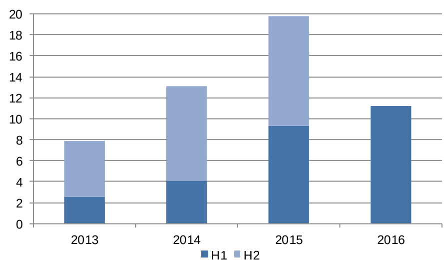
Schuldschein Market Well on Track to New Records

At over 40 transactions with a volume of more than EUR 11bn in H1 2016, the market for corporate 'Schuldschein' (SSD) is on a good way to match the placement volume in 2015 of roughly EUR 20bn. Scope notes the H1 2016 volume was very much driven by 'jumbo' transactions, with seven placements exceeding EUR 500m i.e. Hofer, Porsche, Nordex, TenneT, due to strong oversubscription from investors. Nevertheless, the market remains very diverse, with ticket sizes ranging from placements at a very small EUR 11m up to EUR 1.6bn. From Scope's perspective, placement activities will remain strong, particularly in the light of this financing instrument's resilience in times of economic uncertainty.

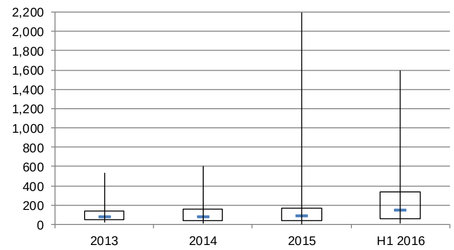
While high-volume transactions have been a clear trend in H1 2016, Scope notes that the market remains strongly heterogeneous regarding issuer sizes, transaction volumes (see Figure 2) and financing needs (e.g. refinancings, debt diversification or M&A for Grammer, Nordex and HeidelbergCement). About 30% of transactions have been issued by small and mid-sized corporates (annual revenues below EUR 1bn), which is well below the 40% among the same group in 2014 and 2015. However, among first-time issuers, small and mid-sized corporates remain more present with about 50% of such companies issuing for the first time. Also more than one-third of transactions remain equal or below EUR 100m, which not only points to size of the issuer, but also to SSDs being just one element of corporate debt funding.

Figure 1: Total volume of SSD transactions (EUR bn)



Source: Thomson Reuters, Scope Ratings

Figure 2: Range of ticket sizes in EUR m (box plots)



Source: Scope Ratings

Oversubscription squeezes spreads

The new record of 'jumbo' transactions underpins the market's focus on this financing instrument. Such jumbos point to the increasing diversity of investors as a diverse mix of international and domestic investors is needed for such ticket sizes, according to DCM desks of leading SSD placement banks. While these transaction volumes are the result of attractive spreads against comparable public debt issues, they also underpin the strong resilience of the private debt market compared to the public bond market under bumpy capital market conditions (i.e. uncertainties regarding the Brexit referendum or China's economic developments). Scope believes that spreads remain tight, which is still surprising given the lack of transparency in the largely publicly unrated SSD market (fewer than 30% of issuers in H1 2016 carry a public rating/median rating of BBB).

Outlook

Scope believes corporate funding through SSDs will remain in the spotlight of both investors and corporates. With strong transaction volumes in H1 2016, the market is on a good way to catch up with the record EUR 20bn in 2015. Nevertheless, this will largely depend on further jumbo transactions. A recent survey of the Loan Market Association shows that market participants are bullish on further growth of the SSD segment. This is particularly interesting when compared to expectations about a flattish development of the traditional corporate loan market.

Analysts

Sebastian Zank, CFA
+49 30 27891 225
s.zank@scoperatings.com

Business Development

Dr. Florian Stapf
+49 30 27891 149
f.stapf@scoperatings.com

Hans-Gerd Schievink
+49 30 27891 123
h.g.schievink@scoperatings.com

Press

Oliver Müller
+49 (0)30 288744-225
oliver.Mueller@fticonsulting.com

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Scope Ratings AG

Lennéstraße 5
10785 Berlin

Phone +49 30 27891 0
Fax +49 30 27891 100
Service +49 30 27891 300

info@scoperatings.com
www.scoperatings.com

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H1 2016 SSD statistics

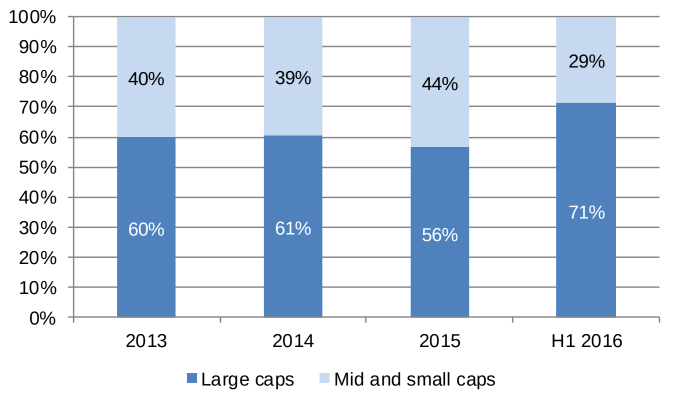
SSD as best practice among European private placement segments

The German SSD segment remains the dominant private placement segment in Europe, despite EU efforts to accelerate further standardisation of the pan-European private placement market along the Capital Markets Union. Given the resilience of the private placement market against public bond segments, the German SSD segment continues strengthen, as underpinned by its diversity in terms of corporate sizes (see Figure 3), nationalities (31% from non-German issuers, Figure 6) and investors.

Market lacks transparency against other private placement segments

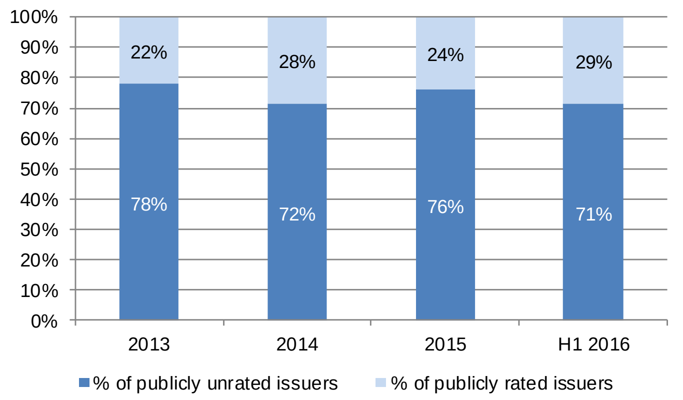
Scope continues to warn on the general lack of transparency in the market, not only regarding maturities and spreads but also on the underlying credit quality of SSD issuers. With fewer than 30% of SSD issuers being publicly rated in H1 2016 (see Figure 4), investors are still on their own to find transparency on comparable risk-adjusted spreads. This situation is better in other private placement markets, such as in the US-PP market, which requires credit ratings, or the European public bond market, where a majority of issuers carry a public rating (around 60% of issuers with public bond issues in 2015-16). Therefore, a higher rating penetration of issuers would, in our view, help the SSD market's growth with much needed transparency on issuers' external credit quality.

Figure 3: Jumbo transactions of large issuers dominate H1 2016 transactions



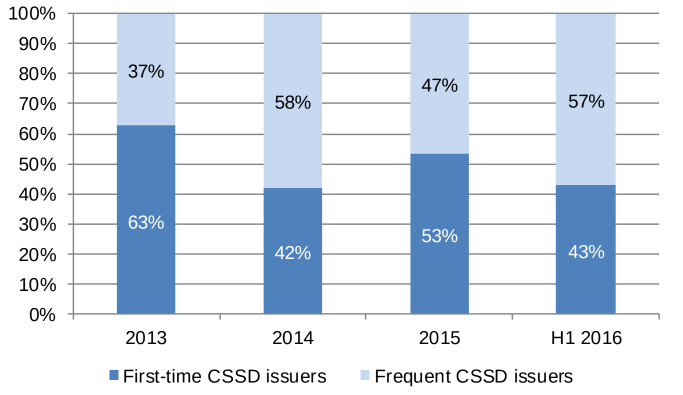
Source: Thomson Reuters, Scope Ratings

Figure 4: Share of publicly unrated issuers remains high



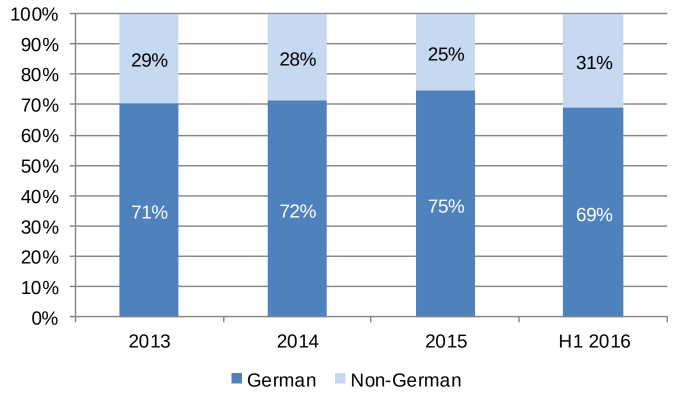
Source: Thomson Reuters, Scope Ratings

Figure 5: First-time issuers



Source: Thomson Reuters, Scope Ratings

Figure 6: Domestic versus international SSD issuers



Source: Thomson Reuters, Scope Ratings

Scope Ratings AG

Headquarters Berlin
Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

Frankfurt am Main
Rüsterstraße 1
D-60325 Frankfurt

Phone +49 69 97944 754

Paris
21, Boulevard Haussmann
F-75009 Paris

Phone +33 1 53 43 29 89

London
Suite 407
2 Angel Square
London EC1V 1NY

Phone +44 20 3457 0444

Madrid
Paseo de la Castellana 95
Edificio Torre Europa
E-28046 Madrid

Phone +34 914 186 973

info@scoperatings.com
www.scoperatings.com

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