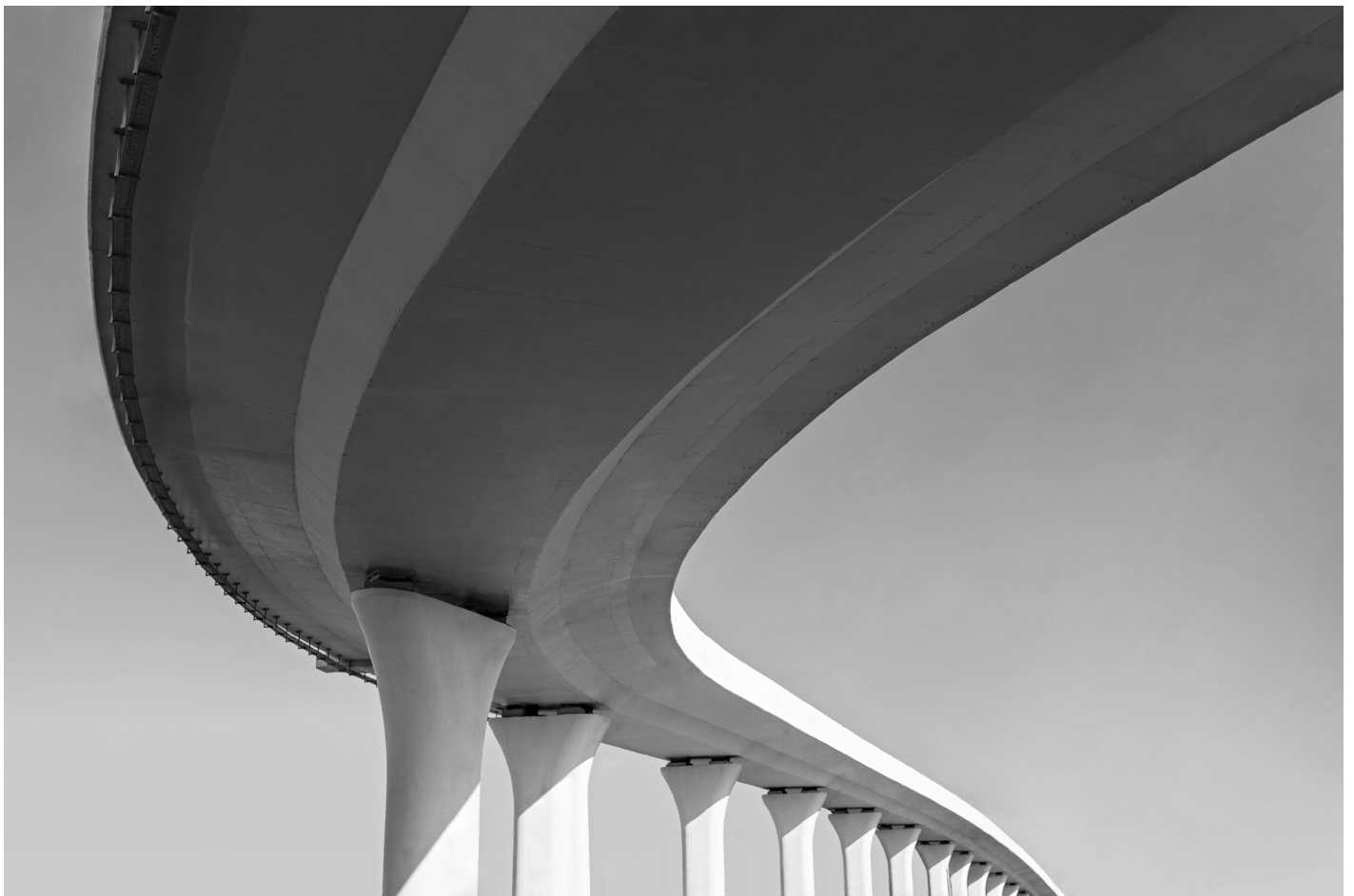


European Corporate Credit Outlook Midyear 2021

2	Back The Way We Came
11	Key Sector Risks
	Industry Top Trend Updates
13	Aerospace and Defense
14	Autos
15	Building Materials
16	Capital Goods
17	Chemicals
18	Consumer Products
19	Health Care
20	Homebuilders and Developers
21	Hotels, Gaming and Leisure
22	Media and Entertainment
23	Metals and Mining
24	Oil and Gas
25	Real Estate (REITs)
26	Retail and Restaurants
27	Telecommunications
28	Transportation Infrastructure
29	Transportation
30	Utilities

Back The Way We Came



S&P Global
Ratings

European Corporate Credit Midyear Outlook 2021

Back The Way We Came

July 27, 2021

Key Takeaways

- The credit outlook is rapidly improving, thanks to powerful policy stimulus, successful vaccine rollouts, rebounding profits, and a deluge of liquidity. Corporate confidence and a focus on growth means a continuing focus on M&A and a boom in European capex.
- Credit quality remains depleted by the fallout from COVID-19, with leverage still high, vulnerable capital structures, and liquidity pressures in sectors most disrupted by the pandemic. Credit metric recovery will be slow and not without risk.
- Financial market exuberance is a concern with real corporate bond yields at record lows and late-cycle behavior apparent in leveraged finance. But with limited signs of inflation pressures altering the policy calculus, central bank support remains potent and pivotal.

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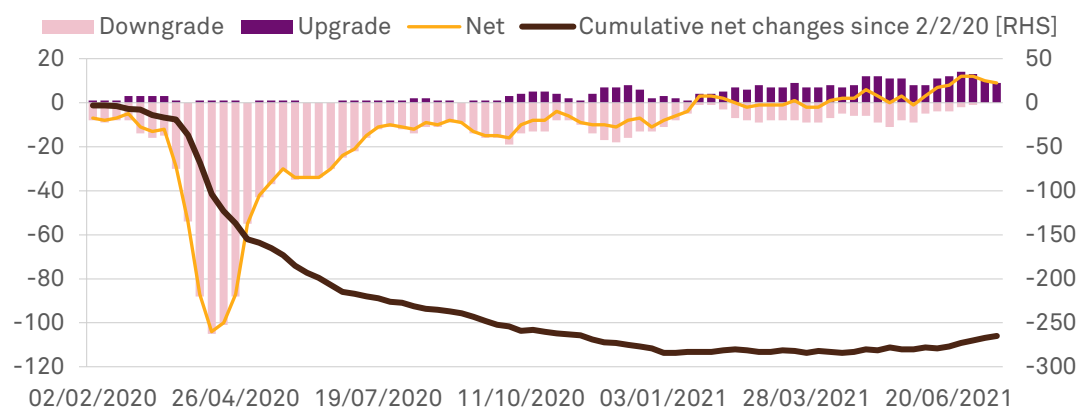
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European corporate credit trends continue to improve, with upgrades consistently outpacing downgrades from April 2021 (see chart 1). The core drivers remain very much in place: economic recovery, vaccination progress, easing pandemic restrictions, plentiful liquidity, and a strong market appetite for risk. Cost inflation and supply chain pressures remain acute in many sectors but are not yet hurting broader profit margins or translating into an inflation surge that could alter the interest rate and stimulus calculus of central banks. There remain considerable risks, however, particularly in relation to market risk appetite and low risk premiums. The cumulative picture of rating changes since the onset of the pandemic tells a more appropriately nuanced story: vaccine success and timely intervention from policymakers has turned the tide, but credit quality remains depleted and vulnerable to setbacks.

Chart 1

European Nonfinancial Ratings Upgrades And Downgrades Since February 2020



Source: S&P Global Ratings. Downgrades, upgrades, and net show the 4-week trailing sum. Cumulative net changes are the absolute sum of net ratings changes since Feb. 2, 2020. This date was selected because on Jan. 30, 2020, the WHO declared the COVID-19 outbreak a global health emergency.

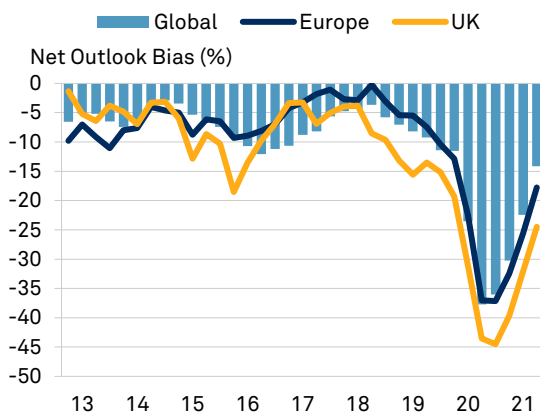
Forward-looking indicators of the ratings outlook continue to improve sharply. The European nonfinancial corporate net negative bias, an indicator of potential ratings actions, stood at 18% at the end of June down from a peak of 37% a year ago (see chart 2). Of our ratings, 70% carry a stable outlook versus 57% a year ago. The picture in the U.K. is slightly worse, with a current net negative bias of 25% versus 45% a year ago, reflecting a higher relative exposure to sectors still under

European Corporate Credit Outlook Midyear 2021: Back The Way We Came

duress from the pandemic. Again though, the outlook is not unblemished; 23% of European nonfinancial corporate ratings have a negative outlook.

Chart 2

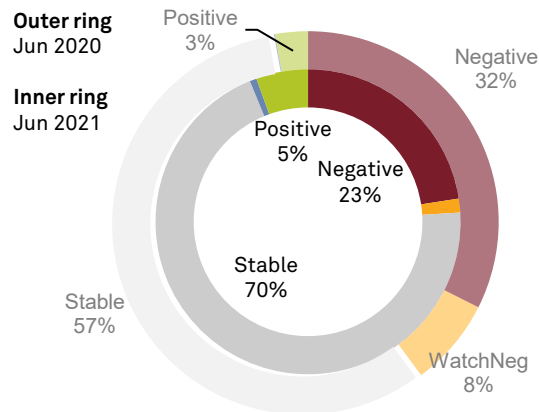
Nonfinancial Corporate Net Outlook Bias



Source: S&P Global Ratings. Data as of end-quarter to June 2021.

Chart 3

European Nonfinancial Corporate Ratings Outlook

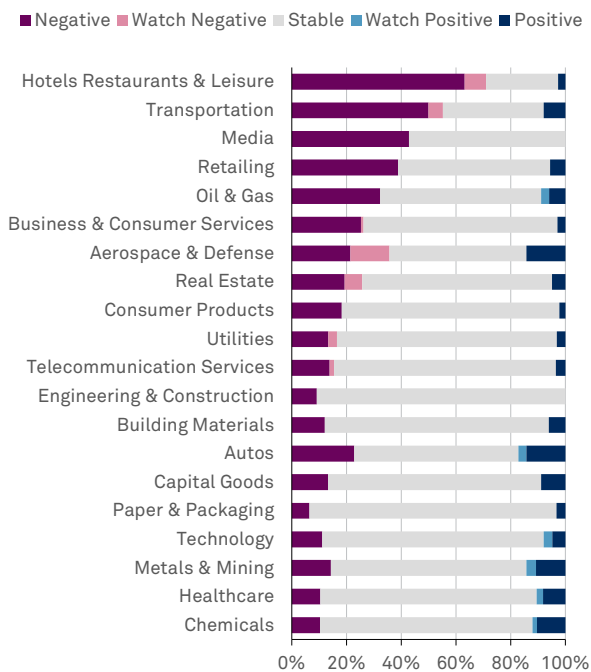


Source: S&P Global Ratings. Data as of end-quarter.

The pace of recovery continues to vary widely across and within industries. Chart 4 shows the outlook distribution by sectors, ranked by the net outlook bias with the sectors having the weakest position at the top. It shows how prospects continue to be shaped by the pandemic and relative degrees of exposure to the most robust parts of the global economy (global trade, industrials, technology, etc.), and those still to recover (business travel, leisure, discretionary retail, etc.). The direction of travel is still positive for most sectors, however, with even pandemic-affected sectors having seen substantial improvements in their ratings outlook over the last year (see chart 5).

Chart 4

European Ratings Outlook Distribution By Industry (Ranked By Net Outlook Bias)



Source: S&P Global Ratings. Ratings data as of end-June 2021.

Chart 5

Year-On-Year Difference In European Industry Net Outlook Bias

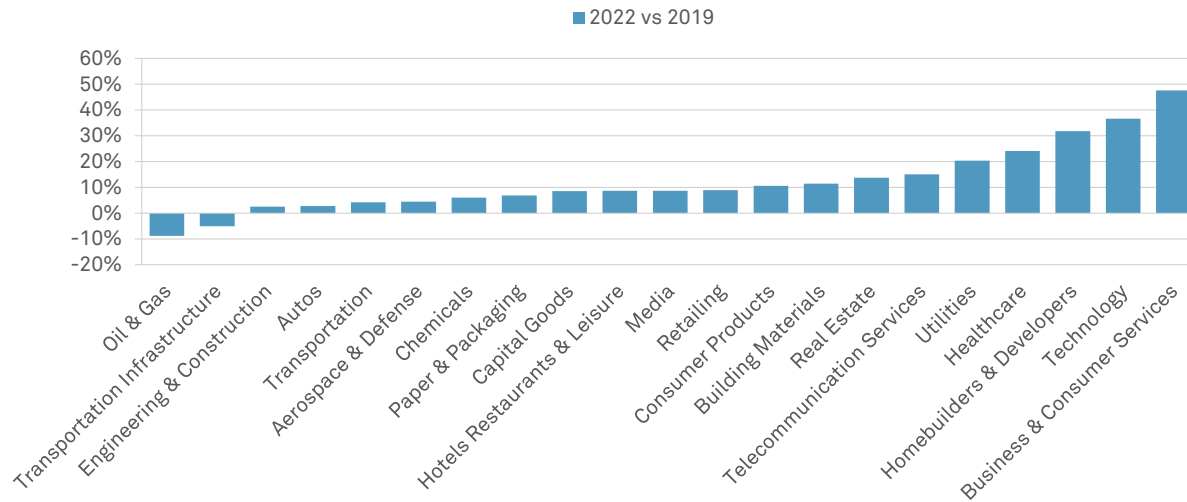


Source: S&P Global Ratings. Ratings data as of end-June 2021.

Recovering revenue and cash flow are fundamental factors underpinning the improving outlook.

Chart 6 shows the (trimmed) mean of revenue growth by industry group for rated European nonfinancial corporates between 2019 and 2022. We only expect two industries, oil and gas and transportation infrastructure, will have average revenue below pre-pandemic levels by end-2022. By then, we project that one-third of sectors will deliver revenue more than 10% higher than pre-pandemic levels and, in some cases, revenue could be substantially higher. This improvement may have further to run. We flag prospects for unleashing pent-up demand in many of the *Industry Top Trends* update reports presented in the second part of this report. European households accumulated excess savings of €300 billion last year, equivalent to 2.7 percentage points of GDP.

Chart 6
Average Revenue Growth By Sector, 2022 Versus 2019



Source: S&P Global Ratings. Shows the trimmed mean (excluding the top and bottom 5%) average of revenue growth for European rated nonfinancial corporates, 2019 -2022.

Ongoing stimulus, a deluge of liquidity, and optimism around vaccines and recovery are translating into exceptionally strong issuance of European leveraged loans and high-yield bonds

(see charts 7 and 8). The continued record pace of new collateralized loan obligation issuance has fueled demand and new leveraged buyouts have become larger, requiring liquidity from both loan and high-yield markets to underwrite transactions. According to LCD, an offering of S&P Global Market Intelligence, the European high-yield bond market is [on course to exceed 2017's record €93.7 billion issuance volume for a full year.](#)

Chart 7
European New Issue Leveraged Loan Volume

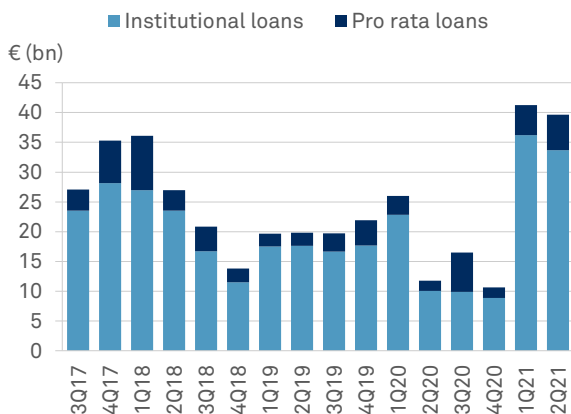
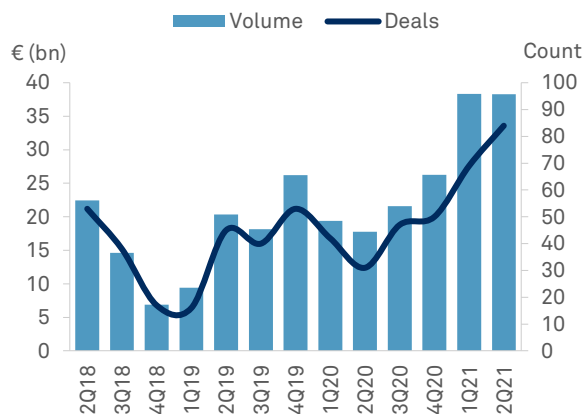


Chart 8
European High-Yield Bond Volume And Deal Count

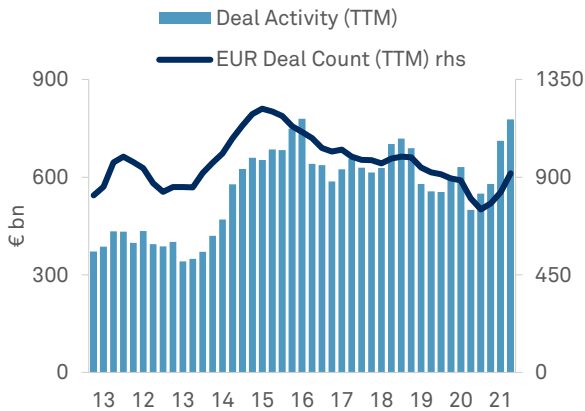


Source: LCD, an offering of S&P Global Market Intelligence. Data are quarterly through June 30, 2021.

A continuing upturn in M&A activity lies behind much of this record issuance, both for the corporate sector more broadly (see chart 9) and within the leveraged finance segment (see chart 10). Absent a change in market conditions, we believe the M&A boom is likely to continue. For corporates, a focus on securing growth and adjusting to the secular changes both wrought and accelerated by the pandemic are both prime motivations for acquisitions and divestments.

Chart 9

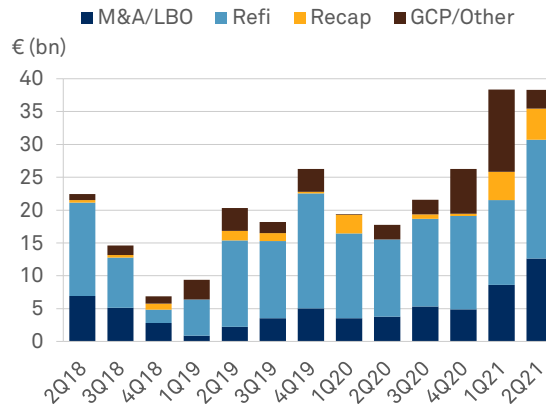
M&A Activity in Europe - European Targets



Source: S&P Global Market Intelligence. Deal size greater than \$100 million.

Chart 10

European High-Yield Use Of Proceeds, By Volume



Source: LCD, an offering of S&P Global Market Intelligence. Data are quarterly through June 30, 2021.

Further evidence of a shift towards a growth orientation is apparent in capital expenditure (capex) prospects (see "[Global Corporate Capex Survey 2021 - Surge Investing](#)," published July 21, 2021). **Global corporate capex is set to surge in 2021 by 13%**, with all regions, all broad sectors, and nearly all industrial groups set to see growth. Europe, often a laggard in recent years, is set for its best year of capex growth since 2006 (see chart 11) with forecasts still rising sharply (see chart 12). Some sectors resilient to the pandemic and driven by secular shifts such as the energy transition and digital transformation--utilities and technology--will pick up the pace further this year. Sharp turnarounds in energy and the cyclical industrials less affected by COVID-19 add momentum.

Chart 11

European Nonfinancial Corporate Capex Growth

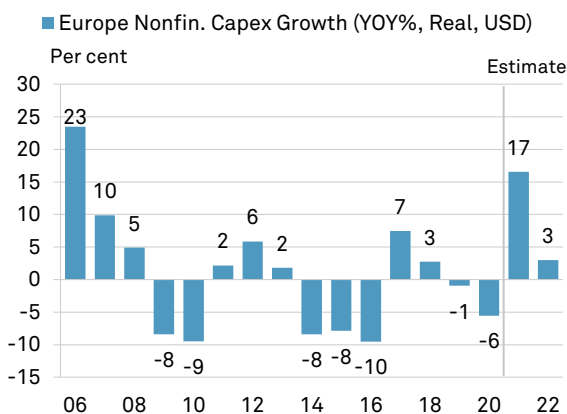
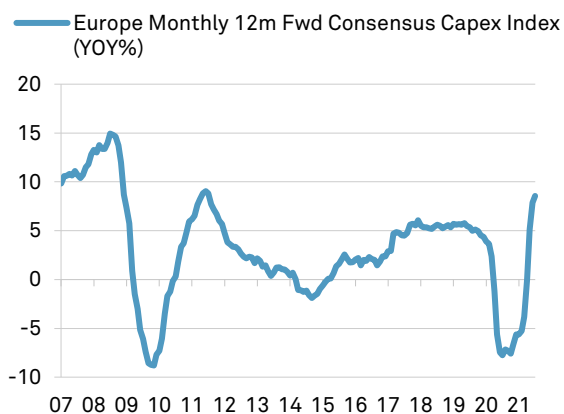


Chart 12

Year-Over-Year Change In 12-Month-Forward Consensus Capex Forecasts For Europe



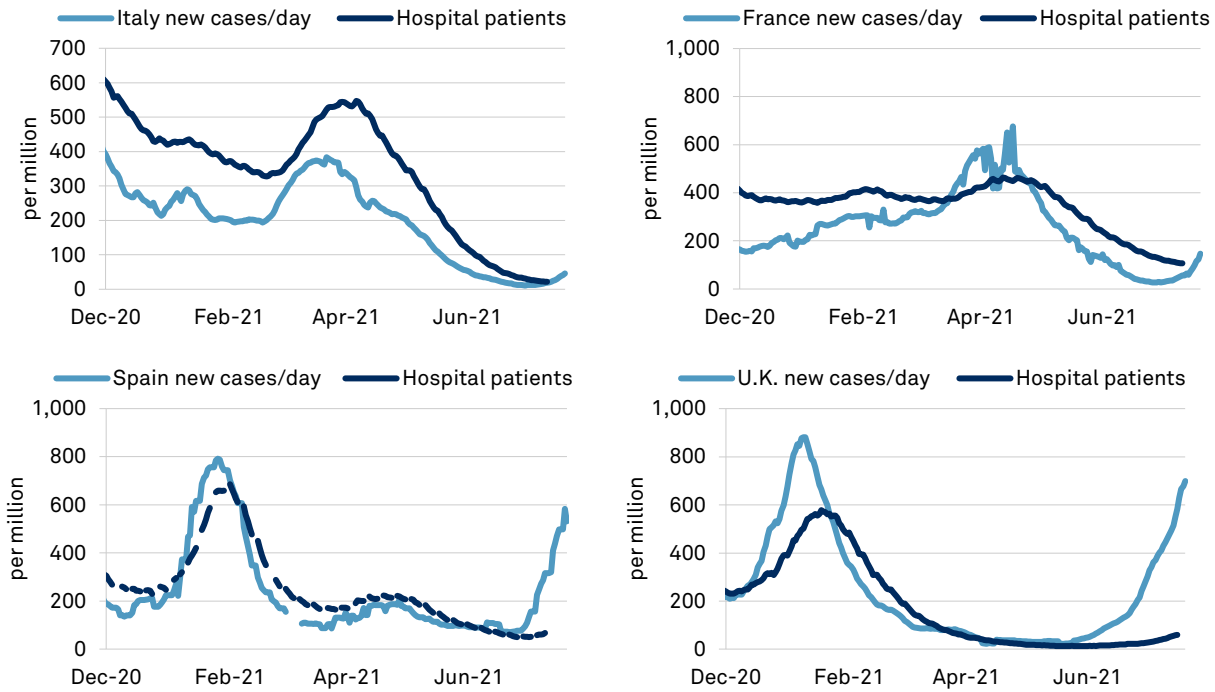
Source: S&P Global Capital IQ, S&P Global Ratings. Universe is European subset of Global Capex 2000. Revision trends are unweighted indices of monthly local-currency consensus capex forecast changes.

New COVID-19 variants that evade existing vaccines and require renewed social restrictions remain a core risk (see Table 2 on page 11 for a summary of key risks to their baseline view highlighted by our industry analysts). We will closely watch the trajectory of the highly

transmissible delta variant as the northern hemisphere heads toward autumn. The critical question is whether vaccines have broken the link between cases, hospitalization, and deaths (see chart 13). The U.K. experience in coming weeks will provide an important bellwether, as a country where vaccination rates are among the highest in the world, particularly for the more vulnerable older population, and where, in England at least, pandemic-related restrictions have now been largely removed. Should the U.K.'s delta wave begin to ebb without having led to a large increase in hospitalization and deaths, this is likely to reinforce market optimism that vaccine rollouts will ultimately curb COVID-19's social and economic impact.

Chart 13

Hospitalizations Are Being Watched Carefully As The Delta Wave Builds Across Europe

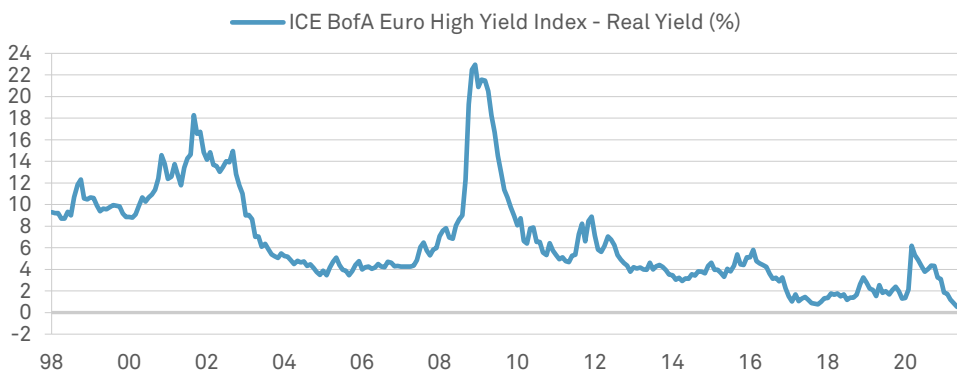


Source: Our World In Data, S&P Global Ratings. Data as of July 20, 2021

Overexuberant financial markets are arguably the biggest risk to the credit outlook. The real (inflation-adjusted) yield on European high-yield corporate bonds is currently just under 50 basis points, a record low (see chart 14). This negligible risk premium offers little room for error if market assumptions about growth and inflation were to adjust.

Chart 14

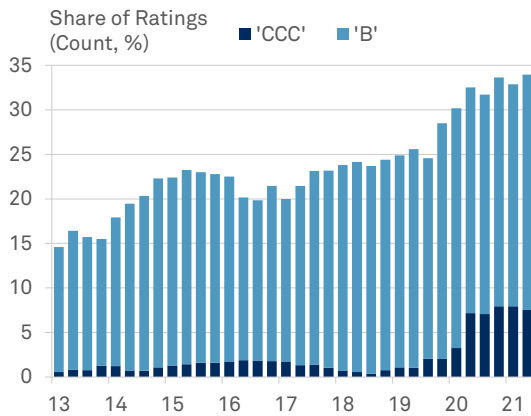
European High-Yield Corporate Real Bond Yield



Source: Ice Data Indices, LLC, Refinitiv, S&P Global Ratings

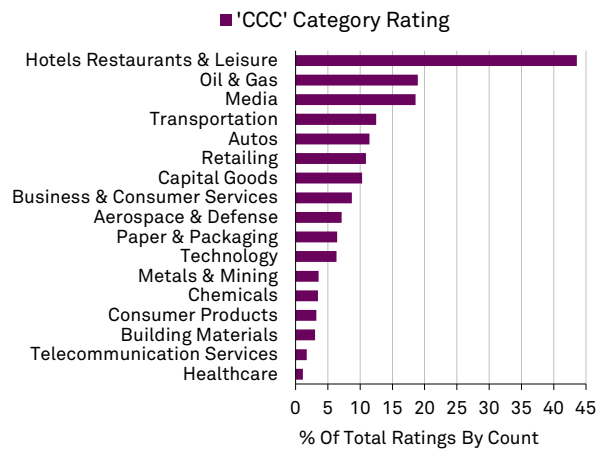
European corporate credit quality remains depleted by the pandemic, even if economic recovery and liquidity have prevented default rates rising in a manner consistent with the magnitude of the COVID-19-induced recession. Of our nonfinancial corporate ratings, 7.5% are in the 'CCC' category, a share close to the 8% high seen at the end of December (see chart 15). The share of 'B' category ratings has been on a sustained uptrend, and these two rating categories together account for just over one-third of all ratings now versus just over 10% in early 2013. Pandemic-affected sectors continue to have the largest share of 'CCC' category ratings (see chart 16).

Chart 15
European Nonfinancial Corporates:
Share Of Ratings In The 'B' And 'CCC' Category



Source: S&P Global Ratings. Data are stacked.

Chart 16
European Sectors:
'CCC' Category Ratings As Percentage Of Total

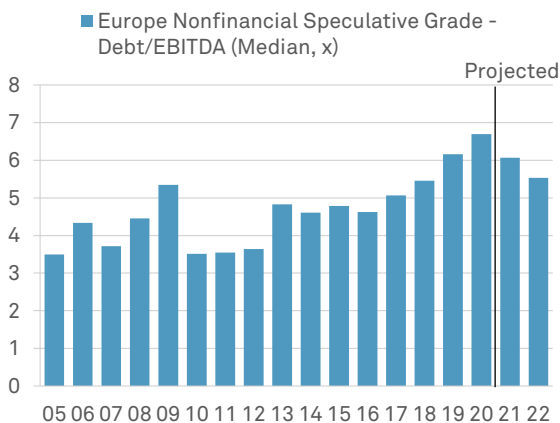


Source: S&P Global Ratings

Leverage remains elevated and concerns around capital structure sustainability will persist.

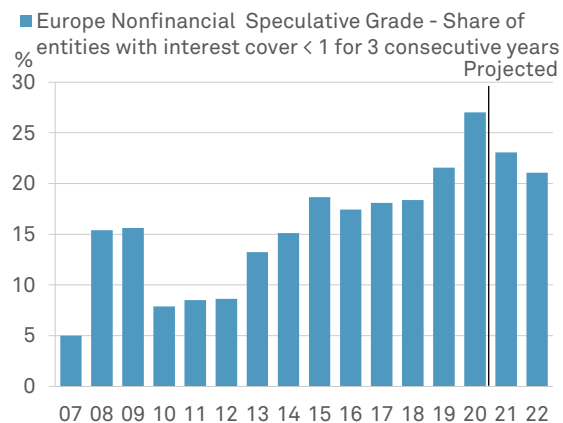
While we project that EBITDA growth will result in 2021 median leverage (6.1x) for speculative-grade entities returning below the pre-pandemic peak of 6.2x, this is still at the top end of the historic range (see chart 17). Similarly, the share of entities with interest payments not covered by EBIT for three consecutive years will fall in 2021 (see chart 18), but only to 23% of the total. That close to a quarter of speculative-grade entities are likely to remain in this position raises questions about the long-term viability of capital structures. It suggests a high degree of reliance on favorable liquidity and financing conditions being sustained.

Chart 17
European Nonfinancial Corporates Speculative Grade –
Median Debt to EBITDA



Source: S&P Global Ratings

Chart 18
European Nonfinancial Corporates Speculative Grade –
Share Of Entities With EBIT Interest Cover < 1 For 3
Consecutive Years

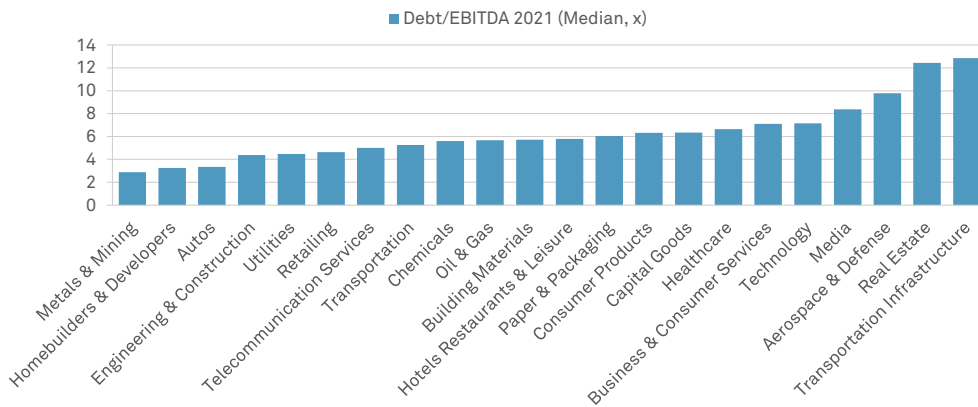


Source: S&P Global Ratings

There are considerable variations in leverage multiples across sectors. Even taking this year's recovery into account, leverage is above 6x in many industrial as well as service sectors (see chart 19). Unsurprisingly, it is entities experiencing slow sector recovery paired with weak business risk profiles and high leverage that present the greatest concern from our vantage point.

Chart 19

European Nonfinancial Corporate Speculative-Grade Leverage Varies Widely By Sector



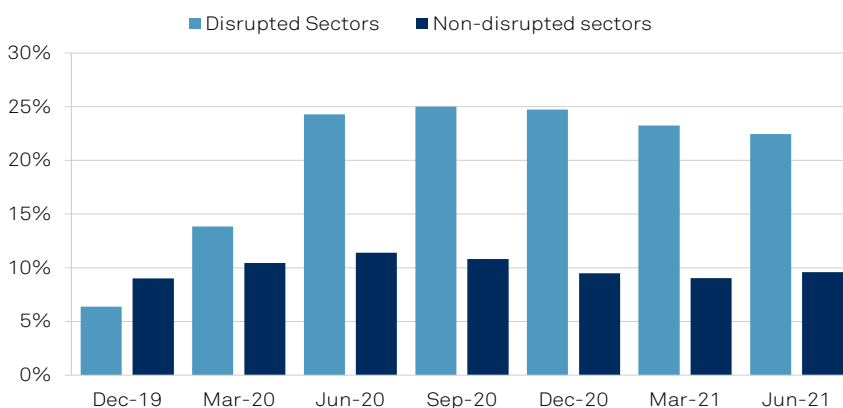
Source: S&P Global Ratings

Liquidity pressures persist in the most disrupted sectors. While the cornerstone of the policy response has been to provide ample liquidity to protect businesses from failing during the pandemic, liquidity in a broader sense remains a rating constraint for a significant proportion of speculative-grade companies in the most disrupted sectors. S&P Global Ratings' liquidity scores encompass additional qualitative factors in addition to a quantitative analysis of the extent to which sources of funds exceed uses over a one-to-two-year rating horizon. Typically, we consider companies proven and prospective approach to risk management, the strength of banking relationships, credit standing in capital markets, as well as size and issuer credit strength to assess whether a company's liquidity position can withstand high-impact, low-probability events.

The application of these qualitative overlays helps to partly explain this divergence in liquidity scores between disrupted and less disrupted sectors (see chart 20). The fact that the proportion of speculative-grade companies in Europe with less-than-adequate or weak liquidity scores remains relatively high may seem surprising, given the availability of cheap financing across the credit spectrum. But this reflects our expectations of a slow recovery and ongoing uncertainty over the full impact of the pandemic on these sectors, often mirrored in limited covenant headroom where maintenance covenants have been retained, as well as qualitative assessments.

Chart 20

More Than 20% Of Speculative-Grade Liquidity Scores Still Inadequate In Sectors Most Disrupted By COVID-19



Source: S&P Global Ratings. Disrupted sectors cover aerospace and defense, autos, oil, media, entertainment and leisure, retail and restaurants, and transportation.

Sector-specific liquidity details (see table 1):

- Key segments within speculative-grade **transportation**--including some regional airlines, ferries, travel service providers, and road concession operators--continue to be hit by the pandemic’s impact. In contrast, IAG and British Airways, despite suffering high levels of cash burn, have capitalized on favorable funding conditions to build exceptional and strong levels of liquidity, respectively.
- **Media, entertainment, and leisure** is another (large and disparate) sector, with a high 24% of speculative-grade companies still exhibiting inadequate liquidity. This is little changed from the peak of 28% in third-quarter 2020. This sector encompasses many segments worst hit by social restrictions and changes in consumer behavior following the pandemic. These range from travel agents, car rentals, cruise operators, lodging, and (physical) gaming to trade shows and even some sports media companies.
- Unrelated to the pandemic, **metals and mining** also appear to maintain a relatively high proportion of speculative-grade companies with less-than-adequate or weak liquidity. These companies include a couple of large miners, but also range from steel producers to metal waste recyclers. The underlying rationale varies from weak governance and restricted access to financing to large debt maturities and overreliance on capital markets.
- The recent deterioration in **real estate** reflects two small rated companies that are building (mainly office) property portfolios, one of which is newly rated.

Table 1

Sector Liquidity Scores Track Speculative-Grade Credit Trends During The Pandemic

(% speculative-grade ratings by sector with less-than-adequate or weak liquidity assessment)

	Q4 19	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21
Transportation (23)	0%	14%	31%	31%	32%	29%	39%
Mining And Minerals (23)	28%	38%	36%	33%	33%	29%	30%
Media, Entertainment & Leisure (75)	3%	10%	24%	28%	26%	26%	24%
Real Estate (19)	14%	13%	11%	11%	11%	10%	21%
Oil (20)	22%	26%	30%	22%	28%	25%	20%
Auto/Trucks (24)	5%	15%	24%	22%	21%	17%	17%
Restaurants/Retailing (36)	10%	13%	19%	21%	21%	21%	17%
Cap Goods/Machine & Equip (45)	8%	8%	8%	7%	12%	17%	16%
Aerospace/Defense (9)	0%	17%	13%	11%	11%	11%	11%
Consumer Products (60)	14%	14%	19%	18%	16%	11%	10%
High Technology (47)	13%	12%	12%	14%	7%	7%	9%
Forest Prod/Bldg Mat/Packaging (40)	3%	6%	5%	8%	8%	8%	8%
Healthcare (67)	11%	11%	13%	11%	7%	6%	6%
Business/Consumer Services (64)	4%	8%	10%	7%	7%	6%	5%
Telecommunications (37)	0%	3%	3%	3%	3%	3%	3%
Chemicals (42)	0%	0%	0%	0%	0%	0%	2%

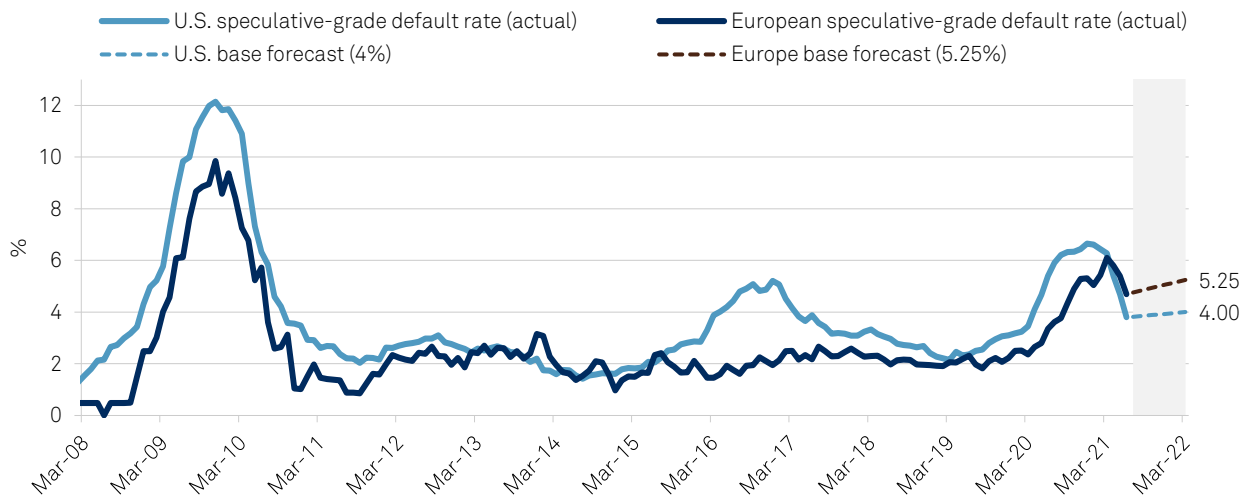
Source: S&P Global Ratings. Number in brackets is the number of speculative-grade ratings in the sector.

While it is tempting to assume that the unprecedented official support measures will smooth the path to recovery, it is revealing that bank supervisors at the European Central Bank remain concerned about default risks and appropriate bank loan loss provisioning in those sectors most affected by the pandemic. This certainly ties in with our concerns around corporate vulnerabilities, admittedly concentrated now in fewer sectors (namely aerospace and defense, media, entertainment and leisure, and segments within transportation, restaurants and retail) once the various emergency measures (including regulatory forbearance) are removed.

Insolvency is a more pressing concern for small and midsized companies (largely unrated) that have taken on unserviceable debt to tide them over during the pandemic. Nevertheless, we also expect default rates within our rated companies in Europe to remain somewhat higher than their longer-term average of just over 3%. The latest trailing 12-month speculative-grade default rate is 4.7% down from its recent peak of 6.1% in April 2021, and our latest central estimate for the default rate in March 2022 is 5.25% (see chart 21). Interestingly, largely reflecting the stronger recovery in the U.S. and the extended period of support measures in Europe, we anticipate that the default rate is likely to stay higher in Europe than the U.S. for a while.

Chart 21

Default Rates May Have Peaked, But Are Likely To Remain Elevated In Europe



Source: S&P Global Ratings. Default data up to June 30, 2021.

Related Research

- [Global Corporate Capex Survey 2021 - Surge Investing](#), July 21, 2021
- [Industry Top Trends Midyear 2021: Resilience, Recovery, Risks](#), July 20, 2021
- [Leveraged Finance: European Leveraged Finance And Recovery Second-Quarter 2021 Update: Late Cycle Behavior Or A Brave New World?](#), July 20, 2021
- [Credit Conditions Europe Q3 2021: Late-Cycle Redux](#), June 29, 2021
- [Default, Transition, and Recovery: The European Speculative-Grade Corporate Default Rate Could Fall To 5.25% By March 2022](#), May 26, 2021

This report does not constitute a rating action

Table 2

Key Risks Around the Baseline - Europe

Sector

Aerospace and Defense	<ul style="list-style-type: none"> • New waves of COVID-19 disrupting air travel recovery. The summer holiday season hangs in the balance, with continuously changing travel restrictions hitting flights at a critical time of the financial year for airlines. • Supply chain issues may slow recovery where suppliers may not have cash to invest in working capital to support higher build rates or due to skill shortages requiring higher wages to attract employees.
Autos	<ul style="list-style-type: none"> • An extended chip shortage could result in prolonged production downtime. • Given the importance of China as a major profit driver for original equipment manufacturers (particularly in Germany), the softening in second-quarter sales to dealers continuing into the second-half of 2021 could weigh on revenue and margin recovery.
Building Materials	<ul style="list-style-type: none"> • A quick return to aggressive financial policies including larger dividends or share buybacks. • Persistently high cost inflation, for example spreading to energy and labor, could significantly reduce margins and cash flow. • While "carbon leakage" should be a limited risk for EU-based cement players, EBITDA could be reduced if carbon allowances are phased-out too quickly and companies unable to pass-through higher carbon costs.
Capital Goods	<ul style="list-style-type: none"> • Material price increases and supply-chain constraints could slow margin expansion across the sector. • Spikes in COVID-19 outbreaks during the fall and winter could delay recovery in capital investment of sectors that were already severely hit by COVID-19, like aerospace.
Chemicals	<ul style="list-style-type: none"> • A shift to more aggressive financial policies, including transformational M&A deals, in light of favorable industry conditions and still-low financing costs. • Capacity additions in certain commodity chemicals, such as olefins and intermediates, may exceed demand growth in the coming years, putting pressure on these products' operating rates and pricing. • Any slowdown in China, the growth engine of the world's chemical industry, would weigh on many European chemicals companies.
Consumer Products	<ul style="list-style-type: none"> • Uneven vaccine rollouts and new variants could impede a return to normal activity and global recovery. • Large debt-financed M&A to capture growth, with a continued focus on shareholder returns, given improving outlooks and low financing costs, could increase leverage. • Smaller companies with leveraged capital structures will have limited financial flexibility if inflation remains persistent.
Health Care	<ul style="list-style-type: none"> • Large debt-funded M&A transactions at high multiples could pressure metrics and ratings. • Debate over drug pricing and reform in the U.S. could hamper growth prospects for pharma companies.
Homebuilders and Developers	<ul style="list-style-type: none"> • Persistent cost inflation and lack of building materials would likely weigh on developers' margins and the pace of construction. • The premature end of government stimuli or an increase in property taxation could hamper demand for residential new builds. • Tighter lending conditions could hamper homebuilders heavily reliant on mortgage sales and restrict developers' ability to buy land.
Hotels, Gaming, and Leisure	<ul style="list-style-type: none"> • Further COVID-19-related lockdowns are a material downside risk as social distancing and restrictions on mobility remain would create obstacles to a speedier recovery. • A slow recovery, critical to alleviate debt burdens, could cause default rates to rise, particularly in the travel segment. • The impact of gaming regulation developments in the U.K., Germany, and Italy could be material for some issuers. • M&A is likely to remain a key factor in 2021, following continued consolidation and pursuit of the U.S. market opportunity in gaming.
Media and Entertainment	<ul style="list-style-type: none"> • Resurgence of the pandemic could result in heightened restrictions and delay recovery, especially in the out-of-home sector. • Pressure on margins, especially in 2022 arising from cost inflation (enhanced health and safety measures, rising wages, and competition for talent) in the advertising or content production industries. • Longer-term secular trends and a changing media ecosystem speeding up the evolution to a streaming-centric and more digital media universe.
Metals and mining	<ul style="list-style-type: none"> • A return of commitments to mega-projects could create a mismatch between cash flow from operations and commitments, leading to pressure on certain companies. • A softening of actual demand or market expectations for China, the main economy for metals markets, would weaken a key support for prices. • Mismanagement of ESG could see an outsize impact on some individual credits given the industry's inherent exposure to ESG risks.
Oil and gas	<ul style="list-style-type: none"> • Oil prices could soften if COVID-19 materially impacts demand or oil supply returns too rapidly. • A more robust price outlook implies more capital investment options--in both oil and alternatives. Committing to big multiyear plans could become a burden if prices fall. • If WTI oil remains at \$70 per barrel, investment and production growth for U.S. shale could come back too fast for demand.
Real estate	<ul style="list-style-type: none"> • Strong resurgence of COVID-19 cases and reimposition of social distancing measures would likely harm retail tenants' capacity to pay rent.

European Corporate Credit Outlook Midyear 2021: Back The Way We Came

	<ul style="list-style-type: none"> Debt-funded M&A, especially in the residential sector, given that REITs' shares trade at discount to their net asset value and funding conditions remain good. An unexpected fall in valuations of more than 10% in 2021 would likely trigger downgrades. 			
Retail and restaurants	<ul style="list-style-type: none"> Uneven vaccine rollouts and new variants could impede a return to normal activity and global economic recovery. Retailers with leveraged capital structures have limited promotional flexibility if inflation remains persistent. Solvency issues remain acute for the most vulnerable rated retailers, who may struggle to compete given limited capital to invest in digital transformation, and high leverage that the pandemic has exacerbated. 			
Telecommunications	<ul style="list-style-type: none"> An uptick in price competition in already competitive telecom markets suffering higher unemployment and lower consumer spending, particularly if low-price value challengers seek to increase market share. A disruptive withdrawal of emergency support, like short-term work and furlough schemes, could unravel some of the cushions provided over the past year, particularly impacting SME demand for telecom services. 			
Transportation	<ul style="list-style-type: none"> Vaccine hesitancy and refusal disrupting a fragile recovery in air travel. Persistently elevated fuel prices could disrupt the path to recovery for airlines and strong trading momentum for container liners as well as trim profitability unless costs are successfully passed through to clients. Given the shipping sector's historically poor supply discipline, there is a risk that the ordering of new vessels intensifies, destabilizing improving supply-demand conditions in the medium term. 			
Utilities	<ul style="list-style-type: none"> Uncertainties persist for gas assets as growth prospects depend on EU taxonomy and technological progress on green gases. For nuclear, financing life extension and new projects remain complex. Tougher competition for new renewable projects combined with more risk appetite could weaken returns further. Recent regulatory reviews have led to a decline in remuneration for power and gas networks, at a time of significant investment need (especially power) meaning internal efficiencies are key for rating stability. 			
Transportation Infrastructure	<ul style="list-style-type: none"> Renewed pandemic-related restrictions could delay meaningful resumption of international travel to after the lucrative summer season, and present downside risk to air travel in Europe. A number of regulatory decisions are due for European airports by the end of 2021, and regulators will have a hard job reconciling the need to increase tariffs with the fragile traffic recovery. Consumer behavior post-pandemic. Trains, roads, and car parks could see fewer commuters post-pandemic, perhaps partially offset by the continued stickiness of seasonal subscriptions. 			
Consistent Themes Key	<table border="1"> <tbody> <tr> <td>COVID-19/Vaccine</td> <td>Cost Inflation</td> <td>Financial policy/M&A</td> </tr> </tbody> </table>	COVID-19/Vaccine	Cost Inflation	Financial policy/M&A
COVID-19/Vaccine	Cost Inflation	Financial policy/M&A		

Source: S&P Global Ratings. Risks have been simplified and standardized relative to the originals for cross-section clarity. No rank ordering is implied for risks.

Industry Top Trends Update

Aerospace and Defense

Will summer travel restrictions delay recovery?

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What's changed?

Commercial aerospace revenue and earnings began to stabilize after sharp declines in 2020. Although demand for commercial passenger aircraft remains weak, aircraft manufacturers have largely reached planned lower production rates and further cuts are unlikely. Earnings and cash flow are also starting to benefit from last year's cost-reduction efforts. However, if the European summer travel window remains partially shut, this could add pressure.

Airbus is well positioned to capitalize on the recovery. After entering the pandemic in a strong financial position and lowering production rates through 2020, we expect Airbus' free operating cash flow (FOCF) to be slightly positive in 2021 despite the ongoing adverse operating conditions. In coming years, we project Airbus will gradually improve cash flow generation and generate positive FOCF.

European governments' rising defense budgets continue to support sales. European defense spending is set to exceed \$300 billion in 2021, with the U.K., Germany, France, and Italy spending on average 4% more than in 2020. Near-term prospects for defense spending in Europe therefore look robust. Despite the pandemic, governments continue to boost spending to modernize their defense capabilities in the face of rising threats.

How is recovery taking shape?

Demand for narrowbody (single aisle) planes will lead recovery. Domestic travel is likely to recover faster than long-haul international travel, so narrowbody demand will likely recover before that for widebodies (twin aisle). Airbus has said it could increase production of its A320neo and A220 narrowbodies in the latter part of 2021 if demand warrants. Widebody production will likely remain very low through at least 2022, and rates could be cut further if government travel restrictions remain in place. As flying increases, demand for aftermarket parts and services should also rise.

Credit ratios for commercial aerospace firms will take a few years to recover. Despite likely increases in revenue and earnings over the next year, credit ratios are unlikely to reach 2019 levels until 2023 or later. However, this will vary based on a company's mix of commercial/military, original equipment manufacturer (OEM)/aftermarket, and narrowbody/widebody sales.

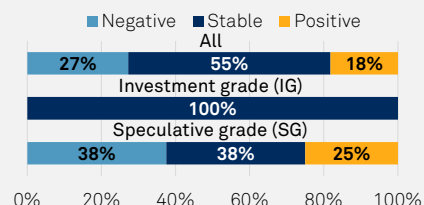
Defense contractors should see steady or improving ratios. Few firms were materially impacted by the pandemic and near-term demand remains solid. Improving earnings and cash flow could be offset by mergers and acquisitions or higher shareholder returns.

What are the key risks around the baseline?

New waves of COVID-19 disrupting air travel recovery. The European summer holiday season hangs in the balance, with continuous government-led changes to travel restrictions dragging down the expected numbers of flights at a critical time of the financial year for airlines. Whether this knocks on to OEMs and results in further production cuts is unclear at this stage.

Supply chain issues slow recovery in build rates. Many suppliers took significant actions to reduce costs during the pandemic and may not have cash to invest in working capital to support higher rates. They may also have difficulty finding workers with the necessary skills or need to raise wages to attract employees.

Outlook Distribution



Ratings Statistics*

	IG	SG	All
Ratings	3	8	11
Downgrades	0	1	1
Upgrades	0	1	1

Ratings data as of end-June 2021. *Year to date.

COVID-19 Heat Map

Commercial Aerospace		
Estimated recovery to 2019 credit metrics		>2023
Potential negative long-term industry disruption		Yes
2020 Versus 2019		
Revenue decline	EBITDA decline	Incremental borrowings
25%-50%	40%-60%	10%-25%
2021 Estimates Versus 2019		
Revenue decline	EBITDA decline	
20%-30%	30%-40%	
Defense Contractors		
Estimated recovery to 2019 credit metrics		No decline
Potential negative long-term industry disruption		Yes
2020 Versus 2019		
Revenue decline	EBITDA decline	Incremental borrowings
0%-5%	No decline	No increase
2021 Estimates Versus 2019		
Revenue decline	EBITDA decline	
0%-10%	>2019	

Industry Top Trends Update

Automotive

Strong global sales recovery improves sector outlook

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What's changed?

We improved our 2021 forecasts slightly. For light vehicles (LV), we expect global sales growth of 8%-10%, up from 7%-9% previously. The global auto industry is recovering faster than expected from COVID-19, supported by sound demand, a favorable pricing environment, fiscal stimulus in the main auto markets, and greater reliance on private mobility.

The global semiconductors shortage is limiting supply. Visibility on recovery this year remains low primarily due to the semiconductor shortage, but the industry is allocating scarce semiconductors to higher-margin vehicles and learning to capture the benefits of lower inventories in the form of better pricing for new and used cars.

Electric vehicle (EV) adoption is accelerating, thanks to supportive policies. EV car sales in Europe more than doubled year on year as of May 2021, according to EV Volumes. This reflects increasing political support for the industry's energy transition under the European Green Deal. The European Commission adopted several legislative proposals, including a stricter net reduction target of at least 55% for greenhouse gas emissions by 2030. The faster transition could weigh on margins (before subsidies) and is increasing pressure to quickly ramp-up the EV supply chain and achieve further cost reductions for battery cells, in our view.

How is recovery taking shape?

Europe is lagging behind the very strong U.S. and Chinese markets, as a result of COVID-19-related restrictions during first-half 2021 and a slower vaccination rollout. As of mid-2021, however, global LV sales totaled 42 million units, which is on track to meet our annual forecast of 83 million-85 million units.

Profitability will be supported in 2021 by favorable pricing. This should help offset any increase in raw material prices and margin pressure from the shift of sales to EVs. Capital expenditure and research and development intensity remain high, although some of those investments are increasingly made in joint ventures (JVs) that are not fully consolidated and therefore do not directly burden EBITDA and free operation cash flows of original equipment makers (OEMs) or auto suppliers.

The need to manage investments carefully and pool resources is rising. We expect OEMs and auto suppliers will look to mergers and acquisitions or partnerships to reposition portfolios toward EV and digital technology. Most deals are new JVs and partnerships with limited direct implications on credit metrics, such as Stellantis-Foxconn or Daimler Truck-AB Volvo, but we could see more material transactions.

What are the key risks around the baseline?

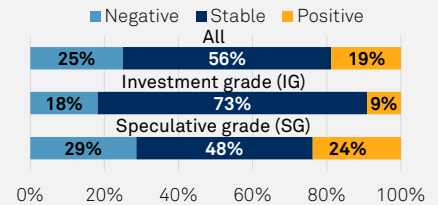
An extended chip shortage. Although it is not in our base case, an extended or more pronounced chip shortage could result in prolonged production downtime.

China cooling down. China has been a major profit driver particularly for German OEMs. If the softening trend as observed in wholesales in the second quarter continues in second-half 2021, this could weigh on revenue and margin recovery.

Latest Related Research

- [Global Auto Sales Forecasts: The Recovery Gears Up](#), May 11, 2021
- [Global Heavy Truck Sales Forecasts: Declines In APAC Offset Growth In U.S. And EMEA](#), June 10, 2021

Outlook Distribution



Ratings Statistics*

	IG	SG	All
Ratings	11	21	32
Downgrades	0	0	0
Upgrades	1	3	4

Ratings data as of end-June 2021. *Year to date.

COVID-19 Heat Map

Automotive	
Estimated recovery to 2019 credit metrics	2022
Potential negative long-term industry disruption	No
2020 Versus 2019	
Revenue decline	EBITDA decline
15%-25%	25%-40%
	Incremental borrowings
	<5%
2021 Estimates Versus 2019	
Revenue decline	EBITDA decline
0%-10%	0%-10%

Industry Top Trends Update

Building Materials

Widespread growth in most European countries

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What's changed?

We revised to stable three-quarters of negative outlooks in the speculative-grade category. At mid-2021, only 18% of speculative-grade companies had a negative outlook, down from 70% at end-2020. This reflects our expectation of continued solid performance in 2021, after a steady recovery in second-half 2020.

Rising raw material costs have only resulted in limited margin pressure. This reflects companies' focus on operating efficiency and ability to pass on higher raw material costs to final products, due to solid demand for building material products. As such, we expect EBITDA margins will remain at a high level within the cycle.

Dividend recapitalization has picked up. During the first half of 2021, about one-thirds of companies in the 'B' rating category paid dividends to their private equity owners, reflecting benign financial and operating conditions. As result, we anticipate no or limited financial deleveraging in 2021.

How is recovery taking shape?

Revenue will rebound to pre-pandemic levels by end-2021. This reflects strong volume growth in the first half of 2021 and healthy backlogs at least for the next couple of years, sustained by recovered consumer demand and fiscal stimulus.

Cheap debt and improved business confidence support more spending and mergers and acquisitions. Capital expenditure should increase 23% in 2021, following a 13% drop in 2020. As such, we expect limited or no deleveraging for investment-grade companies in 2021.

Infrastructure and residential building renovation are leading the recovery. We expect the rebound in residential construction to center on renovation rather than new construction, which also reflects Europe's demographic trends. Companies more exposed to commercial construction should recover to 2019 levels only in 2023.

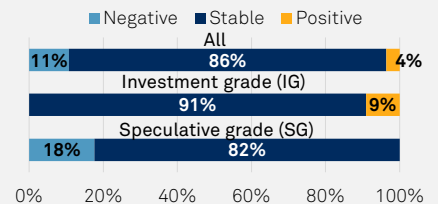
What are the key risks around the baseline?

A quick return to aggressive financial policies. Financial policy is among the key potential drivers of future rating actions on large companies; some have already announced they will return to their pre-pandemic shareholder friendly plans, which include larger dividends or share buybacks.

Persistently high cost inflation leading to a severe margin decline. Building material companies have so far been able to contain margin pressure from increased raw material costs, but persistently high cost inflation, for example spreading to energy and labor, could significantly reduce margins and cash flow.

"Carbon leakage" should be a limited risk for EU-based cement players in the medium term. The EU's carbon cross-border adjustment mechanism should mitigate the negative effects of the progressive phase-out of free carbon allowances. Still, there is a risk of EBITDA reduction if the phase-out is too quick and companies are unable to pass the higher carbon costs on to clients.

Outlook Distribution



Ratings Statistics*

	IG	SG	All
Ratings	11	17	28
Downgrades	0	1	1
Upgrades	2	0	2

Ratings data as of end-June 2021. *Year to date.

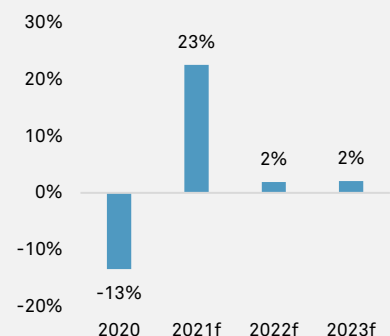
COVID-19 Heat Map

Building Materials	
Estimated recovery to 2019 credit metrics	H2 2021
Potential negative long-term industry disruption	No

2020 Versus 2019		
Revenue decline	EBITDA decline	Incremental borrowings
5%-10%	0%-10%	5%-10%

2021 Estimates Versus 2019	
Revenue decline	EBITDA decline
0%-10%	0%-10%

Capital Expenditure Outlook



Industry Top Trends Update

Capital Goods

A rapid recovery

What's changed?

The sector outlook has stabilized. The net negative outlook bias among issuers we rate in Europe, the Middle East and Africa--a measure of future downgrade risk--sunk to 6% as of June from 50% a year ago. Most rating actions in 2021 have been positive, and the risk of defaults has eased, even at the low end of the rating scale.

The fast global economic rebound is supporting the sector's growth. We revised our 2021 global GDP growth forecast up to 5.9% and see upside risks. Crucially, the U.S. and China--which account for almost 40% of the global economy--are both growing rapidly. This boosted industrial production and orders in the first half of 2021. We expect growth will continue, but with somewhat slowing momentum, and that 2021 will mark a significant expansion in terms of top lines and margins for the capital goods sector.

How is recovery taking shape?

The eurozone is seeing rapid growth of orders and production. IHS Markit revised its Eurozone Manufacturing Purchasing Managers Index to a record high of 63.4 in June 2021, and new orders experienced their third-fastest reported increase ever. The positive momentum lifted the capital goods sector's output and order books due to increased investment and use of manufacturing output-related consumables and services, which we expect to continue throughout the year. We see strong momentum in all main end markets, barring commercial aerospace.

We expected improvement in the sector's performance and credit metrics. On a global basis, in 2021, we forecast revenue growth for the rated capital goods sector of 25%, after a marked contraction of 21% last year, and operating margins nearly recovering to 2019 levels (forecast aggregated EBITDA margin 14.4% in 2021 versus 14.7% in 2019). We also expect aggregated sector credit metrics will significantly improve during 2021 from stronger operating performance and return to pre-pandemic levels in 2022.

What are the key risks around the baseline?

Material price increases and supply-chain constraints. The price of most raw materials jumped due to the post-pandemic rebound, which is likely to slow margin expansion across the sector. However, we expect that supply-chain constraints for most materials and components will slowly ease in the second half of the year. We also think in certain cases, such as microchips, the shortage will boost investment in production capacity and benefit companies providing manufacturing technology.

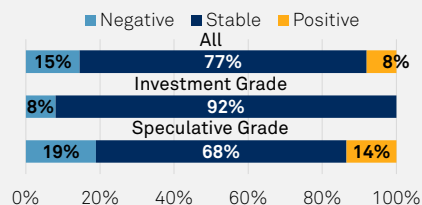
Spikes in COVID-19 outbreaks during the fall and winter. Vaccine hesitancy rather than supply in Europe may prevent countries from reaching targeted vaccination levels over the summer. Additionally, the spread of variants could delay recovery of sectors that were already severely hit, like aerospace. While we do not include a new wave of shutdowns in our sector base case, we see a potential downside in the form of slowing recovery toward the year-end if governments reintroduce pandemic-related restrictions in the main European economies.

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Outlook Distribution



Ratings Statistics*

	IG	SG	All
Ratings	25	37	62
Downgrades	0	2	2
Upgrades	0	5	5

Ratings data as of end-June, 2021. *Year to date

COVID-19 Heat Map

Capital Goods		
Estimated Recovery To 2019	2022	
Credit Metrics	2022	
Potential Negative Long-Term Industry Disruption	--	
2020 Versus 2019		
Revenue Decline	EBITDA Decline	Incremental Borrowings
5% to 10%	15% to 25%	5 to 10%
2021 Estimates Versus 2019		
Revenue Decline	EBITDA Decline	
0 to 10%	0 to 10%	

Industry Top Trends Update

Chemicals

Recovering to pre-pandemic credit metrics

What's changed?

Demand is rebounding. Chemical companies are benefiting from a broad-based recovery in global demand, with strong momentum in Asia, followed by the U.S. and Europe. On the back of strong GDP and industrial production growth worldwide, many commodity chemical products are seeing pricing and volumes develop favorably.

Higher input costs are manageable. Raw material price inflation seems manageable for most companies we rate, since strong demand allows for the pass-through to customers. For some downstream specialty chemical businesses, we expect a typical quarterly lag in pass-through, with a potential impact on margins.

Fertilizers are experiencing strong momentum. Fertilizer companies should benefit from peak cycle conditions in potash, phosphate, and nitrogen markets in 2021, driven by healthy farm economics due to strong pricing for agricultural commodities and limited capacity additions. We will monitor Chinese exports of phosphate and nitrogen, and capacity additions in the near term though.

How is recovery taking shape?

EBITDA levels should recover this year. Given robust macroeconomic recovery and healthy demand from key end markets, we forecast many European chemical companies will report EBITDA close to 2019 levels already this year.

Credit metrics should also reach 2019 levels in 2021. Since 2020 was less severe than we anticipated for many European chemical companies, and given robust demand leading to solid EBITDA growth, we forecast that companies will restore their credit metrics already by year-end 2021 to pre-pandemic levels.

Most companies carry stable outlooks. Our outlook distribution reflects our view that the improvement in credit metrics is sustainable. Of the European chemical companies we rate, 81% carry a stable outlook, and we have slightly more positive outlooks (11%) than negative (8% down from 39% at mid-2020).

What are the key risks around the baseline?

A shift to more aggressive financial policies. Chemical companies reduced capital expenditure and paused mergers and acquisitions (M&A) in 2020 to preserve cash. This may change in light of favorable industry conditions and still-low financing costs. While M&A activity is high in the sector in 2021, many companies have indicated an appetite for organic growth as well as bolt-on and midsized acquisitions rather than transformational deals.

Supply-demand imbalances after 2021. Following the strong rebound in demand in 2021, we see a risk that capacity additions in certain commodity chemicals, such as olefins and intermediates, may exceed demand growth in the coming years, putting pressure on these products' operating rates and pricing.

A slowdown in China. Any slowdown in China, the growth engine of the world's chemical industry, would weigh on many European chemicals companies.

Latest Related Research

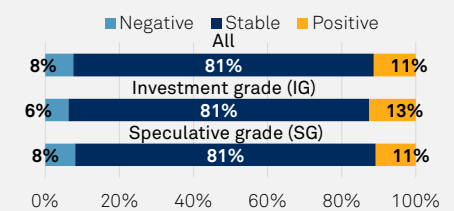
- [The Hydrogen Economy: Industrial Gas Companies Are In Pole Position](#), April 22, 2021
- [The Hydrogen Economy: Green Hydrogen May Transform The Fertilizer Industry](#), April 22, 2021

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Outlook Distribution



Ratings Statistics*

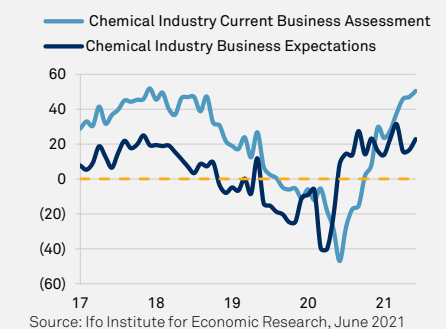
	IG	SG	All
Ratings	16	37	53
Downgrades	0	2	2
Upgrades	0	4	4

Ratings data as of end-June 2021. *Year to date.

COVID-19 Heat Map

Chemicals		
Estimated recovery to 2019 credit metrics		2H 2021
Potential negative long-term industry disruption		No
2020 Versus 2019		
Revenue decline	EBITDA decline	Incremental borrowings
5%-10%	10%-15%	5%-10%
2021 Estimates Versus 2019		
Revenue decline	EBITDA decline	
0%-10%	0%-10%	

IFO Sentiment Survey for German Chemical Industry



Industry Top Trends Update

Consumer Products

Seeking growth through digitization and innovation

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What's changed?

Strong brands and diversification lend resilience. Branded consumer staples upped their market share on back of strong home consumption. While sales dropped in the discretionary and travel retail-reliant segments such as personal luxury and beauty, companies with strong brands and e-commerce managed to limit the impact on credit metrics with costs- and cash-saving measures.

Scrutiny of product portfolios for strategic fit, sustainability, and growth objectives has intensified. The pandemic prompted consumer goods companies to scrutinize and reshape their product and brand portfolios to a greater degree than before. Evolving consumption patterns and sustainability considerations will drive portfolio transformation through investment, bolt-on acquisitions, and disposals.

Digitization increased as the shift in distribution channels gains pace. Branded consumer goods companies are investing in technology to accelerate growth in e-commerce and direct-to-consumer operations. Digitization, however, goes beyond e-commerce and is helping garner insights into consumer needs and contribute to efficiencies and innovation in products, supply chain, marketing, and distribution.

How is recovery taking shape?

On-trade and out-of-home consumption are picking up. While we expect home consumption to remain strong, ongoing vaccination rollouts and the resumption of travel and leisure activities will lead to sales recovery for impacted segments like personal luxury, beauty and alcoholic beverages.

High household savings and pent-up demand will support spending. European households accumulated excess savings of about 12 percentage points of disposable income last year, or €300 billion or 2.7 percentage points of GDP. This, together with pent-up demand, will support strong consumer spending, and premiumization trends in certain segments.

Credit metrics should reach 2019 levels by 2022. Diminishing COVID-19-related costs and efficiency measures should support recovery, as out-of-home activities, on-trade consumption, and discretionary sales recover.

What are the key risks around the baseline?

Uneven vaccine rollouts and new variants could impede a return to normal activity and global recovery.

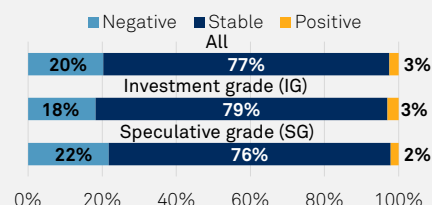
Higher leverage on the back of a shift in financial policy. Large debt-financed mergers and acquisitions to capture growth, with a continued focus on shareholder returns, given improving outlooks and low financing costs, could increase leverage.

Though not our base case, the build-up in inflation is a risk. Headline inflationary pressures will rise this year due to higher energy prices and a rebound in commodity prices on restocking and higher activity. Smaller companies with leveraged capital structures will have limited flexibility if inflation remains persistent.

Latest Related Research

- [Premium Alcohol Beverages Flow Generously Amid The Global On-Premise Dry Spell](#), May 26, 2021
- [U.S. Menthol Ban Will Test Tobacco Companies' Preparedness For Future Restrictions](#), May 5, 2021

Outlook Distribution



Ratings Statistics*

	IG	SG	All
Ratings	33	46	79
Downgrades	0	2	2
Upgrades	0	6	6

Ratings data as of end-June 2021. *Year to date.

COVID-19 Heat Map

Estimated Recovery To 2019 Credit Metrics

Packaged foods / personal and home care / agricultural products and ingredients (A&I)	No decline
Alcoholic beverages	2022
Luxury and discretionary	2022

Potential Neg. Long-Term Industry Disruption

Packaged foods / personal and home care / A&I	No
Alcoholic beverages	No
Luxury and discretionary	No

2020 Versus 2019

Revenue decline	EBITDA decline	Incremental borrowings
Pack. foods / personal and home care / A&I		
No decline	No decline	No increase
Alcoholic beverages		
10%-15%	15%-25%	<5%
Luxury and discretionary		
15%-25%	25%-40%	<5%

2021 Estimates Versus 2019

Revenue decline	EBITDA decline
Pack. foods / personal and home care / A&I	
≥2019	≥2019
Alcoholic beverages	
0%-10%	0%-10%
Luxury and discretionary	
10%-20%	10%-20%

Industry Top Trends Update

Health Care

Recovery is uneven and M&A may pressure rating headroom

What's changed?

Diversified, innovative, and adaptive portfolios will be a differentiating factor for health care companies. Continued, and in some cases accelerated, investments into product and process innovations during the pandemic have supported top-line growth and market-share gains. Cost and cash management are also helping to protect margins and cash balances, shielding credit metrics from significant deterioration and preparing companies for growth post-pandemic.

Pricing and reimbursement are back on the agenda. As health care systems start to recover, unresolved risks regarding reimbursement are resurfacing. Public debate focuses on the accessibility and affordability of medicine and quality care, including price transparency. Ensuring wider patient access while improving therapies' cost effectiveness is increasingly a goal for companies, and sustainability strategies are evermore integrated into operational management.

Sustainability-linked instruments are on the rise. The post-pandemic period is an opportunity for companies to review their policies and protocols, implement new technology to improve care and supply chain management, and to define their sustainability strategies. Sustainability-linked financial instruments can help companies raise funds while highlighting their green or social commitments and reinforcing their sustainability strategy to investors, lenders, and the public.

How is recovery taking shape?

Products and services related to elective procedures were the hardest hit, but are slowly recovering. Europe is lagging the U.S. in recovery, also due to summer holidays, but we expect a pick-up in second-half 2021, depending on COVID-19-related hospitalization rates.

Pharma remains resilient. It faced some slower performance in new treatments and diagnosis, but is seeing growth as patients return and treatments resume.

Health care services has benefited from government support. In France, for instance, reimbursement will last at least for the next 18 months. Recovery in dialysis services, which saw high patient mortality from COVID-19, will take longer, and providers turned to restructuring measures to manage margin pressure.

Diagnostic companies saw profits rise from COVID-19 testing, reflecting high demand and some favorable pricing. However, we expect this contribution to profits will materially decline in 2022, as the wider population gains immunity to COVID-19.

What are the key risks around the baseline?

M&A spending, as companies sit on significant cash balances and are taking advantage of favorable funding conditions. Increasing transaction volumes and high multiples are raising leverage and could pressure metrics and ratings.

Renewed debate around drug pricing and reform in the U.S. could hamper growth prospects for pharma companies over medium term.

Latest Related Research

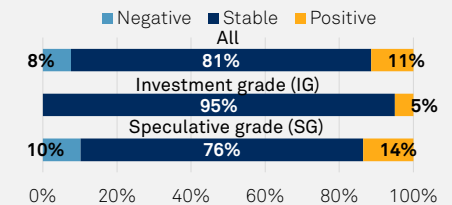
- [European Hospitals Turn To Sustainability-Linked Financing To Advance Their ESG Goals](#), July 1, 2021
- [EU's Vaccine Supply Boost Will Aid The Race Against COVID Mutations](#), April 28, 2021

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Outlook Distribution



Ratings Statistics*

	IG	SG	All
Ratings	19	60	79
Downgrades	0	3	3
Upgrades	0	1	1

Ratings data as of end-June 2021. *Year to date.

COVID-19 Heat Map

Estimated Recovery To 2019 Credit Metrics		
Health care - pharmaceuticals	No decline	
Health care - services	2H 2021	
Health care - equipment	2H 2021	
Potential Neg. Long-Term Industry Disruption		
Health care - pharmaceuticals	No	
Health care - services	No	
Health care - equipment	No	
2020 Versus 2019		
Revenue decline	EBITDA decline	Incremental borrowings
Health care - pharmaceuticals		
No decline	No decline	No Increase
Health care - services		
0%-5%	0%-10%	<5%
Health care - equipment		
10%-15%	15%-25%	<5%
2021 Estimates Versus 2019		
Revenue decline	EBITDA decline	
Health care - pharmaceuticals		
≥2019	≥2019	
Health care - services		
≥2019	≥2019	
Health care - equipment		
≥2019	≥2019	

Industry Top Trends Update

Homebuilders and Developers

Solid demand and softer supply

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What's changed?

Pent-up demand and disposable income are supporting developers' sales and average selling prices. Prices are also bottoming out in the United Arab Emirates, after years of contraction, mostly thanks to international investors.

Demand for residential new builds is holding up, thanks to good access to mortgage loans, favorable funding conditions, and government stimuli. Many governments intervened through bulk purchases, tax incentives, and subsidized mortgages.

Supply is becoming constrained in several European markets, supporting prices but limiting developers' sales volume potential. In France, for example, the number of granted permits and construction starts contracted significantly this year.

How is recovery taking shape?

Developers' sales and EBITDA should approach 2019 levels by 2021. Some may be able to fully recover to pre-COVID-19 levels. By mid-2022, we expect most developers will surpass 2019 levels.

Leverage metrics should mostly recover to 2019 levels by 2021. This is due to solid cash flow generation and debt repayments, except in Russia where the use of project finance loans will likely constrain deleveraging efforts.

The increase in building costs will likely exert pressure on margins this year, given the lack of building materials and labor shortages. We think the pressure could carry into 2022, if the situation doesn't improve.

What are the key risks around the baseline?

Persistent cost inflation and lack of building materials. This would likely weigh on developers' margins and the pace of construction.

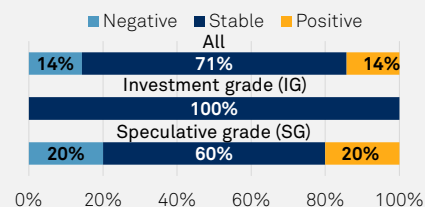
The premature end of government stimuli or an increase in property taxation. An abrupt ending of stimulus measures or higher tax could hamper demand for residential new builds.

Tighter lending conditions. Homebuilders operating in markets like France, Germany, and the U.K. rely heavily on mortgage sales. Moreover, limited access to capital by property developers could also hamper their ability to buy land.

Latest Related Research

- [Russia's Housing Boom Isn't Likely To Burst—Or Bust, March 19, 2021](#)
- [Dubai's Property Market In 2021: A Tough Year On The Road To Recovery, March 1, 2021](#)
- [Industry Top Trends 2021: Homebuilders and Developers, Dec. 10, 2020](#)

Outlook Distribution



Ratings Statistics*

	IG	SG	All
Ratings	2	4	6
Downgrades	0	0	0
Upgrades	0	0	0

Ratings data as of end-June 2021. *Year to date.

COVID-19 Heat Map

Homebuilders And Developers	
Estimated recovery to 2019 credit metrics	2022
Potential negative long-term industry disruption	No
2020 Versus 2019	
Revenue decline	EBITDA decline
5%-10%	10%-15%
	Incremental borrowings
	5%-10%
2021 Estimates Versus 2019	
Revenue decline	EBITDA decline
0%-10%	0%-10%

Industry Top Trends Update

Hotels, Gaming, and Leisure

COVID-19-related restrictions remain the biggest threat

What's changed?

The travel sector's recovery remains contingent on a gradual easing of government restrictions. We expect leisure travel will lead the sector recovery, while business travel will lag, and only recover to pre-pandemic levels by 2023.

Discretionary leisure has been hit hard. The pandemic hurt discretionary leisure businesses, such as theme parks and sports, the most. Governments' COVID-19-related restrictions continue to impair performance materially.

The gaming sector's performance is mixed. There is divergence in gaming companies' financial performance and recovery prospects. Online, diversified, and multiproduct operators have generally fared better.

How is recovery taking shape?

Leisure demand will drive the recovery for hotels and lodging. The near-term recovery will be spurred in particular by domestic tourism and short-haul/regional leisure demand, such as holiday parks and local theme parks. We expect regional economy and midscale hotels focused on business travelers from small and mid-sized companies will rebound faster than those in urban areas in luxury and upscale segments.

Discretionary leisure will be slow to recover. While there is pent-up demand for discretionary leisure spending, we expect continued travel restrictions and tentative consumer confidence will result in a gradual recovery beyond 2021.

The gaming sector will see faster recovery than the broader sector. Although recovery is uneven among players, we believe most gaming companies' credit metrics will have completely recovered by second-half 2022, ahead of and stronger than those of the broader sector.

What are the key risks around the baseline?

Longer-term restrictions. While we forecast a gradual sector recovery into 2022, further lockdowns are a material downside risk, for example from new virus strains. Longer-term restrictions related to social distancing and freedom of movement remain potential obstacles to a speedier recovery.

A slow recovery increasing default risk. About 60% of companies in our rated travel portfolio carry ratings in the CCC category. Many leisure companies added additional debt during the pandemic to bolster liquidity and survive the downturn. Resumption of demand and economic growth is critical to alleviate debt burdens. If recovery takes longer and 2022 is also a transition year, default rates could rise.

Regulation and mergers and acquisitions (M&A). The impact of gaming regulation developments in the U.K., Germany, and Italy could be material for some issuers. M&A are likely to remain a key factor in 2021, following continued consolidation and pursuit of the U.S. market opportunity.

Latest Related Research

- [As European Hotels Grapple With Prolonged Restrictions, Are Operators And Landlords Sharing The Pain?](#), Feb. 24, 2021
- [COVID-19 Heat Map: Pent-Up Demand And Supply Shortages Further Improve Recovery Prospects For Credit Quality](#), June 8, 2021

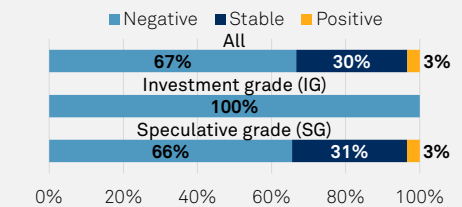
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Outlook Distribution



Ratings Statistics*

	IG	SG	All
Ratings	1	30	31
Downgrades	0	3	3
Upgrades	0	1	1

Ratings data as of end-June 2021. *Year to date.

COVID-19 Heat Map

Estimated Recovery To 2019 Credit Metrics	
Gaming	2022
Lodging and hospitality	2023
Cruise lines	2023
Theme parks and other visitor attractions	2023

Potential Neg. Long-Term Industry Disruption	
Gaming	Yes
Lodging and hospitality	Yes
Cruise lines	Yes
Theme parks and other visitor attractions	No

2020 Versus 2019		
Revenue decline	EBITDA decline	Incremental borrowings
Gaming		
25%-50%	40%-60%	5%-10%
Lodging and hospitality		
>50%	>60%	10%-25%
Cruise lines		
>50%	>60%	<5%
Theme park and other visitor attractions		
>50%	>60%	10%-25%

2021 Estimates Versus 2019	
Revenue decline	EBITDA decline
Gaming	
10%-20%	20%-30%
Lodging and hospitality	
>50%	>50%
Cruise lines	
>50%	>50%
Theme parks and other visitor attractions	
40%-50%	>50%

Industry Top Trends Update

Media and Entertainment

Recovery amid an accelerating shift to digital

What's changed?

Most media companies are on track for recovery, thanks to the macroeconomic rebound, easing of COVID-19-related restrictions, and release of pent-up consumer demand. Subscription-based businesses, such as online service providers and data publishers, showed resilience in 2020 and steady organic growth in 2021. Some investment-grade issuers even strengthened their balance sheets during the pandemic, thanks to cost savings and lower shareholder returns.

The negative rating bias has reduced. Most companies are on course to restore credit metrics by 2022. We think liquidity and default risks have abated since 2020, even for issuers with high debt or tight liquidity and covenant headroom. Outlooks in the out-of-home (OOH) sector remain negative though, since operations only recently resumed and recovery may be bumpy.

Mergers and acquisitions (M&A) are on the rise, due to the media landscapes' fragmentation and the race to acquire and put out content. Similar to the U.S., we expect consolidation in Europe. This is supported by the recent merger announcement from France's top broadcasters TF1 and M6.

How is recovery taking shape?

Advertising is bouncing back. Revenue and earnings of ad agencies, TV broadcasters, as well as print and digital publishers will see strong recovery in 2021-2022. Total advertising revenue may reach 2019 levels in 2021 on the back of GDP growth, higher ad spending by corporations, rapid growth in digital advertising, and resumed sports events. Print and outdoor advertising will recover later in 2022.

Revenue in the OOH sector remains well below pre-pandemic levels. Cinemas have reopened, and sports events, concerts, trade shows and conferences are resuming, albeit at reduced capacity. We think the sector's recovery will gain pace in second-half 2021, but that revenue and earnings will reach 2019 levels only in 2022 and restoring credit metrics could take even longer.

What are the key risks around the baseline?

Resurgence of the pandemic. A surge in COVID-19 cases could result in heightened restrictions and delay recovery, especially in the OOH sector. Some businesses may be unable to sustain or refinance existing capital structures.

Pressure on margins, especially in 2022. This could come from cost inflation from enhanced health and safety measures, rising wages, and competition for talent, for example in the advertising or content production industries.

Longer-term secular trends and a changing media ecosystem. Increasing audience fragmentation, expanding streaming options, and accelerating declines in traditional linear TV and print media will speed up the evolution to a streaming-centric and more digital media universe.

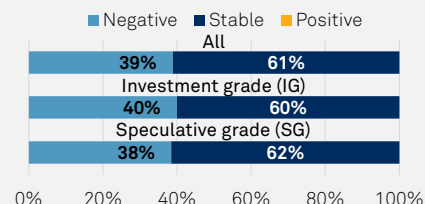
Latest Related Research

- [All3 Media Parent DLG Acquisitions Outlook Revised To Stable On Production Recovery: 'B' Rating Affirmed](#), June 28, 2021
- [Springer Nature Outlook Revised To Stable Following A Solid Operating Performance: 'B+' Rating Affirmed](#), June 24, 2021

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Outlook Distribution



Ratings Statistics*

	IG	SG	All
Ratings	10	27	37
Downgrades	0	1	1
Upgrades	0	2	2

Ratings data as of end-June 2021. *Year to date.

COVID-19 Heat Map

Media And Entertainment	
Estimated recovery to 2019 credit metrics	2022
Potential negative long-term industry disruption	Yes
2020 Versus 2019	
Revenue decline	EBITDA decline
10%-15%	25%-40%
	Incremental borrowings
	5%-10%
2021 Estimates Versus 2019	
Revenue decline	EBITDA decline
0%-10%	0%-10%

Industry Top Trends Update

Metals and Mining

A rising tide lifts all boats (until it turns)

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What's changed?

Demand is strong. Resilience in China and recovering activity across major economies, with rapid restocking, has reinforced the rebound in the metals and mining market that began in 2020.

Prices are supported by supply constraints and limited capacity increases. The lack of the new projects and producers of many minerals struggling to ramp up volumes to meet demand will support healthy prices in the coming years.

Environmental, social, and governance (ESG) is gaining importance. In light of rising public interest in sustainability, the availability and cost of funding are real factors for some projects. We may see more environmental initiatives as players benefit from stronger cash flows.

How is recovery taking shape?

Prices are rocketing. Iron ore and copper reached record prices in 2021, and even gold remains high in a historical context. Industrial metals are generally benefiting from market imbalances, even if restocking volumes moderate in 2021.

Steel is strong too. Steel product prices, at multiyear highs, and margins are benefiting from recovery in the automotive and construction sectors, and helped by the tentative return of product supply. High input costs are being passed on for now, although these may become a dampener on demand. Stimulus programs in the U.S. and Europe should provide medium-term demand.

Most players are maintaining financial and investment prudence, in contrast to previous cycles. Companies with investment-grade ratings are well positioned and some speculative-grade names have upside potential.

What are the key risks around the baseline?

Loss of financial restraint. A return of commitments to mega-projects, especially before an (inevitable) correction in prices and cash flow, could create a mismatch between cash flow from operations and commitments, leading to pressure on certain companies.

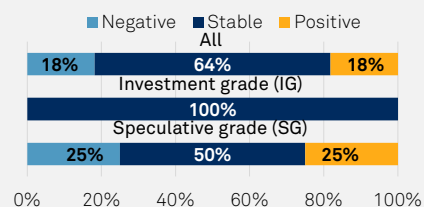
Shocks from China. A softening of actual demand or market expectations for China, the main economy for metals markets, would weaken a key support for prices. However, this is not our base case, at this stage.

Mismanagement of ESG. Individual credits could see an outside impact, given the industry's inherent exposure to ESG risks.

Latest Related Research

- [Metal Price Assumptions: Prices Stay Hot, But No Signs Of A Melting Point](#), June 29 2021
- [The Hydrogen Economy: Steel Producers Have A Long Way To Go](#), April 22, 2021
- [Credit Conditions Europe Q3 2021: Late-Cycle Redux](#), June 29, 2021

Outlook Distribution



Ratings Statistics*

	IG	SG	All
Ratings	6	16	22
Downgrades	0	0	0
Upgrades	0	0	0

Ratings data as of end-June 2021. *Year to date.

COVID-19 Heat Map

Metals and Mining		
Estimated recovery to 2019 credit metrics		2021
Potential negative long-term industry disruption		No
2020 Versus 2019		
Revenue decline	EBITDA decline	Incremental borrowings
0%-5%	0%-10%	No increase
2021 Estimates Versus 2019		
Revenue decline	EBITDA decline	
>2019	>2019	

Industry Top Trends Update

Oil and Gas

The use of today's cash flow will impact future resilience

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What's changed?

Oil demand is rebounding. Underpinned by OPEC+ supply restraints, oil prices are enjoying a strong recovery. Even so, global demand may not return to 100 million barrels per day until late 2022.

Gas prices are up too. Annual average TTF prices for 2021 will likely be more than double the 2020 average of \$3.2 million British thermal units, having sunk below U.S. Henry Hub prices at times in 2020.

Oil refining margins improved, but remain weak. Aggregate demand below 2019 levels and surplus refining capacity means margins remain pressured by low utilization and high input crude prices.

How is recovery taking shape?

Oil and gas producers are banking strong cash flows. The rebounding oil and gas prices with low costs and restrained capital expenditure (capex) are a dramatic reversal from 2020.

Producers remain prudent with regard to spending, for now. Capex is unlikely to jump in 2021, and will probably end the year comfortably inside companies' caps or guidance ranges.

With net debt down, financial policies will become more important. More cash means choices about how far to cut net debt, and how much to release to shareholders. We revised to stable our negative outlooks on some companies where we have visibility on sustainable debt and leverage profiles.

What are the key risks around the baseline?

Loss of market confidence. Oil prices are benefiting from expectations of a continued demand recovery and supply discipline. If COVID-19 become materially impactful or supply returns too rapidly, prices could soften.

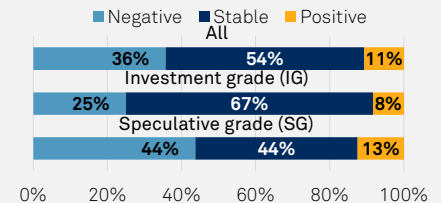
Big capex plans for 2022. A more robust price outlook implies more investment options--in both oil and alternatives. Committing to big plans could become a burden if prices fall.

A U.S. shale rebound. Public companies are exhibiting operating and financial discipline, but if WTI oil remains at \$70 per barrel investment and production growth could come back too fast for demand.

Latest Related Research

- [S&P Global Ratings Raises Short-Term Oil And Gas Price Assumptions On Improving Market Conditions](#), June 16, 2021
- [Credit Conditions Europe Q3 2021: Late-Cycle Redux](#), June 29, 2021
- [The ESG Winds Of Change Could Become A Tempest For Global Oil And Gas Producers](#), June 2, 2021

Outlook Distribution



Ratings Statistics*

	IG	SG	All
Ratings	12	18	30
Downgrades	2	3	5
Upgrades	0	5	5

Ratings data as of end-June 2021. *Year to date.

COVID-19 Heat Map

Oil And Gas	
Estimated recovery to 2019 credit metrics	2022
Potential negative long-term industry disruption	No
2020 Versus 2019	
Revenue decline	EBITDA decline
25%-50%	40%-60%
Incremental borrowings	
<5%	
2021 Estimates Versus 2019	
Revenue decline	EBITDA decline
10%-20%	10%-20%

Industry Top Trends Update

Real Estate (REITs)

Paving the way for renewed growth

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What's changed?

Shopping center reopenings are spurring rent recovery, after several waves of store closures and rent deferrals. Following a 16% drop in rental income on average in 2020, the European REIT market is gradually improving, supported by the lifting of COVID-19-related restrictions, and surprisingly resilient rent uplifts on new leases in most countries.

Office rents and valuations are proving resilient. Office REITs' performance was broadly stable in 2020, despite low utilization rates and subdued leasing markets. Tenants and investors' preferences are becoming more visible, with grade-A, centrally located assets that have green credentials receiving the most interest.

The residential rental market remains robust. The pandemic had little effect on the German and Nordic residential markets, which exhibit high rent collection rates and low tenant defaults. The sector continues to attract investors, although rising environmental standards and cost of construction require higher capital expenditure.

Industrial and logistics enjoy strong demand from tenants and investors. With booming e-commerce, corporates' needs for logistic space largely outpaces supply.

How is recovery taking shape?

Retail REITs' revenue is likely to rebound only modestly (0%-5%) this year, with more pronounced recovery (5%-10%) in 2022. The lifting of COVID-19-related restrictions has been very gradual in 2021, and losses from deferred rent and additional vacancies will also weigh on performance this year.

Office rental growth should remain mostly flat until 2022, with declines in the low-single digits. Tenant demand should remain weak despite economic recovery as companies reevaluate their needs. That said, REITs' share of revenue at risk of vacancy or negative reversion remains modest at about 11% per year.

Most credit metrics should recover by 2022. While interest coverage has remained relatively strong, debt to EBITDA should recover to 2019 levels by 2022, thanks to lower investments and rising revenue. Debt to debt and equity should take slightly longer to recover, given limited revaluation prospects, but remain satisfactory.

What are the key risks around the baseline?

Strong resurgence of COVID-19 cases and new restrictions on shopping centers. More social distancing measures would likely harm tenants' capacity to pay rent.

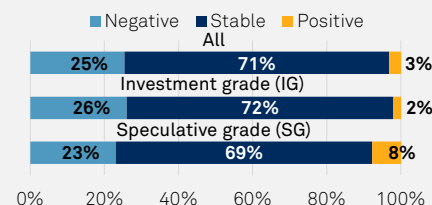
Debt-funded mergers and acquisitions. Given that REITs' shares trade at discount to their net asset value and funding conditions remain good, the consolidation trend is likely to continue, especially in the residential sector.

A harsher valuation correction than we currently expect. Most of our ratings can absorb a 5% value decline in 2021, but over 10% would likely trigger downgrades.

Latest Related Research

- [SLIDES: EMEA Real Estate \(REITs\) Paving The Way For Renewed Growth](#), July 16, 2021
- [European Office REITs Should Prove Resilient To A Gradual Decline In Tenant Demand](#), April 29, 2021

Outlook Distribution



Ratings Statistics*

	IG	SG	All
Ratings	47	12	59
Downgrades	2	0	2
Upgrades	2	0	2

Ratings data as of end-June 2021. *Year to date.

COVID-19 Heat Map

Real Estate (REITs)	
Estimated recovery to 2019 credit metrics	2022
Potential negative long-term industry disruption	Yes
2020 Versus 2019	
Revenue decline	EBITDA decline
5%-10%	0%-10%
	Incremental borrowings
	<5%
2021 Estimates Versus 2019	
Revenue decline	EBITDA decline
0%-10%	0%-10%

Industry Top Trends Update

Retail and Restaurants

Poised to shake off the pandemic blues

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What's changed?

Retailers' have shown higher-than-anticipated resilience to extremely tough operating conditions. Most European retailers we rate have protected their balance sheets well through cost reduction and prudent financial management, despite a sharp drop in earnings. This has prompted many positive rating actions in recent months.

E-commerce accelerated rapidly, becoming a meaningful earnings driver.

Retailers are investing heavily in technology, storage, and distribution to develop omnichannel capabilities. Margin dilution from online sales remains a concern for grocers, while nonfood retailers are less tolerant of loss-making stores.

The importance of sustainability has increased. The social and environmental agenda is gaining traction, with more focus on plastics reduction and sustainable supply chains. Demand for fresh, plant-based foods and organic produce is rising.

How is recovery taking shape?

Retail sales are picking up. Economic recovery, vaccination rollouts, and the release of pent-up demand following the reopening of nonessential stores will support a recovery in retailers' top lines.

Credit metrics should reach 2019 levels only by 2023 for many nonfood retailers.

Factoring in the significant cash burn during store closures and the deferral of capital expenditure, we expect discretionary and nonessentials retailers, restaurants, and pubs to prioritize investment over deleveraging.

High levels of household savings should support consumption. European households accumulated excess savings of about 12 percentage points of disposable income in 2020 (€300 billion or 2.7 percentage points of GDP). This, together with pent-up demand, should support strong consumer spending.

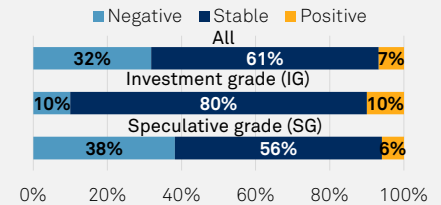
What are the key risks around the baseline?

Uneven vaccine rollouts and new variants could impede a return to normal activity and global economic recovery.

Though not our base case, the build-up in inflation is a risk. Headline inflationary pressures will rise this year, linked to higher energy prices and a rebound in commodity prices on restocking and higher activity levels. Competition will remain intense, but retailers with leveraged capital structures have limited promotional flexibility if inflation remains persistent.

Solvency issues remain acute for some retailers. Of our rated retail portfolio, 9% defaulted since the onset of the pandemic, and over 9% remain in the 'CCC' rating category. These retailers will struggle to capitalize on post-pandemic recovery due to strong competition, limited capital to invest in digital transformation, and high pre-COVID-19 leverage that the pandemic has only exacerbated.

Outlook Distribution



Ratings Statistics*

	IG	SG	All
Ratings	10	34	44
Downgrades	0	1	1
Upgrades	1	3	4

Ratings data as of end-June 2021. *Year to date.

COVID-19 Heat Map

Estimated Recovery To 2019 Credit Metrics

Retail - essential/grocery	No decline
Retail - nonessential	2023
Retail - restaurants	2023

Potential Neg. Long-Term Industry Disruption

Retail - essential/grocery	No
Retail - nonessential	Yes
Retail - restaurants	Yes

2020 Versus 2019

Revenue decline	EBITDA decline	Incremental borrowings
Retail - essential/grocery		
No decline	0%-10%	<5%
Retail - nonessential		
15%-25%	25%-40%	10%-25%
Retail - restaurants		
25%-50%	40%-60%	10%-25%

2021 Estimates Versus 2019

Revenue decline	EBITDA decline
Retail - essential/grocery	
≥2019	≥2019
Retail - nonessential	
0%-10%	10%-20%
Retail - restaurants	
10%-20%	20%-30%

Latest Related Research

- [European Retailers Seek To Reopen Their Doors To Usher In The Post-Pandemic Recovery](#), June 29, 2021
- [U.K. Pubs, Shaken And Stirred, Look To Recover After A Cocktail Of Headwinds](#), April 8, 2021

Industry Top Trends Update

Telecommunications

Stable, but still searching for growth

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What's changed?

European telecoms are seeing a modest rebound. Most players posted relatively stable performance in 2020, with revenue dips of only 2%-3% on average. As such, the rebound has been small as markets recover from the economic impact of COVID-19. We forecast revenue growth of about 1% for 2021, mainly from fixed broadband.

The mobility segment was hit hard and will be slow to rebound. Mobility was the most affected as a result of lockdowns and a near-halting of travel. We don't expect a return to 2019 levels of business and international travel until 2023, leaving roaming mobility revenue suppressed for at least another year.

How is recovery taking shape?

Infrastructure investment is strong. We forecast sustained high investment in fiber and 5G rollouts over the next two-to-three years, averaging 18% of revenue. Fixed-line retail and wholesale may benefit as durable in-home broadband demand and greater fiber availability spurs customer upgrades. In mobile, however, we see low short-term commercial prospects for 5G until compelling use cases emerge.

Asset sales will continue. We expect more infrastructure sales, provided that well-managed tapering and only transitory inflation maintain buyer access to attractive capital markets. Operators pursuing tower sales benefit from high valuation proceeds that can improve balance sheets and financial flexibility, while fiber sales can push expensive rollouts off balance sheet.

Government policy will likely remain supportive. Telecoms affirmed their services' strategic importance during the pandemic, and we expect governments will encourage robust infrastructure investment. This includes funds to accelerate digitization and infrastructure upgrades from EU Next Generation and national programs, relaxation of wholesale pricing controls, and possibly greater tolerance for consolidation through mergers and acquisitions.

What are the key risks around the baseline?

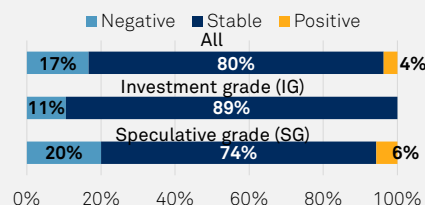
An uptick in competition. Competitive telecom markets like Italy and Spain could face weaker consumer prospects if high unemployment and low consumer spending raise demand elasticity. Low-price value challengers may have a window to increase market share, reigniting price competition after reduced churn rates amid the pandemic. This could impair operators' ability to pass on potential costs increases.

Delayed shocks from the pandemic. While not in our base case, a disruptive withdrawal of emergency support, like short-term work and furlough schemes, could unravel some of the cushions provided over the past year. This could particularly impact small and midsized enterprise demand for telecom services, which fared better than we expected during the pandemic.

Latest Related Research

- [Telecom Fiber Sales: Limited Financial Benefits And Big Credit Questions](#), Nov. 31, 2020
- [The U.K. Telecoms Market Will Pick Up In 2021-2022 As Pandemic Headwinds Ease And Fiber Investments Accelerate](#), Dec. 10, 2020

Outlook Distribution



Ratings Statistics*

	IG	SG	All
Ratings	19	35	54
Downgrades	0	2	2
Upgrades	1	0	1

Ratings data as of end-June 2021. *Year to date.

COVID-19 Heat Map

Telecommunications		
Estimated recovery to 2019 credit metrics		2022
Potential negative long-term industry disruption		No
2020 Versus 2019		
Revenue decline	EBITDA decline	Incremental borrowings
0%-5%	0%-10%	<5%
2021 Estimates Versus 2019		
Revenue decline	EBITDA decline	
0%-10%	≥2019	

Industry Top Trends Update

Transportation

Airlines see slow traffic recovery, while shipping thrives

What's changed?

European air travel is coming back, but sluggishly. Domestic and short-haul leisure travel will provide support, but a full recovery depends on long-haul and corporate traffic, which will take time to return. Stronger airlines tapped capital markets for fresh liquidity, while additional government support has poured in for vulnerable carriers. Much of it needs to be repaid though, resulting in more leveraged balance sheets and a longer path to recovery.

The global container shipping industry is flourishing. A strong pickup in e-commerce, consumer spending shifting to tangible goods from services, congestion in major maritime ports, and disruption of logistical supply chains is tying up containership capacity. Freight rates are reaching record highs as a result. We've taken numerous positive rating actions on container shipping companies we rate, and more are likely to follow.

Dry bulk trade rebounded quickly, and COVID-19-related disruptions lend support to shipping charter rates. New vessel deliveries will diminish, underpinned by the current all-time-low order book and marginal new ship ordering in the year to date. Simultaneously, China's imports of dry bulk commodities remain healthy.

How is recovery taking shape?

A meaningful rebound in air travel is delayed to after the lucrative summer season. Local travel restrictions amid new virus strains and uneven national vaccination rates have hampered air travel. European borders are gradually opening to vaccinated travelers, but the pace varies by country. Low-cost airlines and leisure carriers will be the first to recover, while the legacy carriers will take longer because they rely more on intercontinental and corporate traffic, which lags.

We see upside to container liners' 2021 earnings. Notwithstanding the recent spike in new ship orders, containership supply growth is unlikely to surpass firm demand growth in the coming quarters, propping up freight rates, which we forecast will gradually moderate from current record-highs from late 2021 at the earliest, as the pandemic's impact on container shipping eases.

Dry bulk shipping displays solid fundamentals, while oil shipping lags. The Chinese government's stimulus measures to prop up the country's economy amid the pandemic translate to a need for dry bulk commodities, such as iron ore. Meanwhile, global demand for minor bulk and grains is solidifying, and new ship supply growth is tightening. We expect 2021 tanker charter rates will lag 2020 levels, but remain profitable.

What are the key risks around the baseline?

Vaccine hesitancy and refusal disrupting a fragile recovery in air travel. A meaningful return to flying hinges on vaccination reaching critical mass and existing vaccines preventing serious illness and hospitalization. If unemployment continues to rise, consumers' willingness to travel will drop.

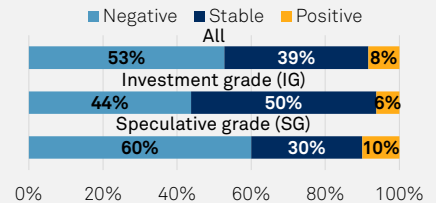
Elevated fuel prices persisting longer than we currently expect. This could disrupt the path to recovery for airlines and strong trading momentum for container liners as well as trim their profitability unless the cost inflation is successfully passed through to customers. Dry bulk ship and tanker operators are less exposed.

A surge in new builds threatening capacity utilization. Given the shipping sector's historically poor supply discipline, there is a risk that the ordering of new vessels intensifies, destabilizing improving supply-demand conditions in the medium term.

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Outlook Distribution



Ratings Statistics*

	IG	SG	All
Ratings	16	22	38
Downgrades	0	2	2
Upgrades	2	5	7

Ratings data as of end-June 2021. *Year to date.

COVID-19 Heat Map

Transportation - Airlines	
Estimated recovery to 2019 credit metrics	>2024
Potential negative long-term industry disruption	Yes

2020 Versus 2019		
Revenue decline	EBITDA decline	Incremental borrowings
>50%	>60%	>25%

2021 Estimates Versus 2019	
Revenue decline	EBITDA decline
>50%	>50%

Transportation - Shipping	
Estimated recovery to 2019 credit metrics	No decline
Potential negative long-term industry disruption	--

2020 Estimates Versus 2019		
Revenue decline	EBITDA decline	Incremental borrowings
No decline	No decline	No increase

2021 Estimates Versus 2019	
Revenue decline	EBITDA decline
>2019	>2019

Industry Top Trends Update

Transportation Infrastructure

The dual-track recovery shows a widening gap

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What's changed?

Variation in demand recovery across sectors has become more pronounced, with European airports and rail still the worst hit. These subsectors will likely post performance similar to or only slightly better than 2020 levels this year, despite large government support packages for rail and airports' continued spending cuts.

Toll road traffic is starting to converge with 2019 levels. This is fueling a strong appetite for mergers and acquisitions. Vinci place a bid for ACS Industries due to the appeal of its renewable generation pipeline, and Atlantia agreed to sell its Italian operation Autostrade Per L'Italia to a government-approved consortium.

EU-wide COVID-19 recovery plans and the Green Deal are supporting infrastructure investment. These could revive or start new projects aimed to improve the resilience and lower the climate impact of transportation.

How is recovery taking shape?

European airports remain in the doldrums. Despite a ramp-up in vaccinations and the rollout of digital COVID certificates in Europe, governments continue to take a cautious stance on cross-border travel due to new virus variants. Airport traffic at rated airports has been at just 10%-15% of 2019 levels, since the start of the year.

Toll roads and car parks show mixed results by country. As restrictions are lifted, road traffic has rebounded more quickly than other forms of transport, since people prefer cars to public transport for safety reasons.

Consumer spending and inflation are on the rise. We expect a boost to leisure trips as well as retail revenue at airports and rail stations. It remains to be seen if infrastructure companies will be able to pass on inflation to consumers, even if entitled to do so in their tariffs.

What are the key risks around the baseline?

Renewed pandemic-related restrictions could delay meaningful resumption of international travel to after the lucrative summer season, and present downside risk to air travel in Europe below our estimate of 30%-50% of 2019 levels in 2021.

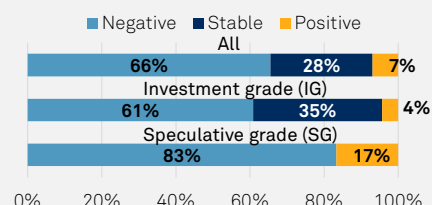
The level of regulated tariffs for airports. A number of regulatory decisions are due for European airports by the end of 2021, and regulators will have a hard job reconciling the need to increase tariffs with the fragile traffic recovery.

Consumer behavior post-pandemic. Trains, roads, and car parks could see fewer commuters, but this could be partially offset by the continued stickiness of seasonal subscriptions.

Latest Related Research

- [Moving On: Atlantia And Autostrade per l'Italia Plan A Divorce](#), May 26, 2021
- [Another Stretch Year for Europe's Airports](#), March 22, 2021
- [Europe's 2021 Air Passenger Traffic Likely To Stall At 30%-50% Of 2019 Level](#), Feb. 18, 2021

Outlook Distribution



Ratings Statistics*

	IG	SG	All
Ratings	23	6	29
Downgrades	0	1	1
Upgrades	1	1	2

Ratings data as of end-June 2021. *Year to date.

COVID-19 Heat Map

Estimated Recovery To 2019 Credit Metrics

Transport infra - toll roads	2022
Transport infra - airports	>2024

Potential Neg. Long-Term Industry Disruption

Transport infra - toll roads	No
Transport infra - airports	Yes

2020 Versus 2019

Revenue decline	EBITDA decline	Incremental Borrowings
Transport infra - toll roads		
15%-25%	15%-25%	5%-10%
Transport infra - airports		
>50%	>60%	>25%

2021 Estimates Versus 2019

Revenue decline	EBITDA decline
Transport infra - toll roads	
10%-20%	10%-20%
Transport infra - airports	
>50%	>50%

Industry Top Trends Update

Utilities

It's all about the energy transition

What's changed?

Climate regulation is accelerating. European energy transition policies are taking the form of enhanced national renewable targets, higher carbon-reduction goals, government subsidies, and the implementation of a European taxonomy for sustainable activities. The energy transition is becoming more concrete, with clearer price signals and legal frameworks, which is positive for the sector.

Carbon prices are at historical highs. Anticipation of stricter trading volumes led carbon prices to surge above €50 per ton in 2021 from about €25 over 2019-2020. This is expediting fuel switching away from the most polluting energy sources.

Annual investments will rise about 30% over 2020-2023. The top-25 European utilities plan to up investment in more defensive renewables and networks, which will slowly strengthen their business risk profiles, but tighten balance sheets.

How is recovery taking shape?

High power prices support power generators' earnings. This is underpinned by higher carbon prices, tightening of supply from nuclear and thermal plant closures, and economic recovery. European power prices almost doubled in first-half 2021 compared with 2020 levels, and baseload producers will benefit the most.

Power demand offers brighter prospects. We see improved growth prospects in Europe, thanks to economic recovery and the electrification of economies to reduce carbon emissions, particularly for heavy industries and heating. Growth in power purchase agreements could substitute subsidy schemes.

Debt financing remains attractive. The cost of debt remains low and the sector's attractiveness for green financing further compresses yields. We anticipate utilities will continue seizing (re)financing opportunities, particularly on hybrids.

What are the key risks around the baseline?

Nuclear and gas remain in limbo. Uncertainties persist for European gas assets as growth prospects depend on EU taxonomy and technological progress on green gases. For nuclear, financing life extension and new projects remain complex.

Lower profitability from renewables. Tougher competition for new renewable projects combined with more risk appetite could weaken returns further. That said, the growth of investment opportunities and competitive advantage for market leaders mitigate these risks at least over the coming three years.

A squeeze in network remuneration. Recent regulatory reviews have led to a decline in remuneration for power and gas networks, at a time of significant investment need, especially for power. Operators' ability to cut costs, grasp bonuses, and adapt shareholder remuneration are key for rating stability.

Latest Related Research

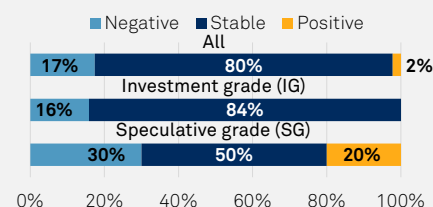
- [The Hydrogen Economy: Storage Is Paramount For Utilities In The Long Term](#), April 22, 2021
- [The Energy Transition And The Diverging Credit Path For European Utilities](#), Feb. 16, 2021
- [The Energy Transition And What It Means For European Power Prices And Producers: January 2021 Update](#), Jan. 27, 2021

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Outlook Distribution



Ratings Statistics*

	IG	SG	All
Ratings	82	10	92
Downgrades	1	1	2
Upgrades	5	1	6

Ratings data as of end-June 2021. * Year to date.

COVID-19 Heat Map

Utilities		
Estimated recovery to 2019 credit metrics		2022
Potential negative long-term industry disruption		No
2020 Versus 2019		
Revenue decline	EBITDA decline	Incremental borrowings
0%-5%	0%-10%	<5%
2021 Estimates Versus 2019		
Revenue decline	EBITDA decline	
0%-10%	0%-10%	

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