

# Europe ESG-linked bond deals set to rebound

## Issuance volumes to steady at around 30% of corporate DCM fund raising



ESG-linked corporate bond volumes will rebound this year in Europe, the world's leading market, as overall bond issuance recovers after last year's steep decline, though volumes will fall short of 2021 levels given the tougher economic environment.

ESG-related issuance in January was robust at around EUR 15bn but volume trails the amount issued a year ago – around EUR 21bn – before last February's escalation of Russia's war in Ukraine which contributed to the sharp drop-off in activity during the year. By contrast, issuance back in January 2021 was just EUR 8.3bn.

ESG-linked securities accounted for 30% of all European non-financial corporate bond issuance in 2022 compared with only around 25% in 2021, an enlarged share of the market that is likely to hold steady this year. The proportion of ESG-linked bonds has stabilised over the past six quarters, in line with ESG-linked issuance in North America and Asia in 2022, after the rapid growth over several quarters to end-Q3 2021.

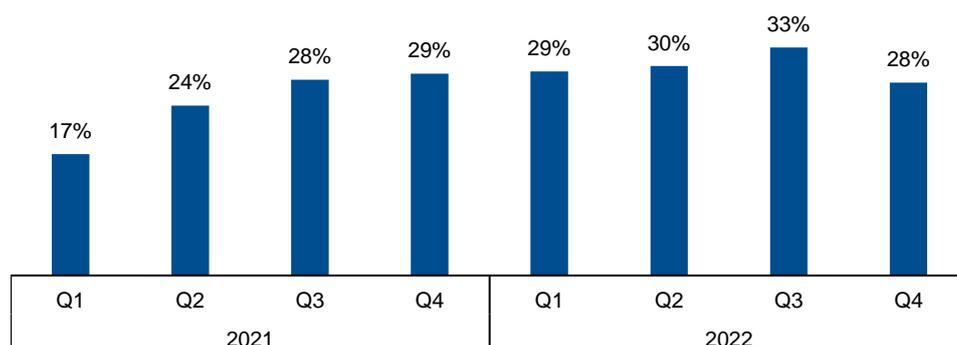
### Corporate treasurers eager to tap demand for ESG-linked securities

Overall corporate bond issuance fell sharply last year amid inflation, rising interest rates and growing market and macroeconomic uncertainty, made worse by the war in Ukraine, but corporate treasurers proved relatively comfortable in issuing ESG-linked debt. They are likely to remain so, judging by the surge in corporate debt capital market activity this year.

European companies quick to market this year with ESG-linked deals include French utility Engie SA (EUR 2.75bn), the UK's Thames Water Utilities Finance PLC (EUR 1.65bn), airline operator Air France-KLM SA (EUR 1bn) and power utilities E.ON SE, Energias de Portugal SA and Iberdrola Finanzas SA, each with EUR 1bn issues.

Leading issuers in 2022 included Italian utility Enel SpA (EUR 11bn), Dutch utility TenneT Holding (EUR 6.9bn), French water utility Suez SE (EUR 4.3bn), German property firm Vonovia AG (EUR 4.1m), and German auto maker Volkswagen AG (EUR 4bn).

Figure 1: Quarterly share of ESG corporate bonds issued in Europe during 2021/22



Source: Bloomberg, Scope Ratings

### Europe still leading region in terms of ESG issuance

In absolute terms, the volume of ESG-linked bond issuance over 2022 in Europe fell by around 15% compared to 2021, but the decline trailed the 30% decline in overall corporate bond issues.

North American ESG-linked bond issuance fell by more than 35% in 2022 compared with 2021 against a 45% reduction in overall corporate bond issues.

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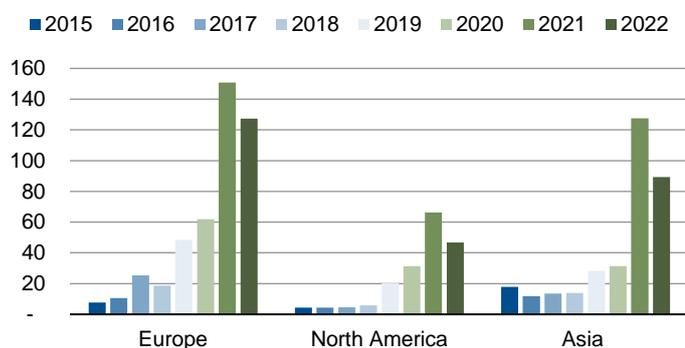
### ESG-linked bond issuance higher in Europe than US, Asia

Asian ESG-linked bonds issuance in 2022 fell by almost 40% from the previous year, against milder declines in total corporate bond issuance of more than 15%.

Most of the absolute decline in ESG-linked bonds was driven by the weaker supply in the overall bond market, with the relative portion of ESG-related issuance improving in Europe and to a lesser extent in North America but experiencing a marked decline in Asia.

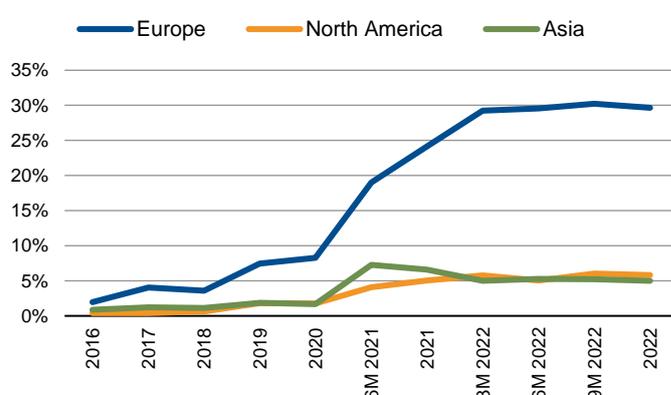
The proportion of ESG-related bonds in total non-financial corporate bond issuance, in stabilising around 30% during 2022, is significantly above the 6% in North America and 5% in Asia. Europe should maintain its lead this year.

**Figure 2: ESG-linked non-financial corporate bond volume issuance across regions (EUR bn)**



Source: Bloomberg, Scope Ratings

**Figure 3: Share of ESG-linked bond as portion of non-financial corporate bond volume issuance across regions**



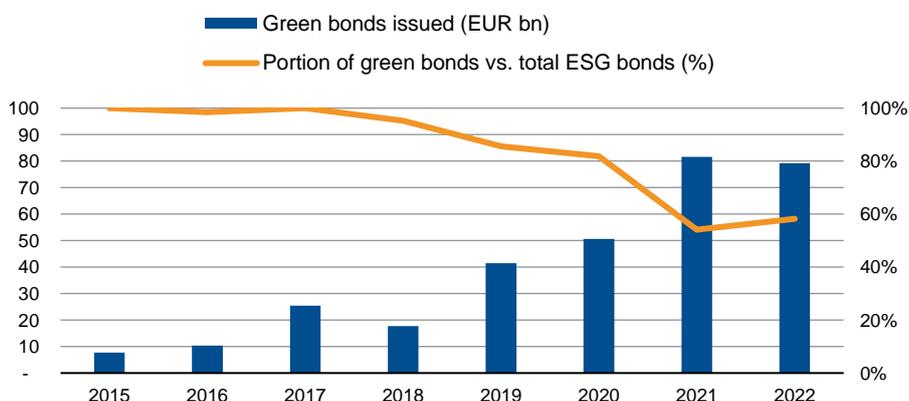
Source: Bloomberg, Scope Ratings

### Increasing proportion of green bonds in Europe

### Green bonds regaining traction in Europe

Among the different ESG-related bond segments, it was issuance of green bonds that picked up in 2022 in Europe and Asia after declining in the previous four years compared with other sustainability-linked securities, such as social bonds, transition bonds or bonds with embedded ESG-related covenants. This can be partly explained by favourable policy making in several countries that provided an incentive for more corporate green bond deals, accounting for close to 60% of total ESG-related bonds in 2022. In absolute terms, green bonds declined only a little to EUR 80bn.

**Figure 4: European non-financial green bonds volume issued (EUR bn)**



Source: Bloomberg, Scope Ratings

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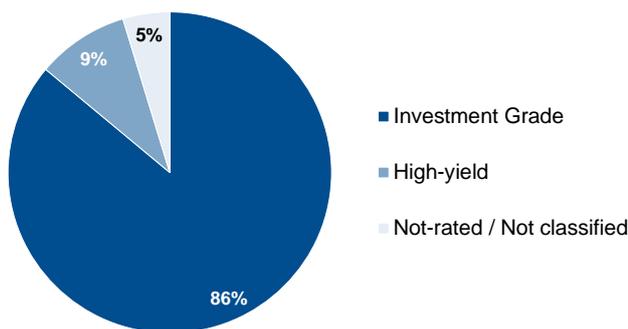
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Investment-grade companies remain the main issuers

### Investment grade rating are the larger ESG issuers

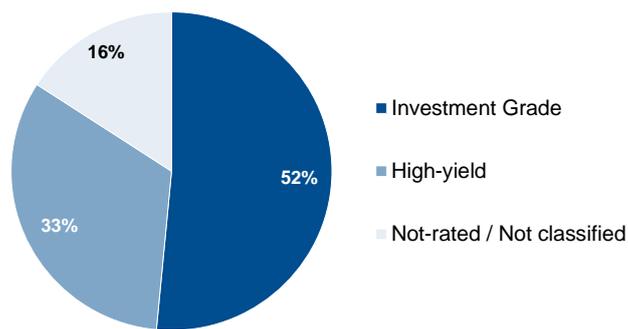
Investment grade (IG) borrowers led ESG-linked corporate issuance in terms of the value of debt issued and the number of issues.

**Figure 5: ESG-linked non-financial corporate bond volume issuance across rating classes in Europe**



Source: Bloomberg, Scope Ratings

**Figure 6: ESG-linked non-financial corporate bond number of issuances across rating classes in Europe**

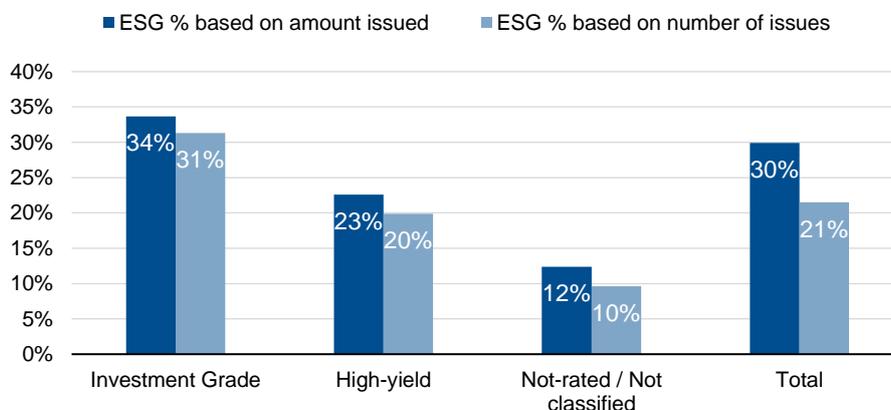


Source: Bloomberg, Scope Ratings

The greater propensity of IG issuers for ESG-linked bonds is partly explained by the skew of the sector mix towards utilities, which have generally higher ratings, in addition to the greater scrutiny of large, multinational corporations from investors in terms of their focus on sustainability. In turn, these companies' appetite for ESG-linked issuance remains strong, despite the potential reputational damage linked to green-washing.

In addition, IG issuers can generally be associated with larger bonds volumes; this would explain why the portion of ESG bonds based on the number of issues – rather than size – would bring the ESG portion down to around 20% for 2022.

**Figure 7: ESG-linked non-financial corporate bond issuance across rating classes (% of total, 2022)**



Source: Bloomberg, Scope Ratings

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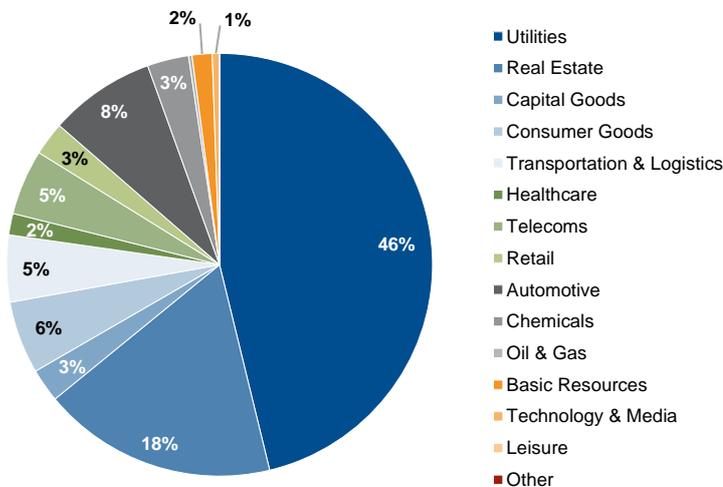
Utilities sector active; capital, consumer goods less so in 2022

### Capital-intensive sectors lead the ESG issuance pack in 2022

ESG-linked issuance in Europe in 2022 was led by the capital-intensive sectors typically associated with active financing on debt capital markets, namely utilities, real estate and telecoms (see **Figure 5**).

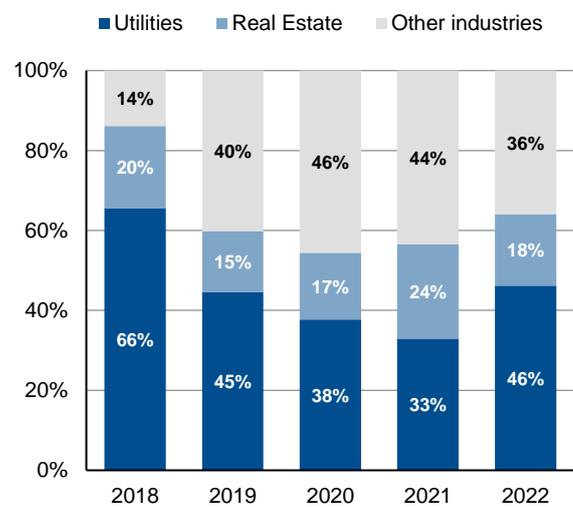
The three sectors increased their combined share of the ESG-linked market to 69% from 52% in 2021, with activity from other issuers, such as suppliers of capital and consumer goods, stable or declining. The rest of Europe's ESG-linked issuance was relatively evenly split among other sectors' whose share of total issuance fell in the period. (See **Figure 9**).

**Figure 8: Utilities and Real Estate share within ESG European corporate bonds**



Source: Bloomberg, Scope Ratings

**Figure 9: Utilities and Real Estate share within ESG European corporate bonds**



Source: Bloomberg, Scope Ratings

ESG-linked bonds – a new norm for power companies?

Utilities were the most active issuers of ESG-linked bonds in terms of both amount issued and number of issues.

**Figure 10: ESG-linked European non-financial corporate bond volume by sector**

	2018	2019	2020	2021	2022
Utilities	19%	37%	32%	62%	65%
Real Estate	7%	11%	18%	37%	50%
Capital Goods	1%	5%	5%	18%	8%
Consumer Goods	0%	5%	3%	16%	13%
Transportation & Logistics	4%	10%	4%	15%	24%
Healthcare	0%	1%	6%	16%	6%
Telecoms	0%	2%	5%	17%	35%
Retail	2%	6%	1%	20%	19%
Automotive	0%	7%	9%	13%	24%
Chemicals	0%	5%	4%	17%	20%
Oil & Gas	0%	1%	1%	9%	4%
Basic Resources	0%	2%	20%	10%	17%
Technology & Media	0%	0%	0%	4%	5%
<b>Share of ESG bonds</b>	<b>3%</b>	<b>8%</b>	<b>9%</b>	<b>24%</b>	<b>30%</b>

Source: Bloomberg, Scope Ratings

ESG-linked bond issuance is increasingly becoming the norm for the sector, having accounted for 65% of total utilities' bond issuances in volumes and for 40% of deals last

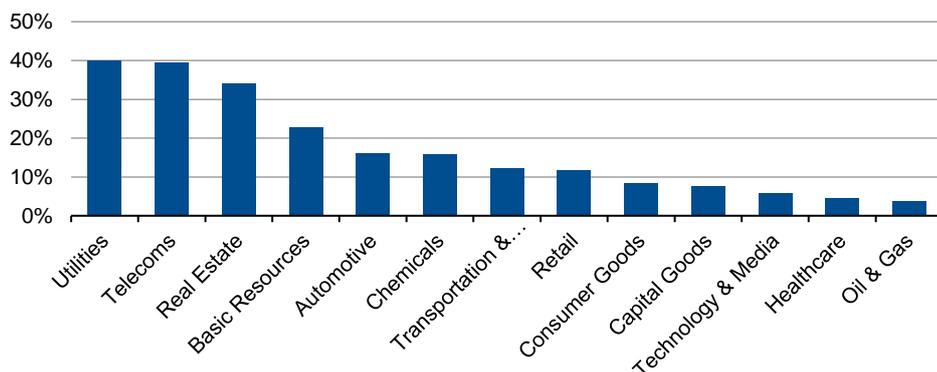
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year. The sector's central role in the energy transition and the heavy capital expenditure associated with it will continue to drive ESG-linked bond issuance.

ESG-linked bond issues made up 50% of total real estate bond issuance and 35% of deals. In telecoms, the figures were 35% and 40% respectively in 2022.

**Figure 11: Share of ESG-linked European non-financial corporate bonds based on number of issues (2022)**



Source: Bloomberg, Scope Ratings

#### Large issuance of ESG-linked bonds by Italian companies

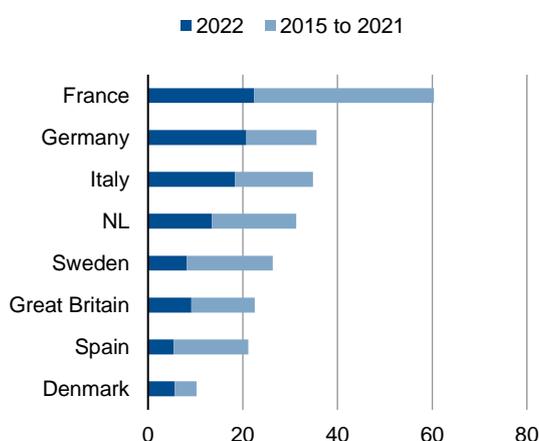
#### France overtakes Italy as Europe's ESG-linked bond issuance spreads

ESG-linked bond issuance during 2022 was quite diverse by country of origin (Figure 12)

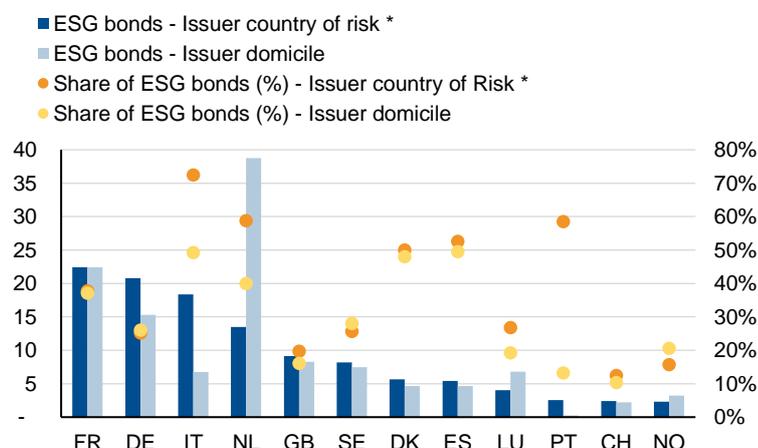
France overtook Italy in terms of ESG-linked issuance, but Italian companies remained the heaviest issuers in terms of the proportion of domestic corporate bond issuance. More than 70% of corporate bonds were ESG-linked last year, with utility Enel the largest contributor, generally issuing a large portion of debt through its Dutch subsidiary.

Similarly, Italian-domiciled issuers including subsidiaries of foreign companies issued around 50% ESG-linked bonds. UK-based issuers remain relatively laggards with around 20% of total issuance.

**Figure 12: Cumulative ESG-linked bonds issues by geography (EUR bn)**



**Figure 13: ESG-linked bonds issues by geography (FY 2022)**



\* As defined by Bloomberg based on a number of criteria; it often coincides with the location of group's headquarters

Source: Bloomberg, Scope Ratings



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