

# Europe's ESG-linked bond issuance plateauing at 30% of total corporate issuances

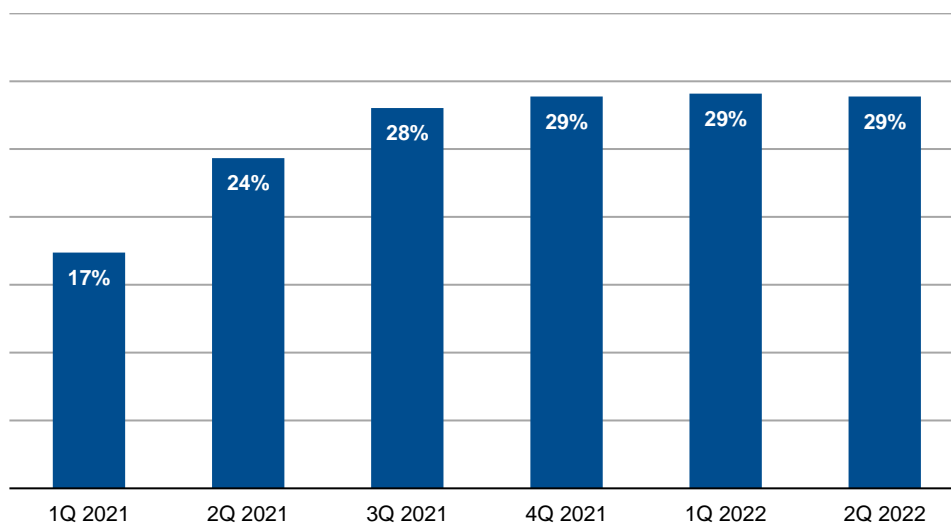


**ESG-linked securities accounted for almost 30% of all European non-financial corporate bond issuance during H1 2022 compared with only 19% in the same period a year earlier. However, on a quarterly basis, after rapid growth in Q3 2021, the proportion of ESG-linked bonds has stabilised over the past four quarters, while H1 ESG-linked issuance in North America and Asia experienced a moderate decline.**

While a contrast with the steep overall increase in ESG-linked corporate bond volumes in 2021, this stability comes as overall corporate bond issuance has generally decelerated amid growing market and macroeconomic uncertainty, made worse by Russia's escalation of the war in Ukraine in February.

Europe's leading H1 issuers of ESG-linked bonds were Italian utility Enel SpA (EUR 7.0bn), Dutch utility TenneT Holding (EUR 3.9bn), German real estate firm Vonovia AG (EUR 2.6m), French water utility Suez SE (EUR 2.6bn), and German utility E.ON SE (EUR 2.3bn).

**Figure 1: Europe's ESG-linked bond issuance as share of non-financial corporate total (%)**



Source: Bloomberg, Scope Ratings

In absolute terms, the volume of ESG-linked bond issuance during H1 2022 in Europe was comparable to H1 and H2 last year despite around a 25% decline in total European corporate bond issuances versus H1 2021, though the decline was a less marked 4% compared with H2 2021. North American ESG-linked bond issuance fell around 30% in H1 compared with the same period last year against a more than 40% reduction in overall corporate bond issues, equivalent to a 40% drop with H2 issuance against a near 30% decline in overall corporate bond issuance. Asian ESG-linked bonds issuance in H1 2022 fell by a third compared with H1 2021, but less than 20% versus H2, against milder declines in total corporate bond issuance of 10-15%.

In Europe, we expect the proportion of the overall market made up by ESG-linked bonds to continue to hold steady for the rest of the year at around 29%, with issuance in North America set to settle at around 5-6%, with a similar figure for Asia, representing a slight decline.

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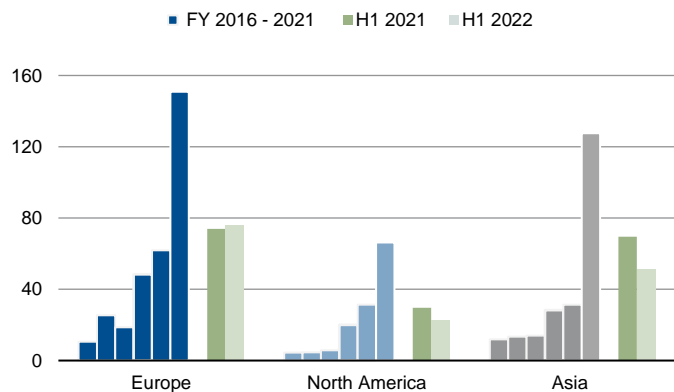
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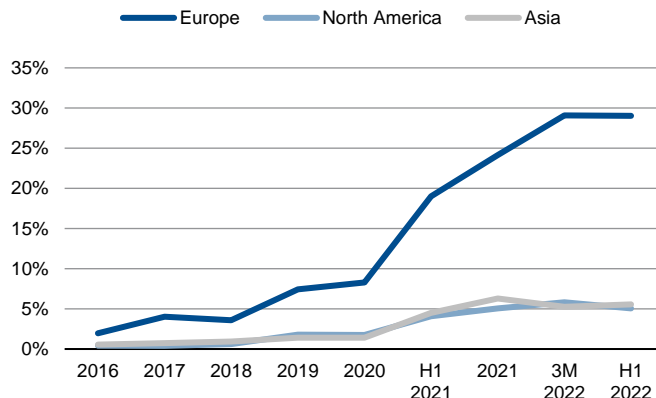
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**Figure 2: ESG-linked non-financial corporate bond volume issuance across regions (EUR bn)**



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

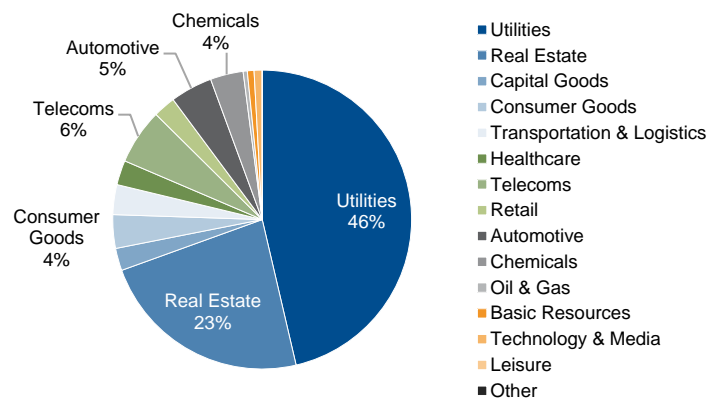
## Pick-up in utilities issuance in H1 2022

### Utilities lead the ESG issuance pack in H1

ESG-linked issuance in Europe in the first half 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**). Utilities were particularly active.

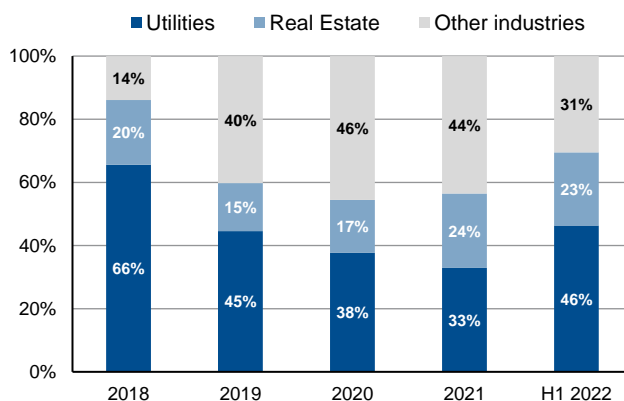
The three sectors increased their combined share of the ESG-linked market to 69% from 56% in the same period last year, with activity from other issuers, such as capital goods and consumer goods, stabilising or declining. The rest of Europe's ESG-linked issuance was relatively evenly split among other sectors whose share of total issuance fell in the period. (See **Figure 4**).

**Figure 4: Utilities and Real Estate share within ESG European corporate bonds**



Source: Bloomberg, Scope Ratings

**Figure 5: Utilities and Real Estate share within ESG European corporate bonds**



Source: Bloomberg, Scope Ratings

**Figure 6: Share of ESG-linked European non-financial corporate debt volume by sector**

	2018	2019	2020	2021	H1 2022
Utilities	19%	37%	32%	62%	72%
Real Estate	7%	11%	18%	37%	51%
Capital Goods	1%	5%	5%	18%	8%
Consumer Goods	0%	5%	3%	16%	9%
Transportation & Logistics	4%	10%	4%	15%	16%
Healthcare	0%	1%	6%	16%	10%
Telecoms	0%	2%	5%	17%	42%
Retail	2%	6%	1%	20%	18%
Automotive	0%	7%	9%	13%	12%
Chemicals	0%	5%	4%	17%	17%
Oil & Gas	0%	1%	1%	9%	9%
Basic Resources	0%	2%	20%	10%	11%
Technology & Media	0%	0%	0%	4%	6%
<b>Share of ESG bonds</b>	<b>3%</b>	<b>8%</b>	<b>9%</b>	<b>24%</b>	<b>29%</b>

Source: Bloomberg, Scope Ratings

## GHG emissions top KPIs for sustainability-linked bonds

### GHG emissions in focus in sustainability-linked bond issuance

Based on a sample of 151 sustainability-linked bonds issued over the last 18 months, 84% of them shared greenhouse gas emissions as a component of their key performance indicators (KPIs).

This comes to little surprise, since such indicator is relevant for most industries, but it also has a direct link with the stated EU commission's goal of climate-neutrality by 2050, while this link cannot generally be made for other KPIs. Much depends on the sector in which the issuer operates, which explains the distribution of the other KPIs (see **Figure 7**)

**Figure 7: KPIs included in sustainability-linked bonds**

Bond Sample Jan 2021- Jun 2022	151
GHG emissions	84%
Water consumption	7%
Energy efficiency	7%
Renewables	7%
Circular economy	7%
Sustainable farming/food	4%
Transport	2%
Labor	3%
Gender equality	1%
Biodiversity	1%
Education	1%
Sustainable sourcing	1%
ESG score	3%
Affordable housing	1%
Other	16%

Source: Bloomberg, Scope Ratings

# Europe's ESG-linked bond issuance stable at around 30% of total corporate issuances since

Social-, sustainability-, SDG-linked issuance matching green bonds as issuer base widens

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

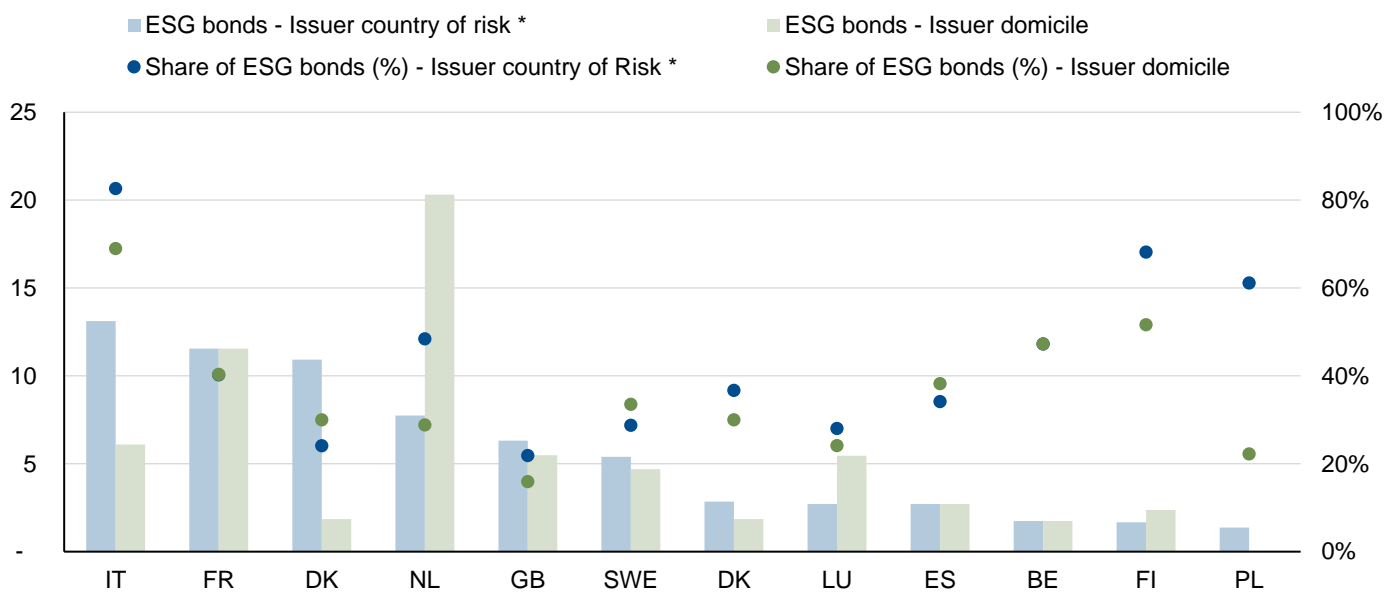
### Europe's ESG-linked issuers geographically diverse; Italy still leads

ESG-linked bond issuance during H1 2022 has been quite diverse across geographies, led by issuers from Italy, France and Denmark.

Italian companies again issued the highest relative amount of ESG bonds at over 80% - with utility ENEL being the largest contributor, generally issuing a large portion of debt through its Dutch subsidiary.

Similarly, Italy-domiciled issuers including subsidiaries of foreign companies issued 70% ESG-linked bonds. UK-based issuers remain relatively laggards with around 20% of total issuance.

Figure 8: ESG-linked bonds issues by geography (H1 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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Social-, sustainability-, SDG-linked issuance matching green bonds as issuer base widens

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