



PRIMARY MARKET UPDATE CORPORATE SCHULDSCHEIN

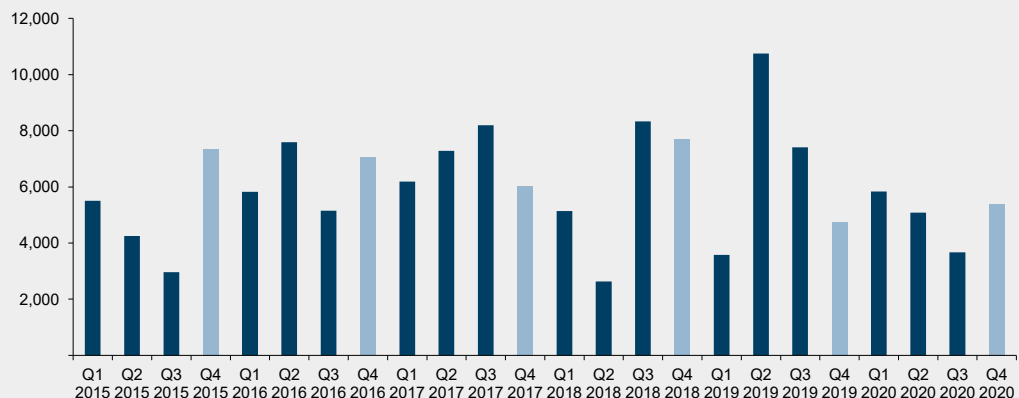
18. December 2020

Uncertain times reveal true friends

- With a volume of EUR 5.4 billion placed from October to December, the Schuldschein market achieved a decent result in the final quarter of year. This took the total volume of transactions closed in 2020 to the EUR 20 billion mark. As a result, the segment recorded quite a solid performance for the year as a whole, even though there was a noticeable decline in transactions during the most critical phase of the crisis from March to May. In this period, a large number of companies primarily covered their liquidity needs by tapping the bond market, which proved to be rather receptive - not least thanks to the support of central banks.
- Nevertheless, thanks in no small part to the willingness of issuers to accept higher prices and shift to shorter maturities as well as to the way that the underwriting banks maintained a consistent focus on quality, the Schuldschein market was once again able to demonstrate its resilience in the face of the crisis. Among other things, this was reflected in the fact that the vast majority of deals were significantly oversubscribed, enabling the market to bounce back strongly towards the middle of the year. In June, Robert Bosch placed the largest Schuldschein of the year with a volume of EUR 2 billion. Other major transactions included Asklepios, which issued a EUR 730 million SSD in October. Despite these highlights, the total volume of new Schuldschein issuance remained well below the EUR 26.5 billion placed in 2019. In particular, the crisis led to a reluctance on the part of debut issuers, who had been among the most important drivers of market growth in previous years, to enter the Schuldschein market.
- Total issuance was divided among 102 separate transactions (2019: 126). With an average volume of EUR 196 million, deals were only slightly smaller than in the previous year. Despite the economic slump brought on by the crisis and the uncertainty among investors, which at times rose to considerable levels, a significant number of cyclical companies ventured into the market. Almost every second euro was issued by industrial and automotive firms, with industrials behind the majority of transactions (25). The importance of sustainable funding continued to grow in 2020 as well. Over the last twelve months, EUR 2.6 billion in green and sustainability-linked Schuldschein notes were issued, around EUR 100 million less than in 2019; however, their market share rose markedly from 10 % to 13 %. Moreover, the number of ESG issues rose by 40 %.

Robust issuance volume in Q4 2020

Valued Schuldschein loans: issuance by volume (in EUR millions)



Source: Helaba Research

AUTHOR
Ulrich Kirschner, CFA
Senior Credit Analyst
phone: +49 69/91 32-28 39
research@helaba.de

EDITOR
Stefan Rausch
Head of Credit Research

PUBLISHER
Dr. Gertrud R. Traud
Chief Economist/
Head of Research

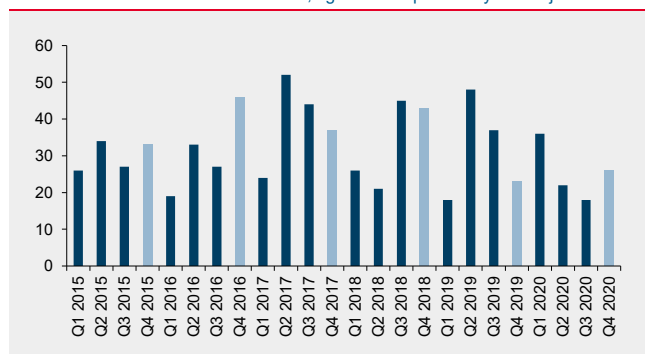
Helaba
Landesbank
Hessen-Thüringen
MAIN TOWER
Neue Mainzer Str. 52-58
60311 Frankfurt am Main
phone: +49 69/91 32-20 24
fax: +49 69/91 32-22 44

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- Non-German issuers were significantly less active in 2020 as a whole than in previous years. While German issuers accounted for EUR 16.3 billion of total placement volume, even 7 % more than 2019, total funding raised by non-German players declined to EUR 3.7 billion - a third of last year's volume. In terms of the number of transactions, three quarters of all deals originated in Germany.
- The first half of the year, in particular, saw a fairly high number of smaller Schuldschein loans of up to EUR 50 million being placed. However, mid-sized deals in a range of between EUR 200 and 500 million once again accounted for the largest share of total volume over the entire year. The proportion of issuers with agency ratings was significantly higher than in 2019, fuelled by activity in the first half of the year. In many cases, it is likely that having a credit rating served as additional evidence of sound creditworthiness and facilitated placements, especially during the peak of the crisis. In the final quarter, significantly more SSDs were issued by unrated companies, which made up almost 85 % of transactions in the market.
- As an anticipated economy recovery gradually sets in, issuance activity on the Schuldschein market should return to normal over the course of next year. It appears highly likely that the ECB's asset purchase programmes will keep refinancing costs low and drive up the pace of new issuance in the SSD segment. In addition, having largely served as a source of emergency liquidity in 2020, we expect that there will be a renewed emphasis on using the proceeds of issues for strategic projects, such as financing growth initiatives or acquisitions. Some companies may also be forced to raise their expenditure as trade conflicts or the UK's final withdrawal from the European Union make a realignment of global supply chains or adjustments to individual business models necessary. As a result, non-German issuers, who have been rather hesitant this year, should return to the Schuldschein market in larger numbers as well. Having said that, many companies have built up ample liquidity reserves in response to the Covid-19 crisis that could now be gradually ploughed into new investment.
- However, much is likely to depend on whether the widely anticipated increase in the number of insolvencies will impact spreads and the risk appetite of investors, especially on the Schuldschein market. At the same time, though, we expect that interest among companies in launching debut placements will pick up again. In our view, the Schuldschein market remains a good opportunity for newcomers to achieve a greater diversification in their funding instruments and investor base.
- On balance, therefore, we believe that issuance volume in 2021 is likely to reach a level of around EUR 20-25 billion, which would be substantially above that recorded in 2020 but somewhat lower than the all-time highs of previous years. Unrated issues are likely to remain the preferred form of transaction on the market, while we expect the trend towards sustainable forms of debt to continue next year as well.

Q4 sees modest recovery in deal count

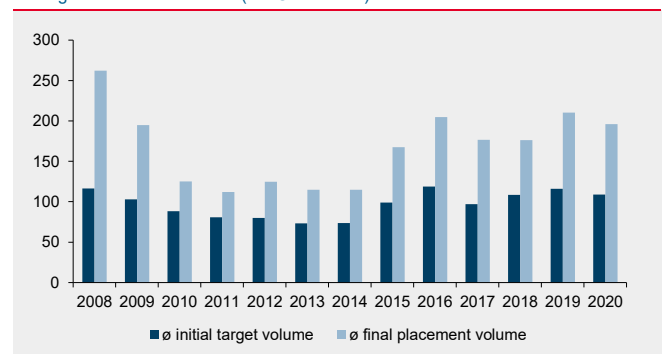
Number of valued Schuldschein issues, figures from previous years adjusted



Source: Helaba Research

Average issuance volume slightly lower than 2019

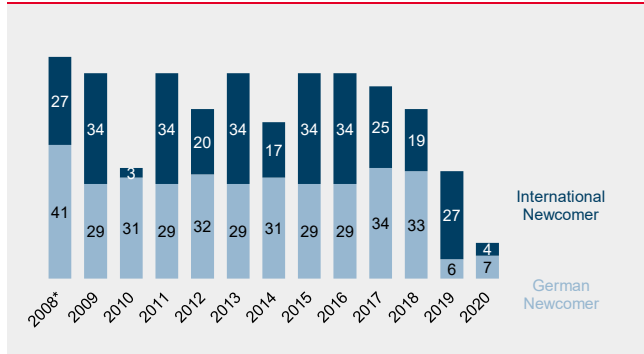
Average transaction volumes (in EUR millions)



Source: Helaba Research

Debut issuers shy away from entering market

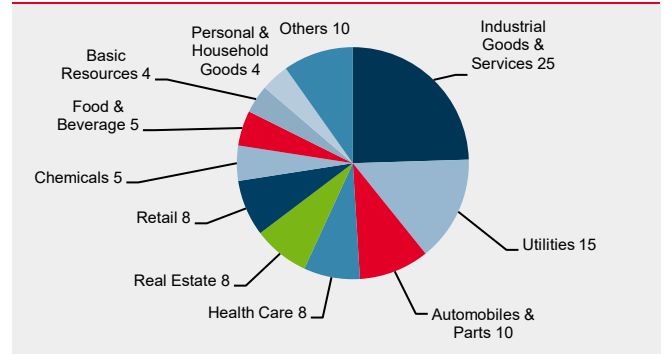
Valued Schuldschein issue by number



*baseline year, source: Helaba Research

Variety of sectors remains broad

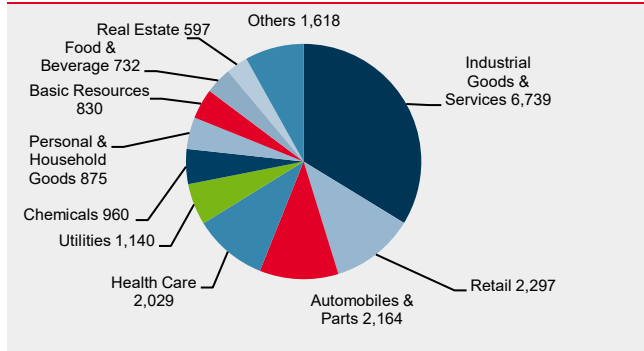
Issuance activity by sector in 2020 (distribution by number of issues)



Source: Helaba Research

Cyclicals still very active in 2020, too

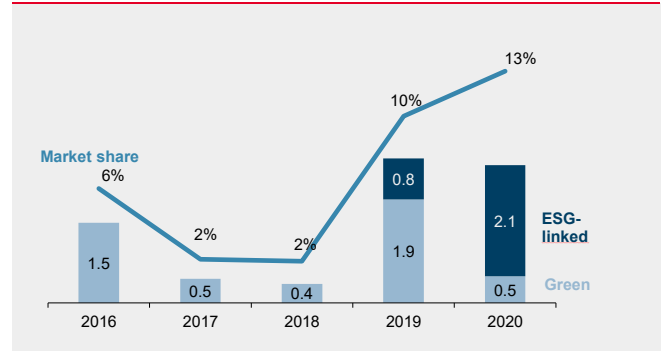
Issuance activity by sector in 2020 (by volume, in EUR millions)



Source: Helaba Research

Ongoing trend towards sustainability

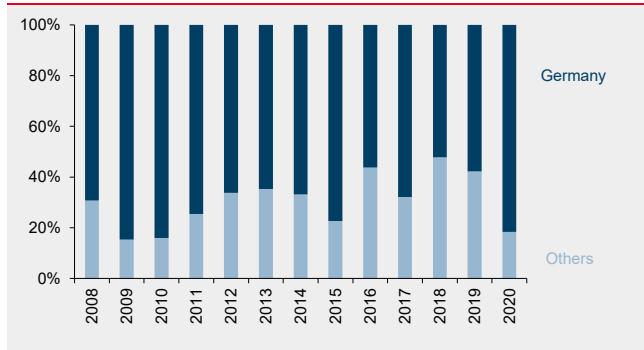
Green or sustainability-linked issues (by volume, in EUR millions or %)



Source: Helaba Research

Non-German players remain cautious

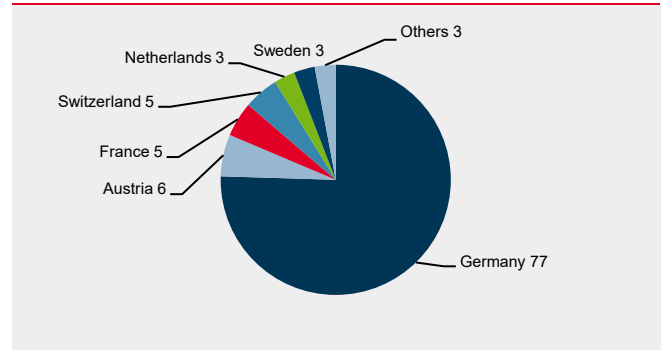
Issuance by country of origin (volumes in %)



Source: Helaba Research

Almost three quarters of issues from Germany

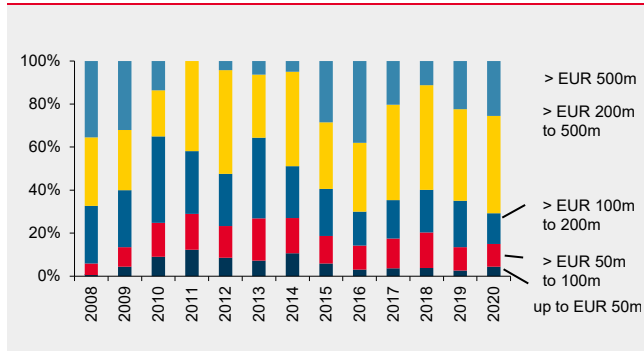
Issuance by country of origin in 2020 (distribution by number of issues)



Source: Helaba Research

Popularity of deals up to EUR 500m remains strong

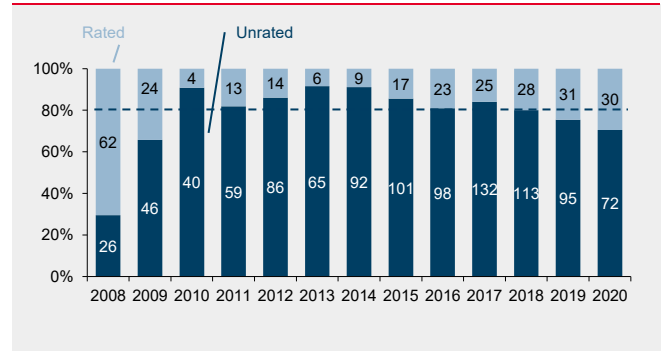
Issue size (distribution by volume in EUR millions)



Source: Helaba Research

70% of transactions still unrated

Issuance activity by publicly rated and unrated deals (number in %)



Source: Helaba Research