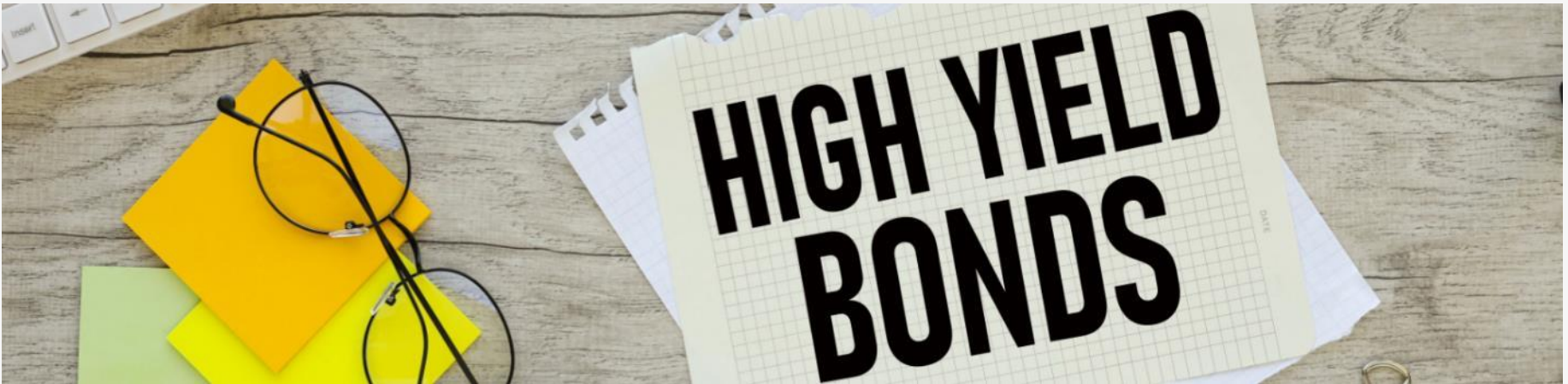


Special Report

High Yield – Europe Spotlight



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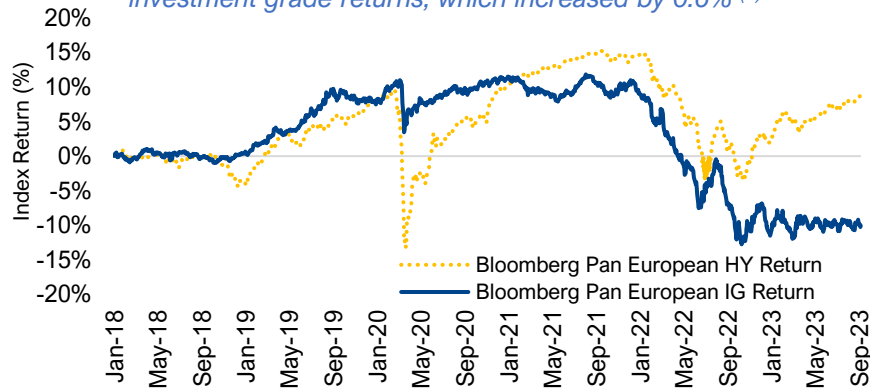
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Europe High Yield Bond Market Performance

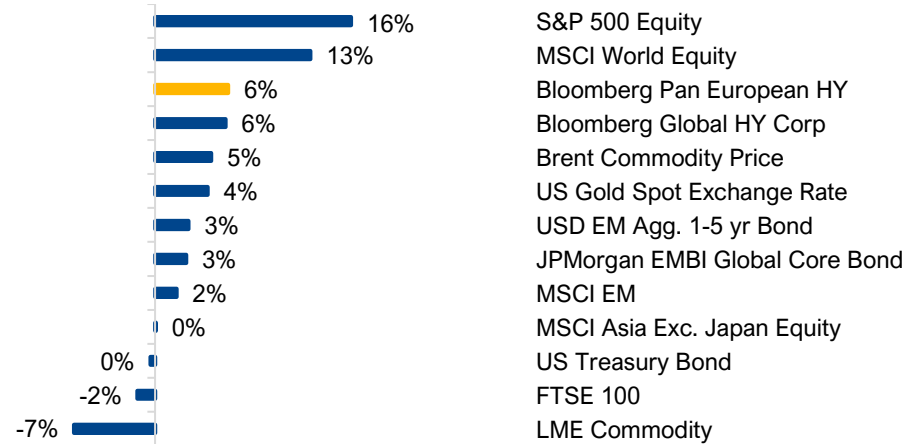
High yield return rebounds amid rising interest rates

HY market returns improved in YTD Sept 2023 ⁽¹⁾

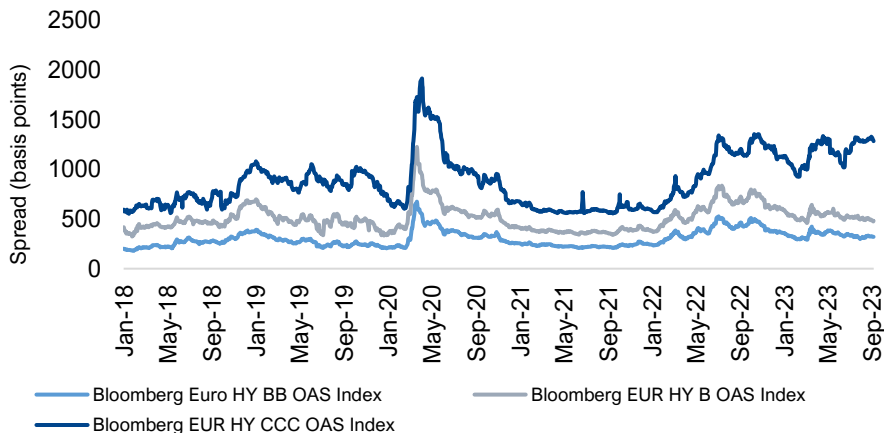
YTD high yield returns rose by 6.1% and outperformed investment grade returns, which increased by 0.6% ⁽²⁾



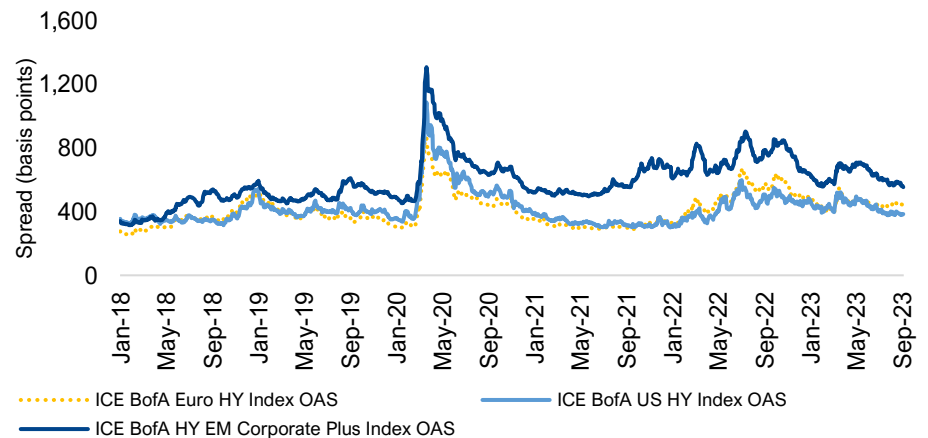
S&P 500 outperformed other asset classes in YTD Sept 2023 ⁽²⁾



Spreads diverge between CCC and BB/B in YTD Sept 2023 amidst rising default rates



OAS tightened in YTD Sept 2023 for Europe, US and EM



Source: Bloomberg; Federal Reserve Economic Data (FRED) – a database maintained by Federal Reserve Bank of St. Louis. <https://fred.stlouisfed.org/>

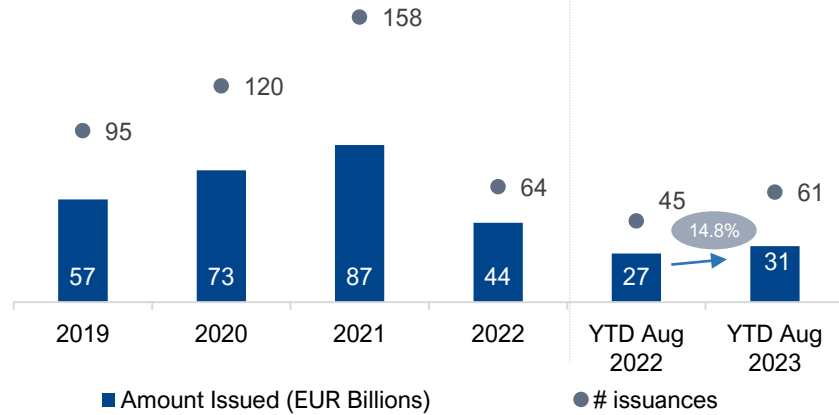
(1) High yield and investment grade returns calculated using base price of January 2, 2018; index tracks securities issued in EUR, GBP, NOK, DKK, SEK, CHF, HUF, PLN, RUB, and SKK

(2) YTD returns as of Sept 07, 2023

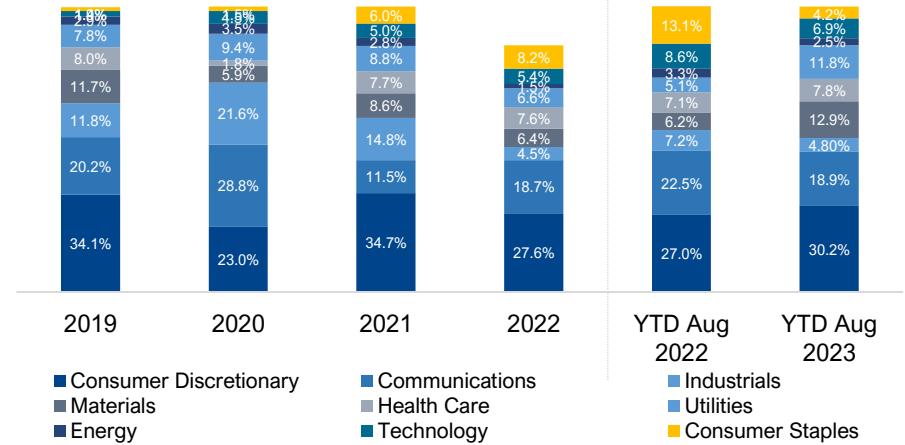
Europe High Yield Bond Market Performance

Issuance rose modestly in 2023 anchored by refinancing activity

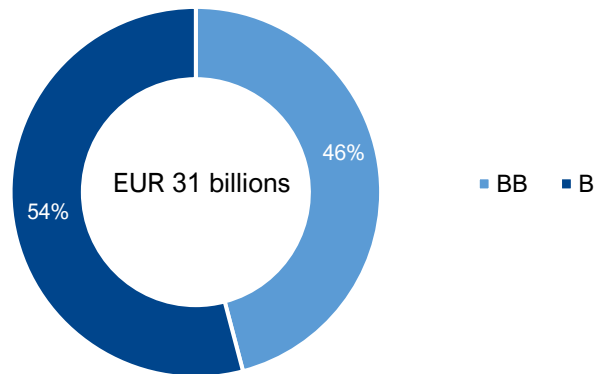
YTD Aug 2023 issuances rose moderately



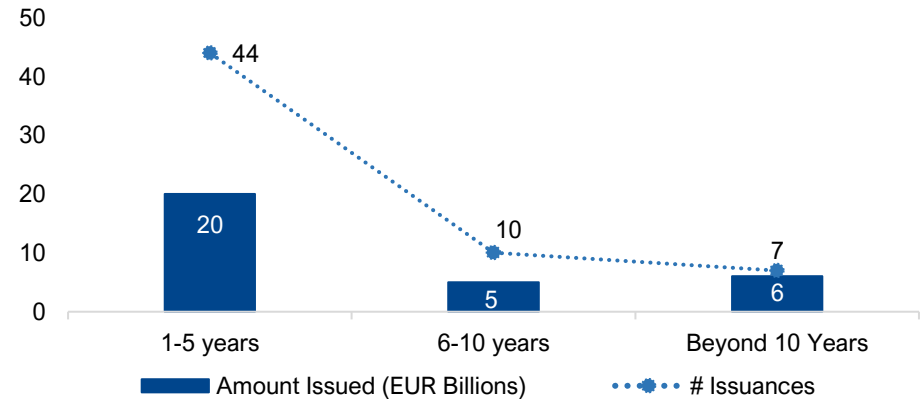
YTD Aug 2023 materials & utilities issuance increased significantly⁽¹⁾



Europe high yield issuance by rating category – YTD Aug 2023⁽²⁾



Europe high yield issuance by maturity bucket – YTD Aug 2023

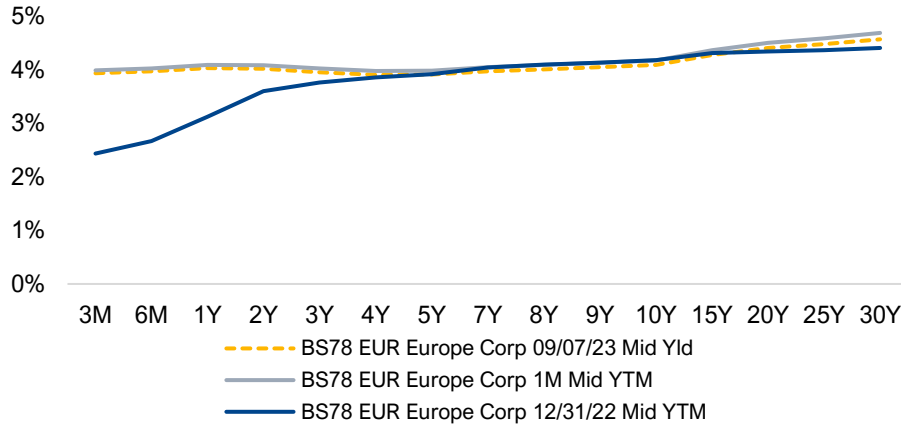


Source: Bloomberg; includes only EUR denominated corporate bonds with amount issued above EUR100 million; excludes bonds issued across the financial sector
 (1) Sector based on Bloomberg's BICS Level 1 Classification; (2) BB includes BB+, BB, and BB-; B includes B+, B, and B-; CCC includes CCC+, CCC, and CCC-

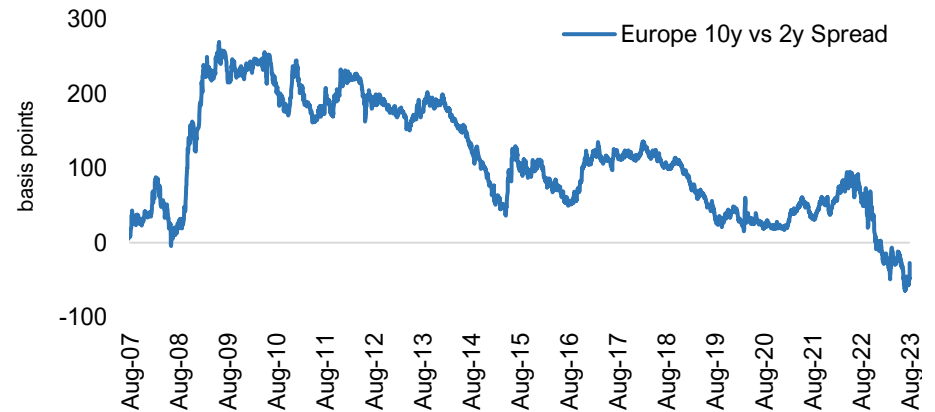
Sovereign Yield Trends

Yield curve signals fears of recession

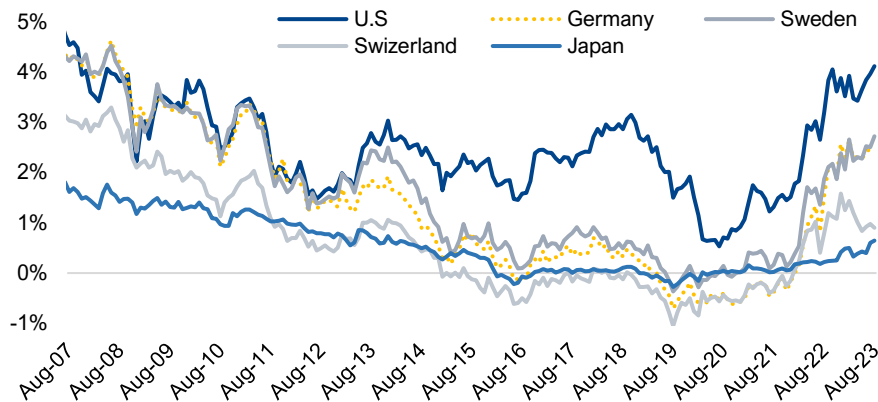
Euro yield curve⁽¹⁾



10-year–2-year bond spread have inverted steeply⁽²⁾



10-year sovereign yields⁽³⁾



Eurozone entered technical recession at the beginning of 2023

- The Eurozone slipped into recession earlier this year after the economy shrank the last two quarters, as inflation and higher interest rates curbed demand.
- High inflation and interest-rate hikes pushed short-term yields higher, recession risk suppressed yields at the long end of the curve. Rate volatility will probably stay elevated for some time to come due to the uncertain macro environment.
- Sovereign yields continue to rise across Europe amid ECB tightening monetary policy, with Germany's 10-year government bond yields (benchmark for the Eurozone) rising to more than 2% in Aug 2023.
- The last 12-month default rate for Eurozone High Yield stood at 1.6% in 1H 2023. As per Fitch, default rate is expected to rise to 2.5% by end-2023 and 4.0% by end-2024.

Source: Bloomberg, Fitch

(1) Spot as on Sept 07, 2023; (2) includes daily prices; (3) includes monthly prices

Buzz in the Market

01 Casino Guichard Perrachon SA

Industry: Retail
Bond Price: 1.77

Cash-strapped Casino reaches debt restructuring deal with creditors

- The French retailer entered into an agreement with its creditors to strengthen its equity position and restructure its financial debt to avoid bankruptcy.
- The Casino board agreed to proceed with negotiations with Czech billionaire Daniel Kretinsky on a proposal to inject EUR 1.2bn of new capital into the struggling French retailer, opening door for a potential debt restructuring agreement with its creditors.

02 Solocal group

Industry: Media
Bond Price: 33.25
YTM: 105.5% (Secured)

Coupon payment deferral due to liquidity crunch

- French media company Solocal announced plans to defer its coupon payments in June and in September 2023 on its EUR 176.7MM and EUR 18.7MM floating-rate notes, which will mature in 2025.
- With its existing capital structure, Solocal could maintain neutral to negative FCF generation in the near term and maintain a minimal liquidity buffer before debt payback.

03 Ideal Standard

Industry: Manufacturing
Bond Price: 61.75
YTM: 27.1% (Secured)

Declining margins due to substantial increase in the price of energy and raw materials

- Ideal Standard, manufacturers of quality residential, commercial, and healthcare bathroom solutions, have seen EBITDA margin deteriorating to 6.7% in 2023, from 8.4% in 2022, due to lower volumes, higher raw materials and energy prices. In 1Q23, EBITDA margins were 5.2%, the lowest for any quarter in the past three years as it hedged raw materials and energy prices at higher levels.

04 SBB

Industry: Real Estate
Bond Price: 10.20
YTM: 48.4% (Jr. Sub)

Swedish real estate landlord faces heightened refinancing and execution risk

- Samhallsbyggnadsbolaget i Norden AB (SBB) is struggling to manage debt amid rising interest rates and declining Swedish property values. It faces significant short-term debt maturities, which weigh on the company's liquidity position. SBB is reliant on receiving disposal proceeds to cover the debt maturities of around SEK 17.7 bn in next two years.

05 Naftogaz

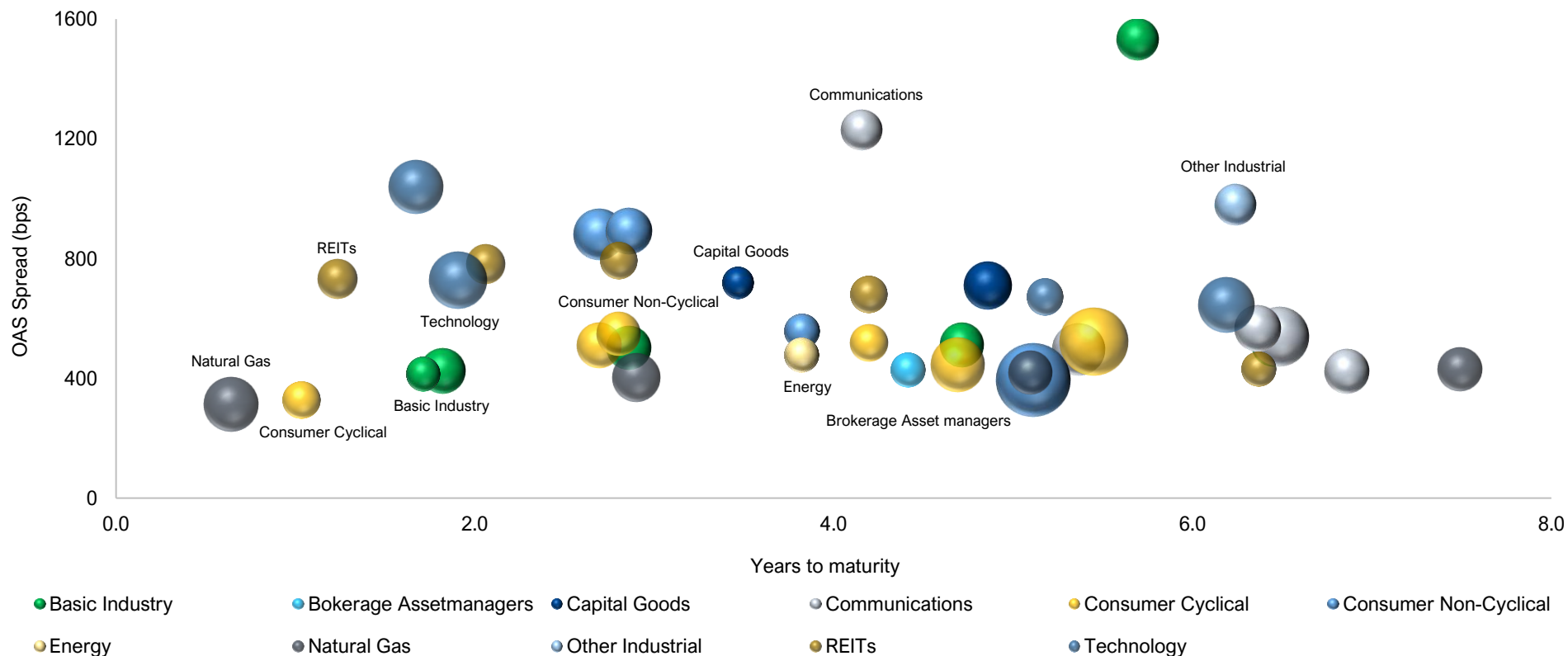
Industry: Oil & Gas
Bond Price: 37.52
YTM: 49.38% (Sr. Unsec)

Naftogaz resolving default on Eurobonds

- Ukrainian state-operated oil and gas giant Naftogaz entered into a contract with two large investor groups holding large portions of its defaulted 2022 and 2026 bonds. Naftogaz is promising to pay holders of its \$335MM 7.375% 2022 bonds accrued and unpaid interest on the notes along with 5% of the principle in exchange for deferring repayment of half of the remaining principal to July 2024, and the other half to July 2025.

Europe HY Relative Value

Comparison of spread vs maturity



- On comparable basis, REITs bonds (which are rated BBB) are trading at higher OAS spread than most of the non-investment grade bonds due to distress in the sector on liquidity issues and decreased profitability.

Source: Bloomberg

Criteria: EUR denominated corporate bonds with amount outstanding above EUR 250 million; excludes bonds issued across the financial sector, government owned and Sovereign Sector; based on Bloomberg's BICS Level 3 Classification; Rating: BBB- to CCC-; Maturity: 0.5 to 8; YTM Mid greater than 6



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