

# Europe's ESG-linked bond issuance surges Social-, sustainability-, SDG-linked issuance matching green bonds as issuer base widens



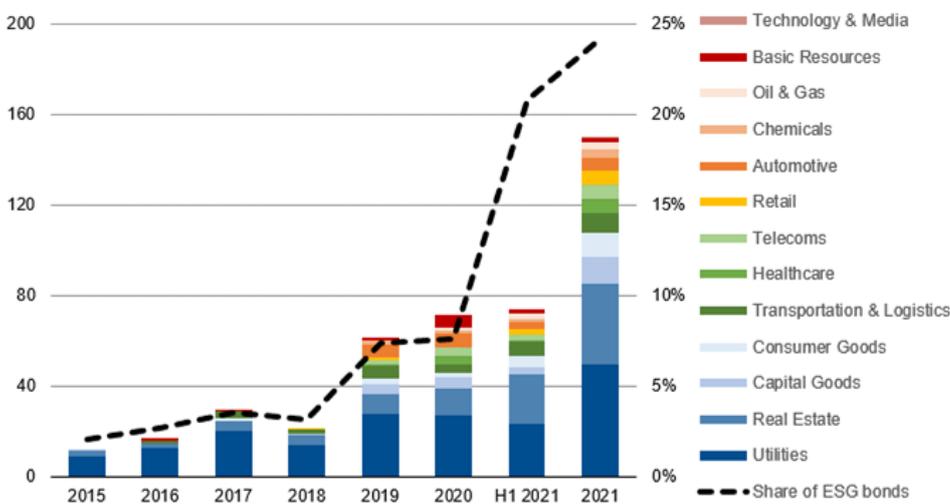
ESG-linked securities accounted for around a quarter of all European non-financial corporate bond issuance last year compared with only 8% in 2020 amid an acceleration in social- and sustainability-linked fund-raising in the second half. Social- and sustainability-linked issuance outpaced issues of green bonds, with combined volume more than doubling last year compared with 2020. As a proportion of corporate bonds brought to market, ESG-linked issuance stood at 29% in Q4, up a little from 28% in Q3 2021, bringing the segment's share to 24% for the entire year.

ESG-linked bond issuance has surged globally, especially in Europe and Asia, with the latter likely to surpass Europe in absolute volume in 2022. In Europe, growth of ESG-linked bonds share should slow in coming quarters.

Amid the steep overall increase in ESG-linked corporate bond volumes in 2021 (Figure 1), issuers emerged in more sectors beyond utilities and real estate, where ESG-linked bonds have become the norm, accounting generally for 15-20% of new issues. Italian and British issuers have caught up with those based in other European countries, though companies based in France still dominate in terms of volumes.

Italian utility Enel SpA (EUR 10.1bn), Teva Pharmaceuticals (EUR 4.3bn), Electricité de France SA (EUR 3.1m), ASTM Spa (EUR 3.0bn) were last year's leading issuers.

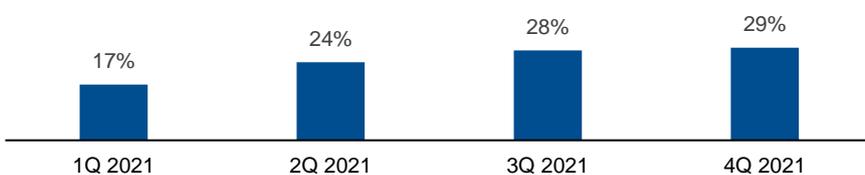
Figure 1: ESG-linked European non-financial corporate bonds by sector (EUR bn)



Source: Bloomberg, Scope Ratings

The momentum building in ESG-linked issuance was visible in the quarter-on-quarter growth in the first nine months of the year, levelling out in Q4 in a trend which suggests ESG-linked bonds might plateau at around a third of total issuance this year (Figure 2).

Figure 2: Quarterly share of ESG bonds issued out of total during 2021



Source: Bloomberg, Scope Ratings

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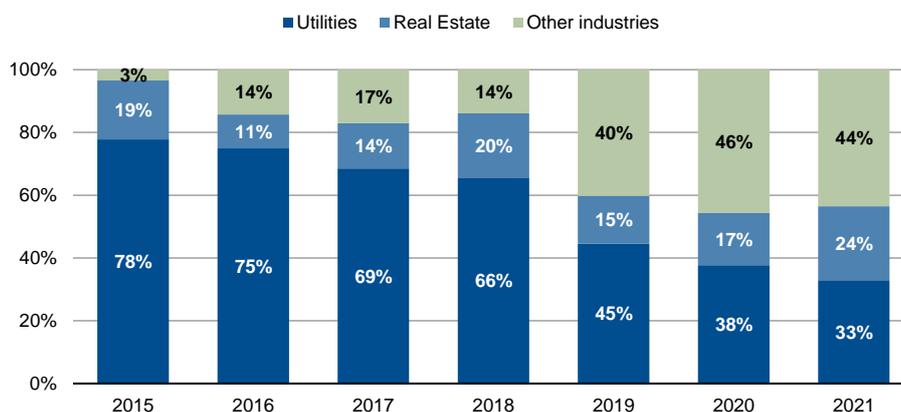
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### Proportion of utilities ESG-linked issuance declines

Companies in the utilities and real estate continued to be the most active issuers of ESG-linked bonds in 2021 by volume at 56% of total, broadly in line with last year, but markedly below pre-2019 levels. Utilities have dominated ESG issuance, but real estate companies are catching up (Figure 3).

Figure 3: Utilities and Real Estate share within ESG European corporate bonds



Source: Bloomberg, Scope Ratings

### European firms issuing 15-20% of bonds in ESG-linked form

Overall, we see a general increase in the share of ESG bonds across most sectors; Excluding the above-mentioned utilities and real estate, regular issuance from all the other sectors is emerging, with most of them showing a share of ESG-linked bond between 15% and 20% in 2021. Laggards appears to be the oil & gas, basic resources and technology sectors.

Figure 4: ESG-linked European non-financial corporate placed debt volume as per total of sector

	2015	2016	2017	2018	2019	2020	2021
Utilities	14%	22%	21%	19%	37%	32%	62%
Real Estate	6%	5%	6%	7%	11%	18%	37%
Capital Goods	1%	0%	0%	1%	5%	5%	18%
Consumer Goods	0%	0%	2%	0%	6%	3%	19%
Transportation & Logistics	0%	2%	7%	4%	10%	4%	15%
Healthcare	0%	0%	0%	0%	1%	6%	16%
Telecoms	0%	0%	0%	0%	2%	5%	17%
Retail	0%	0%	0%	2%	6%	1%	20%
Automotive	0%	0%	0%	0%	7%	9%	13%
Chemicals	0%	0%	0%	0%	5%	4%	17%
Oil & Gas	0%	0%	0%	0%	1%	1%	9%
Basic Resources	0%	9%	1%	0%	2%	20%	10%
Technology & Media	0%	0%	0%	0%	0%	0%	4%
<b>Share of ESG bonds</b>	<b>2%</b>	<b>3%</b>	<b>4%</b>	<b>3%</b>	<b>7%</b>	<b>8%</b>	<b>24%</b>

Source: Bloomberg, Scope Ratings

### Europe is leading on ESG, but Asia is catching up

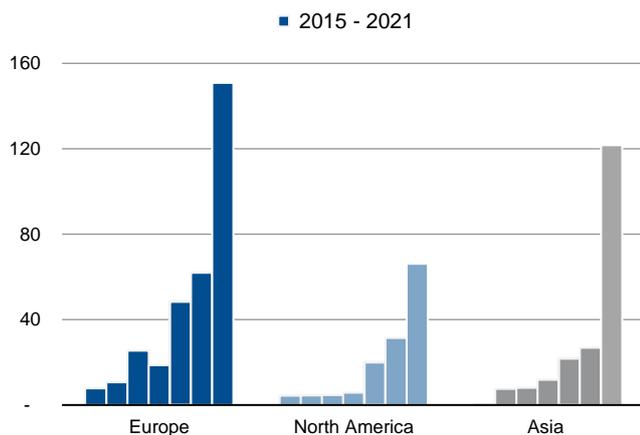
In absolute terms, the volume of ESG-linked bond issuance has surged this year, exploding particularly in Europe and in Asia, with a yearly growth of 144% and 354% vs. 2020, respectively. Nonetheless, ESG-linked issuance as percentage of overall non-financial corporate bond issues in Asia and North America remains rather low at around 5-6% of the total, still trailing European placements. The Asian bond market is larger than Europe's, and despite the still relatively low penetration of ESG bonds, absolute volume of ESG-

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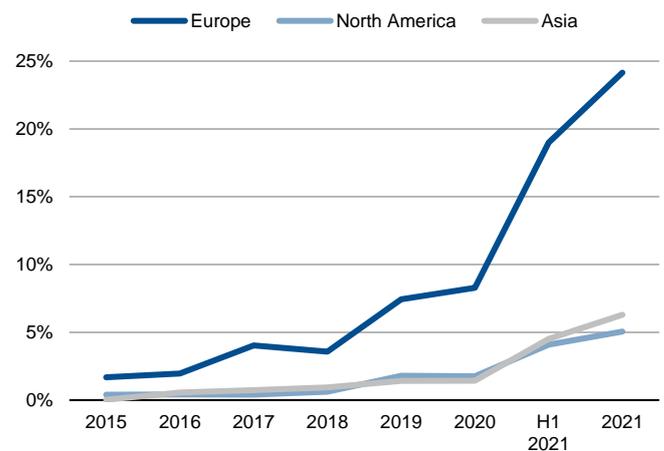
linked bond issuance was not far from Europe's in 2021, primarily thanks to China and South Korea. Judged by volumes alone, Asian issuers and investors are placing more emphasis on ESG than those in North America, with Asian ESG-linked bond volume surpassing North America's in 2021 for the first time. The trend that is set to continue this year given the lower penetration of ESG-linked bonds – equivalent to a single digit share of the overall market – implying higher growth potential. We expect the absolute amount of ESG-linked bond issuance in Asia to surpass Europe next year.

**Figure 5: ESG-linked non-financial corporate bond volume issuances across regions (EUR bn)**



Source: Bloomberg, Scope Ratings

**Figure 6: Share of ESG-linked bond as portion of non-financial corporate bond volume issuances across regions**



Source: Bloomberg, Scope Ratings

### Shrinking percentage of green vs. other ESG-linked bonds

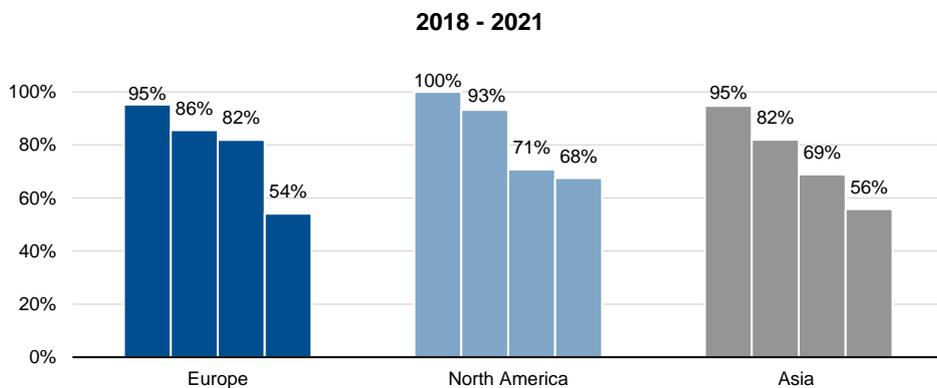
The incentives for issuers and investors encouraging ESG-linked bond issuance remain intact. The shrinking percentage of purely green bonds shows how fast the market is evolving amid the growing political, regulatory, investor and consumer pressure for companies to mitigate ESG-related risks and reduce ESG impacts beyond those related to climate or environment. Corporate treasurers in other less capital-intensive and project-based sectors seem eager to tap strong investor demand by issuing bonds based on non-environmental factors: social, sustainability, UN sustainable development goals. These target-based bonds include predefined key performance indicators which, if not met, alter the costs for the issuer. Such KPI-linked bonds provide an incentive to the issuing company to achieve higher ESG standards across the business rather than just for a specific project. Project-based bond instruments are issued within a framework, committing funds to specific projects and require an impact report.

Green bonds are down to around half of total ESG-lined bonds in Europe, down from over 80% a year ago. This was mostly driven by the increasing weight of sustainability-linked bonds in 2021. With a similar situation in Asia, North America in contrast shows a relatively higher portion of green bonds at around 70%.

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**Figure 7: Portion of "Green" bonds from total ESG-linked corporate bonds (remainder are social, sustainability, sustainability-linked bonds)**

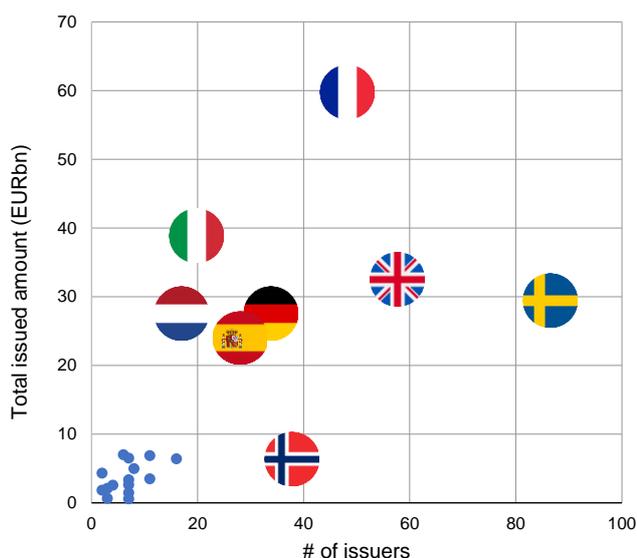


Source: Bloomberg, Scope Ratings

### Italian and British corporates issued high volumes of ESG debt in 2021, besides France

Among European non-financial corporates, Swedish and French companies dominated sustainable financing until 2020. France remains home to those issuers with very large placement volumes and is still leading the European ranking in terms of volumes, but Sweden stands out with the variety of users of ESG-linked bonds, with over 80 different companies representing almost 20% of total European issuer of such bonds. However, the geographic spread of the ESG-linked corporate bond market widened last year, with remarkable growth from Italian and British corporate issuers. UK issuance reflected activity by several issuers, whereas Italian volumes were led by utility Enel and a smaller number of other large issuers.

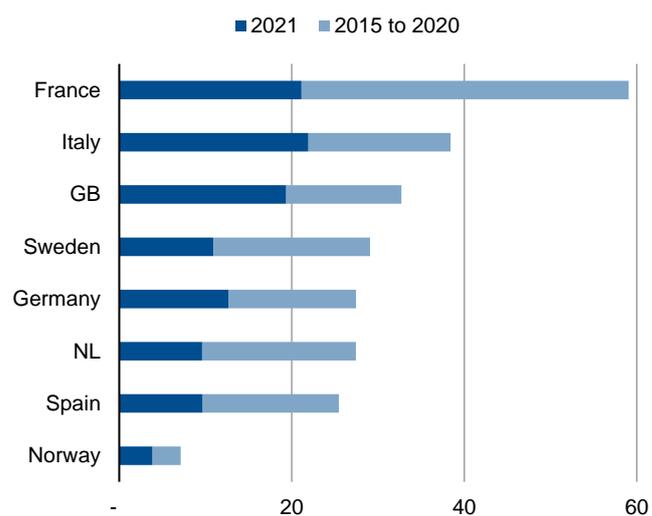
**Figure 8: ESG-linked non-financial corporate bond issuances across regions \* (EUR bn)**



\* Based on location of company headquarters, not issuer's domicile

Source: Bloomberg, Scope Ratings

**Figure 9: Share of ESG-linked bond as portion of non-financial corporate bond issuances across regions \***



Source: Bloomberg, Scope Ratings



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