Focus

The 2020 European debutante ball

Debut issuers attracted particular attention in European IG last year due to the high number of large multi-tranche deals. 2019 debutantes were overwhelmingly US companies in €-IG and UK housing associations in £-IG. We expect more first time issuers from both groups in 2020, and screen for likely candidates.

| FOCUS

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Debut €-IG issuers, which we define as companies issuing index-eligible €-IG corporate bonds for the first time, are an important component of annual supply and therefore index growth. Over the past five years, debutantes have accounted for around 30% of the growth of the €-IG index (Figure 1).

This theme remained true in 2019. The €-IG market saw €52.4bn of index-eligible supply from 39 debut issuers. In volumes, this was the second largest year of €-IG supply from first-time issuers in the last decade (Figure 2). Interestingly, while the volume of issuance was only a little lower than its peak in 2016, the number of debut issuers was considerably lower. We think this explains why debut issuers garnered so much attention last year. While it was neither a record year for the number of new companies issuing €-IG corporate bonds for the first time, nor for the amount that they issued, the size of the average deal was unusually large. Debut issuers have been coming to the market with larger bonds and multi-tranche deals , not just testing the waters of investor demand with smaller sized bonds. This suggests greater tolerance from €-IG investors for new issuers and an improved market depth versus prior years.

For full details on our methodology for calculating debut issuance volumes, please see the final section of this report.

Please see analyst certifications and important disclosures beginning on page 11 .

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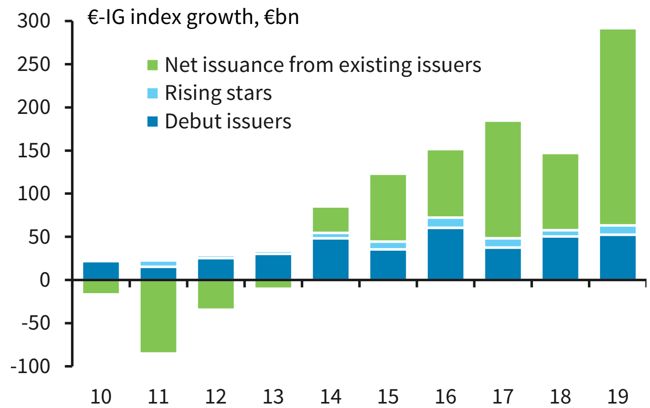
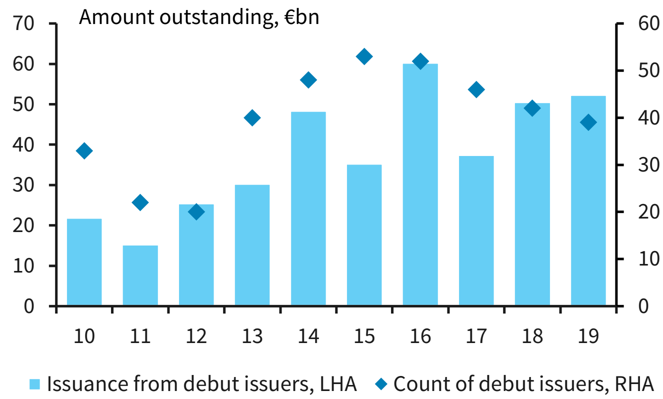
FIGURE 1. **Debut issuers have been responsible for 30% of €-IG index growth over the past five years**



We define debut issuers as companies issuing benchmark size €-IG bonds which did not previously have €-IG benchmark size corporate bonds outstanding.
Source: Bloomberg, Barclays Research

FIGURE 2. **2019 saw c.€52bn of supply from debut €-IG issuers**

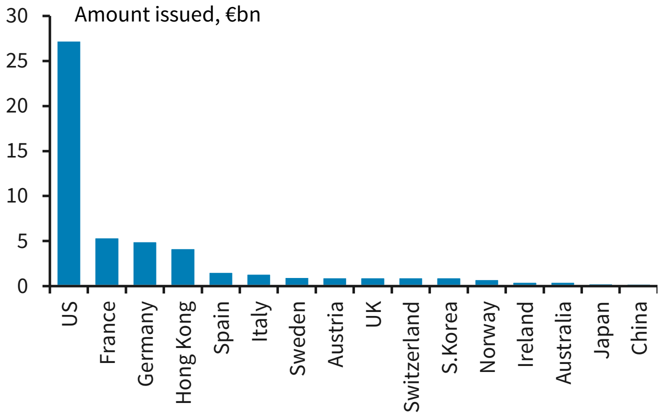


Index-eligible issuance per year from companies which did not previously have €-IG index-eligible corporate bonds outstanding.
Source: Bloomberg, Barclays Research

In Figure 3 to Figure 6, we breakdown 2019 €-IG supply from debut issuers by tenor, rating, country and sector in an attempt to identify key themes. Based on these figures, our main findings are that:

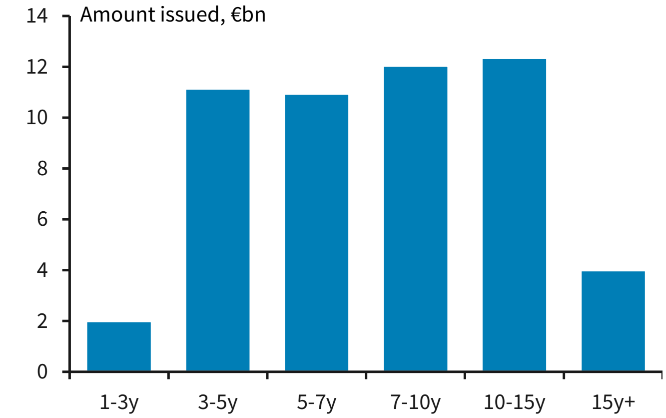
- US companies made up more than half of 2019 debut issuance, with no other country contributing more than 10% of overall debut issuance volumes (Figure 3). This is the highest volume of debut issuance from US companies this decade and compares to an average annual contribution to total debut issuance of 36% since 2013, when US companies really started making use of the euro corporate market.
- A considerable amount of debut bonds were issued at longer tenors; with close to a third of new bonds issued with 10 years or more to maturity (Figure 4). For context, just 9.1% of the €-IG index is made up of 10y+ bonds.
- The majority of bonds from new issuers were rated A- and BBB flat (Figure 5).
- Debut issuers came from a broad range of different sectors, though the two most represented were Consumer Non-Cyclicals and Technology (Figure 6). For Banking, new entrants to the unsecured €-IG market in 2019 could be partly explained by issuance towards meeting regulatory capital requirements, most notably MREL needs. As clarity around the sector's regulatory requirements improves, particularly in relation to the smaller, less systemic banks, we expect the trend of debut bank issuers to persist in 2020.

FIGURE 3. **€-IG supply from debut issuers in 2019, by country**



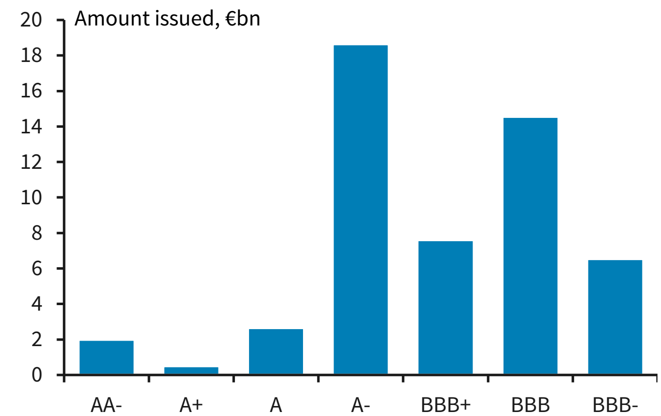
Source: Bloomberg, Barclays Research

FIGURE 4. **€-IG supply from debut issuers in 2019, by tenor**



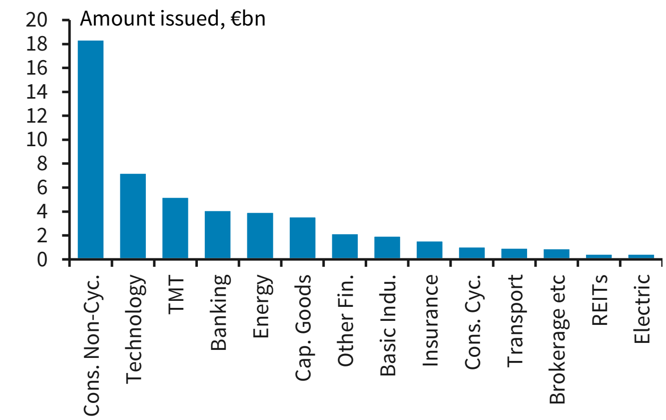
Source: Bloomberg, Barclays Research

FIGURE 5. **€-IG supply from debut issuers in 2019, by rating**



Source: Bloomberg, Barclays Research

FIGURE 6. **€-IG supply from debut issuers in 2019, by sector**



Source: Bloomberg, Barclays Research

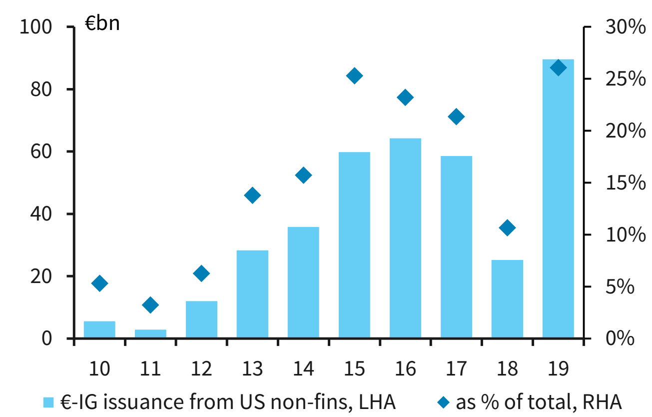
Aside from general risk appetite and the rally in spreads, several factors helped the market absorb larger longer-dated deals from first-time issuers in 2019. In particular, the fact that almost half of the debut supply came from large US companies with European revenues that were already familiar to investors in the $-IG market (Figure 9).

More debut Reverse Yankees to come

Heavy euro-denominated supply from US companies was not specific to debut issuers in 2019; US companies made up a record 26% of overall €-IG non-financial supply (Figure 7), after being largely absent from the market in 2018, mainly thanks to the passage of US tax reform (US issuers love cheap euro tranches, 31 May 2019). We think this reflects the cheapness of funding in €-IG. Whilst the all-in cross-currency hedged cost of funding did favour euros for the majority of the year, we think that the majority of Reverse Yankee issuance was driven by the low all-in yield that can currently be achieved in the €-IG market (Figure 8). Though hedging activity is opaque, anecdotally, many US companies issuing in euros are choosing not to hedge their FX risk and are instead relying on natural hedges from euro-denominated revenues. Given the continued large differential between €- and $-IG yields, the euro market continues to look cheap from a US issuer's perspective (European credit supply outlook for 2020, 15 November 2019).

Not only does the €-IG market look cheap from a US issuer's perspective, but there are also now plenty of examples of issuers coming to the market with larger deals (both at an individual bond level and across multi-tranche deals) and longer tenors. In 2019, the €-IG market saw 23 20y bonds issued and, more unusually, eight 30y bonds, the first time the 30y segment of the market has been open since 2015. Though we do not think these longer-dated bonds have as much natural demand from domestic investors as in the £-IG and $-IG markets (Six 30y bonds don't make a trend, 11 October 2019), we think there are enough pockets of demand from overseas buyers and yield-driven investors to allow the €-IG market to digest slightly more longer-dated debt.

FIGURE 7. **US companies made up a record share of €-IG non-fin supply in 2019...**



Source: Dealogic, Barclays Research

FIGURE 8. **...which we expect to continue given the large differential between €- and $-IG yields**

Source: Bloomberg, Barclays Research

Examining the US issuers that came to the €-IG market last year, we find that they are all large US companies; all but one had existing $-IG bonds outstanding at the end of 2018 and all but one have some €-denominated revenues, even if reporting makes it hard to see their exact revenue exposure to the region (Figure 9). A priori, these are the characteristics that we would expect to see for US companies issuing in €-IG to lock in cheaper funding costs by not hedging their FX risk ,and instead relying on their euro revenues as a natural hedge.

FIGURE 9. **US companies that issued index-eligible €-IG corporate bonds for the first time in 2019**

Ticker	Month of first issue	Number of bonds issued*	Amount issued (€bn)*	Sector	Index rating	Index-eligible $-IG bonds outstanding (end-18, mn)	European revenue exposure (%)
BSX	Nov-19	1	900	Healthcare	BBB	4,800	22
CL	Feb-19	4	2,000	Consumer Products	AA-	3,700	15
COF	Jun-19	2	1,250	Banking	BBB+	23,385	Negligable
EEFT	May-19	1	600	Technology	BBB	-	35
EMR	Jan-19	3	1,500	Div Manufacturing	A	2,100	17
FISV	Jun-19	3	1,500	Technology	BBB	4,850	<10
HOG	Nov-19	1	600	Automotive	BBB+	3,400	16
KKR	May-19	1	650	Brokerage etc	A	2,000	See notes
MDT	Mar-19	10	11,250	Healthcare	A-	23,045	See notes
MMC	Mar-19	2	1,100	P&C	A-	4,950	18
MO	Feb-19	4	4,250	Tobacco	BBB	11,500	See notes
OMC	Jun-19	2	1,000	Media	BBB+	4,400	31
WLK	Jul-19	1	700	Chemicals	BBB	1,945	7

*Issuance over the course of 2019. Medtronic breaks down revenue into three segments: US; Non-US DM and EM. 31.5% of 2019 FY revenues were from non-US DM which includes Western Europe as well as Japan, Australia, New Zealand, Korea and Canada. While Altria (MO) does not have any EUR-denominated revenue at present, the EUR bond issuance was designated as a net investment hedge of its stake in Anheuser-Busch InBev (in which it has a 10.1% ownership stake). We estimate that Altria (MO) received EUR367mn in dividends in 2019 as a result of its equity stake in ABIBB. The magnitude of KKR's revenue exposure to Europe is unclear but they do have some European revenue exposure through their PE, credit, real estate and infrastructure businesses.
Source: Bloomberg, Barclays Research

Given our expectation for further debut €-IG bonds from US companies this year, we look for US companies with similar features to those that came to the €-IG market for the first time last year. In Figure 10, we therefore screen for US issuers that have euro-denominated revenue exposure, but that do not currently have any €-IG bonds outstanding. We restrict our screen to US companies that have at least $3bn of index-eligible $-IG bonds outstanding as larger, better-known companies should have more ability and desire to issue in multiple currencies. We also restrict our screen to US companies where Europe (ex UK) makes up at least 10% of total revenue exposure. Finally, we have removed companies where our US fundamental analysts believe the likelihood of €-IG issuance is low based on the companies' near-term funding needs.

FIGURE 10. US companies with European revenue exposure that do not currently have €-IG bonds outstanding

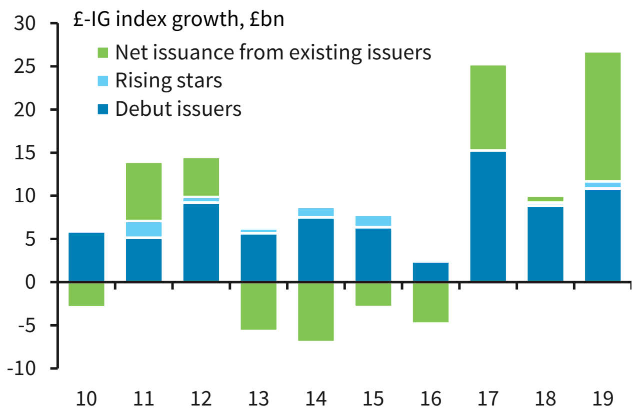
Ticker	Name	Amount of $-IG debt outstanding	Number of $-IG bonds outstanding	Sector	European Revenues
DIS	Walt Disney Co	27,836	37	Communications	12%
XOM	Exxon Mobil Corp	19,900	14	Energy	19%
QCOM	QUALCOMM Inc	13,000	8	Technology	12%
DOW	Dow Inc.	11,813	15	Basic Industry	35%
IP	International Paper Co	8,241	11	Basic Industry	14%
HPE	Hewlett Packard Enterprise Co	7,579	6	Technology	37%
EBAY	eBay Inc	5,600	7	Consumer Cyclical	15%
TXN	Texas Instruments Inc	5,350	8	Technology	21%
COL	Rockwell Collins Inc	5,150	6	Capital Goods	19%
GLW	Corning Inc	4,675	9	Technology	12%
EL	Estee Lauder Cos Inc	4,000	8	Consumer Non-Cyclical	43%
SPGI	S&P Global Inc	3,698	6	Communications	25%
GOOGL	Alphabet Inc	3,680	3	Technology	33%
STX	Seagate Technology	3,671	6	Technology	16%
ADI	Analog Devices Inc	3,600	6	Technology	23%
NKE	NIKE Inc	3,500	5	Consumer Cyclical	25%
SWK	Stanley Black & Decker Inc	3,054	6	Capital Goods	26%

Note: We have excluded companies from the screen that do not break out European revenues in company filings. In addition, we have included European revenue percentages for companies that include European revenues with other regions.
Source: Factset, Bloomberg, Barclays

£-IG: Same same, but different

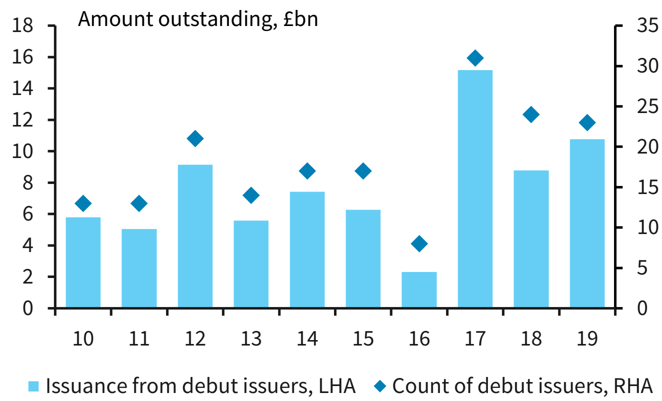
The importance of debut issuers is not constrained to the €-IG market. Last year, debut issuers were responsible for over 40% of £-IG index growth and in 2018, the index would have barely grown had it not been for significant issuance from first-time issuers (Figure 11). 2019 saw £10.9bn of supply from debut issuers, lower than the peak in 2017 of £15.3bn but an increase versus 2018 and well ahead of the post-2010 average of £7.7bn (Figure 12).

FIGURE 11. **Debut issuance is equally important for £-IG index growth as €-IG**



We define debut issuers as companies issuing benchmark size £-IG bonds which did not previously have £-IG benchmark size corporate bonds outstanding.
Source: Bloomberg, Barclays Research

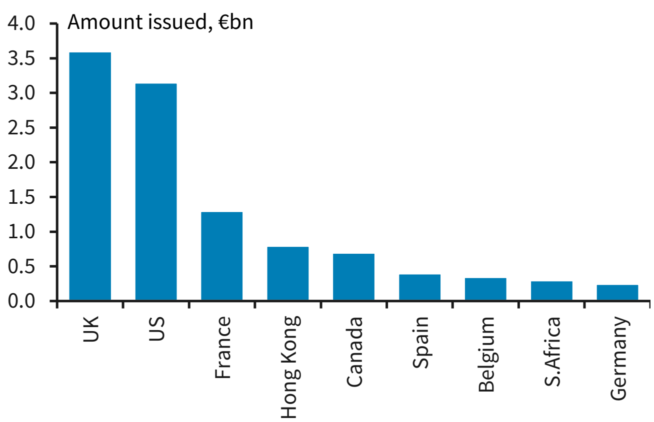
FIGURE 12. **2019 saw c.£11bn of supply from debut £-IG issuers**



Index-eligible issuance per year from companies which did not previously have €-IG index-eligible corporate bonds outstanding.
Source: Bloomberg, Barclays Research

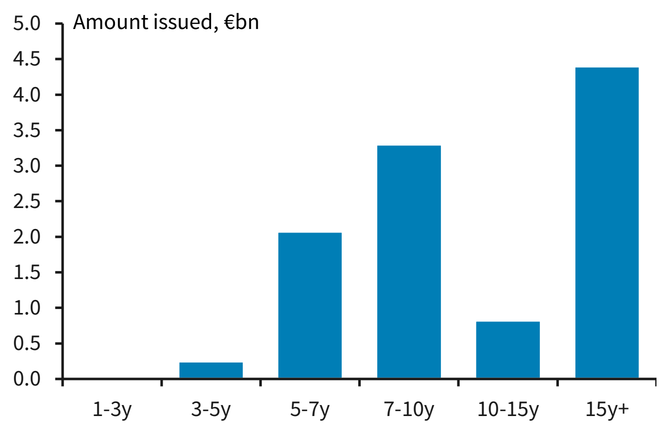
In Figure 13 to Figure 16, we break down 2019 £-IG supply from debut issuers by tenor, rating, country and sector. We see that, unlike in €-IG, 2019 debut issuance was not driven primarily by US companies. Instead, the majority of new issuance came from UK Housing Associations (HA, classified as Other Financials).

FIGURE 13. **£-IG supply from debut issuers in 2019, by country**



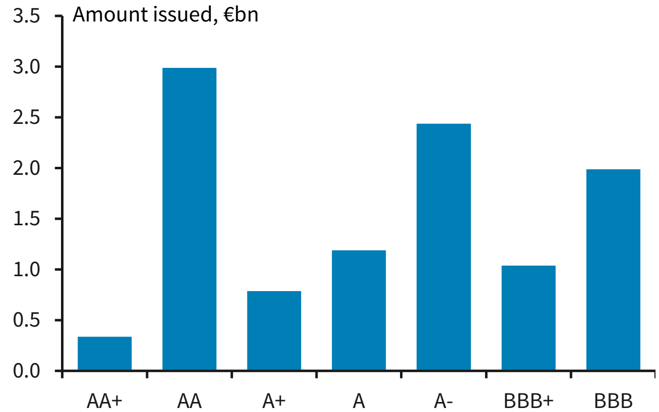
Source: Bloomberg, Barclays Research

FIGURE 14. **£-IG supply from debut issuers in 2019, by tenor**



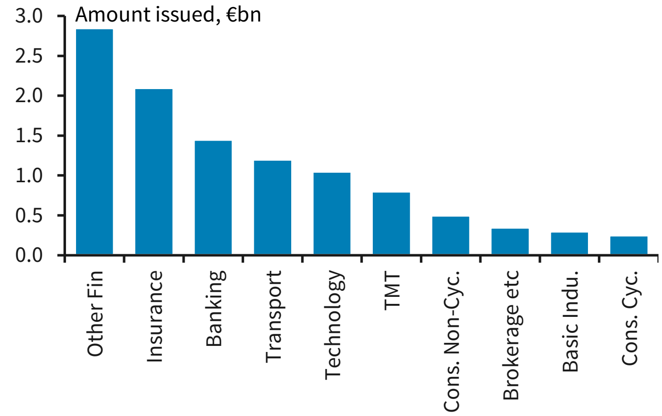
Source: Bloomberg, Barclays Research

FIGURE 15. **£-IG supply from debut issuers in 2019, by rating**



Source: Bloomberg, Barclays Research

FIGURE 16. **£-IG supply from debut issuers in 2019, by sector**



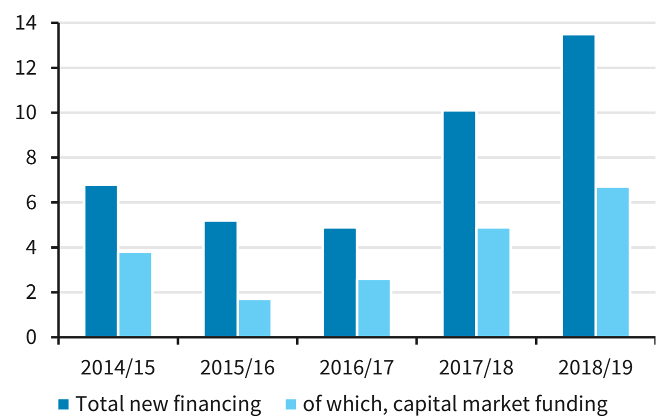
Source: Bloomberg, Barclays Research

UK Housing Associations (HA) may see further debutantes in 2020

We see several reasons why numerous HAs accessed the £-IG senior bond market for the first time last year. As mentioned in our report UK Housing Associations: Building on solid foundations, the political rhetoric in the country is supportive of increased house building, with the current government having pledged to deliver a million homes over the next five years. Thus, debt needs are expected to increase and Moody's expects debt to rise from £41bn in FY 19 to £48bn in FY 21.

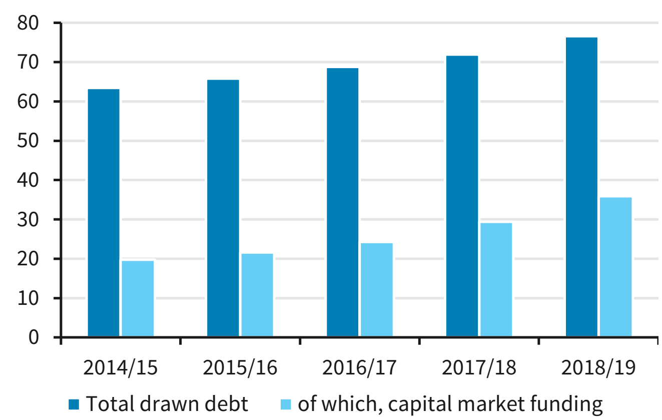
In addition, the Regulator for Social Housing (RSH) has encouraged merger activity to consolidate a highly fragmented industry with numerous registered providers of social housing managing fewer than 1,000 properties. This has led to the creation of larger HAs, which are able to access the capital markets. We have seen a pick up in debt as well as in accessing capital markets over the past two financial years (Figure 17 and Figure 18).

FIGURE 17. **New financing facilities (£bn)**



Includes undrawn amounts.
Source: Quarterly survey of private RPs (RSH)

FIGURE 18. **Outstanding debt (£bn)**



Source: Quarterly survey of private RPs (RSH)

To that effect, we saw a number of debut issuers in the £-IG market in 2019: Accent Group, Futures Housing Group, Home Group, Incommunities Group, LiveWest Homes, The Wrekin Housing Group, as well as a new aggregator, MORHomes. We attempt to spot the drivers for these issuers and screen for potential debut issuers in 2020 or the near future.

M&A activity

We think M&A is a strong driver for accessing markets, owing to the larger size of the combined entity. For example, LiveWest was formed from the merger of Knightstone Housing Group and Devon and Cornwall Housing in March 2018 to create an entity managing 36,000 homes. It accessed the market as a combined entity in October 2019, issuing a £250mn bond due 2042. Similarly, Karbon Homes, which issued for the first time in 2018, was a new entity created out of the merger of Isos Housing and Cestria Community in April 2017. We therefore screen for recent merger activity to flag entities that may look to issue debt in the public markets in 2020 (Figure 19). We have not flagged the merger between Radian and Yarlington as the combined entity is retained as Radian, which already has traded debt outstanding. This is also the case with the merger between Catalyst and Aldwyck (where Catalyst has existing traded debt).

FIGURE 19. **Potential debut issuers due to recent mergers**

Combined Entity	Merging entities	Timeline	Units managed
Anchor Hanover	Anchor Trust, Hannover Housing	Completed in Nov 2018	54000
Platform Housing	Fortis Living, Waterloo Housing	Completed in Oct 2018	45000
Torus62	Torus62, Liverpool Mutual Homes	Completed in Jan 2019	38000
Jigsaw Homes	Adactus Housing, New Charter Housing	Completed in Apr 2018	33000
Flagship Housing	Flagship Housing, Victory Housing, Suffolk Housing	Victory merged in Jan 2019, Suffolk to complete in Feb 2020	30000
Vivid Housing	First Wessex, Sentinel Housing	Completed in mid 2017	28000
The Housing Plus Group	The Housing Plus Group, Stafford & Rural Homes	Completed in Oct 2019	18000
Connexus Housing	Connexus Housing, Herefordshire Housing	Completed in Aug 2017	10000
Mosscare St. Vincent's Housing	Mosscare Housing, St Vincent's Housing	Completed in May 2017	8000
Link Group	Link Group, Blackwood Homes	Merger talks	~15000
n/a	Colne Housing, Greenfields Community Housing	Merger talks	~12000

Source: Company statements, Inside Housing news

Size of the housing association

Of the top 25 UK HAs by turnover as of FY 17/18, only five did not have traded bonds at the start of 2019, and two of the five issued debut debt in 2019, Home Group and LiveWest. One would expect that larger entities would have better access to capital markets due to their ability to issue benchmark bonds. Therefore, we screen for HAs that have not yet issued public debt but figure in the top 25 HAs by turnover, operating surplus or number of social housing units managed as of FY 18/19 (Figure 20).

FIGURE 20. **Potential debutante issuers due to size of the entity (as of FY 18/19)**

Housing Association	Group Turnover (mn)	Op. Surplus (mn)	Units managed	Comparison
Anchor Hanover Group	£526.4	£56.9	42,312	7th in turnover
Home Group	**£367.3**	**£86.2**	**49,834**	**Debutant in 2019**
Platform Housing	£273.6	£109.2	42,759	12th in surplus
Network Homes	£255.9	£96.2	17,657	15th in surplus
Vivid Housing	£250.2	£106.9	27,847	13th in surplus
LiveWest Homes	**£232.9**	**£81.5**	**34,650**	**Debutant in 2019**
One housing Group	£213.3	£46.2	13,080	25th in turnover
Torus62	£193.7	£53.0	37,446	19th in units managed
Jigsaw Homes	£180.3	£59.7	33,305	22nd in units managed
Thirteen Housing	£180.3	£34.8	32,877	23rd in units managed

Source: Company reports, RSH; we have included Home Group and LiveWest for comparison

Public rating may support future public issuance

Some recent debut issuers in the public markets have previously held public ratings to support private placement activity. For example, even though Home Group issued public debt for the first time in 2019, S&P has a rating history for the entity going back to 2009. Similarly, Moody's has had a public rating on LiveWest, which issued for the first time last year, since its creation in 2018. If investors are already familiar with an HA due to existing private placement investments, a debut issuer in the public market with benchmark issuance might find strong execution. We screen for all the publicly rated issuers by Moody's and S&P that do not have benchmark bonds currently (Figure 21). While Fitch also rates some UK HAs without publicly traded debt, the ratings as well as the entities remain private.

FIGURE 21. **UK HAs with public ratings, without publicly traded debt**

Housing Association	Group Turnover (mn)	Units managed	Public rating
Jigsaw Homes	£180.3	33,305	A2 (Moody's)
Flagship Housing	£155.7	27,307	A2 (Moody's)
Plymouth Community Homes	£80.2	14,304	A+ (S&P)
Radius Housing	£89.7	13,000	A1 (Moody's)
GreenSquare Group	£81.3	11,505	A- (S&P)
Connexus Housing	£60.4	10,208	A3 (Moody's)
Yarlington Housing	£63.9	10,099	A3 (Moody's)
Link Group	£67.1	10,000	A+ (S&P)
Newlon Housing	£80.3	7,035	A3 (Moody's)
Alliance Housing	£43.7	6,500	A1 (Moody's)
Silva Homes	£45.3	6,448	A+ (S&P)
Housing Solutions	£45.8	5,633	A+ (S&P)
Apex Housing	£50.7	5,000	A- (S&P)
Octavia Housing	£58.7	4,824	A+ (S&P)
Thrive Homes	£27.4	4,237	A (S&P)
B3 Living	£34.7	4,107	A3 (Moody's)
Colne Housing	£19.9	3,288	A (S&P)

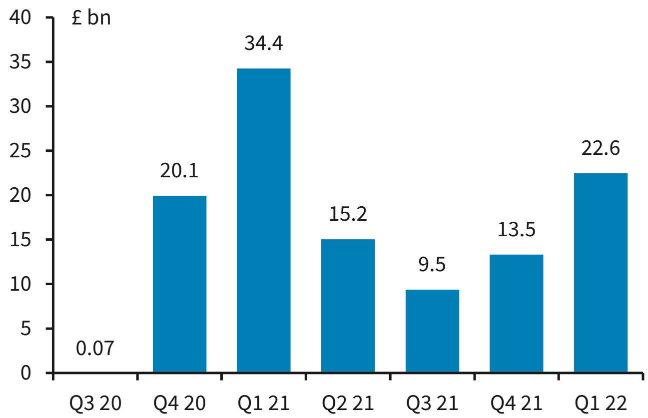
Source: Company reports, Moody's, S&P

Looking at the three screens, we see Anchor Hanover, which is the 4th largest UK HA by social housing lettings turnover and the only one in the top 10 that doesn't have benchmark issuance, as a very likely candidate, supported by its size and recent merger. On similar grounds, we believe Platform Housing is also very likely to issue. Among the smaller HAs, we think Jigsaw Homes, Connexus and Flagship Housing are more likely to issue due to their available public rating, in addition to M&A activity.

Upcoming TFS maturities could motivate debut issuance from UK banks

Smaller UK banks and building societies are also potential candidates for debut issuance this year. The Bank of England launched the Term Funding Scheme (TFS) in August 2016 (ending in February 2018) to offer UK financial institutions four-year funding at a low, attractive interest rate. As of 22 January, there was £107.9bn of TFS funding outstanding. A significant portion of those loans mature in Q4 20 and Q1 21 (Figure 22) and there are a number of UK banks and building societies with large drawings still outstanding that do not currently have benchmark £-IG senior debt outstanding (Figure 23). Although we think these banks and building societies would likely prefer to refinance the loans in the securitised or covered bond markets to achieve cheaper funding costs, at the margin some may issue sterling senior preferred debt, of which some may be benchmark size and therefore eligible for the £-IG index.

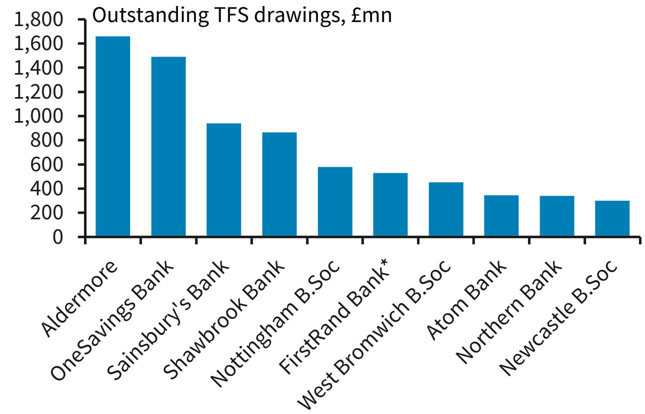
FIGURE 22. **TFS repayments are high in Q4 20 and through 2021**



Data only available as at end Q3 19 so totals do not sum to current funding outstanding which is updated on a weekly basis.

Source: BoE, Barclays Research

FIGURE 23. **UK banks and building societies with TFS drawings outstanding and without £-IG senior bonds outstanding**



We show those banks and building societies with more than £300mn of TFS loans outstanding that do not have benchmark-sized £-IG senior bonds outstanding. Data as at end Q3 19. *Owns Aldermore.

Source: BoE, Barclays Research

Calculating debut issuance volumes: our methodology

Debut issuance can be tricky to estimate without examining the index on a bond-by-bond level, making it very difficult to collate historical data. We therefore need a clear methodology that can be relatively quickly applied across a number of years. We calculate debut issuance volumes using the following process:

1. We take snapshots of the Bloomberg Barclays indices at each year-end since 2009 in order to calculate debut issuance volumes from 2010 onwards.

2. We check for tickers that are in the index as at a certain year-end that were not in the index as at the prior year-end, where the bonds were issued during that year. There are a number of reasons new tickers can appear besides issuance from new companies:

- Ticker change: we look for ticker changes by checking whether the issuer (by name rather than ticker) had bonds outstanding at the prior year-end. If it did then there has been a ticker change. Unfortunately index providers do not have historical records of this information.
- Upgrade from HY: we check whether the issuer had bonds outstanding in the HY index at the prior year-end. If it did then it is a rising star that has entered the IG index over the past year.
- The issuer had index-eligible debt outstanding in the past but this has now left the index: we check whether the issuer had bonds in the index at all prior year-ends.
- The issuer was given a new rating: we check that any new bonds were issued over the course of the year.

3. We assume that all other bonds have been issued by debut issuers.

We include all bonds issued by a debut issuer over the course of the year as debut issuance. This means that if a debut issuer comes to the market more than once during the year, all transactions count as debut issuance.

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