

Credit Trends:

European Corporate Debt Market: The State Of Play In The First Half Of 2018

May 29, 2018

Although the eurozone monetary policy is now on the path to normalization, conditions remain accommodative for debt issuers. The European Central Bank (ECB) has scaled down its asset purchase program to €30 billion per month and looks set to reduce purchase volumes further from September 2018. That said, the ECB has also said that it will keep interest rates low well beyond the point at which net asset purchases cease. We expect that the first eurozone rate hike will not come before the third-quarter of 2019. The ECB's latest bank lending survey also suggests that borrowing conditions for corporates continue to ease.

As of Jan. 1, 2018, European companies had €5.8 trillion in debt rated by S&P Global Ratings. Of this, we rated 85% as investment-grade (that is, 'BBB-' or higher). The rated debt was almost evenly split between financial companies (49.5%) and nonfinancial companies (50.5%).

We looked at the size and structure of the European credit market by estimating the euro-equivalent volume of debt that we currently rate and segmenting by rating, sector, instrument type, and other variables. For example, we calculate the rating distribution by the euro amount of the debt, rather than the issuer count.

The 'A' and 'BBB' rating categories are the largest by debt amount, at €1.9 trillion each (see chart 1). These rating categories include significant amounts of debt from both financial and nonfinancial issuers (see table 1). Although few European corporates have issuer credit ratings as high as 'AAA', our study shows significant debt in the 'AAA' rating category because it includes some senior secured issuance--such as covered bonds--which we may rate several notches higher than the entity that issued it.

Key Takeaways

- We rate nearly €5.0 trillion in debt from European companies as investment-grade, and nearly €900 billion as speculative-grade.
- Nonfinancial companies account for 50.5% of the debt, while financial companies account for 49.5%.
- Most rated debt instruments are senior unsecured bonds, which account for €3.7 trillion of the total, followed by senior secured bonds, which comprise €0.9 trillion.

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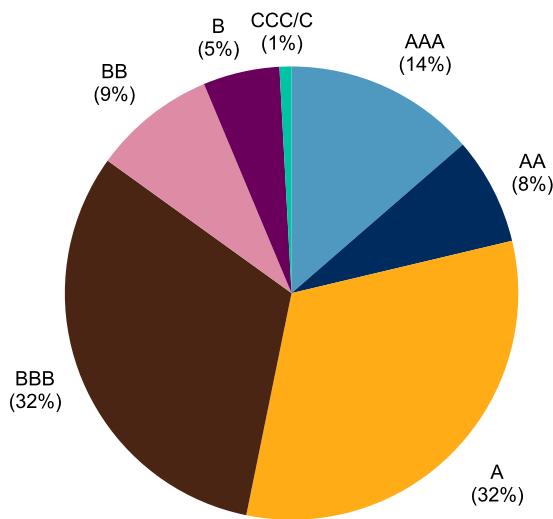
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Chart 1

European Corporate Debt By Rating Category



Includes financial and nonfinancial issuers. Data as of Dec. 31, 2017. Source: S&P Global Fixed Income Research.

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Table 1

European Corporate Debt By Rating And Sector

	Debt amount (Bil. €)			Debt amount (%)		
	Financial	Nonfinancial	Total	Financial	Nonfinancial	Total
AAA	794.7	0.0	794.7	13.6	0.0	13.6
AA	339.1	107.9	447.0	5.8	1.9	7.7
A	966.0	895.3	1,861.3	16.6	15.4	31.9
BBB	672.5	1,178.2	1,850.7	11.5	20.2	31.7
BB	94.2	416.4	510.6	1.6	7.1	8.8
B	15.5	302.7	318.2	0.3	5.2	5.5
CCC and below	2.5	47.3	49.8	0.0	0.8	0.9
Investment-grade	2,772.2	2,181.4	4,953.7	47.5	37.4	84.9
Speculative-grade	112.2	766.4	878.6	1.9	13.1	15.1
Total	2,884.5	2,947.8	5,832.3	49.5	50.5	100.0

Data as of Dec. 31, 2017. Source: S&P Global Fixed Income Research.

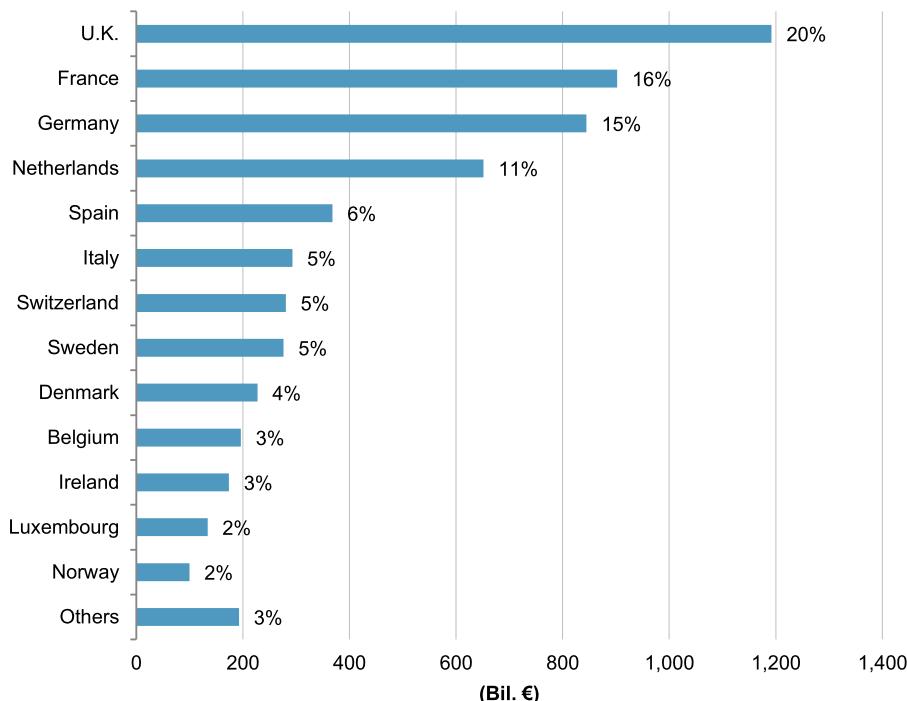
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The ratings-based distribution of outstanding debt volumes differs significantly from the ratings-based distribution of issuer counts. For example, speculative-grade issuers account for about 40% of our European issuer credit ratings, but only 15% of the rated debt amount. This is partly because higher-rated companies tend to be larger. In addition, the outstanding debt amounts include secured debt that may be rated higher than the corresponding issuer.

The U.K., France, and Germany together account for more than half of the debt covered in this study (see chart 2 and table 2).

Chart 2

European Corporate Debt By Country



Data as of Dec. 31, 2017. Countries based on domicile of parent. Source: S&P Global Fixed Income Research.

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Table 2

European Corporate Debt By Sector, Country, And Rating Grade

Sector/Country	Debt amount (Bil. €)			Debt amount (%)		
	Investment-grade	Speculative-grade	Total	Investment-grade	Speculative-grade	Total
Overall	4,953.7	878.6	5,832.3	84.9	15.1	100.0
U.K.	964.8	227.2	1,192.0	16.5	3.9	20.4
France	824.9	77.2	902.1	14.1	1.3	15.5
Germany	745.7	99.2	844.9	12.8	1.7	14.5
Others	2,418.2	475.1	2,893.3	41.5	8.1	49.6
Financials	2,772.2	112.2	2,884.5	47.5	1.9	49.5

Table 2

European Corporate Debt By Sector, Country, And Rating Grade (cont.)

Sector/Country	Debt amount (Bil. €)			Debt amount (%)		
	Investment-grade	Speculative-grade	Total	Investment-grade	Speculative-grade	Total
U.K.	447.1	34.9	482.0	7.7	0.6	8.3
France	452.2	7.1	459.3	7.8	0.1	7.9
Germany	352.3	8.8	361.1	6.0	0.2	6.2
Others	1,520.7	61.4	1,582.1	26.1	1.1	27.1
Nonfinancials	2,181.4	766.4	2,947.8	37.4	13.1	50.5
U.K.	517.8	192.3	710.0	8.9	3.3	12.2
France	372.7	70.0	442.7	6.4	1.2	7.6
Germany	393.4	90.4	483.8	6.7	1.5	8.3
Others	897.5	413.8	1,311.3	15.4	7.1	22.5

Data as of Dec. 31, 2017. Source: S&P Global Fixed Income Research.

The financial institutions sector is the largest by debt amount, at €2.8 trillion. Among nonfinancial sectors, the oil and gas sector is the largest, followed by consumer products, and telecommunications (see table 3). The nonfinancial sectors that have the largest amounts of investment-grade debt are: oil and gas (€422 billion), consumer products (€348 billion), and health care (€219 billion). The nonfinancial sectors that have the largest amounts of speculative-grade debt, are: telecommunications (€202 billion), media and entertainment (€71 billion), and chemicals, packaging, and environmental services (€70 billion).

Table 3

European Corporate Debt By Detailed Sector And Rating Grade

Sector	Debt amount (Bil. €)			Debt amount (%)		
	Investment-grade	Speculative-grade	Total	Investment-grade	Speculative-grade	Total
All Financials	2,772.2	112.2	2,884.5	47.5	1.9	49.5
Financial Institutions	2,642.7	108.4	2,751.1	45.3	1.9	47.2
Insurance	129.5	3.8	133.4	2.2	0.1	2.3
All Nonfinancials	2,181.4	766.4	2,947.8	37.4	13.1	50.5
Aerospace & Defense	22.1	5.4	27.5	0.4	0.1	0.5
Automotive	185.7	41.6	227.2	3.2	0.7	3.9
Capital Goods	84.1	34.8	118.9	1.4	0.6	2.0
Consumer Products	347.7	57.9	405.6	6.0	1.0	7.0
CP&ES	74.5	69.5	144.0	1.3	1.2	2.5
Forest Products & Building Materials	53.6	17.6	71.2	0.9	0.3	1.2
Health Care	218.9	56.4	275.4	3.8	1.0	4.7
High Technology	23.1	50.5	73.6	0.4	0.9	1.3

Table 3

European Corporate Debt By Detailed Sector And Rating Grade (cont.)

Sector	Debt amount (Bil. €)			Debt amount (%)		
	Investment-grade	Speculative-grade	Total	Investment-grade	Speculative-grade	Total
Homebuilders/Real Estate	81.6	4.4	86.0	1.4	0.1	1.5
Media & Entertainment	58.6	71.3	129.9	1.0	1.2	2.2
Metals, Mining & Steel	54.4	28.4	82.8	0.9	0.5	1.4
Oil & Gas	421.7	53.5	475.2	7.2	0.9	8.1
Retail/Restaurants	27.4	49.0	76.4	0.5	0.8	1.3
Telecommunications	202.3	203.1	405.3	3.5	3.5	6.9
Transportation	117.0	14.9	131.8	2.0	0.3	2.3
Utility	208.9	8.0	216.9	3.6	0.1	3.7
Total	4,953.7	878.6	5,832.3	84.9	15.1	100.0

Data as of Dec. 31, 2017. CP&ES--chemicals, packaging, and environmental services. Source: S&P Global Fixed Income Research.

By broad instrument type, 90% of rated debt is in the form of bonds, notes, and preferred securities (see table 4). Senior unsecured bonds are most prevalent, accounting for 64% of the total debt (see table 4) and 69% of total investment-grade debt (see chart 3). By contrast, although loans and revolving credit facilities (RCFs) account for just 10% of total rated debt, these instruments comprise about 38% of speculative-grade debt (see chart 4).

Table 4

European Corporate Debt By Instrument Type And Rating Grade

Instrument type	Debt amount (bil. €)			Debt amount (%)		
	Investment-grade	Speculative-grade	Total	Investment-grade	Speculative-grade	Total
Total bonds/notes/other	4,692.6	540.9	5,233.5	94.7	61.6	89.7
Senior secured	771.5	139.8	911.3	15.6	15.9	15.6
Senior unsecured	3,414.6	293.7	3,708.3	68.9	33.4	63.6
Subordinated	504.6	106.1	610.7	10.2	12.1	10.5
Preferred/other	1.9	1.2	3.1	0.0	0.1	0.1
Total loans/revolvers	261.1	337.7	598.8	5.3	38.4	10.3
Revolving credit facility	130.9	49.3	180.2	2.6	5.6	3.1
Loans -- First lien	33.1	261.6	294.7	0.7	29.8	5.1
Loans -- Second lien or lower		6.2	6.2	0.0	0.7	0.1
Loans -- Sub/unsecured	97.1	20.6	117.7	2.0	2.3	2.0

Table 4

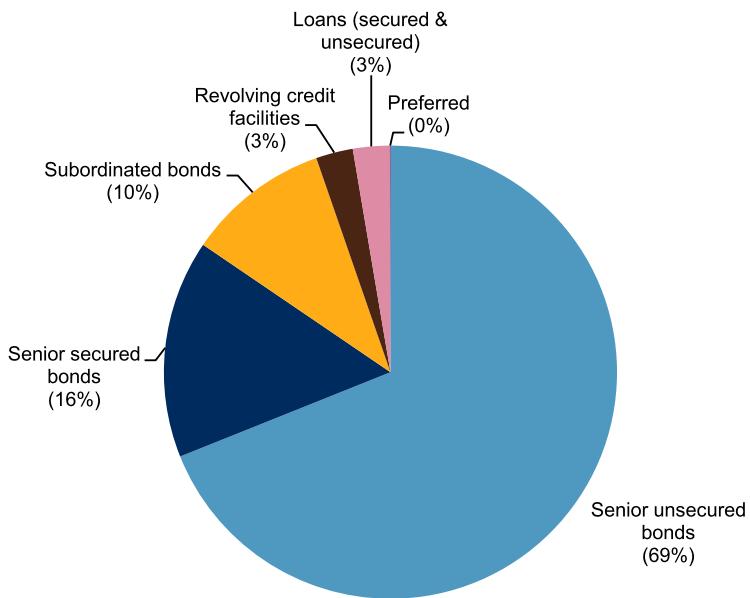
European Corporate Debt By Instrument Type And Rating Grade (cont.)

Instrument type	Debt amount (bil. €)			Debt amount (%)		
	Investment-grade	Speculative-grade	Total	Investment-grade	Speculative-grade	Total
Total	4,953.7	878.6	5,832.3	100.0	100.0	100.0

Includes financial and nonfinancial issuers. Data as of Dec. 31, 2017. Source: S&P Global Fixed Income Research.

Chart 3

Investment-Grade European Corporate Debt By Instrument Type

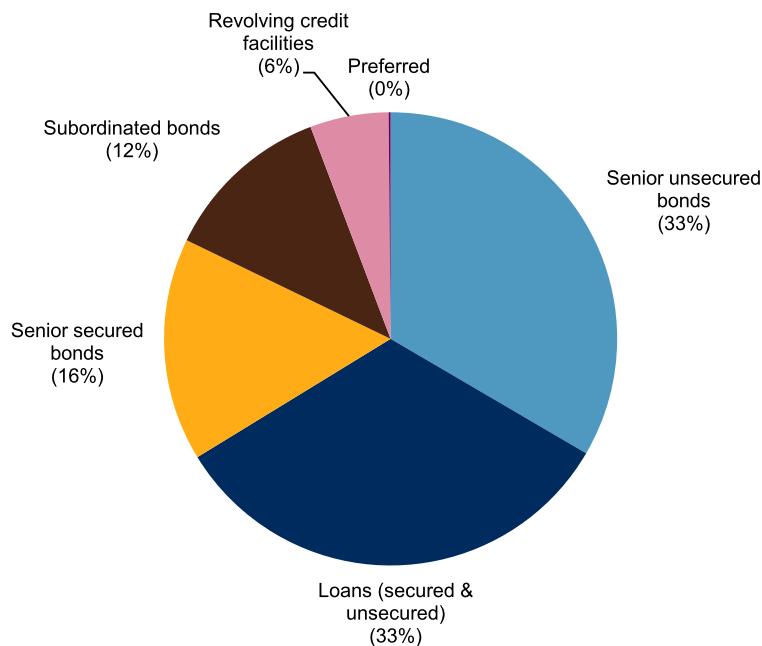


Includes financial and nonfinancial issuers. Data as of Dec. 31, 2017. Source: S&P Global Fixed Income Research.

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Chart 4

Speculative-Grade European Corporate Debt By Instrument Type



Includes financial and nonfinancial issuers. Data as of Dec. 31, 2017. Source: S&P Global Fixed Income Research.

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Bonds are typically issued with longer maturities than loans. The majority (72%) of the nonfinancial corporate bonds included in this study were issued with an original maturity of seven years or more, while the majority of loans (63%) were issued with an original maturity of less than seven years (see table 5).

Investment-grade nonfinancials tend to issue bonds with a longer maturity term than speculative-grade nonfinancials: 19% of investment-grade bonds were issued with an original maturity schedule of 13 years or more, compared with 2% of speculative-grade bonds. For financial entities, 59% of the rated debt had original maturities of seven years or more (see table 6).

Table 5

European Nonfinancial Corporate Debt By Rating Category And Original Maturity

Rating category	Maturity (years)						Total
	Less than 2	2-5	5-7	7-13	13-20	More than 20	
Total loans/revolvers	9.9	147.1	216.1	213.8	5.0	0.6	592.6
AAA	0.0	0.0	0.0	0.0	0.0	0.0	0.0
AA	0.0	0.4	4.1	0.0	0.0	0.0	4.5

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Table 5

European Nonfinancial Corporate Debt By Rating Category And Original Maturity (cont.)

Rating category	Maturity (years)						Total	
	Less than		More than		20			
	2	2-5	5-7	7-13				
A	6.7	21.9	44.8	15.6	1.5	0.0	90.4	
BBB	3.2	73.4	57.9	27.4	3.5	0.6	165.9	
BB	0.0	35.7	46.9	72.2	0.0	0.0	154.8	
B	0.0	12.8	60.9	88.0	0.0	0.0	161.7	
CCC/C	0.0	3.1	1.4	10.7	0.0	0.0	15.2	
Total bonds/notes/other	29.0	299.8	325.8	1,241.4	137.4	322.0	2,355.3	
AAA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
AA	0.3	11.4	12.6	56.9	12.7	9.5	103.4	
A	15.2	126.9	81.6	387.3	59.7	134.2	804.9	
BBB	13.4	121.0	146.1	528.6	57.8	145.4	1,012.3	
BB	0.0	20.8	42.7	161.7	7.0	29.4	261.5	
B	0.0	16.5	36.1	85.0	0.2	3.2	141.0	
CCC/C	0.0	3.2	6.8	21.8	0.0	0.3	32.1	
Total	38.8	446.9	541.9	1,455.2	142.4	322.6	2,947.8	

Nonfinancial issuers only. Data as of Dec. 31, 2017. Source: S&P Global Fixed Income Research.

Table 6

European Financial Corporate Debt By Rating Category And Original Maturity

Rating category	Maturity (years)						Total
	Less than 2	2-5	5-7	7-13	13-20	More than 20	
AAA	21.8	165.1	151.6	264.0	66.2	126.1	794.7
AA	8.6	117.5	42.7	105.0	30.9	34.3	339.1
A	32.2	218.9	145.5	396.7	98.3	74.4	966.0
BBB	12.0	140.3	96.3	304.3	32.2	87.4	672.5
BB	0.0	3.6	3.7	68.0	5.5	13.4	94.2
B	0.0	2.1	7.0	6.0	0.0	0.3	15.5
CCC/C	0.0	0.9	0.3	1.2	0.0	0.1	2.5
Total	74.6	648.5	447.1	1,145.1	233.2	336.0	2,884.5

Financial issuers only. Data as of Dec. 31, 2017. Source: S&P Global Fixed Income Research.

Investment-grade bonds currently outstanding are often of older vintages than speculative-grade bonds: 15% of investment-grade bonds were issued in 2009 or earlier, compared with 10% of speculative-grade bonds. Overall, 14% of outstanding bonds were issued in 2009 or earlier, compared with just 1% for outstanding loans (see table 7).

Table 7

European Corporate Debt By Original Issue Year

Original issue year	Debt amount (Bil. €)			Debt amount (%)		
	Investment-grade	Speculative-grade	Total	Investment-grade	Speculative-grade	Total
Total loans/revolvers	261.1	337.7	598.8	100.0	100.0	100.0
2009 and earlier	6.6	0.0	6.6	2.5	0.0	1.1
2010	2.8	0.0	2.9	1.1	0.0	0.5
2011	5.4	6.4	11.8	2.1	1.9	2.0
2012	4.7	8.5	13.2	1.8	2.5	2.2
2013	35.7	21.4	57.2	13.7	6.3	9.5
2014	56.5	51.9	108.4	21.6	15.4	18.1
2015	70.2	58.1	128.3	26.9	17.2	21.4
2016	21.6	47.7	69.4	8.3	14.1	11.6
2017 H1	57.4	143.5	201.0	22.0	42.5	33.6
Total bonds/notes/other	4,692.6	540.9	5,233.5	100.0	100.0	100.0
2009 and earlier	691.5	53.1	744.7	14.7	9.8	14.2
2010	192.5	15.3	207.9	4.1	2.8	4.0
2011	197.4	15.5	212.9	4.2	2.9	4.1
2012	361.4	32.2	393.6	7.7	5.9	7.5
2013	412.5	66.8	479.2	8.8	12.3	9.2
2014	597.1	85.0	682.1	12.7	15.7	13.0
2015	711.7	92.2	803.9	15.2	17.0	15.4
2016	792.1	81.1	873.1	16.9	15.0	16.7
2017 H1	736.4	99.6	836.0	15.7	18.4	16.0

Includes financial and nonfinancial issuers. Data as of Dec. 31, 2017. Source: S&P Global Fixed Income Research.

Data Methodology

In this study, we analyze the amount of debt issued by financial and nonfinancial corporates that is rated by S&P Global Ratings.

We include all the rated debt of all European companies and their foreign subsidiaries, regardless of the currency or market in which the debt was issued. We converted the amounts of any debt not denominated in euro into euro-equivalent figures based on the end-of-day exchange rates on Dec. 31, 2017.

The issue types that we cover include loans, RCFs, bank notes, bonds, debentures, convertible bonds, covered bonds, intermediate notes, medium-term notes, index-linked notes, equipment pass-through certificates, and preferred stock. In the case of RCFs, the amount usually represents the original facility limit, not necessarily the amount that the issuer has drawn. We

derive debt amounts based on the face value of the instrument. We exclude individual issues that we do not currently rate at the instrument level (for example, unrated bonds or leveraged loans), as well as instruments from issuers that we rated 'D' or 'SD' (selective default) as of Dec. 31, 2017.

We aggregate the data by issue-level credit rating. We also aggregate sector-specific data according to the subsector of the issuer. We define the financial sector as all banks, brokers, insurance companies, asset managers, mortgage companies, and other financial institutions. We classify debt issued by financial arms of nonfinancial companies according to the sector of the corporate parent.

Related Research

- What Can The ECB Take From The Fed's Policy Playbook?, April 25, 2018
- The Eurozone Has Reached Cruising Altitude, March 28, 2018
- European Refinancing Study--€3.3 Trillion Of Rated Companies' Debt Is Scheduled To Mature By End-2022, Jan. 29, 2018
- Global Refinancing Study--\$10.23 Trillion In Rated Corporate Debt Is Scheduled To Mature Through Year-End 2022, Jan. 26, 2018
- Analyzing The Size And Structure Of The Global Rated Corporate Debt Market In The Second Half Of 2017, Sept. 14, 2017

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