

Special Report

High Yield – Europe Spotlight



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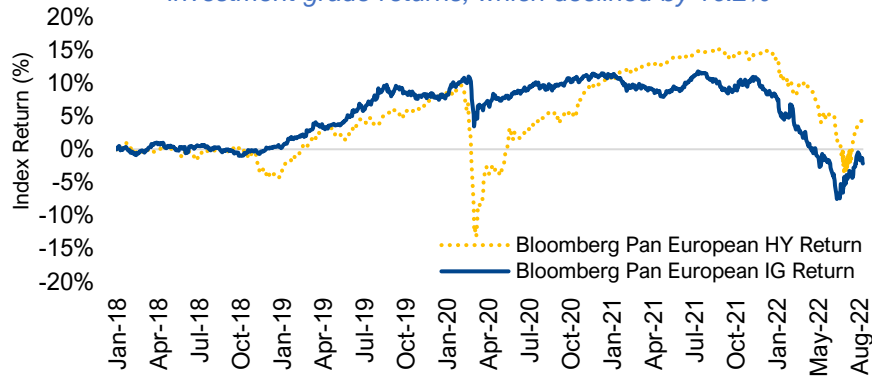
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Europe High Yield Bond Market Performance

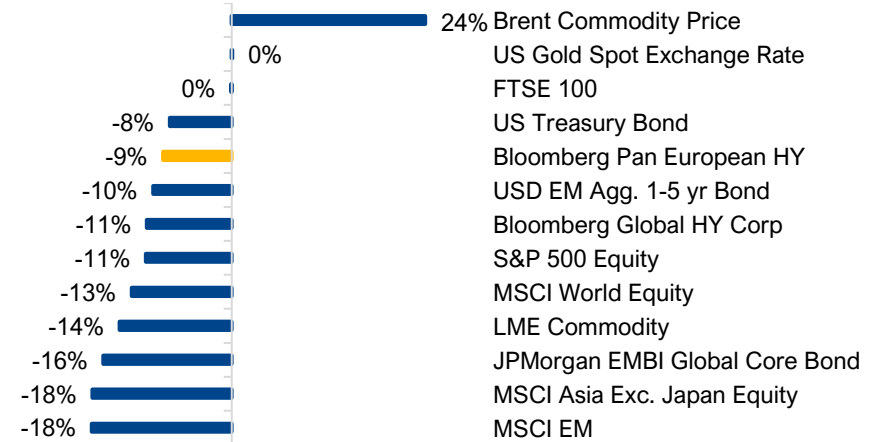
High yield returns tumble; spreads widen amid slowdown fears

Bond market returns deteriorated in 2022 (1)

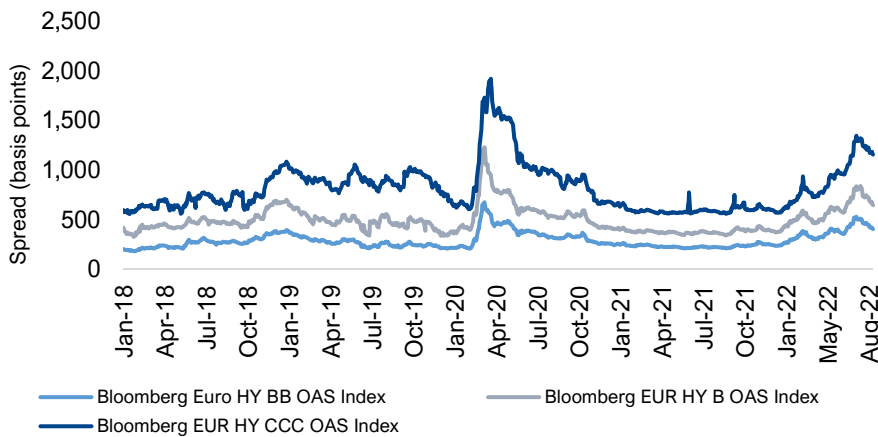
YTD high yield returns declined by 8.6%, but outperformed investment grade returns, which declined by 10.2%



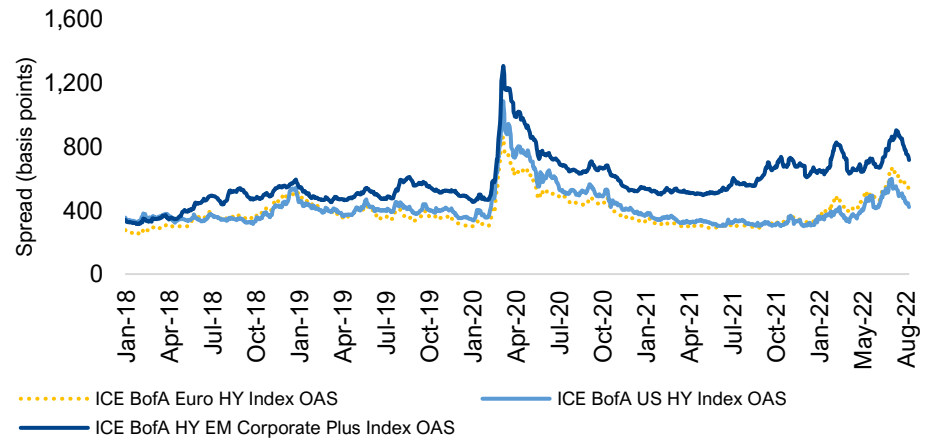
Brent outperforms other asset classes in 2022 (2)



OAS spreads widened YTD, indicating escalating risks



YTD Euro high yield OAS spread widened more than that of U.S,EM



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

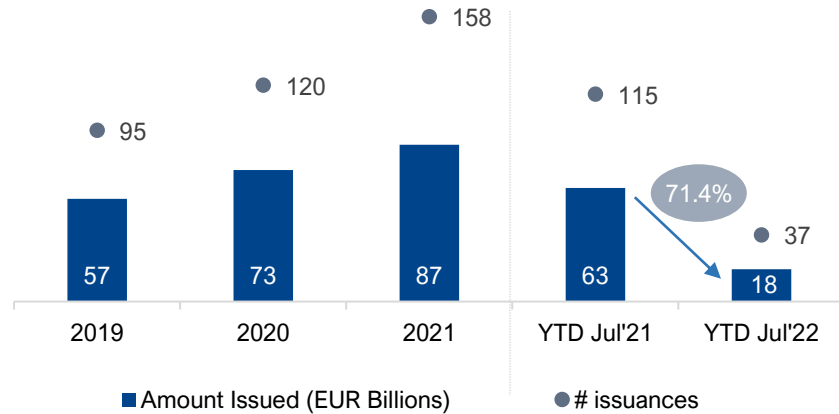
(1) High yield and investment grade returns calculated using base price of January 2, 2018; index tracks securities issued in EUR, GBP, NOK, DKK, SEK, CHF, HUF, PLN, RUB, and SKK

(2) YTD returns as of August 12, 2022

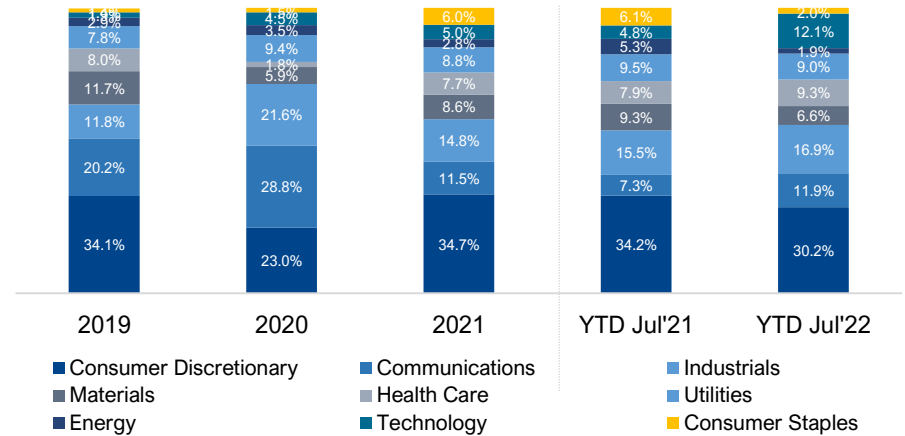
Europe High Yield Issuance Trend

Issuers largely stayed on sidelines amid Russia-Ukraine crisis and tightening monetary policy

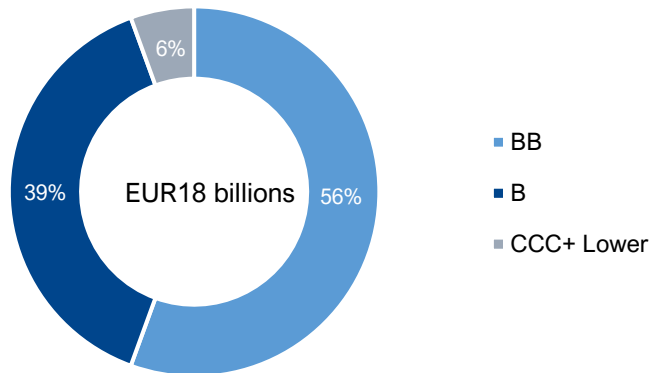
YTD July 2022 issuances plummeted



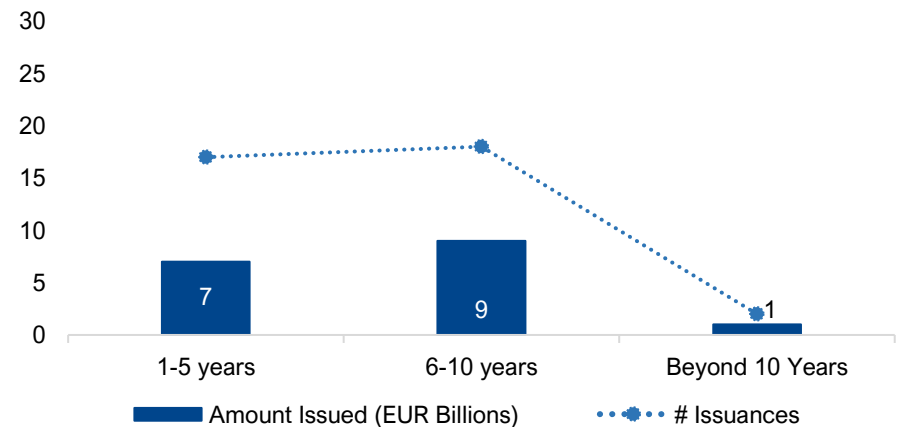
YTD July 2022 consumers issuances declined significantly⁽¹⁾



Europe high yield issuance by rating category – YTD July 2022 ⁽²⁾



Europe high yield issuance by maturity bucket – YTD July 2022

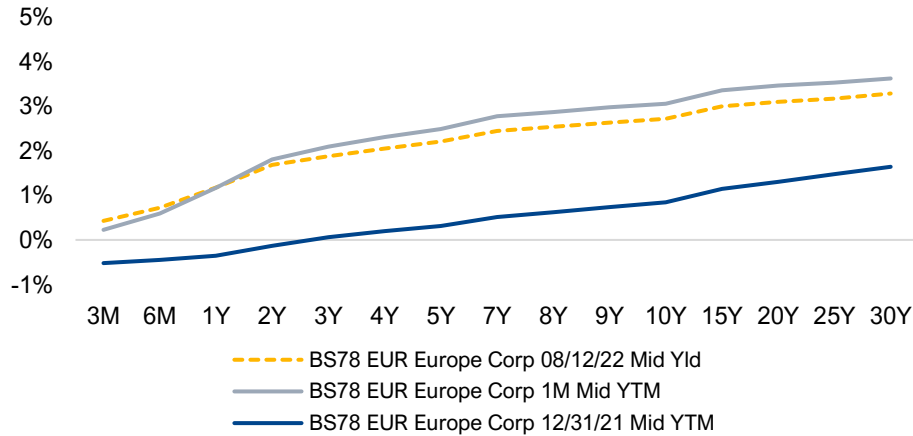


Source: Bloomberg; includes only EUR denominated corporate bonds with amount issued above EUR100 million; excludes bonds issued across the financial sector
 (1) Sector based on Bloomberg's BICS Level 1 Classification; (2) BB includes BB+, BB, and BB-; B includes B+, B, and B-; CCC includes CCC+, CCC,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

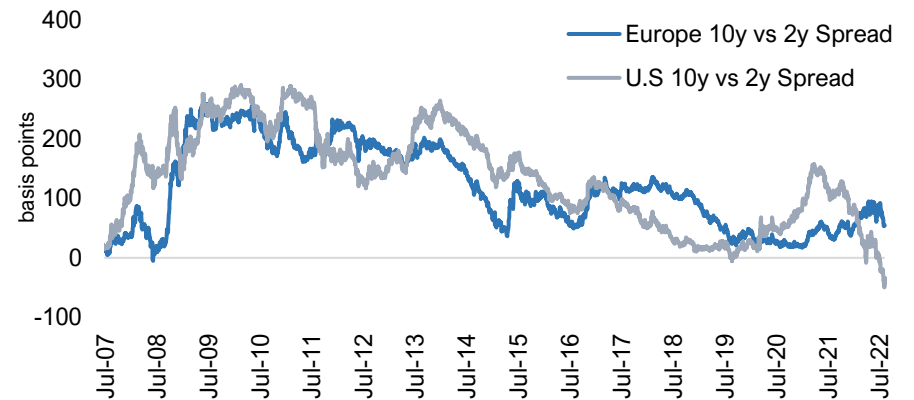
Sovereign Yield Trends

Yield curve still steepens despite looming recession fears

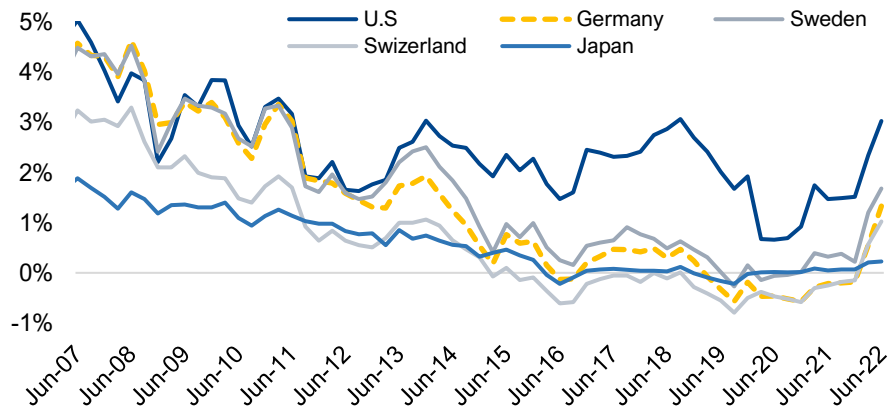
Euro yield curve⁽¹⁾



Europe's 10-year–2-year bond spread widened contrary to the US⁽²⁾



10-year sovereign yields⁽³⁾



Russia-Ukraine war to drive Eurozone recession

- Europe's 10-year–2-year yield gap widened in 2022 (~95bps in May 2022; highest since January 2019), contrary to US curve inversion.
- Eurozone recession would stem from the Russia-Ukraine crisis rather than ECB tightening its monetary policy. The region is relatively more impacted by the crisis, given its close economic ties with Russia and heavy reliance on Russian oil and gas.
- Sovereign yields continue to rise across Europe amid tightening monetary policy, with Germany's 10-year government bond yields (benchmark for the Eurozone) rising by 1% in 2022.
- As per S&P, heightened economic uncertainty would raise the European non-investment grade corporate default rate to 3.0% by March 2023 compared with 0.7% in March 2022.

Source: Bloomberg, S&P

(1) Spot as on August 12, 2022; (2) includes daily prices; (3) includes quarterly prices

Buzz in the Market (1/2)

01 Takko Fashion Industry: Apparel Retail Bond Price: 69.1 YTM: 39.6% (1L)	Faces refinancing risk <ul style="list-style-type: none">German fashion discount retailer, Takko, faces potential restructuring, as it struggles to refinance its 2023 notes amid choppy primary markets. Despite a recovery in its operational environment post pandemic-led disruption, inflationary pressure led to poor EBITDA performance.
02 McLaren Automotive Group Industry: Automotive Bond Price: 86.4 YTM: 11.9% (Secured)	Faces severe liquidity crunch <ul style="list-style-type: none">England-based luxury sports car manufacturer, McLaren, reported weaker-than-expected liquidity in April 2022, which resulted in a sharp decline in bond price. The company struggled with shipping delays over the past 12 months and disruption in semiconductor supply industry-wide.
03 888 Holdings Plc Industry: Casino & Gaming Bond Price: 87.6 YTM: 10.9% (Secured)	Acquires William Hill's international operations <ul style="list-style-type: none">British online gambling firm, 888 Holdings Plc, issued debt to fund the acquisition of William Hill's non-US assets from Caesars Entertainment. The combined business will generate 35–40% revenue from sports betting (including retail) vis-à-vis an estimated 13% pre-merger.The company's financial profile will remain weak for the next 2–3 years due to higher leverage and lower profitability owing to higher competition and regulatory risk.
04 Frigoglass Industry: Industrials Bond Price: 54.1 YTM: 36.7% (1L)	Uncertainties surrounding ability to tackle operational difficulties <ul style="list-style-type: none">Ice cooler and glass bottle manufacturer, Frigoglass, experienced supply chain disruptions due to the Russia-Ukraine conflict, which resulted in deteriorating liquidity and financial performance. The company is evaluating liquidity and capital structure options to weather operating challenges.
05 Manuchar Industry: Chemicals Bond Price: 87.8 YTM: 10.5% (Secured)	Strengthening profitability for bulk commodity distributor <ul style="list-style-type: none">Over the past 12 months, commodity chemicals distributor, Manuchar, reported strong financial performance, citing robust demand from existing and new customers, better product mix, higher pricing. The strong performance was further supported by constrained supply of chemicals, due to global supply chain disruptions.

Source: Fitch, Moody's, Reorg

Buzz in the Market (2/2)

06 Schur Flexibles GMBH Industry: Containers & Packaging Loan Price: 50.7 YTM: 17.9% (1L Sr. Sec.)	Alleged accounts manipulation by senior management executives <ul style="list-style-type: none">• Top executives of Austrian packaging company, Schur Flexibles, were accused of accounts manipulation and inappropriate use of cash that resulted in a material profit shortfall and weakening liquidity profile.• Schur Flexibles will implement its debt restructuring deal after receiving support from all lenders. On completion, the restructuring will be considered a distressed exchange.
07 Naftogaz Industry: Oil & Gas Bond Price: 22.4 YTM: 127.8% (Sr. Unsec.)	Default on Eurobonds <ul style="list-style-type: none">• Russia's invasion affected the Ukraine government's oil and gas entity, Naftogaz. The company's operational and financial performance worsened, with heightened uncertainty over financial projections. Its liquidity position is currently weak. The company did not receive consent from the Cabinet of Ministers of Ukraine on deferring interest and coupon payments. Consequently, it defaulted on bonds maturing in 2022 and 2024.
08 Norican Group Industry: Industrials Bond Price: 91.3 YTM: 17.8% (1L)	Likely to be burdened with higher interest rate post-refinancing <ul style="list-style-type: none">• Norican Group, a technology and services provider for improving metallic parts, has 96% of total debt maturing in 2023. Revenue outlook, higher demand, and sufficient equity cushion will help address this debt. However, refinancing cost will increase, considering the rising interest rate environment and the company's concentration in automobile and construction sectors, which is reflected in its bond price.
09 Vue International Industry: Entertainment YTM: 13.4% (1L Sr. Sec.)	Declined £660 million takeover offer from lenders in restructuring deal <ul style="list-style-type: none">• UK-based cinema chain operator Vue International's recovery from the pandemic was affected by the emergence of the new COVID-19 variant in December 2021, which decreased the pace of customers returning to movie theatres. This impacted the company's valuation, which was estimated at EUR2 billion in 2019 when the international cinema operator enjoyed a record year. That said, it declined an offer for the takeover of its business in July 2022; 1L worth GBP 225 million equitized; reinstated the 1L facility to have 8% cash interest and 2% PIK option.

Source: Fitch, Moody's, Reorg



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