

Leverage stable, spreads more dispersed

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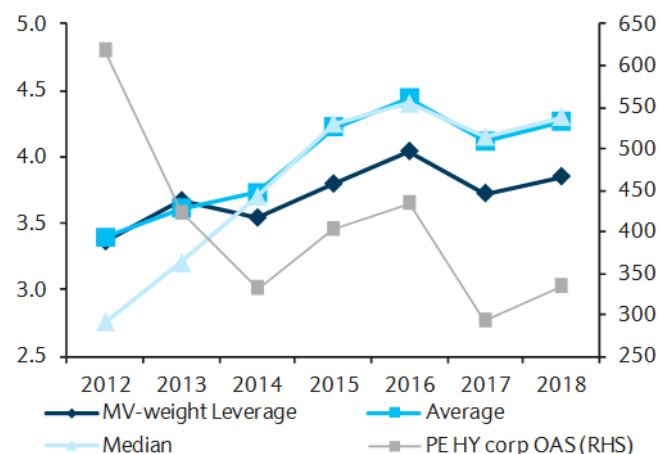
Using our fundamental analysts' estimates for issuers under coverage in the European high yield market, we find that leverage in aggregate has been broadly stable to slightly higher this year and that the dispersion of leverage has not risen by nearly as much as the dispersion of spreads. While leverage for most sectors was stable, transportation's increased by almost 1x, while autos fell by about 0.4x, though we flag fundamental headwinds ahead for the latter. Spread per turn of leverage for the market has risen from c. 80bp this time last year to c.90bp, driven by BB-rated bonds, which have seen aggregate spread per turn of leverage increase by 38bp to 102bp.

Leverage has been broadly stable

Using estimates from our analysts, we look at the market-weight average leverage for the European high yield corporate bond market. Excluding debt collectors, the coverage we have is about half of the total corporate bonds in our benchmark index (Bloomberg Barclays Pan-Europe High Yield ex-financials); we note that the average spread of the bonds whose issuer is covered by our analysts tracks the index spread very well (Figure 2).

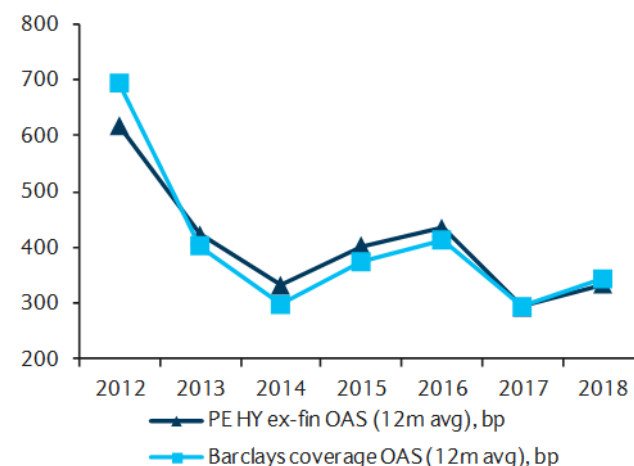
The market-weighted net debt/EBITDA is up slightly from 3.7x this time last year to 3.9x (note that our assumption is on the conservative end as we have assumed leverage for the entire entity applies to total bond outstanding in the index, including senior bonds). At the sector level (Figure 3 and Figure 4), we note that the slight increase has been driven largely by communications, whose leverage has increased slightly (but whose bonds comprise a third of those outstanding of the issuers we cover in the index). Outside telcos, leverage across most sectors with meaningful capital structures has been relatively stable, with the exception of transportation, whose aggregate leverage is up by almost 1x to 5.6x (a series that is historically volatile), and autos, where leverage has fallen by 0.4x in aggregate, though our analyst flags fundamental headwinds ahead in *European Autos & Auto Parts: Tougher EU targets to weigh on the sector*, 18 October 2018.

FIGURE 1
European high yield: leverage has been broadly stable to slightly higher in the past year for issuers under our coverage



Note: "PE HY corp" is the Bloomberg Barclays Pan Europe High Yield ex-financials index. Aggregate leverage is shown for issuers under Barclays Fundamentals Research Coverage (with bonds outstanding in the PE HY corp index as well as debt collectors). Source: Bloomberg Barclays Indices, Barclays Research

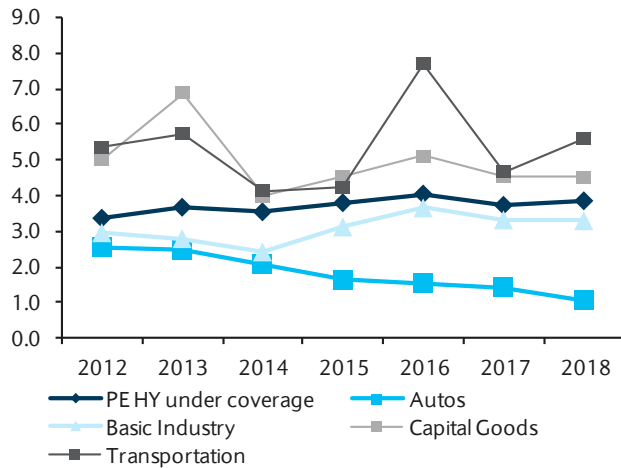
FIGURE 2
Average spread for issuers under our coverage tracks the PE HY ex-fin index very well



Source: Bloomberg Barclays Indices, Barclays Research

FIGURE 3

Leverage by sectors: lower in 2018 for autos but higher for transportation

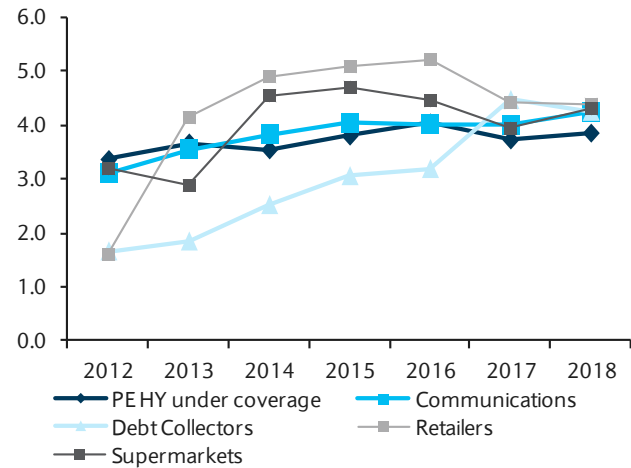


Note: Where 2018 estimates have not been published, net debt/EBITDA is the latest reported this year.

Source: Bloomberg Barclays Indices, Barclays Research

FIGURE 4

Leverage by sectors: slightly lower in 2018 for debt collectors but slightly higher for communications



Note: Retailers numbers are ex-New Look (given it reported negative EBITDA). Where 2018 estimates have not been published, net debt/EBITDA is the latest reported this year.

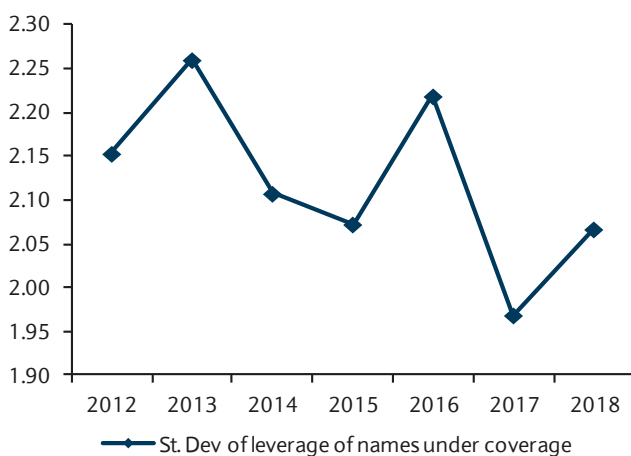
Source: Bloomberg Barclays Indices, Barclays Research

More spread dispersion than leverage dispersion

While the standard deviation of leverage for issuers in our universe has increased this year (Figure 5), we note that this hasn't been as dramatic as the increase in dispersion for spreads (Figure 6). The dispersion has also been exaggerated by Stena (2018 net debt/EBITDA of 15x), though at only 0.1% of the index, it has not affected the broad market-weight leverage in Figure 1.

FIGURE 5

European high yield: dispersion of leverage has widened in the past year...

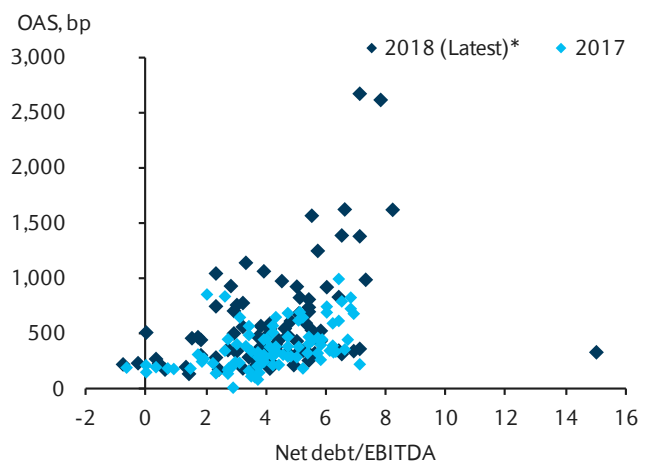


Note: Data shows the standard deviation of leverage for issuers under Barclays Fundamental Credit Research Coverage for bonds in the PE HY ex-fin index. Note that Stena (outlier at 15x in the next figure) has been excluded from the calculation.

Source: Bloomberg Barclays Indices, Barclays Research

FIGURE 6

...but less so than the dispersion of spreads



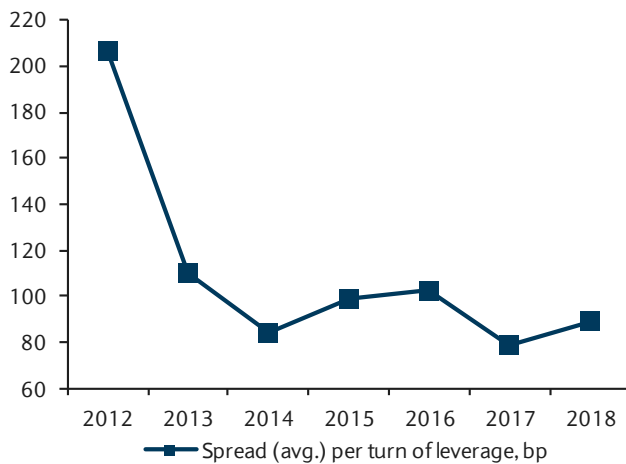
Note: 2018 leverage numbers uses analyst estimates where reported numbers are not available yet.

Source: Bloomberg Barclays Indices, Barclays Research

Spread per turn of leverage is more attractive now

Given the observations above, it is not surprising that the average spread per turn of leverage has broadly increased for European high yield from c. 80bp this time last year to c. 90bp currently (Figure 9), as it has for most sectors (Figure 8) with autos, gaming and other industrials offering the most spread per turn of leverage currently. Likewise, by rating buckets (Figure 10), we see that spread per turn of leverage has risen across rating buckets, but meaningfully for BB-rated issuers, which has gone up by 38bp since this time last year to 102bp per turn of leverage, almost similar to that for single B names at 108bp per turn of leverage.

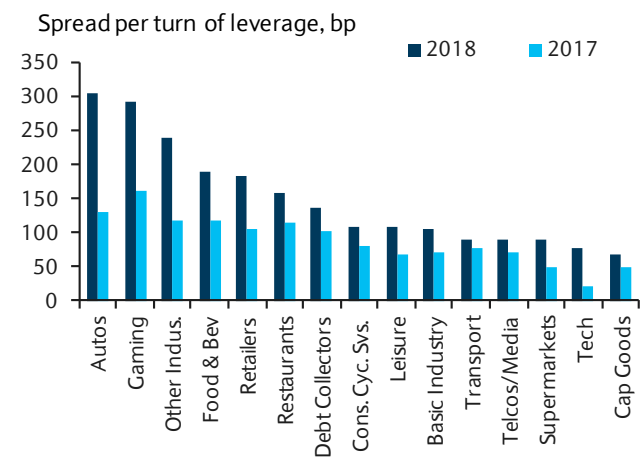
FIGURE 7
Barclays Credit fundamental high yield coverage: average spread (in the last 12m) per turn of leverage



Note: Where 2018 estimates have not been published, net debt/EBITDA is the latest reported this year.

Source: Bloomberg Barclays Indices, Barclays Research

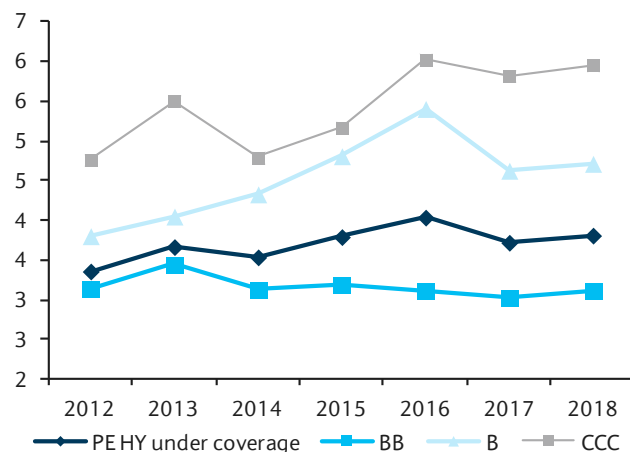
FIGURE 8
Average spread (in the last 12m) per turn of leverage, by sectors



Note: Where 2018 estimates have not been published, net debt/EBITDA is the latest reported this year.

Source: Bloomberg Barclays Indices, Barclays Research

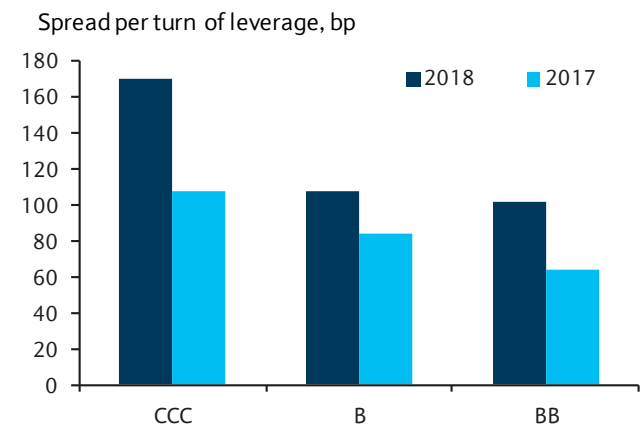
FIGURE 9
Leverage has been relatively stable across rating buckets...



Note: Universe for chart is the Barclays Fundamental Credit Research coverage for names in the PE HY ex-fin index *Hapag-Lloyd number was removed from 2014 average.

Source: Bloomberg Barclays Indices, Barclays Research

FIGURE 10
... though the spread per turn of leverage for BB has increased by 38bp



Note: Universe for chart is the Barclays Fundamental Credit Research coverage for names in the PE HY ex-fin index.

Source: Bloomberg Barclays Indices, Barclays Research

Positioning for the leverage theme

For investors concerned that we are in the late stage of the credit cycle and looking for relative safe havens, we screen for names under our coverage that have relatively low leverage (< 3x) with the most attractive spread per turn of leverage and where our analyst has an Overweight rating, in Figure 11.

For those looking for names to avoid or short, we screen for names that are levered (>5x) with the tightest spread per turn of leverage and where our analyst has an Underweight rating on the bond, in Figure 12.

FIGURE 11

PE HY: Least levered names with the most attractive spread per turn of leverage, and rated OW by our analysts

ISIN	Issuer	Security	2018 Net debt/ EBITDA	Avg. OAS/ Leverage	Index Rating	Price	OAS	YTW	Analyst Rating
1 XS1709298969	SHOP DIRECT FUNDING PLC	SHODFP 7 3/4	2.3	456	B2	88	1,049	11.5	OW
2 XS1857022609	OTE PLC	HTOGA 2 3/8 07/18/22	0.5	391	BA1	103	196	1.6	OW
3 XS1513765922	CODERE FINANCE 2 LUXEMBOURG	CDRSM 6 3/4 11/01/21	2.8	336	B2	94	940	8.9	OW
4 XS1554448271	NEMEAN BONDCO PLC	NEMEAN 7 3/8	2.3	325	B2	95	748	8.7	OW
5 XS1827600724	CHEMOURS CO LLC/THE	CC 4 05/15/26	1.5	303	BA3	95	455	4.8	OW
6 XS0161100515	OLIVETTI INTERNATIONAL BV	TITIM 7 3/4 01/24/33	3.0	171	BA1	119	514	5.7	OW
7 XS1698218523	TELECOM ITALIA SPA	TITIM 2 3/8 10/12/27	3.0	135	BA1	86	406	4.3	OW
8 XS1347748607	TELECOM ITALIA SPA	TITIM 3 5/8 01/19/24	3.0	122	BA1	100	366	3.5	OW
9 XS1551678409	TELECOM ITALIA SPA	TITIM 2 1/2 07/19/23	3.0	117	BA1	97	352	3.3	OW
10 XS0254907388	TELECOM ITALIA SPA	TITIM 5 7/8 05/19/23	3.0	114	BA1	105	343	4.5	OW

Note: Where 2018 estimates have not been published, net debt/EBITDA is the latest reported this year. Price and spreads are updated as of close on 14 November 2018.

Source: Bloomberg Barclays Indices, Barclays Research

FIGURE 12

PE HY: Most levered names with the least attractive spread per turn of leverage, and rated UW by our analysts

ISIN	Issuer	Security	2018 Net debt/ EBITDA	Avg. OAS/ Leverage	Index Rating	Price	OAS	YTW	Analyst Rating
1 XS0495219874	STENA AB	STENA 7 7/8 03/15/20	15.0	22	B3	107	328	2.6	UW
2 XS0997941355	K+S AG	SDFGR 4 1/8 12/06/21	5.4	34	BA2	108	184	1.4	UW
3 XS1028411152	LGE HOLDCO VI BV	ZIGGO 7 1/8 05/15/24	6.3	36	B3	106	225	1.6	UW
4 DE000A1PGZ82	K+S AG	SDFGR 3 06/20/22	5.4	41	BA2	104	224	1.8	UW
5 XS1120937617	HEATHROW FINANCE PLC	HTHROW 5 3/4 03/03/25	7.1	50	BA3	105	357	4.7	UW
6 XS1622694617	HEATHROW FINANCE PLC	HTHROW 3 7/8 03/01/27	7.1	50	BA3	93	357	4.9	UW
7 XS0953085114	VOUGEOT BIDCO PLC	VUECIN 7 7/8 07/15/20	6.9	56	B3	100	386	4.5	UW
8 XS1517169899	AUTODIS SA	AUTODI 4 3/8 05/01/22	5.1	76	B2	101	387	3.7	UW
9 XS1087780166	STRETFORD 79 PLC	ICELTD 6 3/4 07/15/24	5.8	84	B2	101	489	6.5	UW
10 XS1681806326	ICELAND BONDCO PLC	ICELTD 4 5/8 03/15/25	5.8	92	B2	90	534	6.6	UW

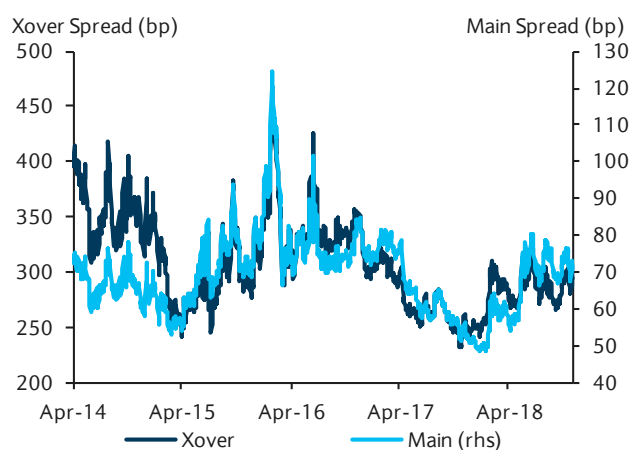
Note: Where 2018 estimates have not been published, net debt/EBITDA is the latest reported this year. Price and spreads are updated as of close on 14 November 2018.

Source: Bloomberg Barclays Indices, Barclays Research

HY credit at a glance

FIGURE 13

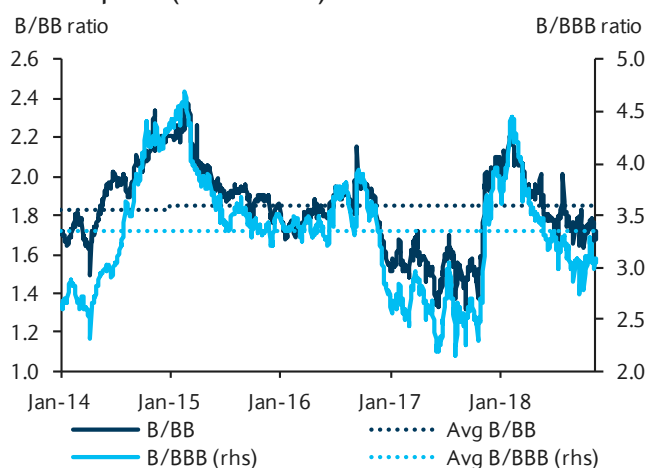
iTraxx Crossover vs. iTraxx Main



Please click [here](#) to see on Barclays Live.
Source: Markit, Barclays Research

FIGURE 15

Pan-Europe HY (ex-financials): B vs. BB and BBB ratios



Please click [here](#) to see on Barclays Live
Source: Bloomberg Barclays Indices, Barclays Research

FIGURE 17

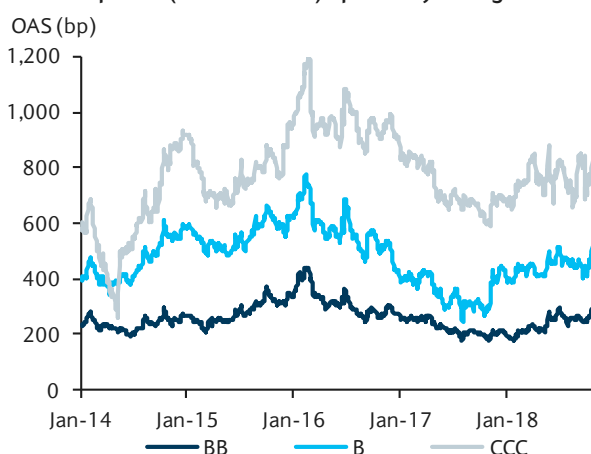
European HY issuance

Issuers:	All firms, in any European currency		European firms
Market:	Pan-European High Yield		US High Yield
Crncy:	€	£, CHF, other	\$
WTD	0.3	0.0	0.0
MTD	1.2	0.0	0.0
YTD	51.8	4.4	9.5
YoY	-25%	-66%	+60%
YTD '17	68.8	12.8	5.9

Source: S&P LCD, Bloomberg, Barclays Research Note: Supply in billion.

FIGURE 14

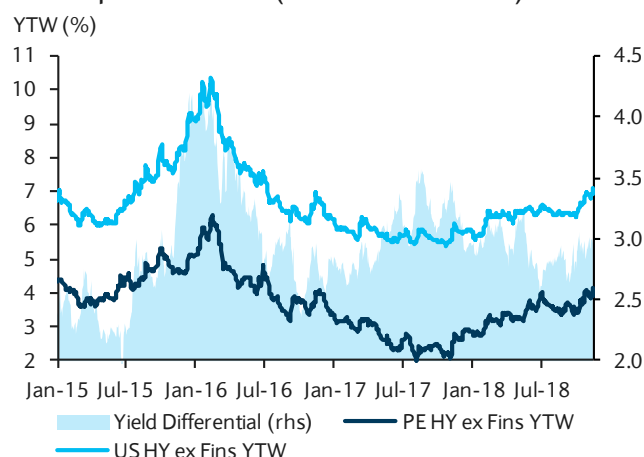
Pan-Europe HY (ex-financials) spread by rating



Please click [here](#) to see on Barclays Live
Source: Bloomberg Barclays Indices, Barclays Research

FIGURE 16

Pan-Europe HY vs. US HY (ex-financials for both)



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Source: Bloomberg Barclays Indices, Barclays Research

FIGURE 18

European HY issuance monthly trends

Issuers:	All firms, in any European currency				European firms	
Market:	Pan-European High Yield				US High Yield	
Crncy:	€		£, CHF, other		\$	
Year:	2017	2018	2017	2018	2017	2018
Jan	2.9	4.7	2.8	1.6		1.1
Feb	6.2	3.3	0.7	0.1	1.3	1.3
Mar	11.2	8.7	1.5	0.6	0.4	1.4
Apr	6.1	8.4	1.2	0.3		1.4
May	2.2	3.6	0.6	0.3	0.5	0.8
Jun	7.2	6.7	2.1		0.4	0.8
Jul	6.8	5.4	0.7		0.5	1.5
Aug		0.5				
Sep	9.1	6.6	1.8	1.3		0.6
Oct	13.0	3.0	1.1	0.3	2.6	0.4
Nov	7.8	1.2	0.5		1.1	
Dec	4.3		0.8		0.3	
Total	76.7	51.8	13.9	4.4	7.0	9.5

Source: S&P LCD, Bloomberg, Barclays Research Note: Supply in billion.

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AUTODIS SA, CD/J

AUTODI 4 3/8 05/01/22, Underweight (EUR 100.41, 14-Nov-2018)

CHEMOURS CO/THE, A/CD/CE/D/E/J/K/L/M/N

CC 4 05/15/26, Overweight (EUR 95.16, 14-Nov-2018)

CODERE FINANCE 2 LUXEMBOURG SA, CD/J

CDRSM 6 3/4 11/01/21, Overweight (EUR 94.20, 14-Nov-2018)

HEATHROW FINANCE PLC, CD/D/E/J/K/L/M/N

HTHROW 3 7/8 03/01/27, Underweight (GBP 92.89, 14-Nov-2018)

HTHROW 5 3/4 03/03/25, Underweight (GBP 105.19, 14-Nov-2018)

ICELAND BONDCO PLC, CD/J/K/N

ICELTD 4 5/8 03/15/25, Underweight (GBP 90.00, 14-Nov-2018)

ICELTD 6 3/4 07/15/24, Underweight (GBP 100.91, 14-Nov-2018)

K+S AG, CD/D/FA/J/K/L/M

SDFGR 3 06/20/22, Underweight (EUR 103.80, 14-Nov-2018)

SDFGR 4 1/8 12/06/21, Underweight (EUR 108.16, 14-Nov-2018)

NEWDAY BONDCO PLC, CD/J

NEMEAN 7 3/8 02/01/24, Overweight (GBP 94.54, 14-Nov-2018)

OTE PLC, CD/D/J/K/L/M/N

HTOGA 2 3/8 07/18/22, Overweight (EUR 102.68, 14-Nov-2018)

SHOP DIRECT FUNDING PLC, CD/D/J/L

SHODFP 7 3/4 11/15/22, Overweight (GBP 88.24, 14-Nov-2018)

STENA AB, CD/J/K/N

STENA 7 7/8 03/15/20, Underweight (EUR 106.60, 14-Nov-2018)

TELECOM ITALIA FINANCE SA, CD/D/E/J/K/L/M/N
TITIM 7 3/4 01/24/33, Overweight (EUR 119.02, 14-Nov-2018)

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TITIM 2 3/8 10/12/27, Market Weight (EUR 85.74, 14-Nov-2018)
TITIM 3 5/8 01/19/24, Overweight (EUR 100.73, 14-Nov-2018)
TITIM 5 7/8 05/19/23, Overweight (GBP 105.55, 14-Nov-2018)

VUE INTERNATIONAL BIDCO PLC, CD/J/K/M/N
VUECIN 7.875 07/15/2020, Underweight (GBP 100.09, 14-Nov-2018)

ZIGGO BOND CO BV, CD/D/J/K/L/M/N
ZIGGO 7 1/8 05/15/24, Underweight (EUR 106.21, 14-Nov-2018)

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sector to exceed the six-month excess return of the relevant index.

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For sectors rated against the Bloomberg Barclays U.S. High Yield 2% Issuer Capped Credit Index, the Bloomberg Barclays Pan-European High Yield 3% Issuer Capped Credit Index excluding Financials, the Bloomberg Barclays Pan-European High Yield Finance Index or the Bloomberg Barclays EM Asia USD High Yield Corporate Credit Index, the analyst expects the six-month total return of the sector to be in line with the six-month total return of the relevant index.

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For sectors rated against the Bloomberg Barclays U.S. High Yield 2% Issuer Capped Credit Index, the Bloomberg Barclays Pan-European High Yield 3% Issuer Capped Credit Index excluding Financials, the Bloomberg Barclays Pan-European High Yield Finance Index or the Bloomberg Barclays EM Asia USD High Yield Corporate Credit Index, the analyst expects the six-month total return of the sector to be less than the six-month total return of the relevant index.

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Overweight (OW): The analyst expects the six-month excess return of the issuer's index-eligible corporate debt securities to exceed the six-month expected excess return of the relevant sector.

Market Weight (MW): The analyst expects the six-month excess return of the issuer's index-eligible corporate debt securities to be in line with the six-month expected excess return of the relevant sector.

Underweight (UW): The analyst expects the six-month excess return of the issuer's index-eligible corporate debt securities to be less than the six-month expected excess return of the relevant sector.

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Overweight (OW): The analyst expects the six-month total return of the debt security subject to this rating to exceed the six-month expected total return of the relevant sector.

Market Weight (MW): The analyst expects the six-month total return of the debt security subject to this rating to be in line with the six-month expected total return of the relevant sector.

Underweight (UW): The analyst expects the six-month total return of the rated debt security subject to this rating to be less than the six-month expected total return of the relevant sector.

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Where a recommendation is made at the issuer level, it does not apply to any sanctioned securities, where trading in such securities would be prohibited under applicable law, including sanctions laws and regulations.

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Market Weight (MW):

The analyst expects the six-month excess return of the country's index eligible bonds to be in line with the six-month excess return of the Bloomberg Barclays EM USD Sovereign Index.

Underweight (UW):

The analyst expects the six-month excess return of the country's index eligible bonds to be less than the six-month excess return of the Bloomberg Barclays EM USD Sovereign Index.

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