

Europe's hybrid bonds: issuance to exceed EUR 22bn this year, highest since 2015



Scope
Ratings

Europe's hybrid bond market is on track for its highest annual issuance volume since 2015 after a slow start to the year as issuers have taken advantage of easy financing conditions and strong investor demand in the third quarter.

Companies issued hybrid bonds worth nearly EUR 21.2bn in the first nine months of the year, almost as much as EUR 22.2bn companies issued for the whole of 2018. A burst of activity in the third quarter has spilled over into the current quarter, with large new transactions from first-time hybrid issuers Infineon Technologies and Germany's rail operator Deutsche Bahn, taking year-to-date volumes to more than EUR 24bn.

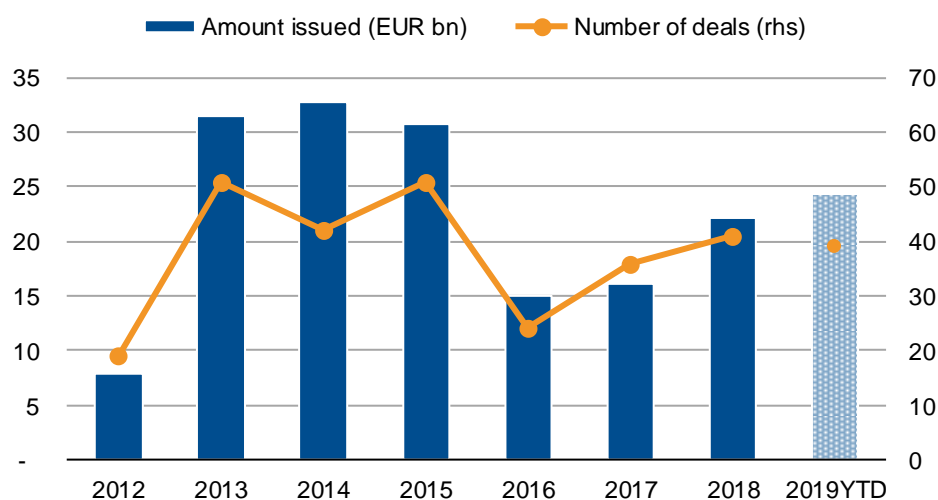
Risk premiums have continued to decline despite the unresolved US-China trade dispute and prolonged uncertainty surrounding Brexit, as central banks have loosened monetary policy in response to signs of more sluggish global economic growth than was expected at the start of the year.

The recent decision by the European Central Bank to resume its bond-buying programme in a continuation of its ultra-loose monetary is likely to provide continued impetus for the hybrid market.

The combination of low, if not negative, interest rates and still buoyant equity markets are powerful incentives for capital-intensive companies to issue hybrid securities – subordinated bonds which blend the characteristics of debt and equity instruments – to diversify their financing mix, refinance maturing hybrid issues and finance recent or planned acquisitions.

The average size of transactions has risen this year compared with 2018. Several companies have raised more than EUR1 billion from single or multiple tranches.

Figure 1: Hybrid debt issuance in Europe in 2019 (year-to-date)



Source: Scope, Bloomberg

Refinancing hybrid bonds due for redemption in the short- to medium-term has continued to be an important source of activity. French telecom company Orange SA issued two hybrid bonds, in April and September, partly to buy back hybrids with upcoming calls in 2021 and 2022.

Analyst

Azza Chammem
+49 30 27891 240
a.chammem@scoperatings.com

Media

Matthew Curtin
+33 1 82 88 23 55
m.curtin@scoperatings.com

Related Research

[Europe's hybrid bond market cools down: Issuance volume should shrink to 2016/2017 levels](#)
January 2019

[Europe's hybrid bond market rebound gathers pace: Issuance set to exceed EUR 20bn in 2018, July 2018](#)

[Hybrid bond issuance bounces back in Europe, helped by M&A, low interest rates, May 2018](#)

Scope Ratings GmbH

Lennéstraße 5
10785 Berlin

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

info@coperatings.com
www.scoperatings.com



Bloomberg: SCOP

Companies keen to preserve borderline BBB investment-grade credit ratings remain the leading issuers, particularly those which have conducted extensive M&A. Merger-related financing is evident in some recent and planned Q4 deals as acquiring companies seek to broaden their financing mix. Tighter credit spreads amid falling sovereign bond yields have also lured new issuers to the hybrid market.

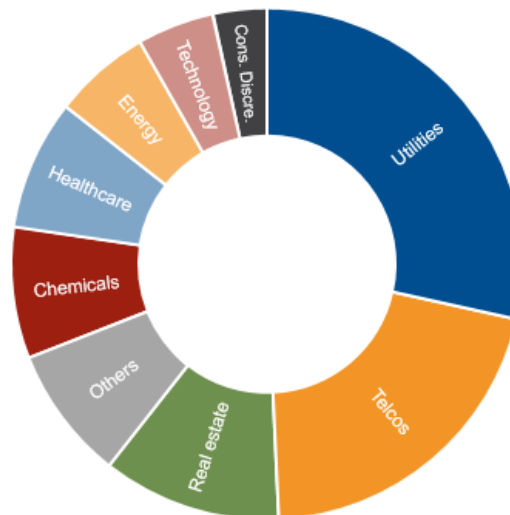
Here is a look at some of the biggest deals so far this year:

- Deutsche Bahn issued its first-ever hybrid on 14 October, in two equal tranches of EUR 1bn.
- Infineon Technologies made its market debut earlier this month, issuing a dual-tranche hybrid for a total value of EUR 1.2bn to partly refinance its proposed USD 8.7bn acquisition of Cypress Semiconductor Corp.
- Vodafone PLC, still digesting its EUR 18.4bn takeover of Liberty Global's European assets, issued a EUR 1.7bn hybrid in April.
- Merck KGaA opted for a EUR 1.5bn dual-tranche issue in June as it financed the USD 6.5bn acquisition of Versum Materials.

Another indication of the maturing of the European market for hybrid bonds is that companies beyond the usual issuers from capital-intensive sectors such as utilities, telecommunications and real estate are tapping the market, such as Infineon.

With the continuation of the ECB's program of quantitative easing, we expect more issuers to tap the hybrid market to benefit from low interest rates contrary to what was expected early in 2019 when issuance volume growth was slowing as many investors were expecting monetary policy to tighten and interest rates to rise.

Figure 2: Hybrid issuance by sectors as of YTD2019



Source: Scope, Bloomberg



Europe's hybrid bonds: issuance to exceed EUR 22bn this year, highest since 2015

Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

London

Suite 301
2 Angel Square
London EC1V 1NY

Phone +44 20 3457 0444

Oslo

Haakon VII's gate 6
N-0161 Oslo

Phone +47 21 62 31 42

Frankfurt am Main

Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

Madrid

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

Phone +34 914 186 973

Paris

1 Cour du Havre
F-75008 Paris

Phone +33 1 82 88 55 57

Milan

Via Paleocapa 7
IT-20121 Milan

Phone +39 02 30315 814

info@scoperatings.com

www.scoperatings.com

Disclaimer

© 2019 Scope SE & Co. KGaA and all its subsidiaries including Scope Ratings GmbH, Scope Analysis, Scope Investor Services GmbH (collectively, Scope). All rights reserved. The information and data supporting Scope's ratings, rating reports, rating opinions and related research and credit opinions originate from sources Scope considers to be reliable and accurate. Scope cannot, however, independently verify the reliability and accuracy of the information and data. Scope's ratings, rating reports, rating opinions, or related research and credit opinions are provided "as is" without any representation or warranty of any kind. In no circumstance shall Scope or its directors, officers, employees and other representatives be liable to any party for any direct, indirect, incidental or otherwise damages, expenses of any kind, or losses arising from any use of Scope's ratings, rating reports, rating opinions, related research or credit opinions. Ratings and other related credit opinions issued by Scope are, and have to be viewed by any party, as opinions on relative credit risk and not as a statement of fact or recommendation to purchase, hold or sell securities. Past performance does not necessarily predict future results. Any report issued by Scope is not a prospectus or similar document related to a debt security or issuing entity. Scope issues credit ratings and related research and opinions with the understanding and expectation that parties using them will assess independently the suitability of each security for investment or transaction purposes. Scope's credit ratings address relative credit risk, they do not address other risks such as market, liquidity, legal, or volatility. The information and data included herein is protected by copyright and other laws. To reproduce, transmit, transfer, disseminate, translate, resell, or store for subsequent use for any such purpose the information and data contained herein, contact Scope Ratings GmbH at Lennéstraße 5, D-10785 Berlin.

Scope Ratings GmbH, Lennéstraße 5, 10785 Berlin, District Court for Berlin (Charlottenburg) HRB 192993 B, Managing Directors: Torsten Hinrichs and Guillaume Jolivet