Alpha Ltd.	Oil and gas	U.K.	April 2020	S&P, Moody's	Missed interest payments
Vestel Elektronik Sanayi Ve Ticaret A.S.	High technology	Turkey	April 2020	S&P	Distressed exchange
Intelsat S.A.	Telecommunications	Luxembourg	April 2020	S&P	Missed interest payments
O1 Properties Ltd.	Homebuilders/real estate companies	Cyprus	April 2020	S&P	Missed interest payments
Evergreen Skills Lux S.a.r.l.	High technology	Luxembourg	May 2020	S&P	Missed interest payments
Takko Fashion S.a.r.l.	Consumer products	Luxembourg	May 2020	S&P, Moody's	Missed interest payments
Travelex Holdings Ltd.	Media and entertainment	U.K.	May 2020	S&P	Missed interest payments
Noble Corporation PLC	Oil and gas	U.K.	June 2020	S&P	Distressed exchange
Valaris PLC	Oil and gas	U.K.	June 2020	S&P	Missed interest payments
LHMC Finco 2 S.a.r.l.	Media and entertainment	Spain	June 2020	S&P	Distressed exchange
Missouri TopCo Limited	Retail: Specialty	U.K.	June 2020	Moody's	Distressed exchange
TP Financing 3 Limited	Technology services	U.K.	June 2020	Moody's	Missed interest payments
Wirecard	Technology services	Germany	June 2020	Moody's	Bankruptcy

Source: S&P, Moody's

Relative Value and Total Return

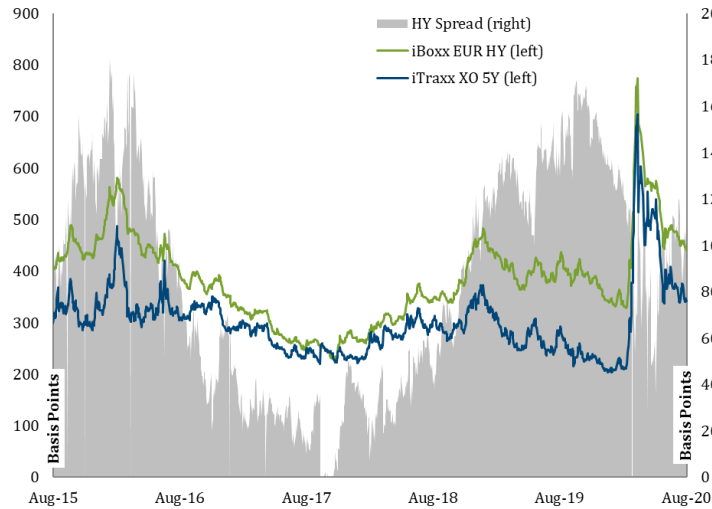
Returns

All the 20 asset classes tracked in this report recorded positive quarter-on-quarter (q-o-q) returns in 2Q'20. Russell 2000 led q-o-q returns with an increase of 25% in 2Q'20, followed by the Euro HY CCC and lower rated index with a 24% gain q-o-q.

The worst performing asset class was U.S. Treasuries with a small gain of 0.2% q-o-q in 2Q'20, followed by U.S. Mortgages with a 0.8% gain q-o-q, and EMU covered bonds with a 1.4% gain q-o-q.

Relative Value and Total Return

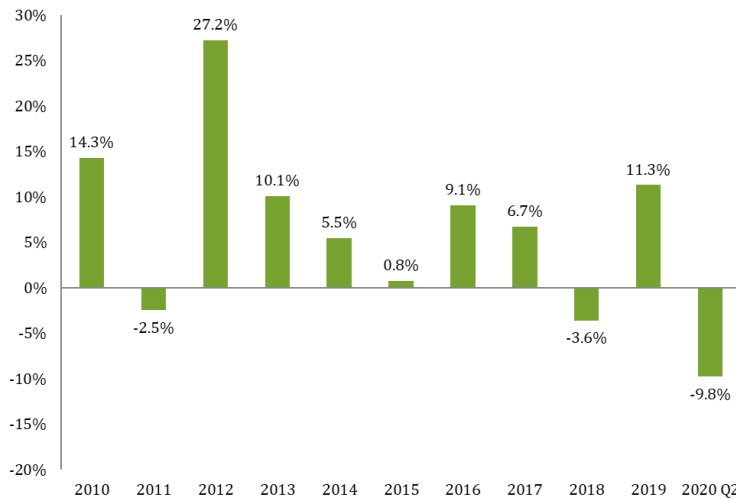
8.1 Relative value: European HY Bonds, Cash vs. Synthetic



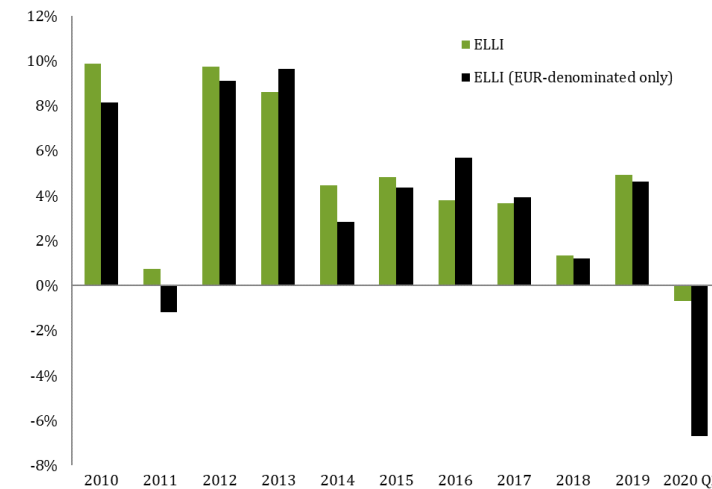
8.2 Relative value: European Leveraged Loans, Cash (EURO Lev40)



8.3 European HY Bond Total Return

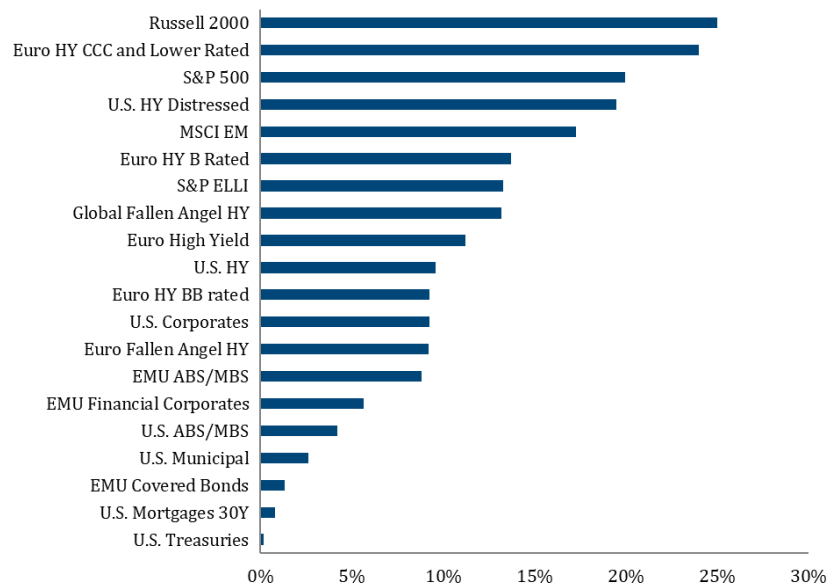


8.4 European Leveraged Loan Total Return



Source: S&P LCD [8.3] and [8.4], Eikon [8.1] and Refinitiv [8.2]

8.5 Asset Class Total Return: 2Q 2020 (QoQ)



Source: Eikon and S&P

Contacts

Research

Julio Suarez

Director, Research
Julio.Suarez@afme.eu
+44 (0)20 3828 2726

High Yield

Gary Simmons

Managing Director, High Yield and ECM
Gary.Simmons@afme.eu
+44 (0)20 3828 2723

London Office

39th Floor
25 Canada Square
London E14 5LQ
United Kingdom
+44 (0)20 3828 2700

Brussels Office

Rue de la Loi, 82
1040 Brussels
Belgium
+32 (0)2 788 3971

Frankfurt Office

Neue Mainzer Straße 75,
60311 Frankfurt am Main,
Germany
+49 69 153 258 963



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