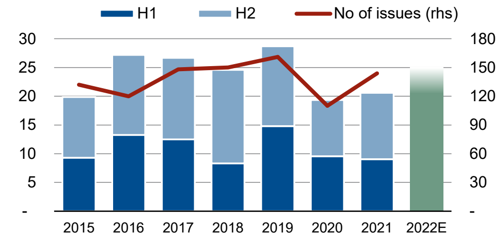
Schuldschein returns to rude health
Jumbo deals, ESG-linked paper, refinancing set private debt market up for good 2022

The Schuldschein (SSD) private debt segment dramatically found favour with investors late last year, putting the market on course for a return to pre-pandemic volumes in 2022 particularly as central banks wind down corporate bond purchases.

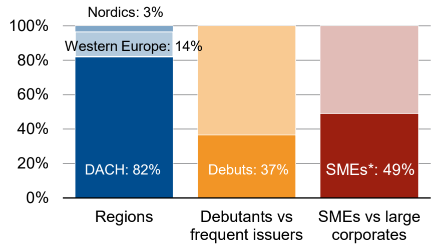
Schuldschein-issued debt rose by 6% to around EUR 20.6bn last year, ahead of our upwardly revised expectations of EUR 16-18bn and up from EUR 19.4bn in 2020. The fourth quarter accounted for a third of all placements in the year, worth EUR 7.6bn in more than 50 deals.

Figure 1: SSD placements (EUR bn)*



* based on closing dates Source: Bloomberg, Refinitiv, Scope data

Figure 2: Structural features in 2021



* Companies with recurring revenues of less than EUR 1bn classified as SMEs Source: Scope

Outlook 2022

We forecast the market's return to growth in placement and deal volumes this year. Overall, we expect placement volume of well above EUR 20bn bolstered by the following:

- **Switch from public bonds to private debt:** The phase out of the PEPP by March 2022 and the gradual reduction of net asset purchases under the CSPP asset purchase programme over the next few quarters will likely lure some bigger IG-rated companies back to SSD segment. Such companies are usually the ones which drive the total issuance volume through big-ticket transactions.
- **Refinancing:** A large proportion of new deals will likely flow from the refinancing maturing tranches, particularly those placed in 2015 and 2017 but also from shorter maturities placed between 2019 and 2021. While not all affected companies will opt for a refinancing with another SSD deal, the overall volume of SSD tranches maturing in 2022 stands at a significant of EUR 19.2bn; among this volume big tickets (tranches above EUR 250m) from frequent SSD users such as Kaufland Dienstleistungs GmbH & Co. KG, ZF Friedrichshafen AG, Deutsche Lufthansa AG, Uniper SE, Kion Material Handling GmbH, Fresenius SE & Co. KGaA, Volkswagen Financial Services AG, Faurecia SE and Robert Bosch GmbH. So even a refinancing through a follow-up SSD of half of the maturing SSD debt would already provide a good floor for the to-be-expected placement volume in 2022.
- **Companies in cyclical sectors to the market:** Issuers that operate in cyclical or more vulnerable sectors – automotive, basic resources and chemicals, construction and materials, travel & leisure, non-discretionary retail and consumer products and technology – have typically tapped the SSD market only on a selected basis. Such issuers have primarily been frequent SSD issuers and publicly rated. Companies from such sectors are likely to return to the SSD market, backed by a greater visibility on the general economic recovery and the upswing in increased consumer and industrial spending. Issuers from these more cyclical sectors, which provided only about one quarter of deal volume in 2021 (EUR 5.4bn), will likely provide extra impetus to volumes in 2022 and beyond.

Analyst
Sebastian Zank, CFA
+49 30 27891 225
s.zank@scoperatings.com

Media
Matthew Curtin
+33 7 88 89 78 09
m.curtin@scopegroup.com

André Fischer
+49 30 27891 147
a.fischer@scopegroup.com

Related Research

Europe's social-, sustainability-linked corporate bond issuance surges as issuer base widens, Jan 2022

Schuldschein makes robust partial recovery, Oct 2021

Europe's ESG-linked corporate debt booms Regulation, investor demand broadens, deepens issuance pool, drives innovation, Jun 2021

Schuldschein debt market catches cold: Return to form likely in 2021: refinancing, international issuers, new deals spur volumes, Jan 2021

Schuldschein shaken up by Covid-19 but robust fundamentals assure rebound, Jul 2020

Schuldschein private-debt market faces down-cycle test in 2020 after breaking records in 2019, Jan 2020

Scope Ratings GmbH

Lennéstraße 5
D-10785 Berlin

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

info@scoperatings.com
www.scoperatings.com

Bloomberg: RESP SCOP

Schuldschein segment always good for a surprise

Deal makers back in force in Q4

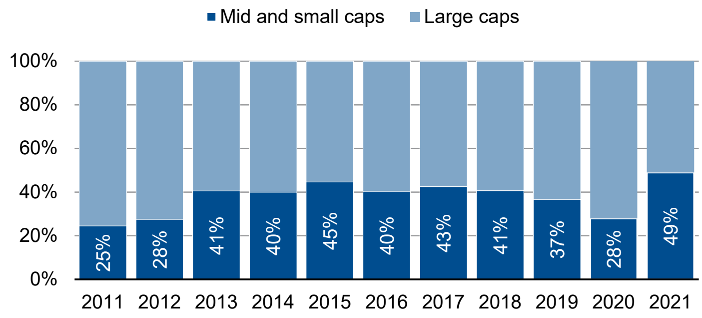
Deal volume standing at about EUR 20.6bn from 144 deals that for which we've seen order books closed, exceeding our revised forecasts of a range between EUR 16-18bn. Transaction volumes accelerated in the fourth quarter which accounted for more than a third of overall placements in 2021, raising about EUR 7.7bn in more than 50 deals.

Multiple jumbo deals at year-end

Jumbo deals, all above EUR 250m, were responsible for the end-of-year surge in SSD issuance. Issuers included Asklepios Kliniken, Baywa, Domicil Real Estate Group, Faurecia, Fraport, Groupe SEB, Intersnack and Medicover. Strong 4Q activity pushed up the median deal size to EUR 94m for the full year (**Figure 4**) from EUR 75m during the first 9M.

Figure 3: The year of SMEs with a record share coming from SMEs

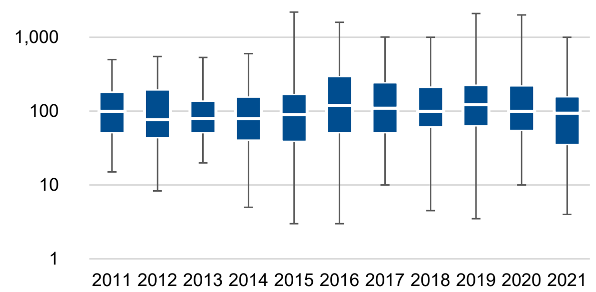
SMEs vs large caps (measured in number of transactions)



Source: Scope

Figure 4: Median deal size well below historical average despite surge in jumbo deals at YE 2021

Range of ticket sizes in EUR m (box plots) – logarithmic axis



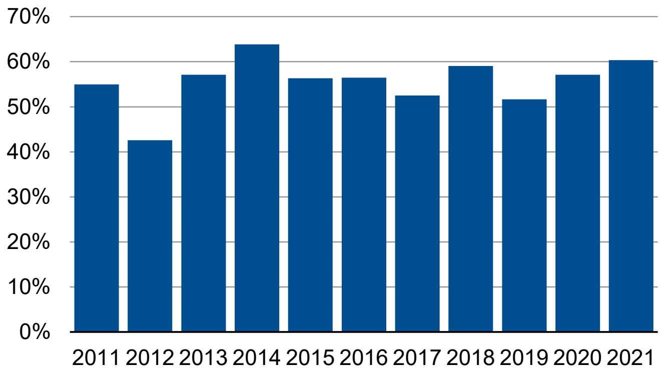
Source: Scope

The year of the SMEs – SSD attracts smaller companies

The return of large-cap companies with bigger deal tickets during Q4 2021 contrasted with the active use of the SSD segment by SMEs (in this context, companies recurring revenue below EUR 1bn) which accounted for roughly 50% of all placements (based on the number of transactions – **Figure 3**). One feature was the high proportion of SMEs among first-time SSD users which stood at slightly more than 60% last year (**Figure 5**).

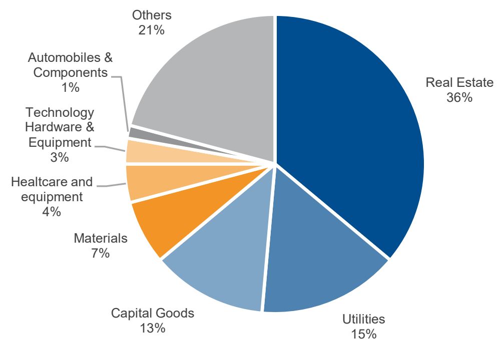
The heavy presence of unrated smaller SSD debutants is a throwback to the segment's boom years which subsequently turned out to involve a number of "black sheep" – financially troubled companies whose performance risked tarnishing the reputation of the buy-to-hold SSD market. This time around, we are less concerned partly because many of today's SME issuers are operating in less risky sectors (**Figure 6**) as outlined in our Oct 2021 SSD update. Investors and arrangers are more wary of backing SSD deals from debutants in disrupted or vulnerable sectors to avoid defaults or debt restructurings such as the ones from ETERNA Mode Holding GmbH, EMAG Group or NAC 29 DAC in 2021.

Figure 5: High share of SMEs among SSD debutants



Source: Scope

Figure 6: Sector attribution among SMEs



Source: Scope

Pause in market's internationalisation set to end

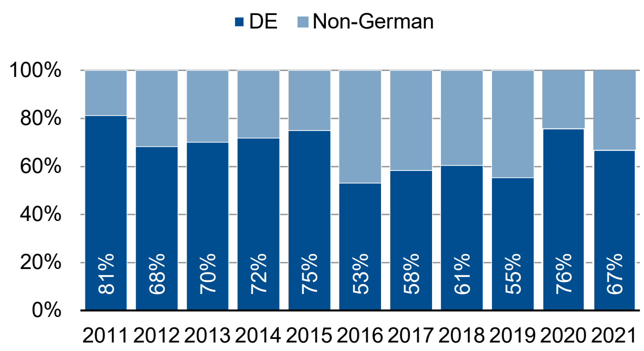
Internationalisation resumed

The return of issuers outside of the SSD's core market of Germany is progressing more slowly than expected. Overall deal volume from non-German companies stood at more than a third of the total in 2021, corresponding to 38% of placed debt volume from 47 transactions, but that was down from 40-47% during 2016-2019.

Among the big issuers last year were Austria's Constantia Flexibles International GmbH, Mayr Melnhof Karton AG, Plansee Holding AG, RHI Magnesita GmbH and Swarco Holding AG; French companies Fareva SA, Faurecia SE, Groupe SEB, Iliad SA, Orpea SA and Quadient SA, Luxemburg's Encevo SA, and Sweden's Medicover. More encouraging for the future, non-German companies were responsible for more than 40% of debutant deals in 2021, a good signal that the internationalisation of the debt segment was just on hold in 2020 when less than 20% of deals were from international newcomers. Hence, we are confident that the rollout of the German debt instrument to across Europe will continue in 2022

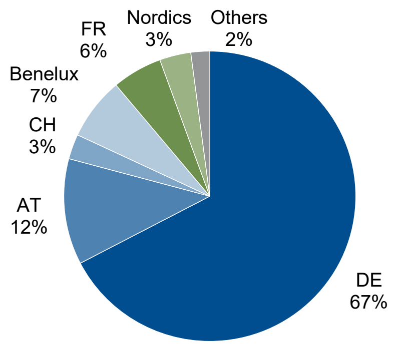
Figure 7: Return of non-German issuers

German versus non-German SSD issuers (measured in number of transactions)



Source: Scope

Figure 8: 2021 split of SSD transactions (measured in number of transactions)



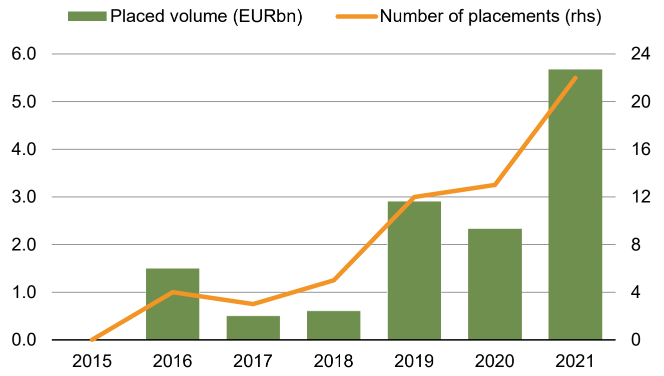
Source: Scope

ESG-linked deals: From record to record

28% share of placed SSD debt attached to ESG topics

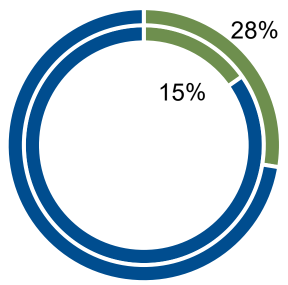
Enthusiasm for the placement in ESG-linked Schuldschein deals, either project- or target-based, has grown, with a marked acceleration in Q4 2021. We counted 22 ESG-linked SSD deals in 2021 equivalent to fund raising worth EUR 5.7bn. This corresponds to almost 30% of total placed SSD debt from just 15% of the issuers active in 2021. Again the SSD market appears to be running a little ahead of the market for publicly traded European non-financial corporate bonds of which slightly less than a quarter was linked to ESG targets or earmarked for ESG-related projects last year. (see Europe's social-, sustainability-linked corporate bond issuance surges as issuer base widens).

Figure 9: ESG-linked SSDs with similar trends as in public bond market (project-based and target-based SSDs linked to ESG-topics)



Source: Scope

Figure 10: ESG-linked SSDs with significant share among total placements



Inner circle: based on number of transactions
Outer circle: based on placed debt volume

Source: Scope

ESG-linked SSD suitable for all sizes and company types

ESG-linked SSD placements of such a scale might suggest that issuers were largely large-cap companies but in fact issuance was almost evenly split between SMEs and larger corporates, involving a wide range of deal sizes, from EUR 30m placed by MP Holding to EUR 700m placed by Traton AG and Faurecia SE.

But interest step-up/down just window dressing?

Almost all target-linked ESG deals (ESG score/rating or fulfilment of KPIs) were structured with incentives (reduction of interest rate if target/KPIs are fulfilled) and penalties (rate increase if KPIs/targets are not fulfilled). This is structurally different from ESG-linked bonds which are mostly just linked to a penalty but not an incentive. However, the penalties/rate increases and incentives/rate reductions, ranging from -5bps to +10bps (with majority being +/- 2.5-5bps) are so slim that they amount to no more than window dressing.

ESG-linked SSD volume higher than 33% in 2022

We assume that the issuance of ESG-linked debt on the SSD segment will continue to do slightly better than the wider public bond market this year where we expect volumes to plateau at around a third of overall issuance this year. The year has already been kicked-off with the announcement of two new ESG-linked SSD transactions from German SME investment company Indus Holding and real estate company Degewo AG.

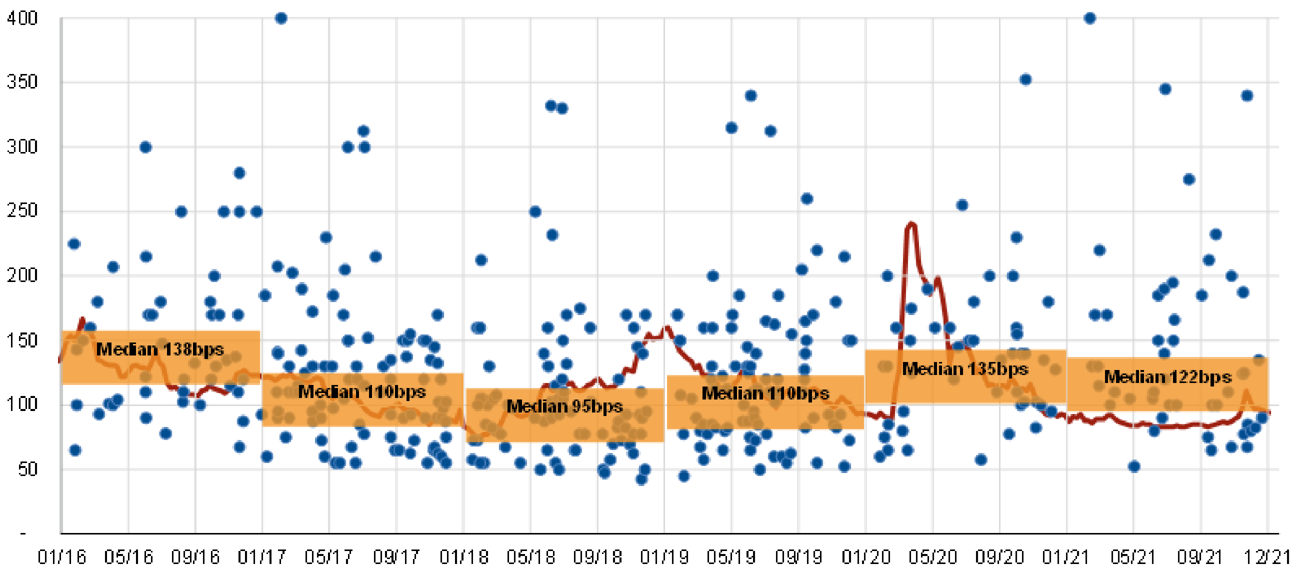
Reduced average spreads reflect Covid-19 aftermath and sector split

Risk premium falls in line with bond market

Comparing risk spreads for transactions in 2020 and 2021 with the boom years of the Schuldschein in 2016-2019 is difficult given the lower number of data points in the past two years. In general, average risk spreads have followed the trend in the public bond market. The perceived average risk premium has certainly benefited from the lower macroeconomic risk premium after the initial Covid-19 shock in 2020 judging by the median spread above mid-swaps for five-year euro SSD-tranches (based on 53 data points). The dominance of SSD issuance from companies in less cyclical, more defensive sectors has helped lower the average risk premium.

Such return to 'normality' in the aftermath of the Covid crisis of 2020 seems clear from the pricing achieved by companies which consistently placed debt both in 2020 and 2021 when they secured more favourable rates, e.g. Asklepios Kliniken GmbH & Co. KGaA, Globus Holding GmbH & Co KG, Gerresheimer AG or Orpea SE.

Figure 11: Median annual spreads on SSD placements 2016-21 (in bps) compared with average corporate bond spread measured by Bloomberg Pan European Aggregate Corporate Average OAS (orange line, rhs)



Source: Bloomberg, Scope

Scope Ratings GmbH

Headquarters Berlin
Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

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

Phone +49 69 66 77 389 0

Paris
23 Boulevard des Capucines
F-75002 Paris

Phone +33 1 8288 5557

Oslo
Karenslyst allé 53
N-0279 Oslo

Phone +47 21 62 31 42

Madrid
Paseo de la Castellana 141
E-28046 Madrid

Phone +34 91 572 67 11

Milan
Via Nino Bixio, 31
20129 Milano MI

Phone +39 02 30315 814

Scope Ratings UK Limited

London
52 Grosvenor Gardens
London SW1W 0AU

Phone +44 20 7824 5180

info@scoperatings.com
www.scoperatings.com

Disclaimer

© 2022 Scope SE & Co. KGaA and all its subsidiaries including Scope Ratings GmbH, Scope Ratings UK Limited, Scope Analysis GmbH, Scope Investor Services GmbH, and Scope ESG Analysis GmbH (collectively, Scope). All rights reserved. The information and data supporting Scope's ratings, rating reports, rating opinions and related research and credit opinions originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data. Scope's ratings, rating reports, rating opinions, or related research and credit opinions are provided 'as is' without any representation or warranty of any kind. In no circumstance shall Scope or its directors, officers, employees and other representatives be liable to any party for any direct, indirect, incidental or other damages, expenses of any kind, or losses arising from any use of Scope's ratings, rating reports, rating opinions, related research or credit opinions. Ratings and other related credit opinions issued by Scope are, and have to be viewed by any party as, opinions on relative credit risk and not a statement of fact or recommendation to purchase, hold or sell securities. Past performance does not necessarily predict future results. Any report issued by Scope is not a prospectus or similar document related to a debt security or issuing entity. Scope issues credit ratings and related research and opinions with the understanding and expectation that parties using them will assess independently the suitability of each security for investment or transaction purposes. Scope's credit ratings address relative credit risk, they do not address other risks such as market, liquidity, legal, or volatility. The information and data included herein is protected by copyright and other laws. To reproduce, transmit, transfer, disseminate, translate, resell, or store for subsequent use for any such purpose the information and data contained herein, contact Scope Ratings GmbH at Lennéstraße 5 D-10785 Berlin.