Market Insights
Sector Intelligence | Leveraged Finance

S&P Global Ratings

This report does not constitute a rating action

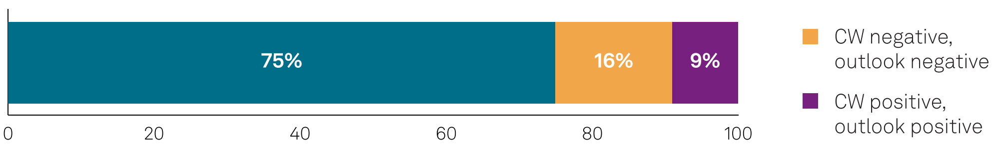
European Summary Report

Nov. 14, 2023

The October Snapshot

Liquidity and refinancing risks start to pressure lower-rated issuers.

Outlook distribution



Three new speculative-grade issuers in October

30 **New issuers**
YTD Oct. 2023 vs. **54** YTD FY2022

Top sectors

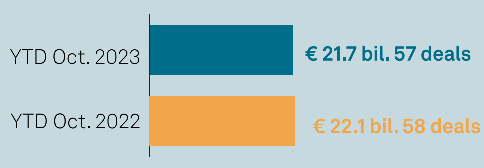
Business and consumer services

Media, entertainment, and leisure

Chemicals

October represented the highest monthly volume in the primary leveraged loan market so far in 2023

European CLO issuance closer to last year levels



Note: Data above is year-to-date (YTD) except for the outlook distribution. CW--CreditWatch. CLO--Collateralized loan obligations. Outlook distribution rounded to a whole number and only includes European corporate ratings (excluding utilities sector). Source: S&P Global Ratings. Leveraged loan and CLO data is sourced from PitchBook LCD.

This report covers issuers incorporated in: Bulgaria, Cayman Island, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Gibraltar, Greece, Guernsey, Hungary, Iceland, Ireland, Isle of Man, Italy, Jersey, Latvia, Liechtenstein, Lithuania, Luxemburg, Malta, Monaco, Netherlands, Norway, Poland, Portugal, Romania, Spain, Sweden, Switzerland, and the U.K. We update all the graphs and charts as per the latest Newsletter period. Even when there are no changes, we continue to include the charts for continuity.

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WEBINAR REPLAY

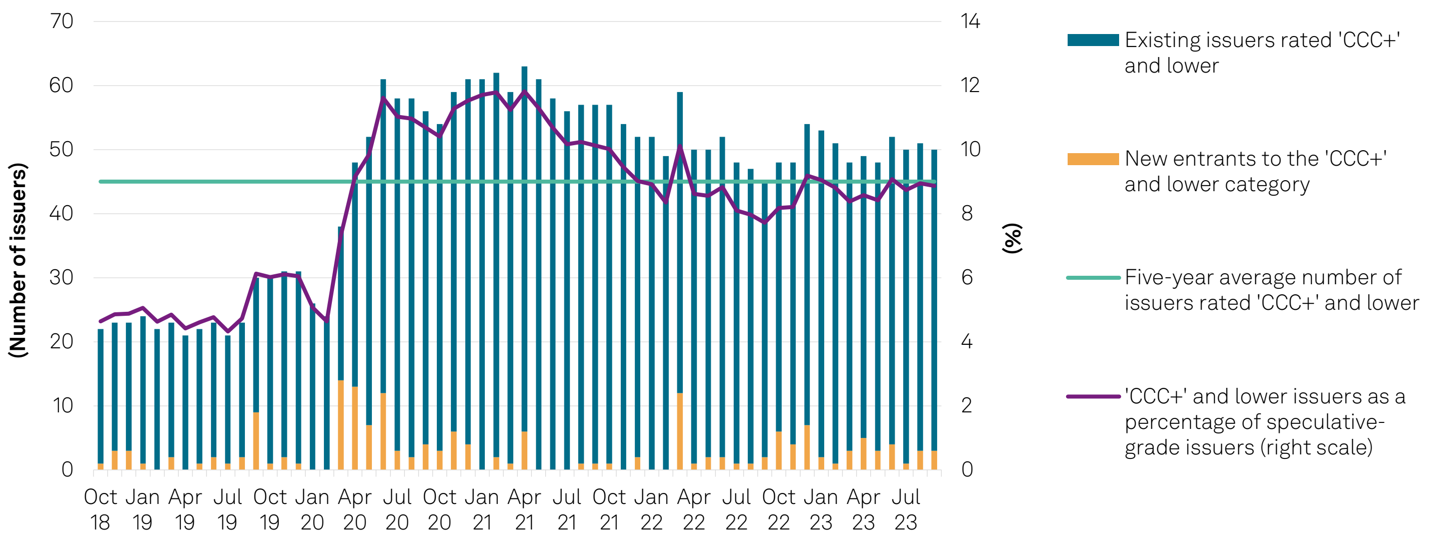
[European CLOs: Where Do We Go From Here?]

Key Insights

1. No sector is immune to the rise in risky credits, although the consumer products sector still leads the overall count, followed by capital goods, chemicals, and packaging. The risky credits remain concentrated geographically, with 60% of all European risky credits in the third quarter based in the U.K., the Netherlands, and Luxembourg.
2. October hit a pause in issuance as volatility in rates and spreads returned in the debt markets, driven by macroeconomic data. Although spreads for 'BB' and 'B' rated category issuers have stabilized, they are still 30-40 basis points (bps) wider than the lows in September. There was no new 'CCC' rated debt in third-quarter 2023. The oil and gas, consumer products, chemicals, and packaging sectors have the highest amount of debt; we rate 51% of issuers in these sectors 'CCC+' and below.
3. The year-to-date European default tally is the second-highest since 2008. We expect defaults in Europe to continue rising not only due to risky credits, but also the elevated number of 'B-' rated issuers with negative outlooks compared with long-term averages. Many of the weakest issuers come from consumer-facing sectors such as consumer products and media and entertainment. Both sectors rely on resilient consumer spending, which is under pressure from inflation and high interest rates.

Monthly Highlight

The number of Risky credits remains higher than the long-term average



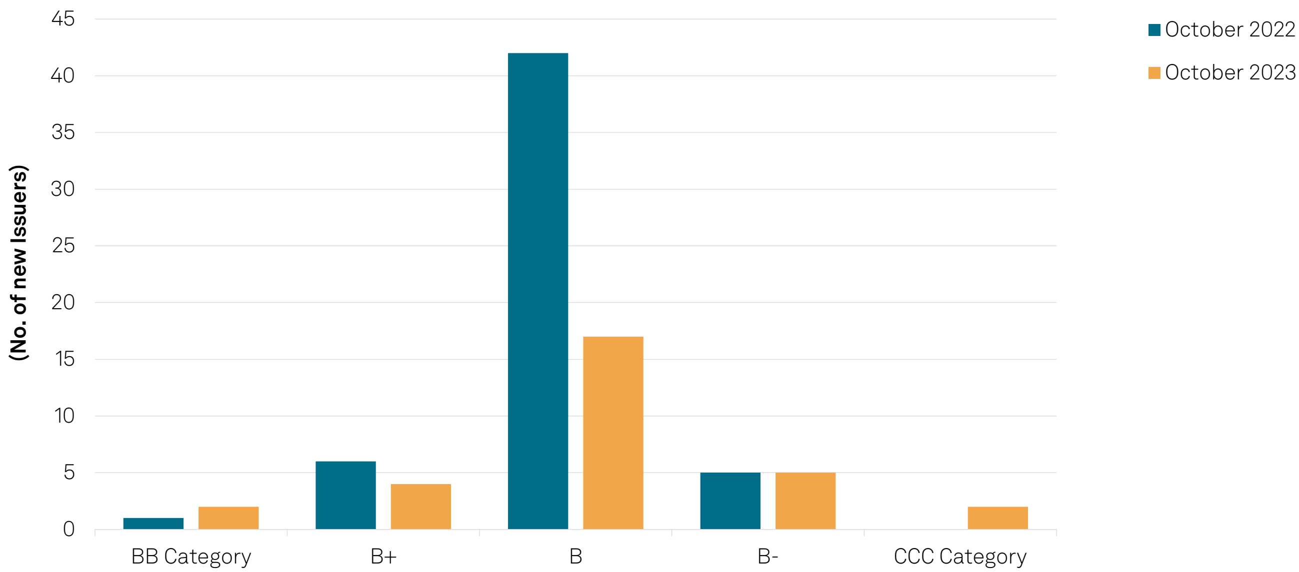
From June 30 to Sept. 30, 2023, the number of European issuers rated 'CCC+' and below declined by two to 50, although still above the five-year average of 45. Source: S&P Global Ratings.

Read the full report >>

YTD Speculative-Grade New Issuers

Chart 1

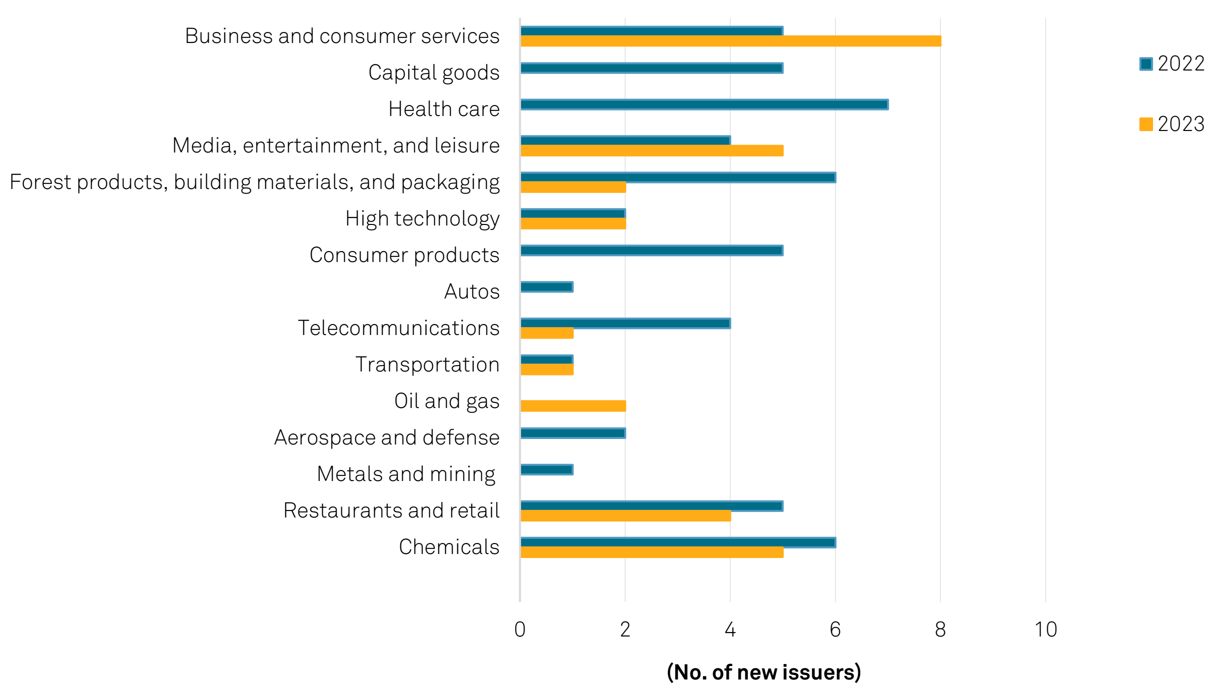
New issuers by rating



Note: Data represents new issuers as of Oct. 31, 2022, and 2023. Includes European corporate ratings and excludes confidential issuers. Source: S&P Global Ratings.

Chart 2

New issuers by industry group



Note: Data represents new issuers as of Oct. 31, 2022, and Oct. 31, 2023. Includes European corporate ratings and excludes confidential issuers. Source: S&P Global Ratings.

Defaults

Chart 3

Downgrade to 'SD'/'D'

Table 1

Ratings raised after selective default ('SD') and default ('D')

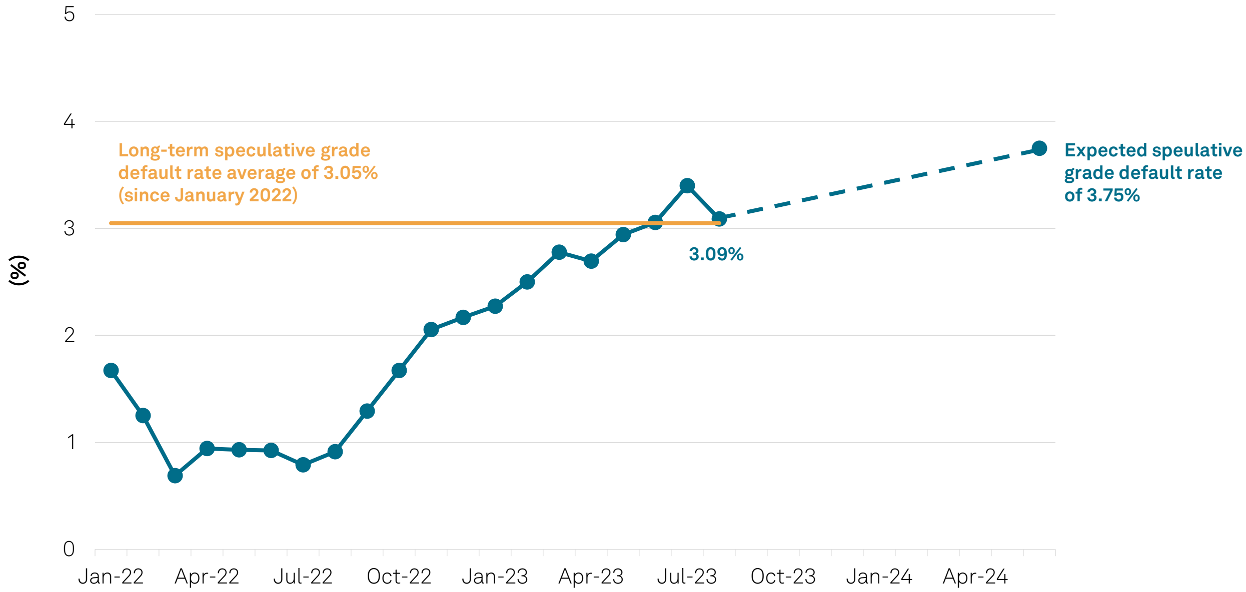
Issuer name	Prior rating	Rating raised to	Sector	Reason for default
Cineworld Group PLC*	D	B-/Stable	Media and entertainment	Bankruptcy
Technicolor Creative Studios§	D	CCC/Negative	Media and entertainment	Missed interest payments
Toro Private Holdings I Ltd.	SD	CCC+/Negative	Transportation	Distressed exchange
Covis Finco S.a r.l	D	B-/Negative	Healthcare	Distressed exchange
Ideal Standard International S.A.	SD	CCC/Developing	Building materials	Distressed exchange

- Covis Finco and Cineworld Group are the two defaults where we saw debt haircuts, with Cineworld finally emerging from restructuring in September, nearly a full year after filing its Chapter 11 petition. Travelport (Toro Private Holding) saw de facto priming of its first-lien term loans via exchange to junior priority loans. While Travelport's emergence from restructuring was supported by a $200 million equity holder injection, Covis on the other hand was facilitated through Apollo relinquishing part of its equity ownership to lenders, though remaining in control.
- Ideal Standard had battled with inflationary pressures on its cost base, coupled with severely impacted revenue and cash flows leading to a downgrade to 'CCC' in July. Following this, the company announced an exchange offer suggesting leaving par intact for lenders, in the short term at least, and altering potential recovery upon change of control to at least 72% of the face value, compared to 101% originally. Upon completion of the €325 million senior secured notes exchange, the company announced the signing of a binding sale agreement to Villeroy & Boch. The diminished financial flexibility, as the majority of its liquidity sources have been utilized, and uncertainty regarding the final capital structure post-merger, capped the post-default emergence rating to 'CCC' with a developing outlook.

*Cineworld Group PLC has been re-rated as New Cineworld Midco Ltd.
§Rating has been withdrawn
Note: Data on number of defaults is as of September 2023. Excludes European corporate ratings. SD--Selective default. For more information on European defaults, refer to our monthly publication, "Distressed Ex changes Drive 2023 Global Corporate Defaults To 118," published Oct. 20, 2023. List of ratings raised after 'SD' and 'D' is as of Oct. 31, 2023. Source: S&P Global Ratings.

Chart 4

European trailing-12-month speculative-grade default rate

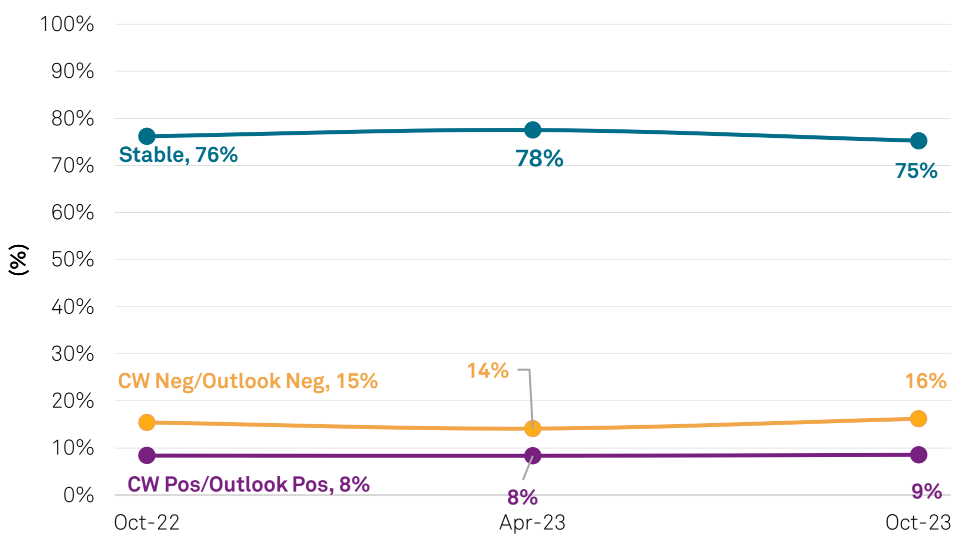


Note: Data as of Aug 31, 2023. The long-term average dates back to January 2002. Source: S&P Global Ratings. See "The European Speculative -Garde Corpo rate Default Rate Could Rise To 3.75% by June 2024," published Aug. 18, 2023.

Speculative-Grade Rating Outlook Mix

Chart 5

October 2022/2023 speculative-grade CreditWatch/Outlook distribution

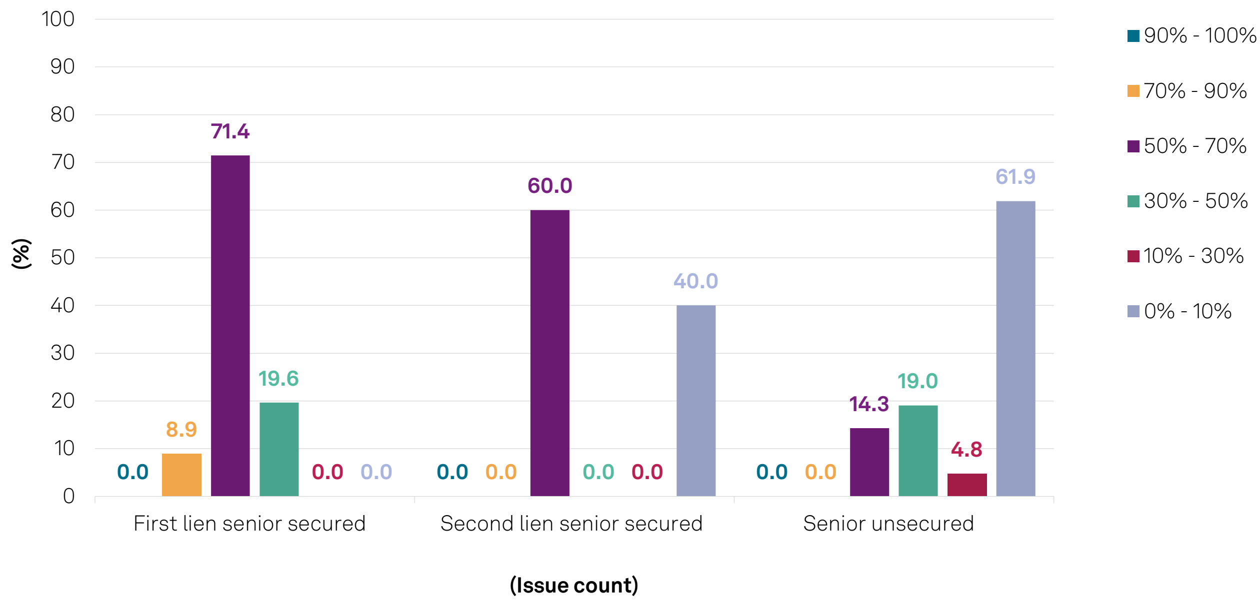


Note: Data as of Oct. 31, 2022, and Oct. 31, 2023. CreditWatch/outlook distribution includes all European corporate ratings. Does not include investment-grade issuers. Source: S&P Global Ratings.

Recovery Ratings

Chart 6

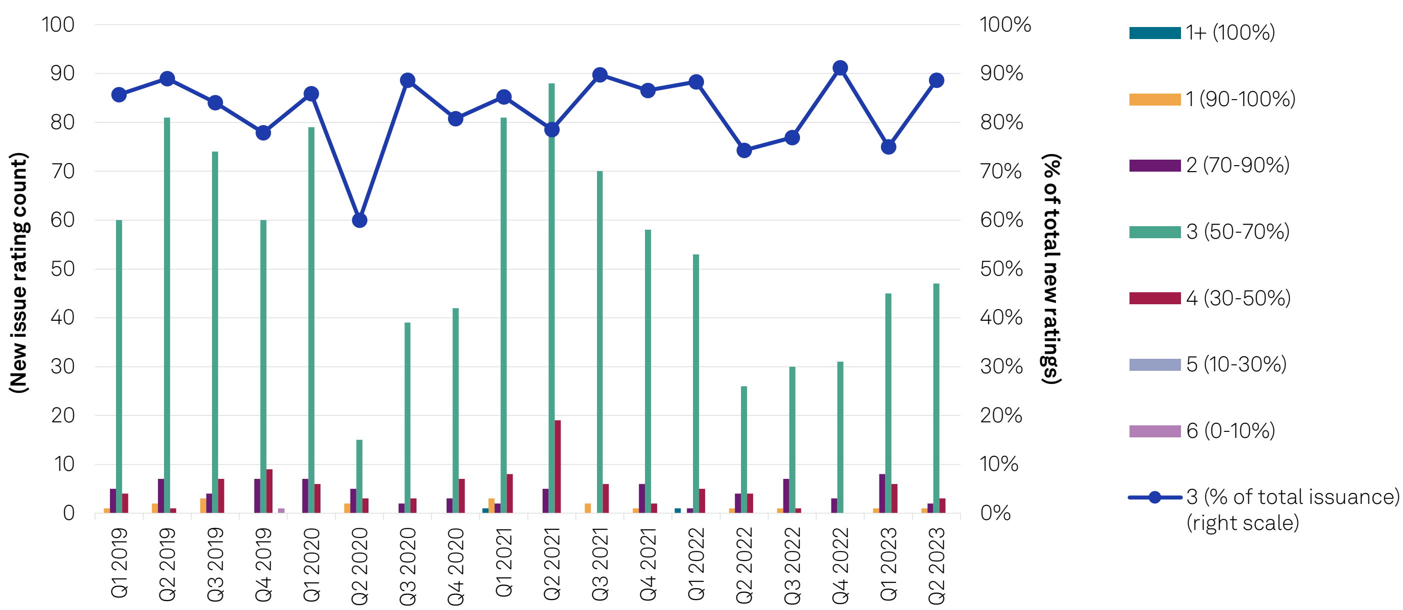
Recovery rating distribution for 'Weakest Links'



Note: Data as of June 30, 2023. Weakest Links--Issuers rated 'B-' and below with either negative outlooks or on CreditWatch negative. Source: S&P Global Ratings.

Chart 7

Recovery ratings distribution of first-lien new issues (Europe)

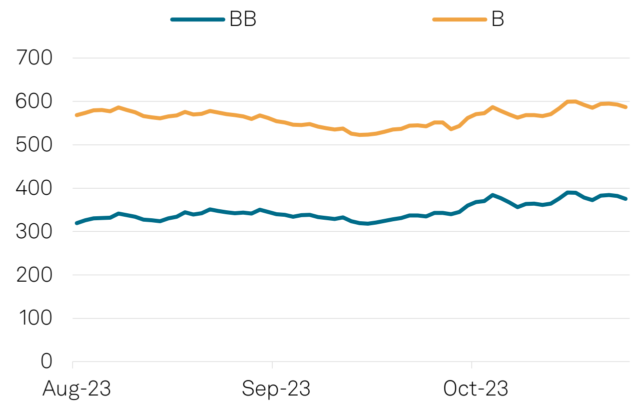


Source: S&P Global Ratings.

High-Yield Bond Insights

Chart 8

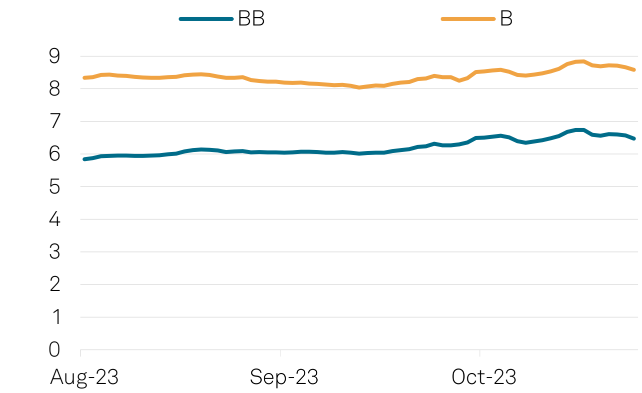
Three-month bond spread (bps)



Data as of Oct. 31, 2023. Source: S&P Market Intelligence.

Chart 9

Three-month bond yield



Data as of Oct. 31, 2023. Source: S&P Market Intelligence.

	BB	B
Lowest	5.8	8.0
Highest	6.7	8.8
Average	6.2	8.4
Current (as of Oct. 31, 2023)	6.5	8.6

	BB	B
Lowest	318	523
Highest	390	600
Average	346	563
Current (as of Oct. 31, 2023)	376	587

- 'BB' and 'B' rated high yield spreads ended October close to the wider end over that month, and 50-60 bps higher than the tightest we saw the market in September. End-of-month yields were 6.5% and 8.6%, respectively--over 60 bps wider than the lows seen in September, though tighter by 25 bps from the highs. The 'BB' and 'B' spread differential has settled near 200-220 bps, which is still wider than pre-pandemic averages of 150 bps.
- 'CCC+' and below pricing has the full attention of interested parties. The spread differential compared with that of the 'B' rated category have ballooned by more than 5% as investors shy away from vulnerable, heavily indebted, and cash-strapped issuers.

CLOs

Table 2

Top 10 obligors held in Europe

Rank	Obligor	Rating and CreditWatch/outlook	GIC code
1	Liberty Global PLC	BB-/Stable	Diversified telecommunication services
2	Altice Europe N.V.	B-/Stable	Diversified telecommunication services
3	Ineos Ltd.	BB/Stable	Chemicals
4	Lorca Telecom Bidco S.A.U.	B/Watch Pos	Capital markets
5	Verisure Midholding SD	B+/Stable	Diversified telecommunication services
6	Nidda German Topco GmbH	B/Stable	Pharmaceuticals
7	Chrome HoldCo SAS	B/Stable	Health care providers and services
8	Peer Holding III B.V.	BB/Stable	Multiline retail
9	Laboratoire Eimer SELAS	B/Stable	Food and staples retailing
10	EG Group Ltd.	B-/Positive	Specialty retail

Note: Ratings and CreditWatch/outlooks as of Oct. 31, 2023. Source: S&P Global Ratings.

Sources

- Europe's Risky Credits: Liquidity And Refinancing Risks Start To Bite, Nov. 1, 2023
- Distressed Exchanges Drive 2023 Global Corporate Defaults To 118, Oct. 20, 2023
- The European Speculative-Garde Corporate Default Rate Could Rise To 3.75% by June 2024, Aug. 18, 2023

Related Research

- Resilience Under Pressure Amid Tighter Financial Conditions, Sept. 26, 2023
- CLO Pulse Q2 2023: 'The Snooze Drag' Takes Hold In Europe, Sep. 2, 2023
- A Rise In Selective Defaults Presents A Slippery Slope, June 26,2023
- European Corporate Recoveries 2003-2022: Recoveries Stable Despite Few Defaults, July 5, 2023
- European Secured Debt Recovery Expectations Second-Half 2022 Update: Downgrades Drive Rising 'B-' Debt, Jan. 30, 2023

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