



The success story of corporate Schuldscheine – solid issuers continue to dominate

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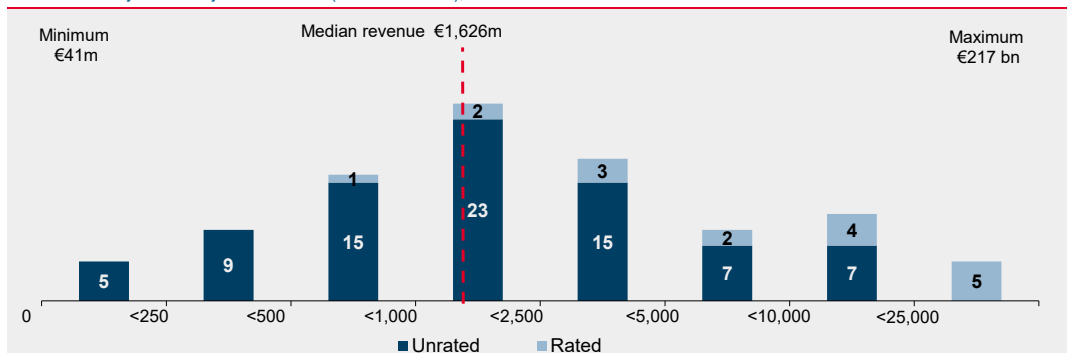
A record-breaking 2017 once again yielded a broad range of companies with healthy balance sheet metrics for investors in the Schuldschein market. As in the past, smaller and mid-sized issuers without external agency ratings dominated the picture. In terms of the quality of their financial profiles, however, they were by no means inferior to their rated counterparts. Indeed, in many cases – just as in previous years - they even exhibited considerably better credit ratios. Non-domestic issuers continued to impress with sound credit quality. On the other hand, though, the cases of Steinhoff and Carillion demonstrate that the comparatively solid SSD segment is not completely immune to specific corporate risks. For that reason, in-depth credit analysis as well as information provided by the underwriting banks is likely to become of even greater importance in the future, especially in view of the persistence of large numbers of new issuers for whom only limited financial information is often publicly available.

External ratings remain the exception in the record year of 2017

In 2017, the corporate Schuldschein market was able to build on the success of previous years. With 150 separate transactions raising a total of EUR 27.7 billion, last year saw around EUR 2 billion more issuance than in 2016 and thus a new record volume. Approximately three quarters of deal volume originated from unrated companies; in terms of transaction count, they once again achieved a market share of over 80 %. As before, the main reason for this was the large number of smaller and mid-sized issuers, for whom raising capital using promissory notes normally has many advantages due to the lower complexity and limited costs that they entail. However, due to their smaller financing requirements, this group of issuers frequently does not have a rating from any of the Big Three agencies.

Unrated, minor issuers dominate growing market

Issuance activity in 2017 by sales volume (in EUR millions); number of transactions



Source: Bloomberg, Helaba Research

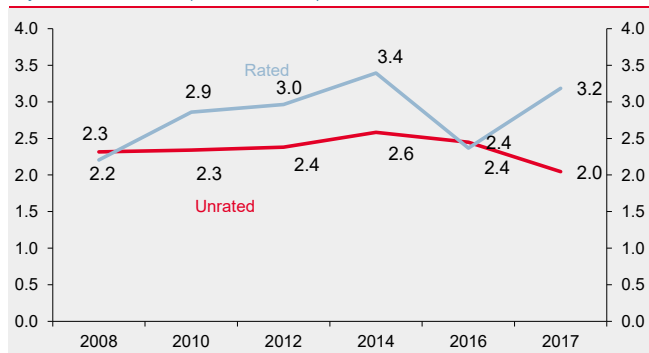
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Sound credit metrics of unrated issuers still the norm

The absence of an external rating, though, was generally no indication of poor credit quality in 2017, either. We calculated the adjusted credit metrics¹ of net debt to EBITDA, cash flow from operations to net debt as well as the equity ratio of companies issuing SSDs last year. The results were in line with those of our study on the development of credit quality over previous years (cf. Credit Special of 22 May 2017). For instance, the average earnings-based leverage ratio for the group of unrated issuers was yet again below that of companies with agency ratings in 2017. In addition, the median ratio of net debt to EBITDA of 2.0x, or mean ratio of 2.2x, saw a further improvement compared to the year before.

More stable indebtedness in unrated segment

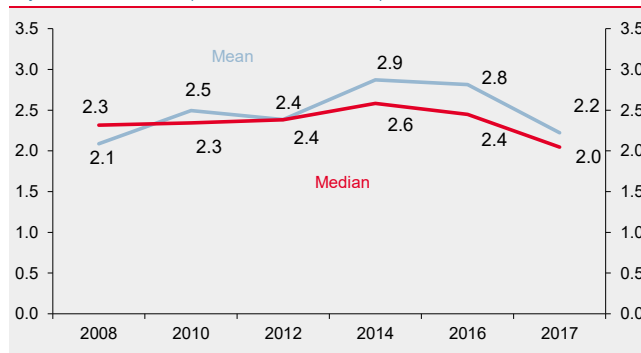
Adj. net debt / EBITDA (median, x-times)



Sources: Bloomberg, Helaba Research

Further recent improvement

Adj. net debt / EBITDA (unrated issuers, x-times)

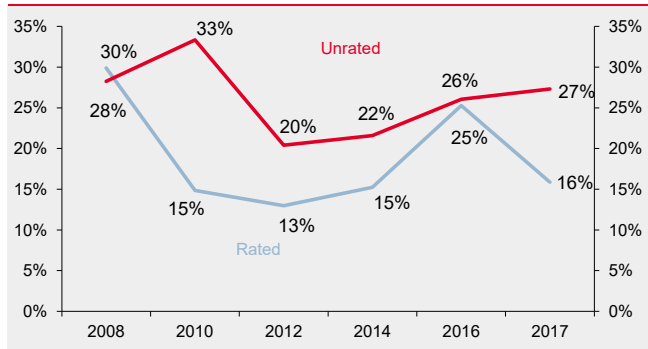


Sources: Bloomberg, Helaba Research

Both the cash flow-based leverage ratio and the equity ratio also reveal that the group of unrated issuers by no means possesses worse financial ratios on average. The median ratio of cash flow from operations to net debt was 11 percentage points above that of rated issuers in 2017, while the equity ratio of 37.9% remained at the upper end of values observed to date.

Better cash flow-based ratios and ...

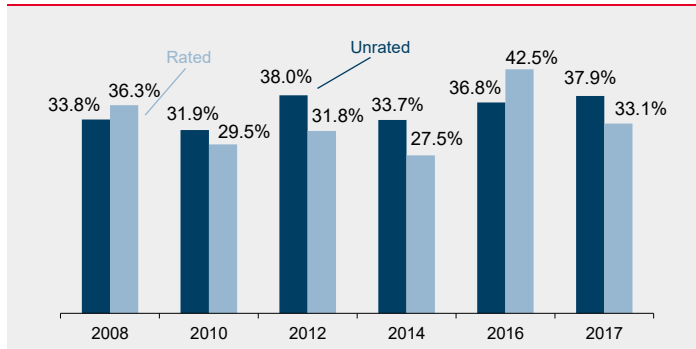
Adj. cash flow from operations / net debt (median)



Sources: Bloomberg, Helaba Research

... more stable balance sheet structure in unrated segment

Equity ratio (median)



Sources: Bloomberg, Helaba Research

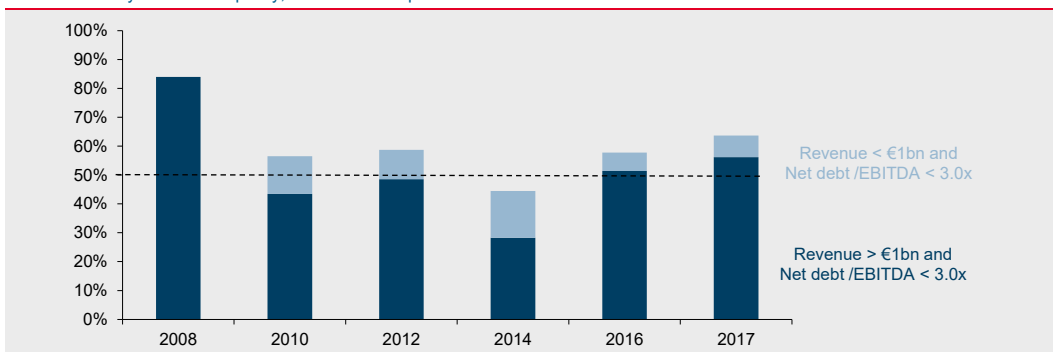
¹Mainly adjusted for pension provisions and operational leasing liabilities.

Companies with good investment quality expand market share

In our opinion, the sound credit metrics of unrated issuers indicate that the *Schuldschein* market continues to offer investors a broad range of companies with a good investment quality. Last year, companies with sales of more than EUR 1 billion and an adjusted leverage ratio of below 3.0x EBITDA accounted for more than half of market volume. Therefore, the proportion of – in our view – solid companies increased once again compared to previous years.

Rock solid companies account for almost two-thirds of market volume

New issuance by investment quality, in % of volume placed



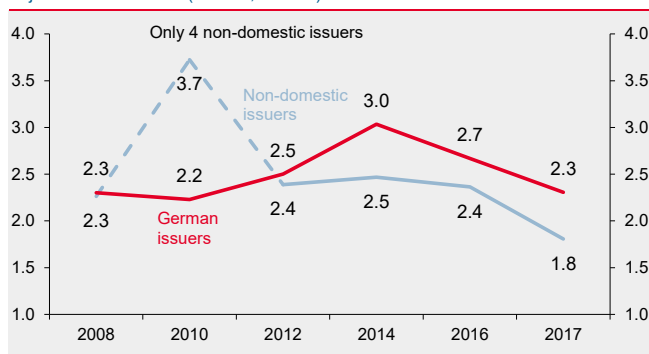
Source: Bloomberg, Helaba Research

Non-domestic issuers still offer interesting investment opportunities

In particular, the group of non-domestic issuers offered comparatively good financial profiles in 2017 as well. They had considerably better figures for all three median credit ratios that we calculated than was the case for domestic German companies. The ratio of net debt to EBITDA, which we calculated at 1.8x, was not only significantly below that of domestic issuers but was also very low in relation to previous years. The ratio of cash flow from operations to net debt, at 33 %, similarly reached a very good level. Furthermore, in terms of sales, non-domestic companies were significantly larger than their German counterparts on average.

Non-domestic issuers with lower leverage ...

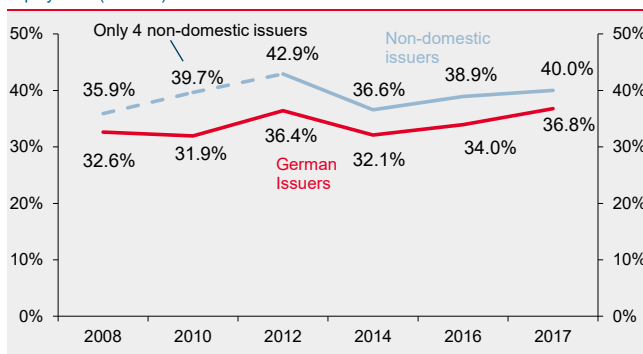
Adj. net debt / EBITDA (median, x-times)



Sources: Bloomberg, Helaba Research

... and very solid capital backing

Equity ratio (median)



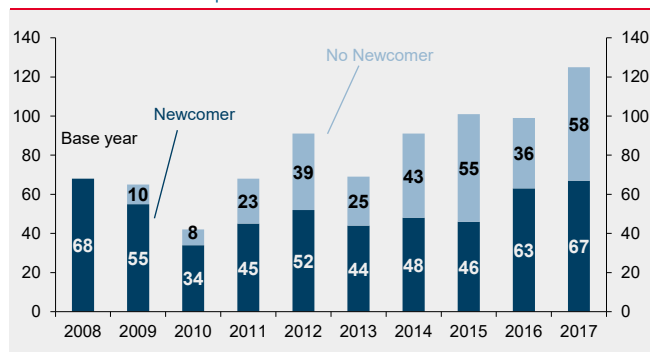
Sources: Bloomberg, Helaba Research

Schuldschein market not immune from risks either

At the same time, though, the segment recently entered the headlines as a result of financial difficulties at two non-domestic SSD issuers, Carillion (issue of July 2017 in amount of approx. EUR 125 million) and Steinhoff (issue of June 2015 in amount of EUR 730 million). Although these cases demonstrate that even the comparatively solid Schuldschein is not completely immune from risks, specific company-related factors were responsible for this development and they were in no way related to any structural weaknesses in the corporate SSD market.

Persistently high number of newcomers ...

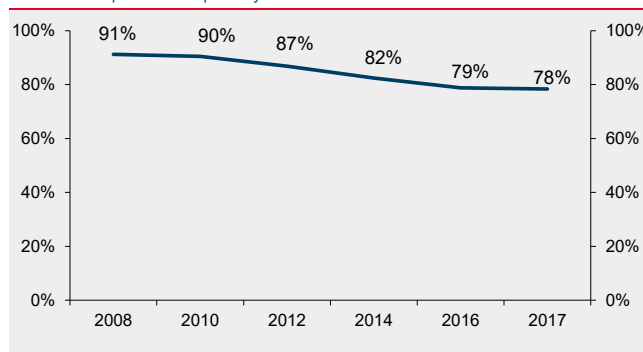
Number of first-time and repeat issuers



Sources: Bloomberg, Helaba Research

... leads to declining level of public information

Share of companies with publicly available financial data



Source: Bloomberg, Helaba Research

Credit analysis and provision of information the crucial factors

Overall, our analysis suggests that, for the most part, the financial circumstances of Schuldschein issuers were in good shape in the record year of 2017 as well. However in-depth credit analysis is likely to become of even greater importance in the future, especially in view of the increasing number of new issuers for whom only limited financial information is publicly available in many cases. Furthermore, we believe that the key role played by underwriting banks as information-providing intermediaries will continue to grow. ■