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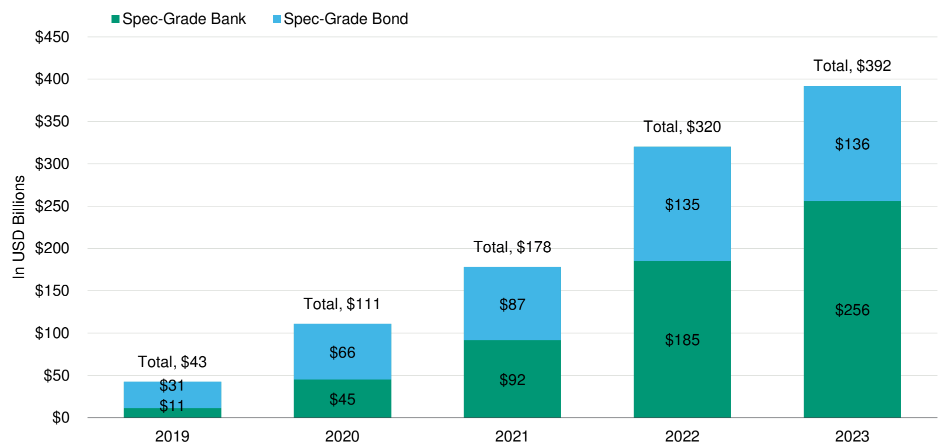
Speculative-Grade Corporates - US

Refunding Risk 2019-23: Spec-grade maturities again top $1 trillion amid weakening market conditions

» **Five-year speculative-grade refunding needs rise above $1 trillion, near record**. US speculative-grade companies have $1.044 trillion of debt maturing over the 2019-2023 period, up from $988 billion last year that covered 2018-2022 maturities. Total maturities are up 6% and slightly below the record $1.063 trillion set in the 2017 study. Both speculative-grade bank and bond maturities rose, with the bank maturities expanding faster at 9%, to $589 billion, and bonds climbing 2%, to $455 billion.

Exhibit 1

Spec-grade maturities exceed $1 trillion



Source: Moody's Investors Service

THIS REPORT WAS REPUBLISHED ON JANUARY 23, 2019 TO ADD A LEGEND TO EXHIBIT 1

- **Maturities rise as issuance declines, increasing refinancing risk**. US speculative-grade bond issuance fell 43% in 2018 to $173 billion, with December being the first month with no high-yield bonds sold since November 2008, according to Dealogic. As a result, bond refinancing risk — as measured by our Three-Year Refunding Indicator for December 2018 — is the highest since May 2009. The Indicator does not capture how some companies that typically issue bonds have shifted to the loan market instead. Nevertheless, a combination of lower issuance, heavy maturities, climbing interest rates and widening spreads points to a more-challenging refinancing environment.
- **Most debt matures in 2022-2023 and near-term needs are low.** This is in line with historical trends, even though bond refinancing needs shifted forward**.** Approximately 68% of the five-year maturities, or $713 billion, mature in 2022 and 2023, similar to last year, peaking in 2023 at $392 billion. Bank maturities are back-end loaded as well, peaking in 2023 at $256 billion, but bond refinancing needs shifted forward marginally. Bond maturities are roughly equal in 2022 and 2023, at $135 billion and $136 billion respectively, which differs from last year when the largest maturity was in the last year of our five-year window.
- **Rating quality of bank debt has declined, but bond quality is higher**. Almost half of bank facilities maturing over the next five years, or $289 billion, are in the single-B rating category based on instrument rating, up from 45% last year and the highest share since we began tracking the data. Consequently, Ba-rated bank facilities have declined to 43% of the total, or $256 billion. The share of Ba-rated bank facilities has steadily fallen since 2013. By contrast, bond ratings are shifting higher. Of five-year bond maturities, 41% or $186 billion are rated in the Ba category, up from 37% last year. This is the highest absolute amount and percentage, historically. B-rated five-year bond maturities are 38% of the total, about the same as last year, and Caa or lower rated maturities fell to 21% from 26%.
- **The pull-forward effect increases maturities through 2021 for bank credit facilities by 74% to $258 billion, from $148 billion**. Pull-forward occurs when companies concurrently refinance several debt maturities in a single bank credit agreement at the time the first instrument comes due.
- **Companies at risk of falling to speculative grade from investment grade only have $13 billion of bonds maturing through 2023**. However, their total outstanding debt is much larger, at $102 billion, and could drive an increase in longer-term speculative grade refinancing needs. Potential crossovers include Ford Motor Co., Newell Brands, Motorola, Buckeye Partners, Symantec, and Block Financial.
- **The Telecommunication, Media and Technology sector continues to carry the highest debt burden**. The sector accounts for 27%, or $281 billion, of debt. Telecommunications, one of two US industries with a negative outlook, has $68 billion of debt due over the next five years. However, there are more debt maturities for industries with positive outlooks compared to last year's study. Among industries with positive outlooks, retail has the most debt outstanding at $70 billion.

About this report

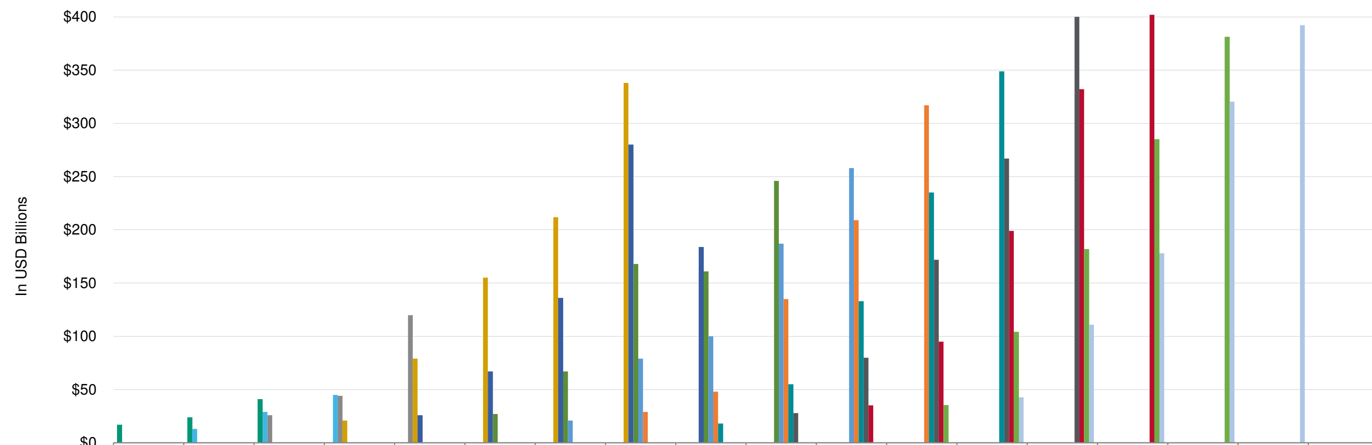
This is our 21st annual report on refunding risks and needs for issuers and investors in the US corporate high-yield bond, convertible-bond, and leveraged-loan markets. This study includes debt securities rated by Moody's corporate finance group, denominated in US dollars and issued by US-based companies. The information is sourced as of November 2018. There may be slight rounding differences between the charts and text. This study includes 2,355 rated speculative-grade non-financial instruments that mature during 2019-23. This report includes the full face amount of the revolver, not just the amount drawn.

Over $1 trillion of speculative-grade debt maturing through 2023 amid worsening refinancing conditions

US speculative-grade companies have $1.044 trillion of debt maturing over the 2019-2023 period, compared with $988 billion last year covering 2018-2022 maturities. Total maturities are up 6% and are slightly below the record $1.063 trillion set in the 2017 study (see Exhibit 2).

Exhibit 2

Refunding needs for 2019-2023 near record



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Totals
2007 Study	$17	$24	$41															$82
2008 Study		$13	$29	$45														$86
2009 Study			$26	$44	$120													$190
2010 Study				$21	$79	$155	$212	$338										$805
2011 Study					$26	$67	$136	$280	$184									$693
2012 Study						$27	$67	$168	$161	$246								$668
2013 Study							$21	$79	$100	$187	$258							$645
2014 Study								$29	$48	$135	$209	$317						$737
2015 Study									$18	$55	$133	$235	$349					$791
2016 Study										$28	$80	$172	$267	$400				$947
2017 Study											$35	$95	$199	$332	$402			$1,063
2018 Study												$36	$104	$182	$285	$381		$988
2019 Study													$43	$111	$178	$320	$392	$1,044

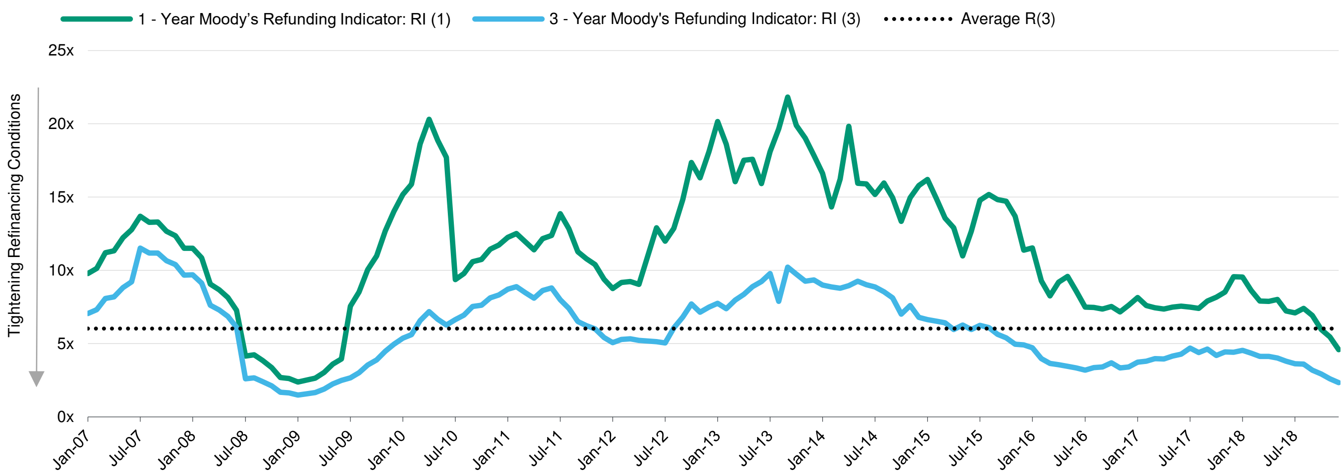
Source: Moody's Investors Service

Both speculative-grade bank and bond maturities rose, reflecting debt due in 2023 rolling into our five-year window. Bank maturities expanded faster posting a 9% increase, to $589 billion, while bonds climbed slower at 2% to a record $455 billion. Bank maturities continue to represent a higher proportion of maturing debt, 56%, versus 44% for bonds. The share of bank facilities increased marginally compared to last year, but is down from a high of 61% of the total in our 2016 study.

The rise in US speculative-grade maturities to over $1 trillion follows a drop in bond and bank issuance in 2018, increasing refinancing risk. US speculative-grade bond issuance fell 43% in 2018 to $173 billion, the lowest level since 2009. No high-yield bonds sold in the month of December, the first barren month since November 2008, according to Dealogic. As a result, bond refinancing risk — as measured by our Three-Year Refunding Indicator for December 2018 — is the highest since May 2009. The indicator, which measures the market's ability to absorb upcoming bond maturities though new bond issuance, ended 2018 at 2.3 times, down 47% year-on-year and 61% below its long-term average of 6 times.

Exhibit 3

Three-year Refunding Indicator shows greatest risk since May 2009



Source: Moody's Investors Service

The Indicator does not capture how some companies that typically issue bonds are shifting to the loan market instead. While the leveraged loan issuance declined 11% to $1.3 trillion in 2018, it was still the second-highest on record, according to Dealogic. Nevertheless, a combination of lower high-yield bond issuance, record bond maturities, rising interest rates and widening spreads points to a more-challenging refinancing environment for issuers.

In December, we raised our US default forecast by 0.6% to 3.4% in 2019, reflecting recent widening of high-yield spreads, but the forecast rate is still low historically. The trailing 12-month US speculative-grade default rate finished the fourth quarter at 2.8%, down from 3.3% at the end of the previous quarter and 3.7% at the end of 2017.

While a rebound in high-yield issuance in 2019 would improve refinancing conditions, investors and companies face more difficult market conditions in 2019 as a result of lower global economic growth expectations, tighter credit conditions, and rising borrowing costs. If low high-yield bond issuance continues, refunding risk will increase and speculative-grade bond maturities could be pulled forward. We continue to expect more volatility in the high-yield market in light of uncertainty regarding: whether the US Federal Reserve will further increase rates, the ongoing US-China trade tensions, and other geopolitical issues such as Brexit.

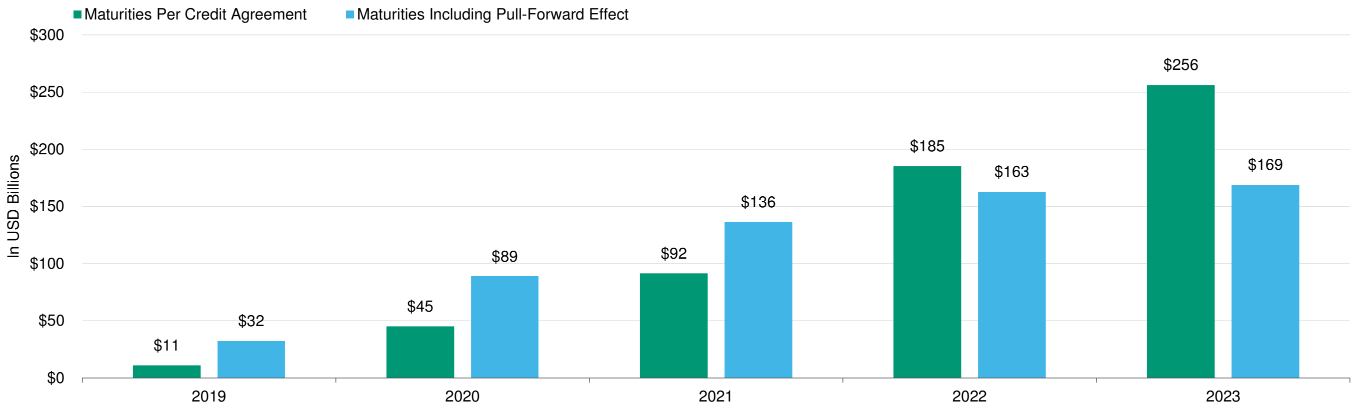
Near-term refinancing needs low, but can increase due to pull-forward effect

In line with historical trends, most debt matures at the end of our five-year window, though bond refinancing needs shifted forward somewhat and debt that matures in the first year of our report has also increased. About 68% of debt within our five-year window, or $713 billion, matures in 2022 and 2023, peaking in 2023 at $392 billion. Bank maturities are back-end loaded, peaking in 2023 at $256 billion, but bond refinancing needs shifted marginally forward. Bond maturities are roughly equal in 2022 and 2023, at $135 billion and $136 billion respectively, which differs from last year's study when they peaked in the final year of the five-year window.

Near-term spec-grade refinancing risk is low, with companies having to refinance just $43 billion of debt in 2019. That is only 4% of the total, but the highest absolute amount we have seen in the first year of our five-year window. Companies have to refinance $111 billion in 2020 (11% of the total), and $178 billion in 2021 (17%). However, companies typically begin to address maturities early. This trend is amplified by a pull-forward effect — when companies concurrently refinance several debt maturities in a single bank-credit agreement at the time the first instrument comes due. We estimate the pull-forward effect could increase near-term bank credit maturities by 74% to $258 billion through 2021, from $148 billion (see Exhibit 4).

Exhibit 4

Pull-forward effect increases 2019-2021 maturities of bank facilities



Source: Moody's Investors Service

Rating quality of bank debt declined, but bond quality is higher

Almost half of bank loan facilities maturing over the next five years, or $289 billion, are in the single-B rating category based on instrument ratings, up from 45% last year and the highest share since we began tracking the data. Consequently, higher rated Ba-rated bank facilities have declined to 43% of the total, or $256 billion. The share of Ba-rated bank facilities has fallen steadily since our 2013 study, in part due to the decline of subordinated debt in the capital structure and an increase in B-rated speculative issuers with loan-only capital structures. However, the share of the riskiest bank debt, rated Caa and lower, fell to just 8% of five-year maturities, or $45 billion. While Ba- and B-rated bank debt maturities are back-ended, the bulk of debt rated Caa and below matures in 2020, 2021 and 2022, pointing to higher near-term refinancing risk for these instruments (see Exhibit 5.)

Exhibit 5

More near-term maturities for loans rated Caa1 and lower

2019 Study	Ba	B	Caa or Lower
2019	14%	66%	20%
2020	27%	49%	24%
2021	36%	49%	16%
2022	43%	51%	6%
2023	51%	47%	3%
Grand Total	43%	49%	8%

2018 Study	Ba	B	Caa1 or Lower
2018	20%	59%	21%
2019	32%	43%	24%
2020	37%	44%	19%
2021	46%	48%	5%
2022	52%	44%	5%
Total	45%	45%	9%

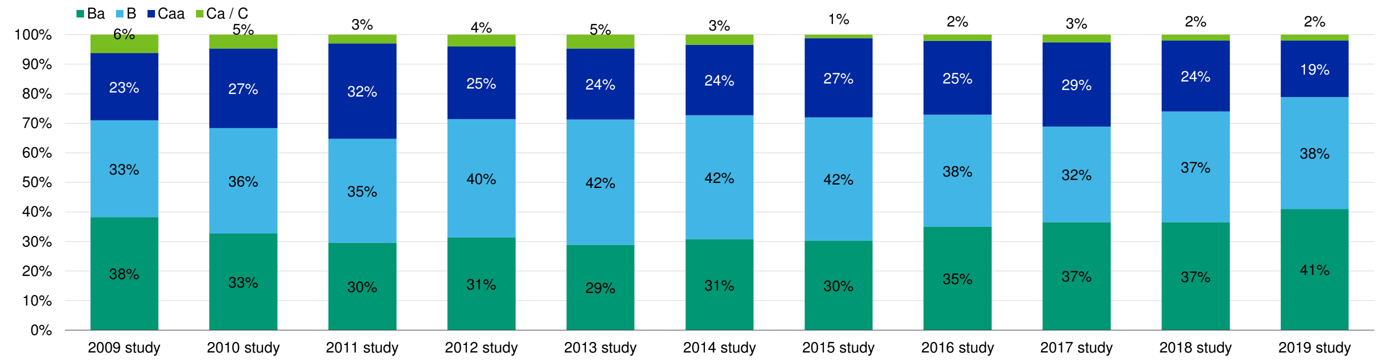
Data based on instrument ratings

Source: Moody's Investors Service

By contrast, bond ratings are shifting higher as more Ba-rated issuers included high-yield bonds in their capital structures and due to the inclusion of debt from fallen angels, such as, Xerox Corp. (Ba1 negative), which was downgraded to speculative grade from investment grade in December 2018. Of the five-year bond maturities, 41% or $186 billion are rated in the Ba category, up from 37% last year. This is the highest absolute amount and percentage, historically. Ba-rated bonds dominate near-term maturities, pointing to lower near-term refinancing risk for bonds compared to bank debt. B-rated five-year bond maturities are 38% of the total, roughly the same as last year, and Caa or lower rated maturities fell to 21%, from 26%. The bulk of bonds rated Caa or below matures in 2022 and 2023, peaking in 2022.

Exhibit 6

Spec-grade bond rating quality gradually improving



Data based on instrument ratings

Source: Moody's Investors Service

The share of Ba-rated bonds could increase if some of the investment-grade companies in the Crossover Zone were to fall to speculative-grade. Companies rated Baa3 with negative outlooks or under review for downgrade only have $13 billion of bonds maturing in the next five years. However, total outstanding debt for US potential fallen angels was estimated at a record $102 billion or roughly 8 percent of outstanding US corporate high-yield bonds, according to our Crossover Zone report, which could increase longer-term speculative-grade refinancing needs. Current potential crossovers with maturities in the next five years include Ford Motor Company (Baa3 negative), Newell Brands (Baa3 negative), Motorola Solutions, Inc. (Baa3 negative), Buckeye Partners, L.P. (Baa3 negative), Symantec (Baa3 RUR-Down), and Block Financial LLC (Baa3 negative).

Economy still solid, but moderating

The current US economic expansion will continue in 2019, to become the longest on record, according to Moody's Macroeconomic Outlook, which forecasts US GDP growth at 2.3% for 2019, moderating from an estimated 2.9% for 2018. The robust economic environment in the US is supported by strong employment and solid consumer confidence.

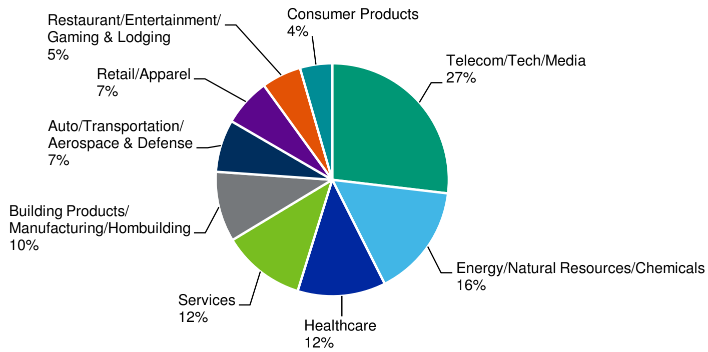
However, the economic performance has prompted the Federal Reserve to raise interest rates, which will drive up borrowing costs further in 2019. Speculative-grade companies with lower ratings and less liquidity will face greater risks in a year when we forecast wider spreads and higher market volatility.

There are also risk factors to the solid economic picture, including the withdrawal of accommodative monetary policies; trade tensions, particularly between the US and China; and reduced global growth expectations.

Telecom/Tech/Media issuers dominate maturities, US Telecom sector faces negative outlook

The Telecommunication/Technology/Media sector accounts for 27% or $281 billion of debt, followed by companies in Energy/Natural Resources/Chemicals industries with $164 billion and Healthcare with $128 billion. These are the sectors that have long dominated speculative-grade maturities.

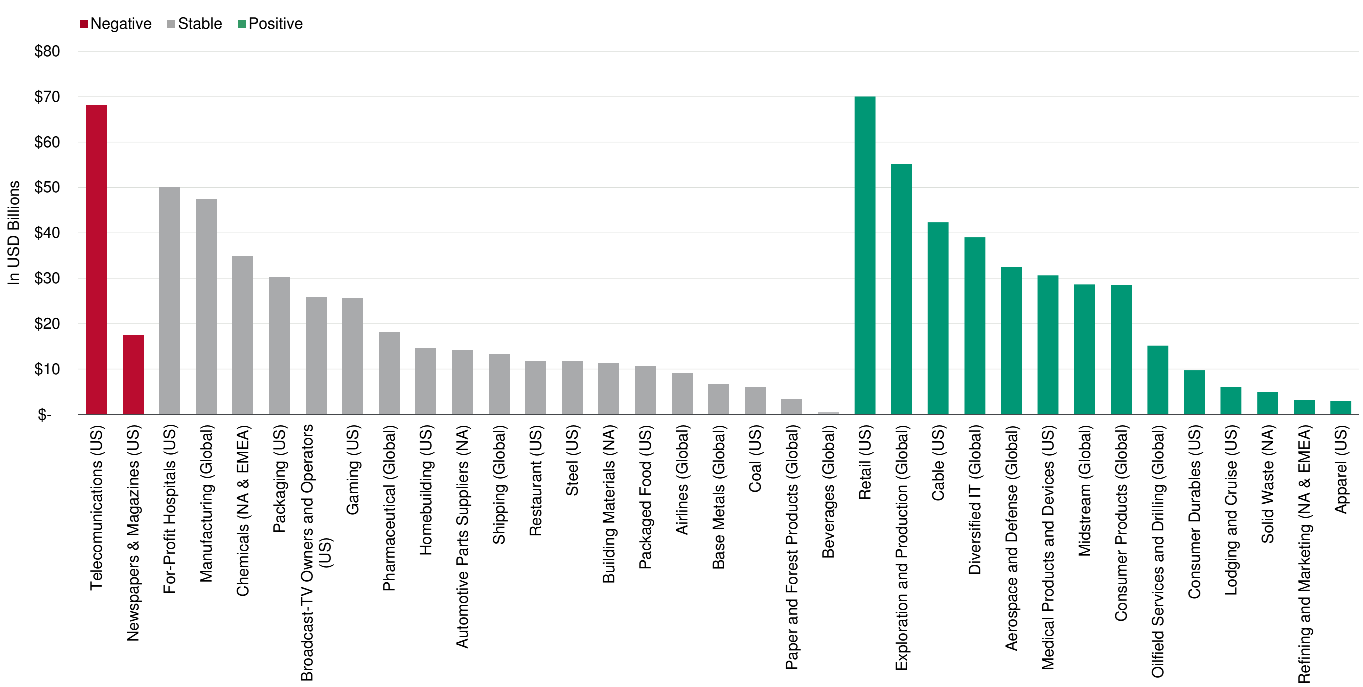
Exhibit 7
Spec-grade debt maturities by broad industry group



Source: Moody's Investors Service

The US Telecommunications sector is one of two industries with a negative outlook and has $68 billion of debt due over the next five years. The other is Newspapers and Magazines with $18 billion. However, there are more debt maturities in industries with positive outlook for this year's study compared to last year. Among industries with positive outlooks, Retail has the most debt at $70 billion (see Exhibit 8.)

Exhibit 8
Vast majority of debt is in industries with stable or positive outlooks



Source: Moody's Investors Service

Moody's related publications

- Refunding Risk and Needs 2018-2022: Speculative-Grade Corporations – US
- Refunding Risk and Needs 2018-2022: Investment-Grade Corporates – US
- Refunding Risk and Needs 2018-2022: Non-Financial Corporations – Canada
- US Leveraged Finance: Refunding Indicator - Three-year refunding risk highest since 2009
- Moody's Refunding Indicator: Frequently Asked Questions
- Crossover Zone - Potential rising stars hit 5-year high, potential fallen angels debt load rises
- December 2018 Default Report

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