



Sectors in the Schuldschein market 2021 - limited demand from cyclicals



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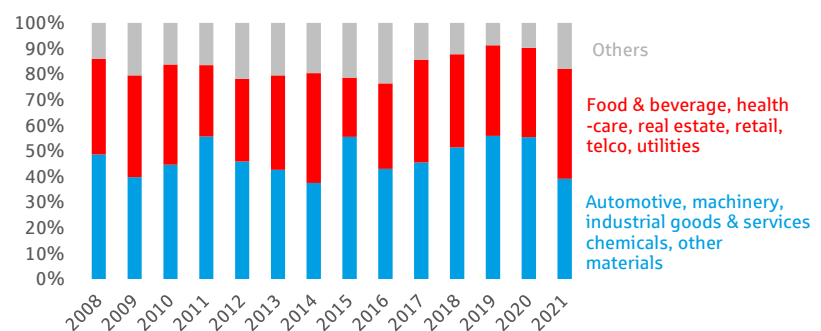
Issuers from the cyclical sectors of automotive, industrial services, machinery, industrial goods, chemicals and 'other materials' have traditionally been permanent fixtures on the Schuldschein market. This year, however, their share of total placement volume has been conspicuously low, whereas companies from defensive sectors have maintained a major presence. Telcos, for example, have tapped the segment to place large tickets and utilities have also issued significantly more debt as SSDs than in previous years. In the case of real estate companies, the long-term trend towards greater market shares has held steady. In our view, the cautious approach shown by cyclical issuers is most likely attributable to the substantial measures taken to secure liquidity in the previous financial year. Meanwhile, though, many issuers have noticeably scaled back their excess liquidity reserves and forecasts for economic growth in 2022 point to a further acceleration in the recovery. Therefore, given their associated funding requirements, cyclically sensitive issuers should re-emerge as increasingly visible players once again.

A striking turnover of segments in 2021

Since 2008, the cyclical sectors of automotive, industrial services, machinery, industrial goods, chemicals and 'other materials' have accounted for an average of almost half of issuance volume on the Schuldschein market. In 2020, this share even topped 55 %. However, the first ten months of the current financial year saw a reversal in this pattern, with the market share of these sectors falling to 39 % - its lowest level since 2014. This was in spite of the fact that the largest transaction by far, of EUR 1 billion, came from the cyclical sector 'other materials'. Defensive industries, in contrast, remained quite active. Companies from the telecoms, utilities, food & beverage, retail, healthcare and real estate sectors raised 43 % of total issuance volume and thus more than the historical average, which stood at 35 % between 2008 and 2020. We consider this period well suited as a benchmark since the average issuance volume of EUR 14.8 billion in the first ten months of each year was roughly the same as in the current financial year (EUR 14.2 billion).

Defensive issuers dominate market activity in 2021

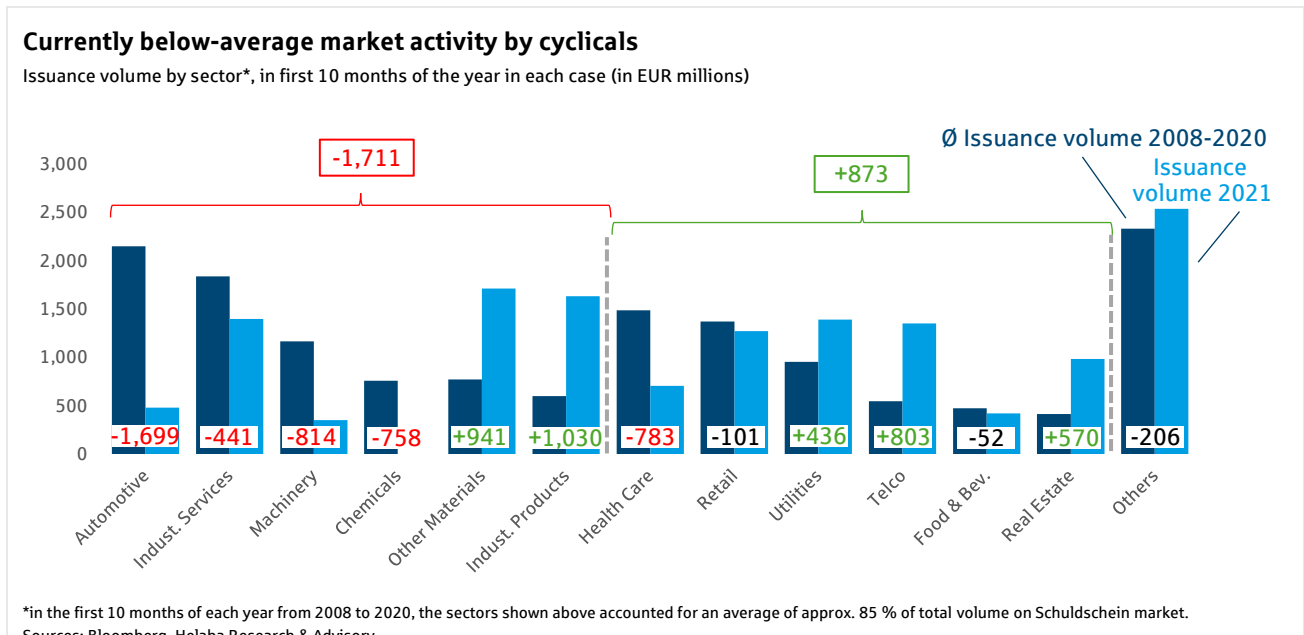
Issuance volume* by sector (share in %)



*transactions valued until end of October 2021.
Sources: Bloomberg, Helaba Research & Advisory

Sharp decline in volume for automotive, machinery and chemicals

Among cyclicals, the most pronounced decline in activity was seen in the automotive sector: from January to October, issuers from this industry placed EUR 480 million, almost EUR 1.7 billion less than the average of the previous 13 years. Similarly, machinery also accounted for significantly lower volumes (-814 million euros). Another cyclical sector, the chemical industry, did not even make an appearance on the primary SSD market this year. Although

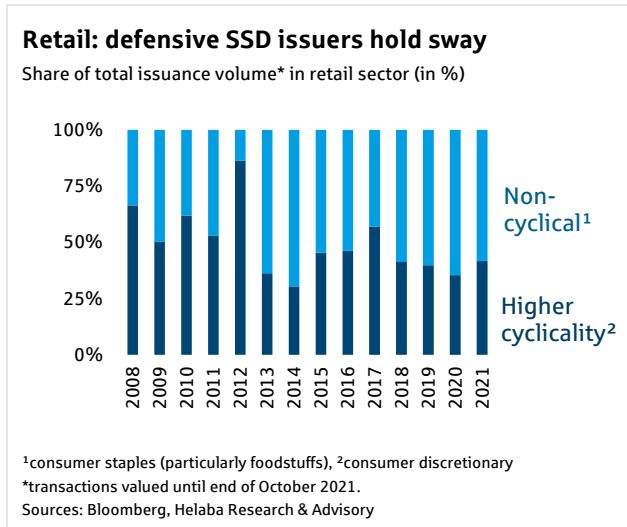


this downward trend was somewhat offset by higher placement volumes in the industrial products sector, with the large Traton SSD raising EUR 700 million, as well as 'other materials' in the form of the jumbo Schuldschein issued by Mayr-Melnhof Karton AG (EUR 1 billion), overall, however, the six cyclical sectors accounted for significantly lower transaction volume than usual.

Market share of telcos close to all-time high

The picture was somewhat different in the telecommunications sector, which posted strong gains. With a placement volume of just under EUR 1.4 billion, issuers here have made up 9 % of total issuance volume this year, compared to an average of 3 % in recent years. In particular, large transactions by United Internet (EUR 750 million) and the French company Iliad (EUR 500 million) had a noticeable impact. The only year in which the industry accounted for a larger placement share was the crisis year of 2008. Although telcos generally launch 2 to 3 SSDs per year on the market, a trend that has been steadily rising, the volumes placed have fluctuated sizably over the years. SSD transactions are often substantial in size for issuers who meet a high proportion of their funding requirements from the Schuldschein market. In particular, smaller providers or market challengers without an external rating appear to appreciate this refinancing instrument. Larger players, on the other hand, only use the SSD market to supplement their funding mix by placing smaller deals. For this reason, we expect the volume contributed by this sector to continue to fluctuate sharply in the future, too.

Stable market share of retail and food & beverage sectors, strong activity among utilities



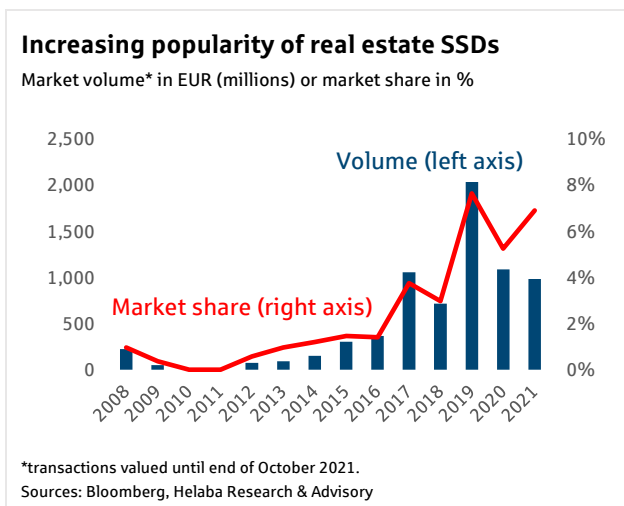
Transactions by the retail sector, which made up 8.9 % of issuance volume in the first ten months of the year, were at a similar level to previous years. Accordingly, the sector has accounted for an average of 9 % of placement volume since 2008 (always between 6 and 15 %). Nevertheless, there has been a tendency in recent years for the balance within this group of issuers to shift in favour of less cyclical players, such as food & beverage retailers. At the same time, however, the Schuldschein market remains a popular source of funding for retailers of more cyclical consumer goods. In 2021, 40 % of volume from this sector was issued by these types of retailers.

With a 10 % share of SSD volume, utilities are currently significantly up on their proportion of the last few years (3 - 6%). For German municipal and regional utilities, the Schuldschein is proving to be an

especially reliable source of refinancing, which is largely due to the fact that the segment is very well suited for raising smaller amounts (under EUR 100 million) with a variety of maturity tranches. Consequently, we anticipate that these utility borrowers, in particular, will continue to make extensive use of the market. Food and beverage producers have emerged as a mainstay of the Schuldschein market in recent years, with issuers from this sector responsible for between 3 and 5 percent of total issuance volume since 2016. At last count, this traditionally defensive industry had reached a level within the range of the last five years with a volume of 3 %.

Real Estate in the ascendant

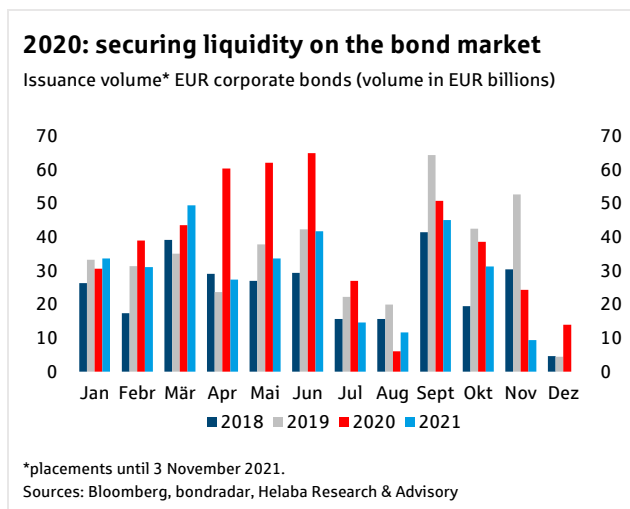
Since 2016, the market share of SSDs from the real estate sector has been growing rapidly and reached a peak of around 8 % in 2019. Notwithstanding the fact that unrealised property developments and a temporary widening in spreads led to a sharp decline in issuance activity last year, the share of deals from real estate firms has since bounced back to 7 %. In particular, favourable refinancing conditions and brisk investor interest have prompted more issuers in the sector to tap the SSD market to raise unsecured funds in recent years. In contrast to secured financing instruments that are otherwise the norm in the sector, the Schuldschein gives companies the opportunity to create liquidity buffers on their balance sheets. Furthermore, sustainable forms of finance are becoming increasingly prevalent in the Schuldschein market. In light of the need for energy-efficient property refurbishments and sustainable construction, there is likely to be a tendency towards further growth in the potential for corresponding SSDs, especially from the real estate sector.



Financial profiles of cyclical companies heavily skewed by liquidity accumulation in 2020

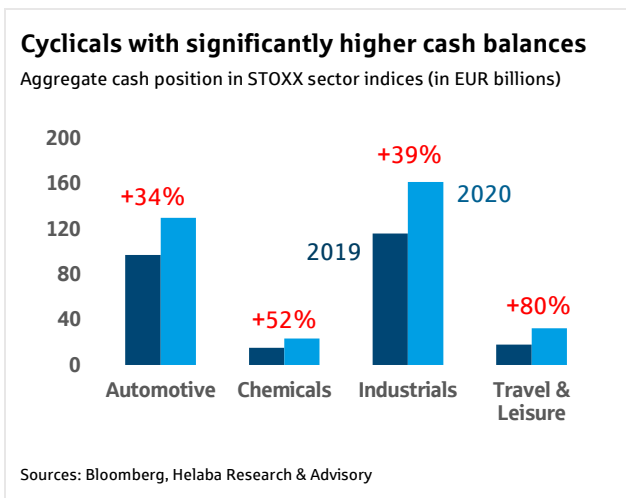
So, why is there such a big difference in the way cyclical and defensive sectors have entered the Schuldschein market this year? The Covid-19 crisis led to a deterioration in credit metrics, particularly in cyclical sectors. In view of this, some treasury teams may have reconsidered tapping the SSD market this year given weaker end-of-year results.

As the economy gradually recovers, some of these transactions should be rescheduled over the next few quarters. However, an even more compelling reason probably lies in 2020: considering the rising level of uncertainty on the capital markets and lessons learned from the financial crisis of 2008, many corporates accumulated substantial liquidity buffers, especially at the onset of the Covid-19 pandemic. This is clearly illustrated by the record placement volumes from April to June on the EUR corporate bond market. Taken together, non-financials raised EUR 90 billion more in this period than on average in the previous three years.



Priority in 2021 to date on reducing surplus liquidity

As a result, the cash positions on the balance sheets of many European listed companies were markedly higher at the end of 2020 than they were on the 2019 balance sheet date. Cash and cash equivalents of non-financial companies included in the STOXX Europe 600 index ballooned from around EUR 750 billion to EUR 1 trillion within a year. Notably, corporates from cyclical sectors, which already had comparatively high liquidity reserves, had raised abundant additional funds. In hindsight, however, the accumulation of additional liquidity may not have been necessary in every case. Unlike during the financial crisis, the ECB's asset purchase programmes ensured consistently attractive refinancing conditions. As the economy picked up again, many companies were then faced with the task of reducing their costly cash balances; hence, there was very limited need to raise additional funds. Nevertheless, in the meantime many companies have probably returned their liquidity positions to normal. For instance, two-thirds of STOXX Industrial Goods & Services companies reporting H1 figures as of 30 June 2021 already had a significantly lower cash position than at the 2020 balance sheet date. For this reason, we expect to see renewed growth in activity by cyclical companies in the Schuldschein market. Indeed, since the middle of the year, there have been mounting signs of a rebound, particularly in the industrial goods and services sectors.





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