Nordic Credit Rating

SECTOR COMMENT
CORPORATE
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NORDIC BOND MATURITIES IN 2019 – A SLIGHTLY MORE CHALLENGING AFFAIR

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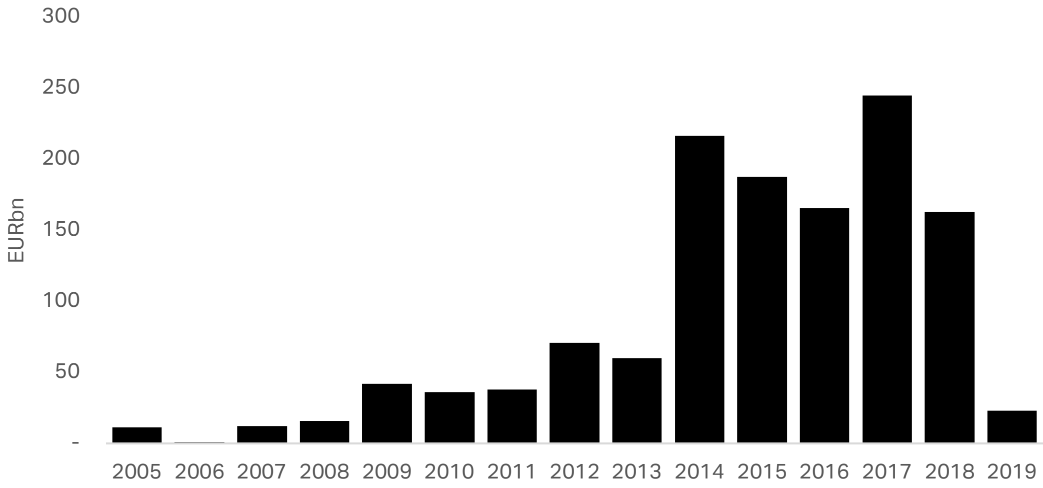
A MORE DEMANDING CORPORATE BOND MARKET LIES AHEAD

During 2018, bonds with an outstanding amount of EUR 160bn were issued by Nordic issuers throughout all segments, down from historic highs in 2017. So far in 2019 (1 Mar. 2019), bonds worth EUR 23bn have been issued. In the remainder of 2019, a total amount of EUR 175bn will mature, and EUR 13bn could be called of which 15% will mature by the end of March and 51% within the second quarter. The amount maturing and potentially needing refinancing is therefore higher than that issued through 2018 and it is not given that investors will absorb the bonds with the same eagerness and at the low interest rates seen at the same time last year. The volatility seen at end-2018, coupled with failure on the part of some issuers to issue new bonds, could support our view that refinancing in 2019 might be more difficult than in 2017 and the beginning of 2018. While spreads widened during the fourth quarter of 2018, they have contracted somewhat so far in 2019.

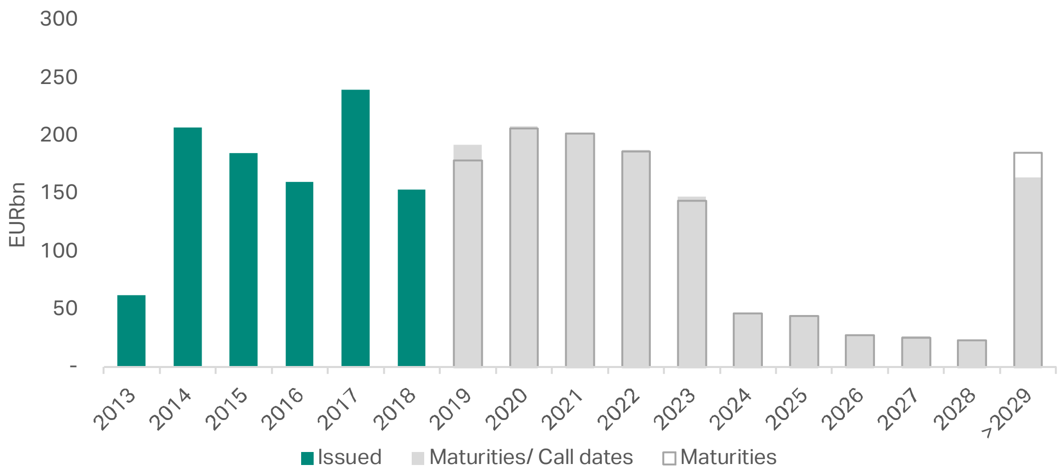
Figure 1. Bonds issued by Nordic issuers, by year



Based on data from Stamdata

Nordic Credit Rating (NCR) is of the view that regional bond maturities are likely to increase considerably over the next few years to well above their recent levels. Should the availability of funding not increase from 2018 levels, refinancing could present a challenge for some companies. The European, Norwegian and Swedish central banks have indicated that interest rates are likely to increase over the next few years and we believe that the total cost of funding is likely to increase. Rising interest rates coupled with recent market volatility have heightened attention on refinancing strategies in capital-intensive segments in 2019.

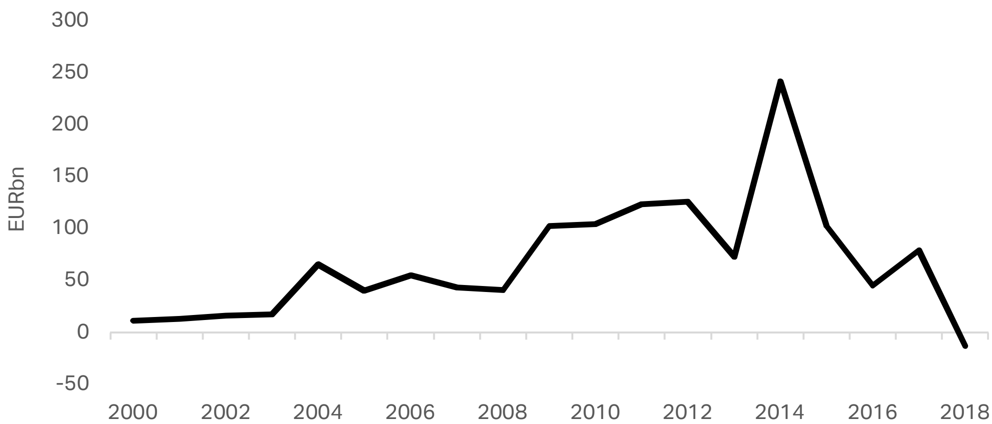
Figure 2. Bonds issued and maturities in all segments in all Nordic countries by Nordic issuers



Based on data from Stamdata

In 2014, volumes issued far outnumbered those maturing, while the opposite was true in 2018. Figure 3 shows the trend over the past 18 years, indicating a constant net inflow into the region's bond markets, except for 2018.

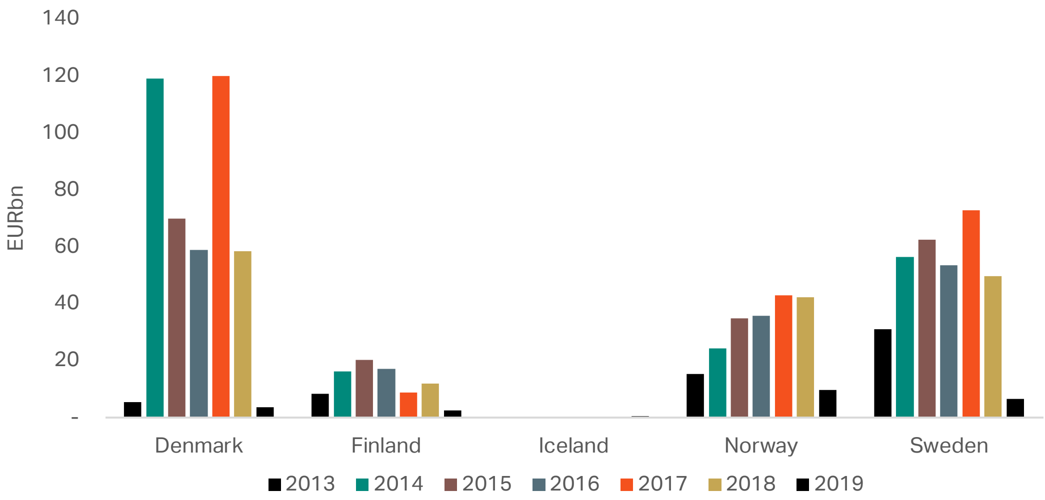
Figure 3. Net amounts issued and maturing by Nordic issuers



Based on data from Stamdata and NCR

The Danish market far exceeds those of the other Nordic countries in terms of total volumes outstanding due to its position as a major global covered bond market. In Denmark, the total value of bonds issued per year has been above EUR 50bn for the past five years, of which 81% corresponds to the finance segment. By contrast, the Icelandic bond market is negligible in relation to those of its Nordic neighbours, and we do not focus on it in this article.

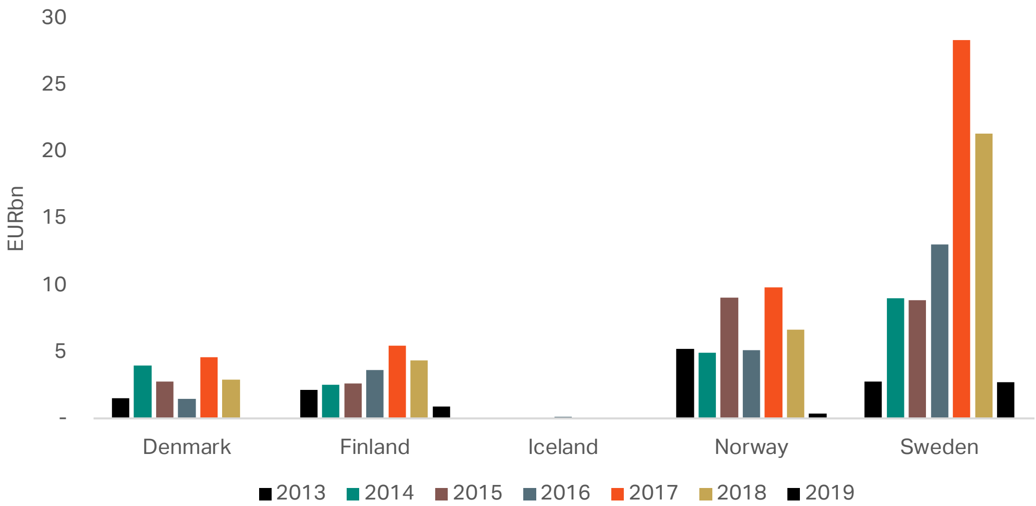
Figure 4. Bonds issued in Nordic countries by year



Based on data from Stamdata

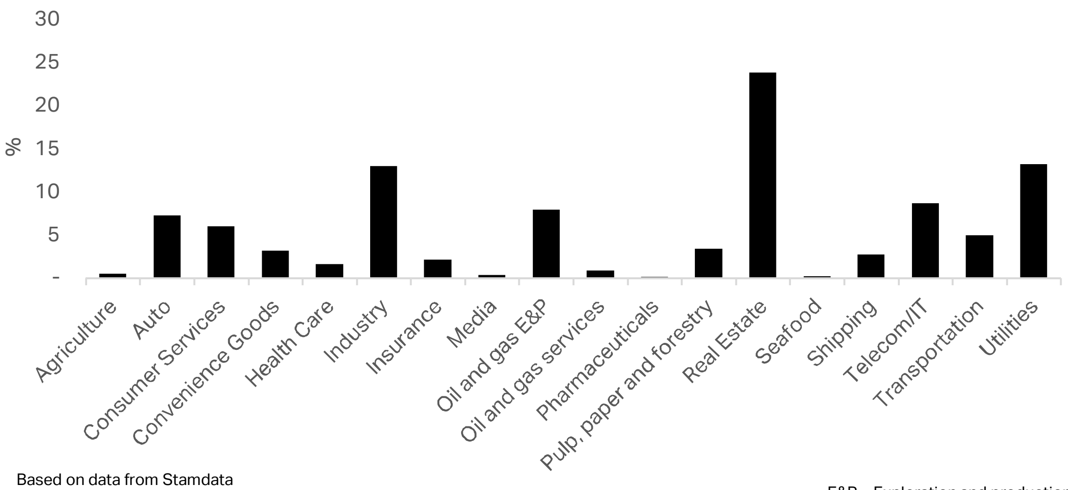
The finance (mainly covered bonds), bank, government and public sector segments account for 85% of outstanding bond volumes in the Nordic countries. In our methodology, we define "corporate" as all segments excluding finance, bank, government and public sector. Accordingly, the corporate sector accounts for 15% of outstanding Nordic bond volumes. Excluding these segments, Sweden outranks the other markets in terms of volume of corporate debt issued (Figure 5). By segment, real estate and industry are the two largest segments in the Nordic region, with a total share of 38%.

Figure 5. Nordic corporate bond volumes issued, by country



Based on data from Stamdata

Figure 6. Nordic corporate bond volumes outstanding by segment

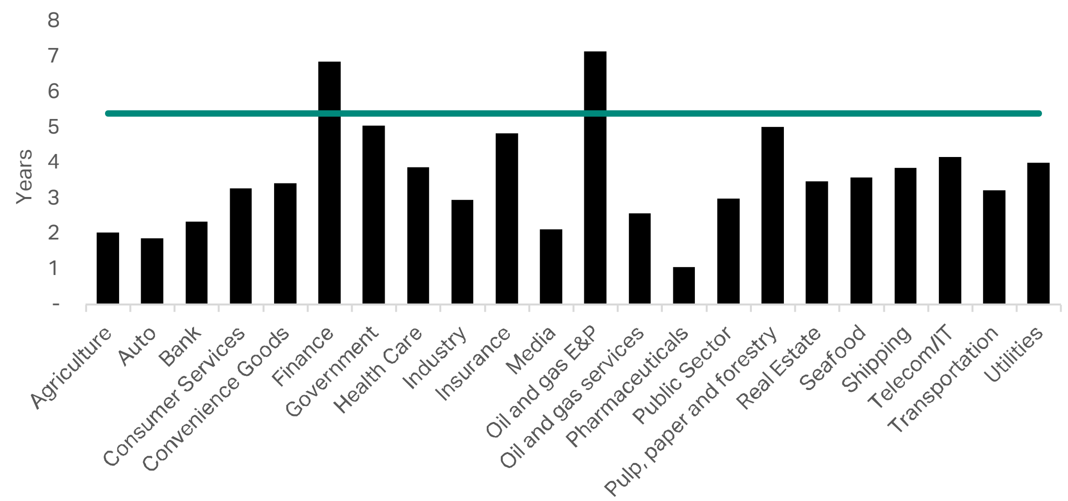


Based on data from Stamdata

E&P = Exploration and production

The volume weighted average time to maturity (VWATTM) for bonds outstanding within the different segments across the region can be seen in Figure 7. With a VWATTM for all segments and countries of 5.4 years, most of the bonds maturing over the next few years are most likely to have been issued in a low interest rate environment, in contrast with current expectations that interest rates will increase. Excluding finance, bank, government and public sector, the VWATTM for corporate bonds outstanding is 3.5 years. Some 25% of the volume maturing this year was issued in 2014.

Figure 7. VWATTM of all Nordic bonds by segment

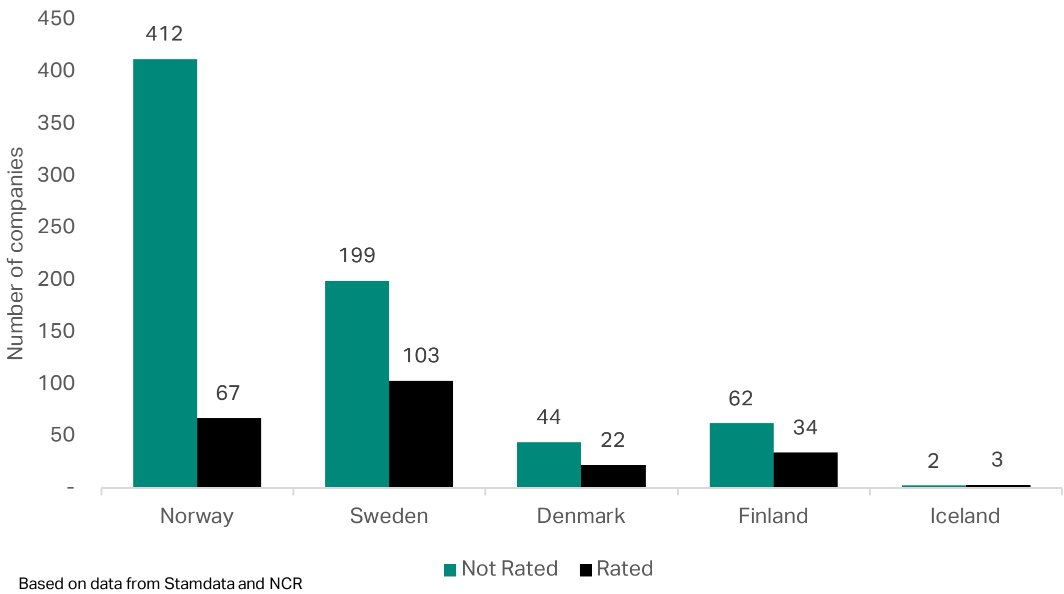


Based on data from Stamdata

Finance relates to covered bonds in this and all charts below

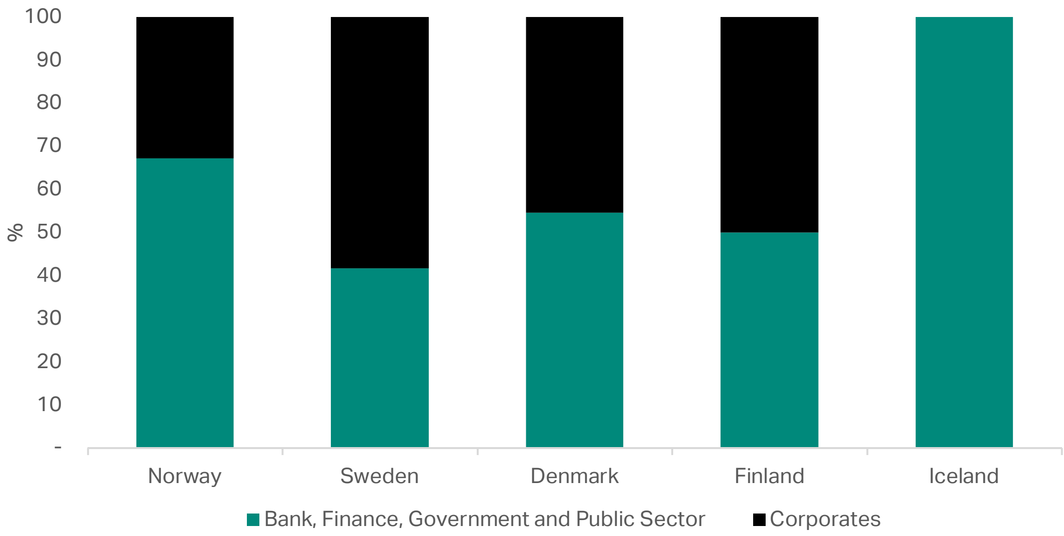
Currently, more than 75% of all Nordic issuers, including bank, finance, government and public services, are not rated. This includes special purpose vehicles and other smaller issuers which might not need to refinance their current outstanding bonds. Moreover, while rated issuers in the corporate segment represent 19% of corporate issuers with bonds outstanding, they represent 70% of the corresponding volumes, i.e. one could argue that given the lower total outstanding volume and the larger number of issuers, the volume issued per issuer is lower than that in the bank, finance, government and public sector segments, and therefore one reason for the lower rating representation is the access to ratings and perceived cost benefit. It is debatable if smaller companies have a smaller reach when issuing bonds and are therefore more dependent on domestic market participants. The ratings referred to in this article include all public ratings issued by NCR and other rating agencies.

Figure 8. Rated and unrated Nordic issuers across all segments



Based on data from Stamdata and NCR

Figure 9. Nordic corporate and non-corporate ratings by country



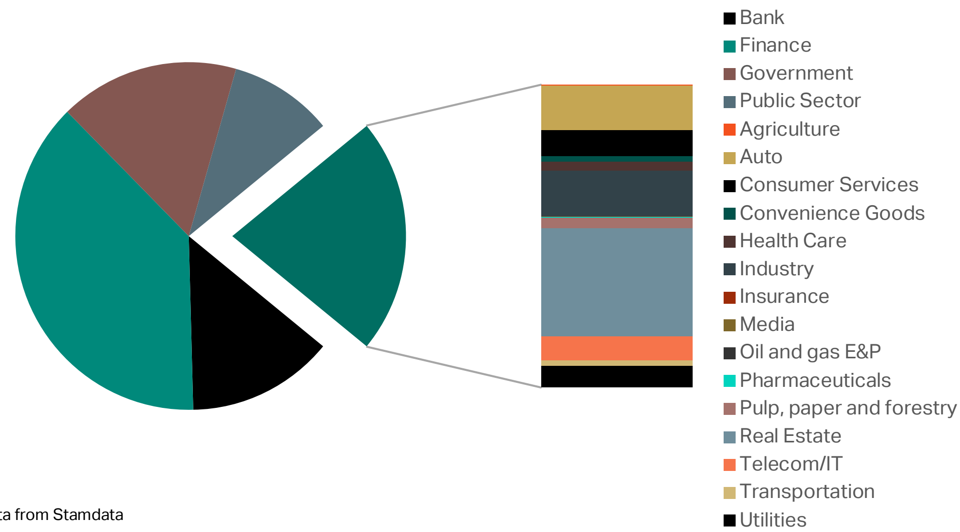
Based on data from Stamdata and NCR

Below, we look at the four largest Nordic bond markets and segments that are likely to need refinancing in 2019 amid projections of declining global economic growth by the International Monetary Fund, the likely impact of the UK's imminent departure from the EU, impending trade wars and the projected cooling of the Chinese economy.

SWEDEN

With a total of EUR 412bn outstanding, the Swedish bond market is the second largest in the Nordic region. The bank and finance segments account for 52% of outstanding bonds, followed by government and the public sector, with 16% and 10% respectively. Accordingly, 22% of outstanding bonds in Sweden are considered corporate issues under our definition. This bond market has been largely driven by the real estate, industry and auto segments, which together account for EUR 59bn, or 66% of the volume of outstanding corporate bonds.

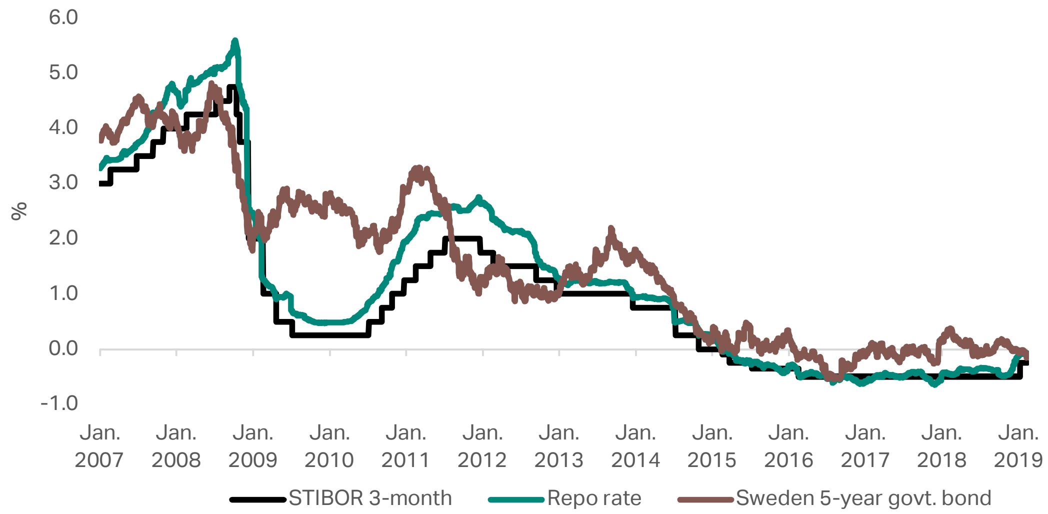
Figure 10. Sweden outstanding bond debt, all segments



Based on data from Stamdata

As the Swedish central bank continued purchasing government bonds through 2016 and 2017, the availability of cheap funding resulted in companies shifting from secured bank debt to unsecured bonds. The central bank currently holds EUR 34bn in government debt, representing 30% of total outstanding government debt of EUR 115bn. Since end-2017 the central bank is no longer a net purchaser of government bonds, reinvesting only its maturities and coupons. With potentially more government bonds being available for other investors, demand for non-government bonds might decline in the future, thus affecting the cost of funding. Furthermore, the Stockholm Interbank Offered Rate, which represents part of the coupon calculation for most Swedish bonds, has increased from negative 0.5% to negative 0.07% since November 2018, which also points towards higher funding costs. Swedish corporates have issued large volumes of bonds since mid-2014 amid decreasing interest rates.

Figure 11. Swedish interest rates over the past decade

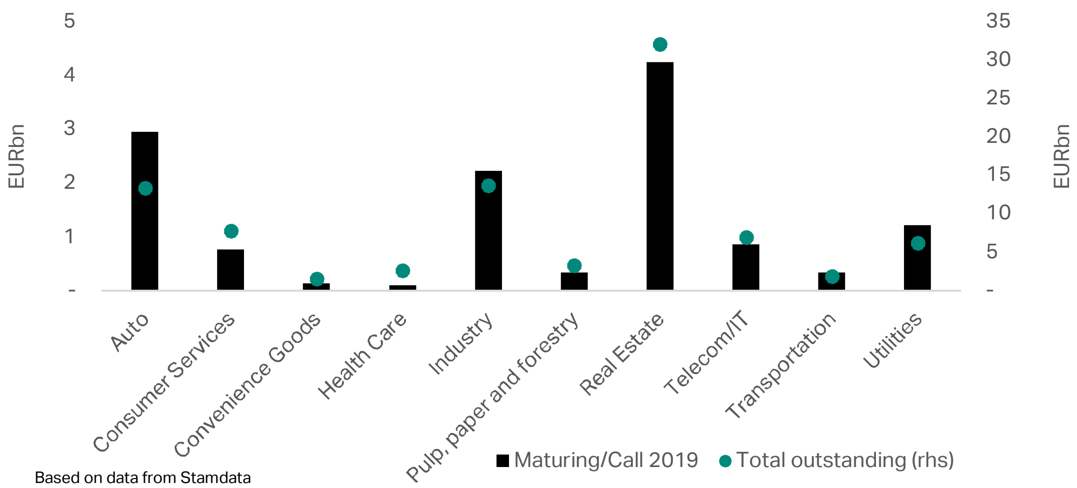


Based on data from the Swedish central bank

CORPORATES

Sweden's corporate bond market amounts to EUR 90bn outstanding and consequently is the largest Nordic corporate bond market. The amount of Swedish corporate bonds maturing this year represents 54% of all corporate bonds maturing in the Nordic markets in 2019 even though the maturities represent only 15% of total outstanding volumes in Sweden. During 2019, we will see maturities mostly in the real estate, auto and industry segments, the three largest segments.

Figure 12. Swedish corporate bond maturities in 2019, by segment

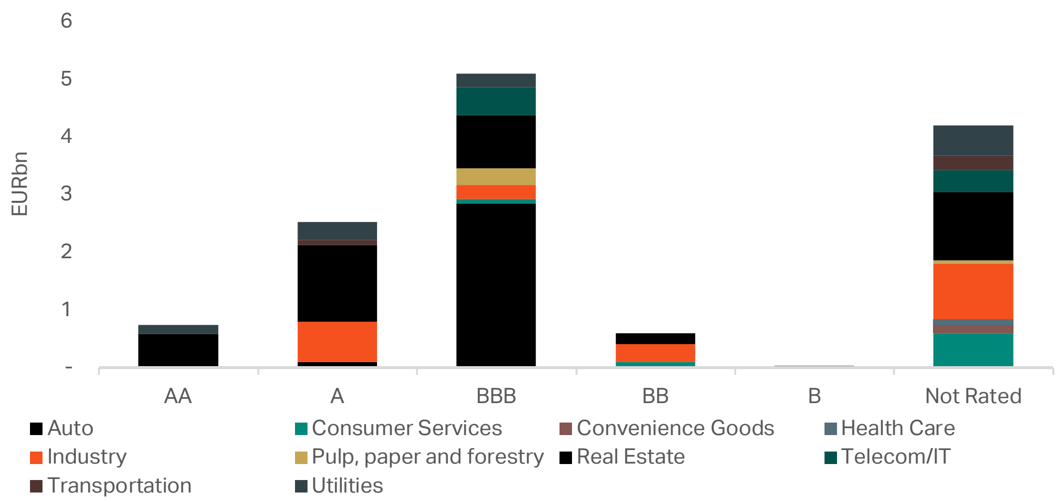


Based on data from Stamdata

According to Stamdata and our information, 60% of Swedish corporate issuers with bonds maturing this year do not have a rating. Among the 40% of rated issuers, the average rating is BBB, with the mean between BBB and A.

As can be seen in Figure 13.3% of the volume of Swedish bonds maturing in 2019 is unrated.

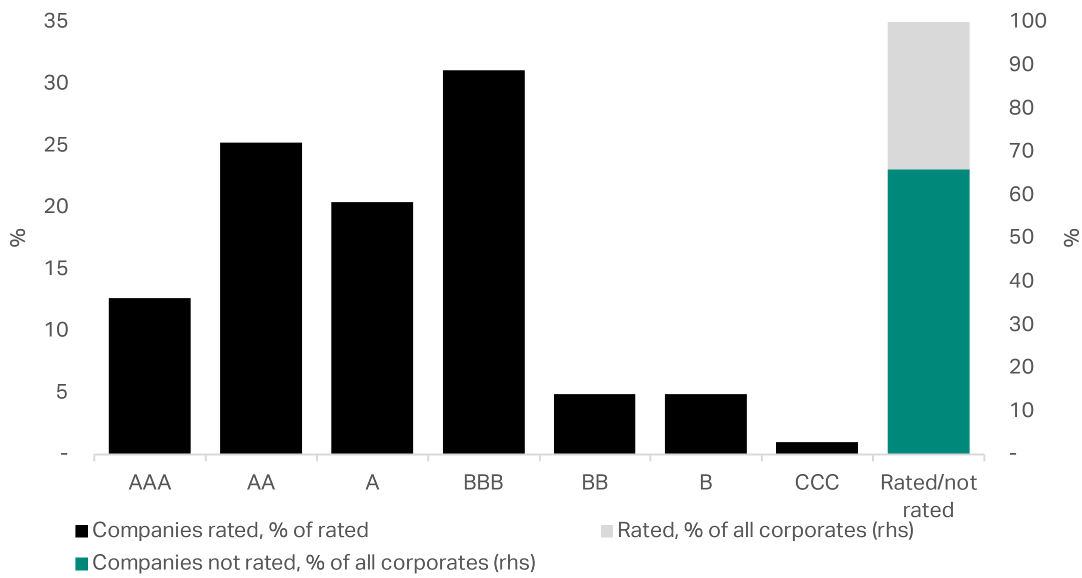
Figure 13. Swedish corporate bond maturities in 2019 by segment and rating



Based on data from Stamdata and NCR

Among the issuers of all outstanding bonds, i.e. bonds maturing in 2019 and later, 65% are not rated and 38% have a rating, as shown in Figure 14.

Figure 14. Distribution of all rated Swedish issuers

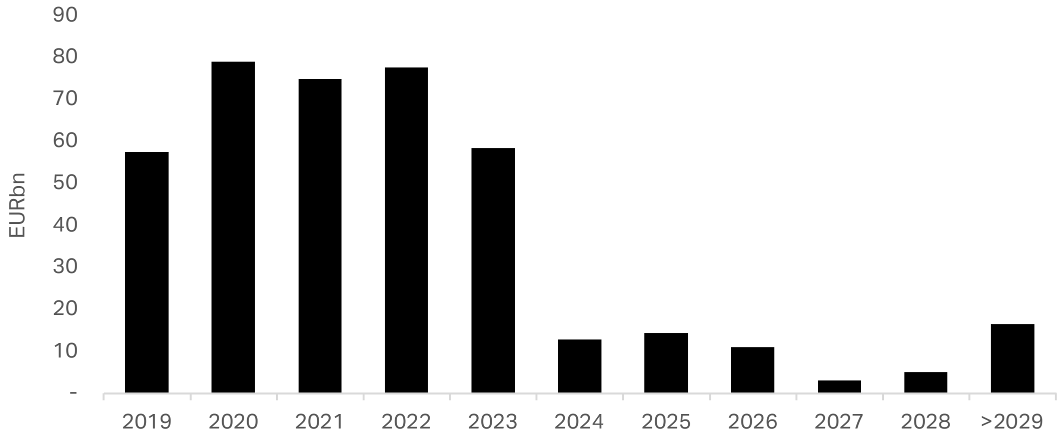


Based on data from Stamdata and NCR

The average coupon for each segment for all maturities varies according to the respective level of credit risk. The average coupon for investment grade corporate issuers at 1.7% and that for high yield issuers at 5%. The average coupon for the unrated group is 5.2%. For all issuers, the corresponding coupons are 1.4%, 5% and 5.2% respectively.

Figure 15 shows the maturity profile of the wider Swedish bond market.

Figure 15. All Swedish bond maturities over next decade

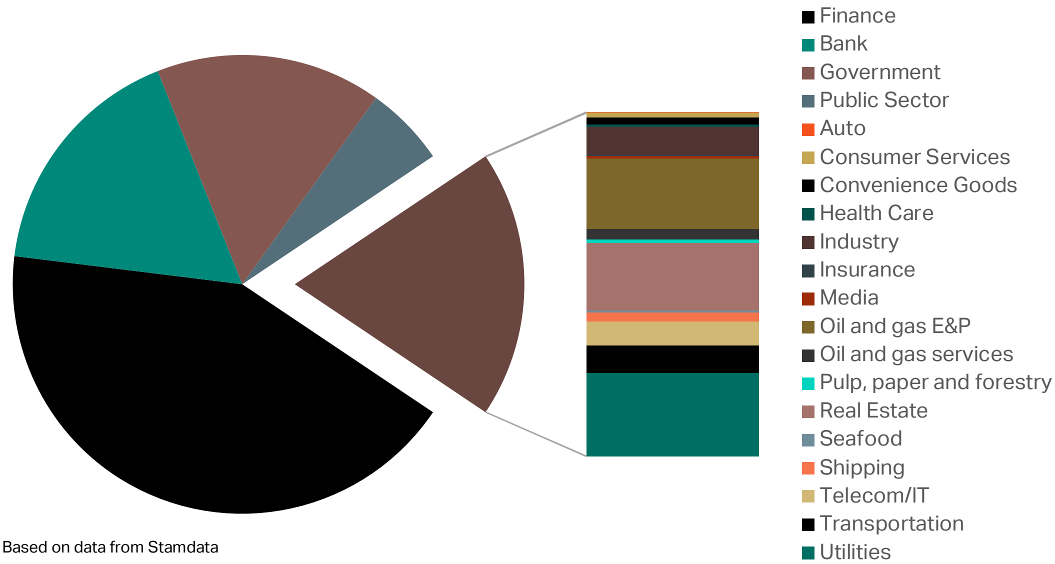


Based on data from Stamdata

NORWAY

According to Stamdata, the total amount of bonds outstanding in Norway is EUR 256bn, with the bank and finance segments representing 60%, and the public sector and government segments 22%. Accordingly, corporates account for 18% of the market. See Figure 16.

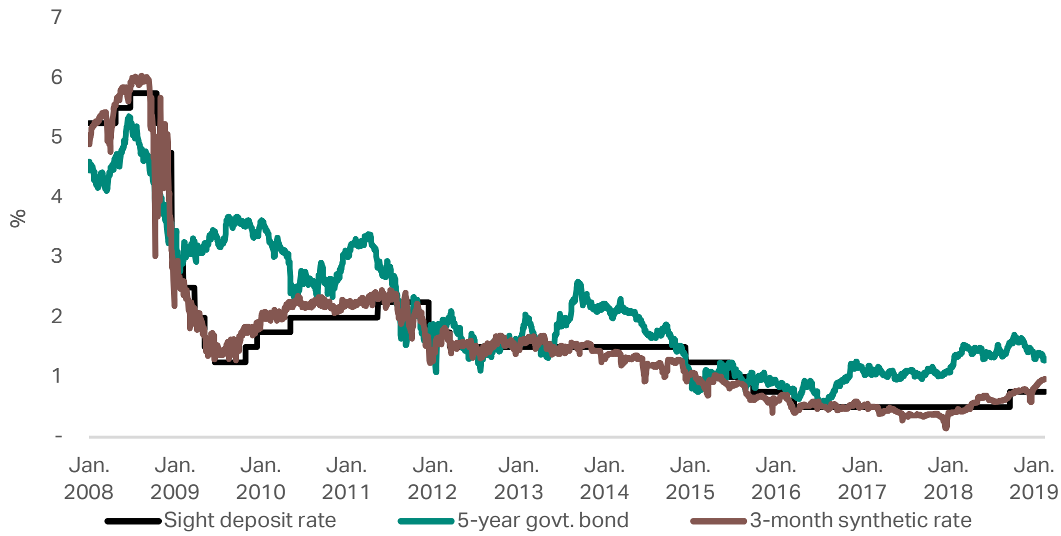
Figure 16. Norway outstanding bond debt, all segments



Based on data from Stamdata

Interest rates in Norway have been less volatile than in Sweden. The Norwegian central bank has not intervened to the same degree as its Swedish counterpart in terms of asset purchases and has held the domestic repo rate at more stable levels. However, the trend has been similar with falling interest rates and more available funding in the bond market increasing the appetite of both investors and issuers.

Figure 17. Norwegian interest rates over past decade

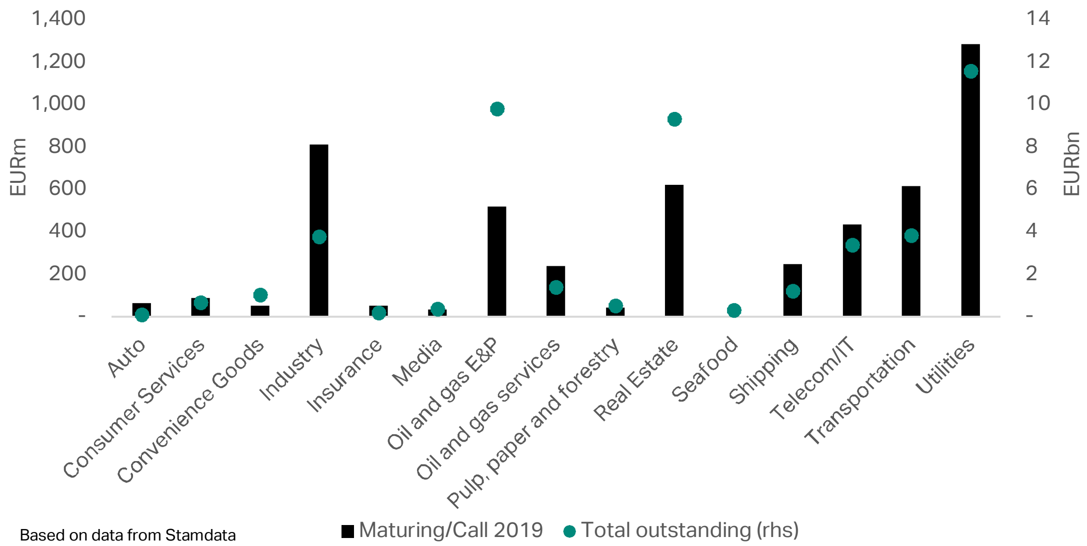


Based on data from the Norwegian central bank

CORPORATES

The Norwegian corporate bond market is largely driven by the utilities, oil and gas and real estate segments, which together represent 64% of volumes outstanding. As in Sweden, the real estate segment, with 120 issuers, has most issuers.

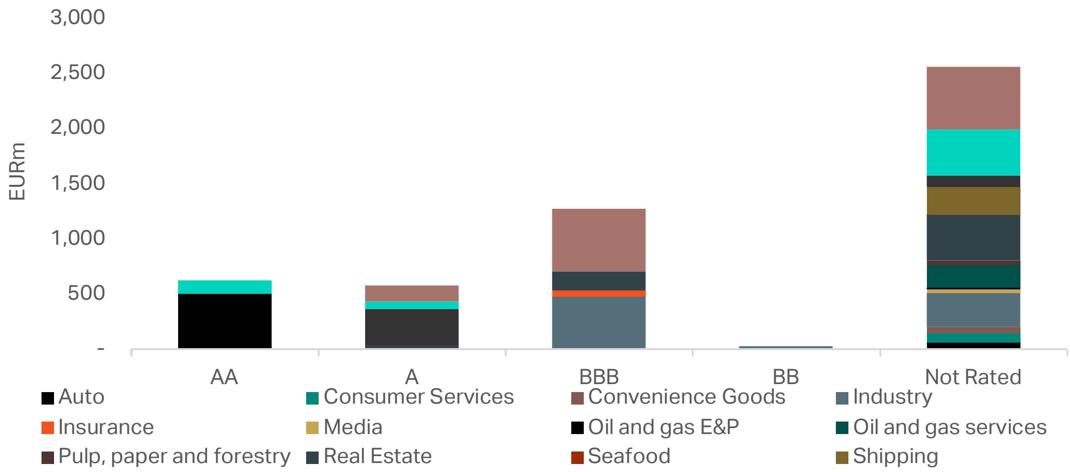
Figure 18. Norwegian corporate bond maturities in 2019 by segment



Based on data from Stamdata

In Figure 21, we show Norwegian bonds maturing in 2019 by segment and rating. Notably, unrated bonds represent around 50% of all issues maturing in 2019.

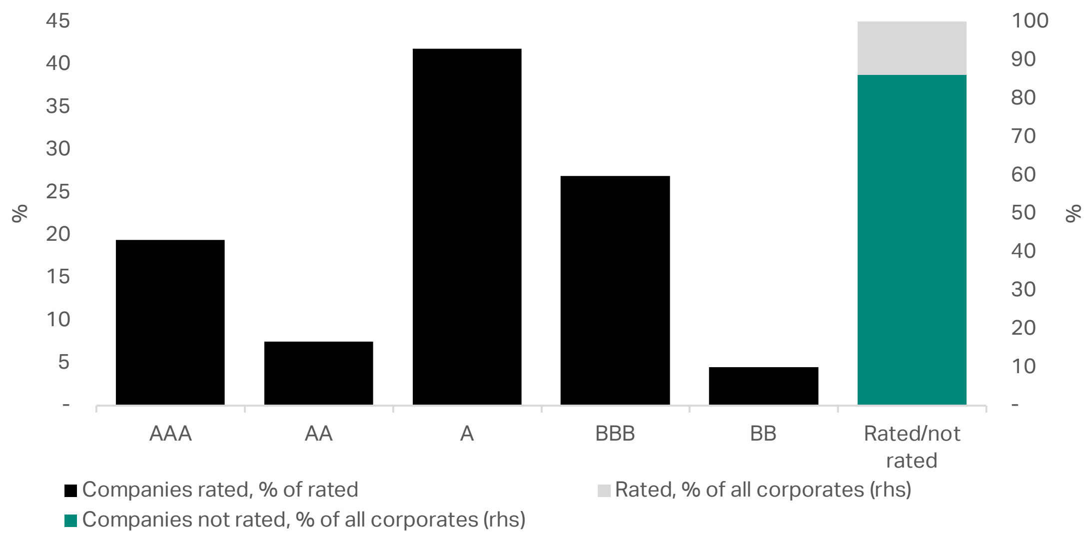
Figure 19. Norwegian corporate bond maturities in 2019 by rating and segment



Based on data from Stamdata and NCR

In respect of all current future maturities in Norway, a total of 86% of issuers do not have a rating. Among these unrated companies, the average value of total bonds outstanding accounts for about a tenth of those of rated corporations. The average coupon paid averages around 5% for the unrated corporations, against 3.3% for the rated companies. For the rated corporates, the investment grade rated corporates' average coupon is 3.1% against 4.8% for the high yield corporates. The distribution of ratings among rated companies can be seen in Figure 20.

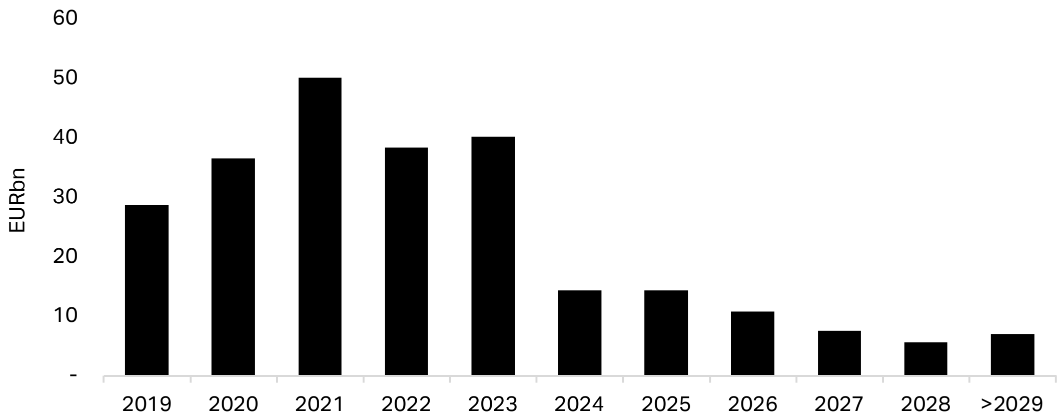
Figure 20. Distribution of all rated Norwegian issuers



Based on data from Stamdata and NCR

The maturities for all Norwegian bonds over the next decade can be seen in Figure 21.

Figure 21. All Norwegian bond maturities over next decade

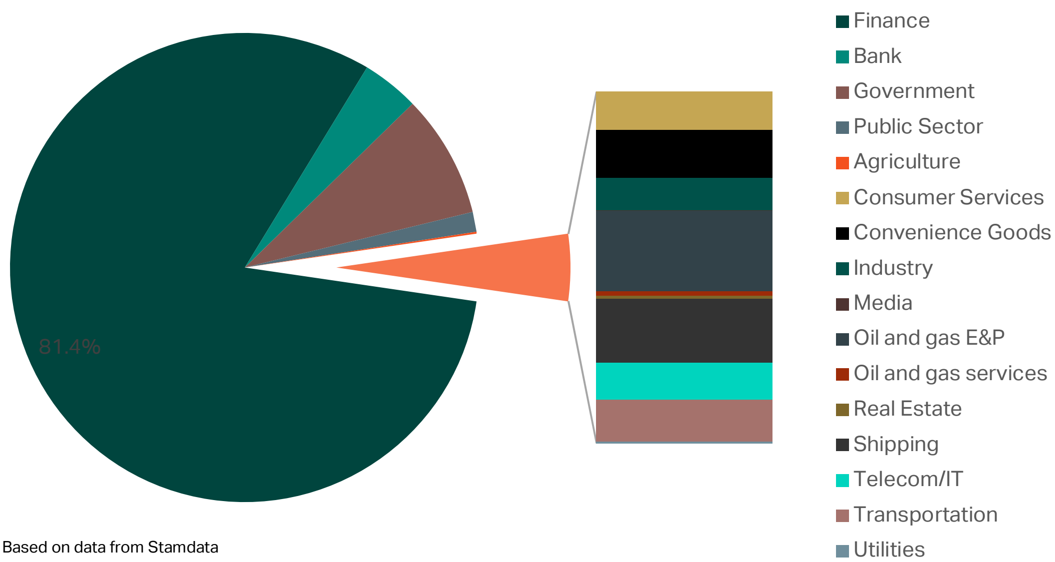


Based on data from Stamdata

DENMARK

With total bonds of EUR 495bn outstanding, Denmark is the largest market in the Nordic region. The finance segment represents 82% of all volumes outstanding, due to the Danish covered bond market being one of the world's largest. The government segment holds a distant second place with 8.5%. The corporate market, as defined by NCR, equates to 4.5% of all debt outstanding in Denmark and thus represent the fourth largest corporate market in the Nordic region with EUR 22.8bn outstanding.

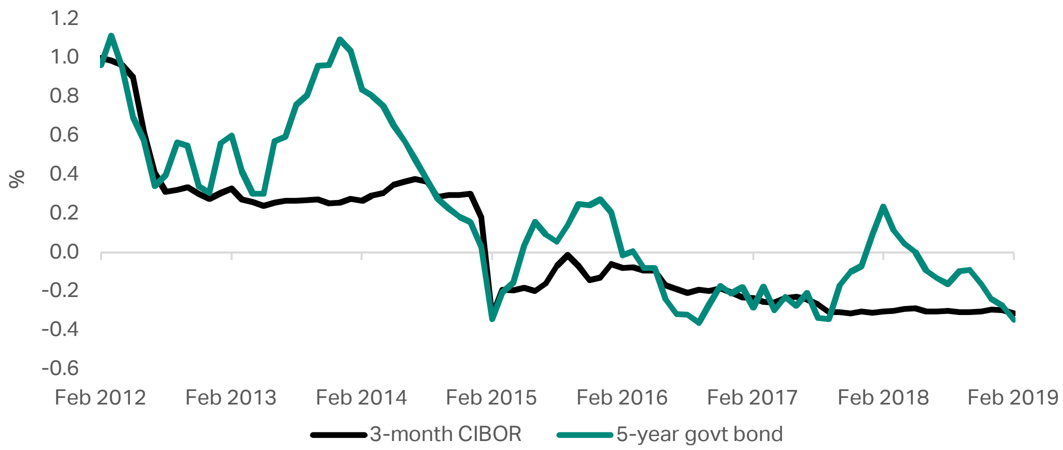
Figure 22 Danish outstanding bond debt, all segments



Based on data from Stamdata

As the Danish krone is pegged to the Euro, Danish interest rates are driven by different overarching interests than those in Norway and Sweden. The Danish rate of interest on certificates of deposits has been below zero since 2012, while the 3-month Copenhagen Interbank Offered Rate (CIBOR) has been mostly below zero since 2015 and continues to fall.

Figure 23. CIBOR 3-month fixing and 5-year govt bond

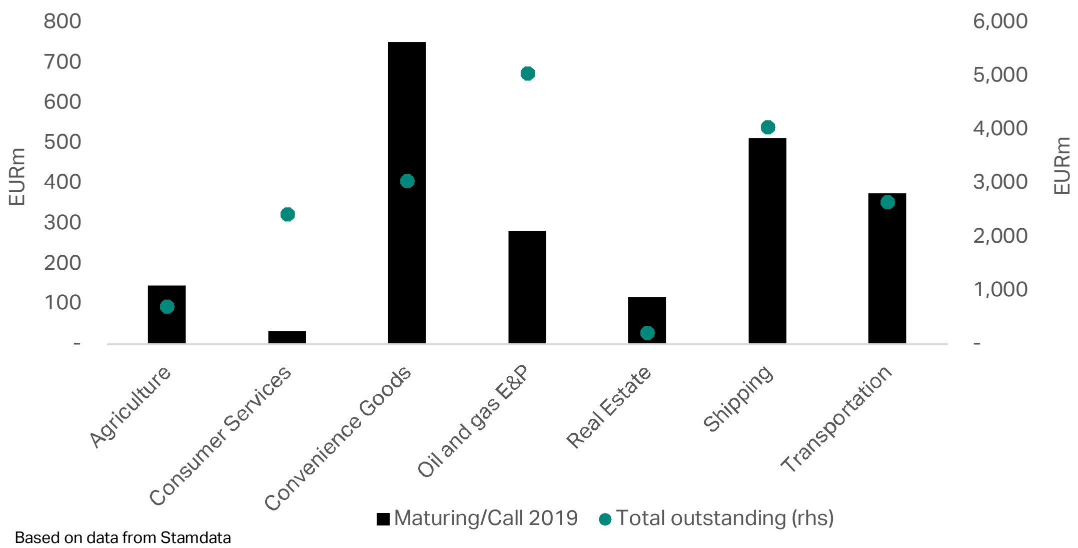


Based on data from the Danish central bank

CORPORATES

Denmark has a total of EUR 2bn maturing in 2019, or 10% of total outstanding corporate bonds. Among Danish issuers, real estate is the largest segment in terms of number of issuers, and convenience goods in terms of values maturing. Oil and gas and shipping represent the largest segments in terms of total volumes outstanding; however, it should be noted that these segments are driven by two industry leaders: Ørsted A/S and A. P. Møller-Maersk A/S respectively.

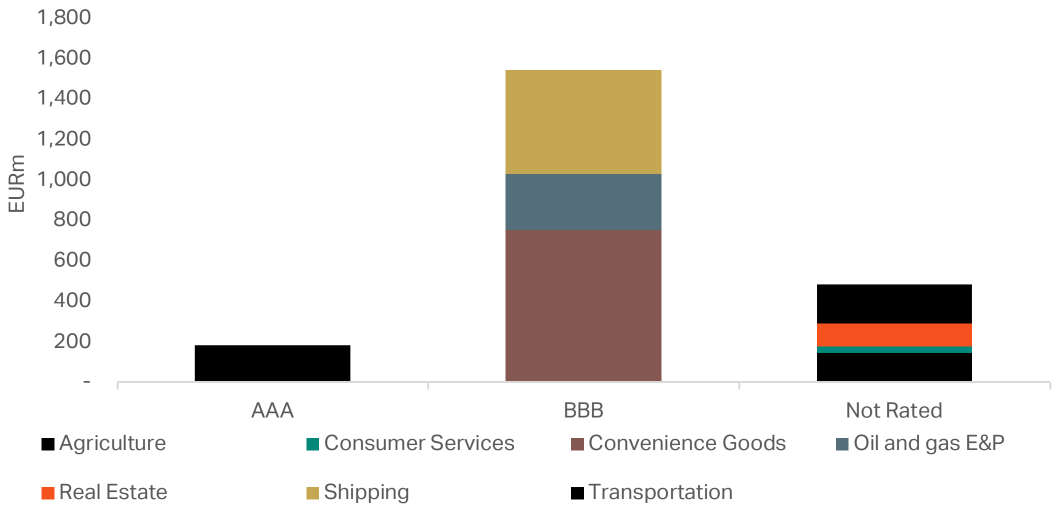
Figure 24. Danish corporate bond maturities in 2019, by segment



Based on data from Stamdata

Of the Danish issuers facing maturities this year, 30% are rated. However the volume of the bonds of the rated corporates far exceeds those of the unrated. The distribution can be seen in Figure 25

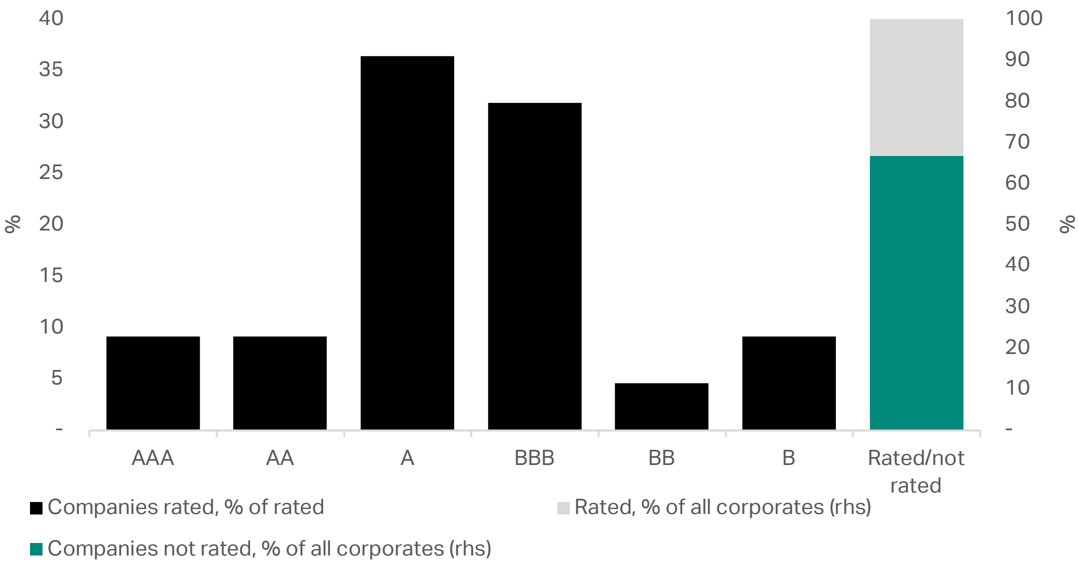
Figure 25. Danish corporate bond maturities in 2019, by rating



Based on data from Stamdata and NCR

In terms of issuer numbers, the Danish bond market lags those of Sweden and Norway, with only ten rated corporates, and only 22 companies across all segments including bank and finance. However, Denmark has several corporate issuers with a greater average amount issued than rated corporates in both Norway and Sweden. The average coupon for rated corporates is 3.5% against 6.9% for unrated corporates, with investment grade corporate coupons averaging 2.4%, and high yield 6.2%.

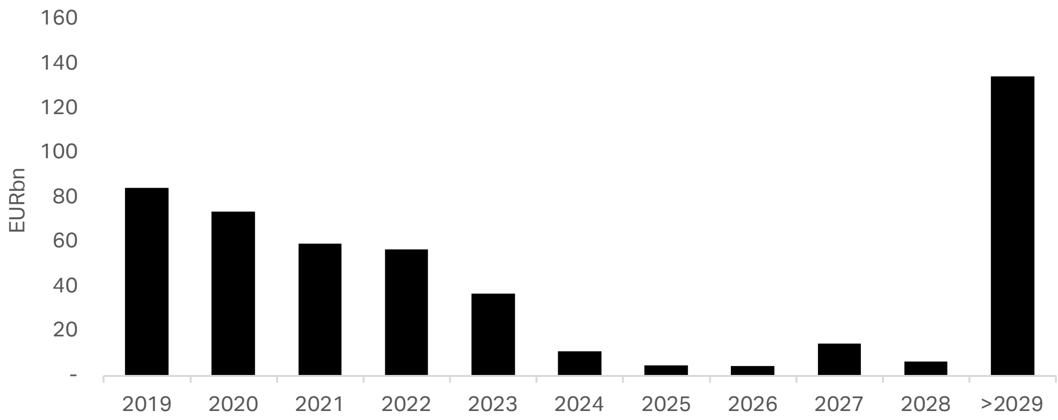
Figure 26. Distribution of all rated Danish issuers



Based on data from Stamdata and NCR

All maturities for Danish corporates can be seen in Figure 27.

Figure 27. All Danish bond maturities over next decade

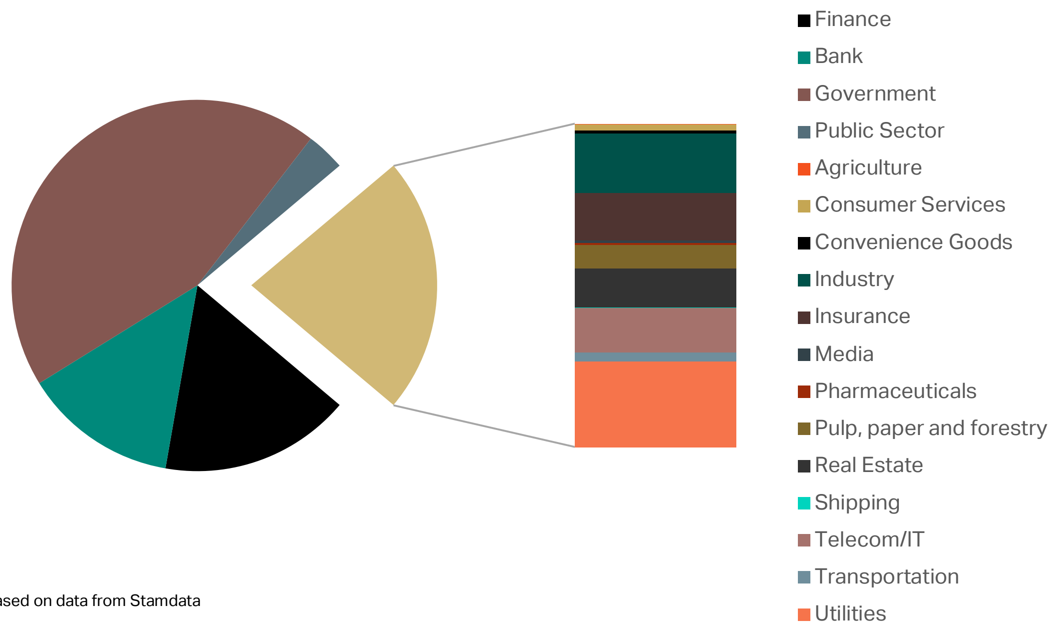


Based on data from Stamdata

FINLAND

With EUR 136 bn in bonds outstanding in all segments, Finland represents the fourth largest market in the Nordic region. Government bonds represent 51% of all bonds outstanding. Outstanding corporate bonds represent 22% of the market.

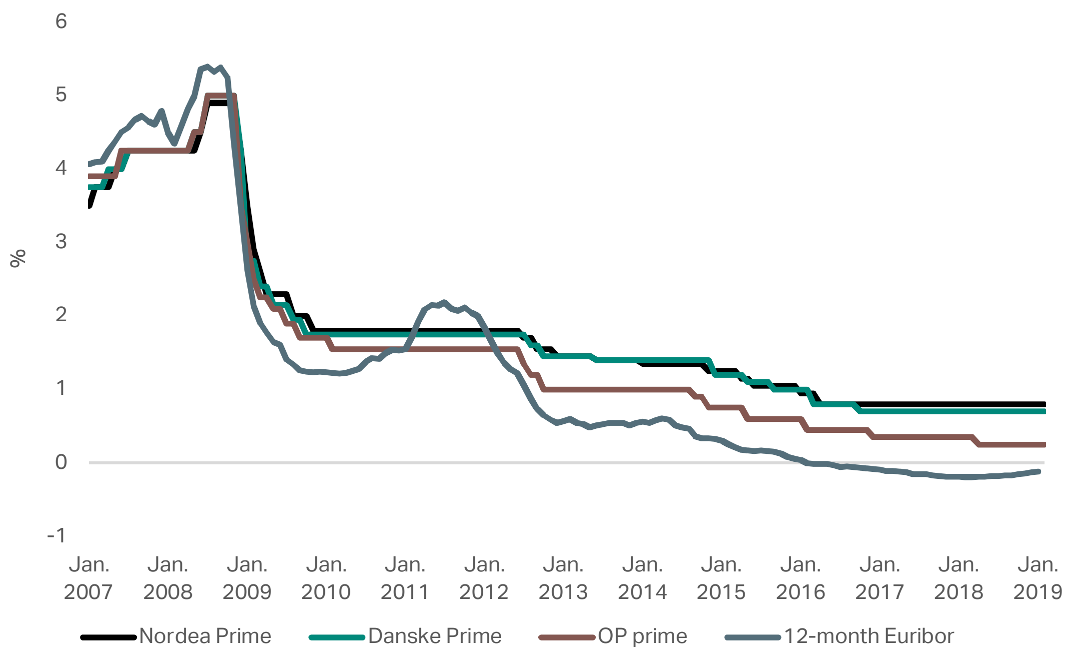
Figure 28. Finland outstanding bond debt, all segments



Based on data from Stamdata

The Finnish central bank has purchased bonds from the market through an asset purchase programme initiated in 2015, when the European Central Bank began its asset purchase programme. Likewise, the Euro Interbank Offered Rate has followed a trend similar to that of the reference rates in the Nordic countries since 2016. As in Sweden, the Finnish asset purchase programme was aimed at stabilizing the financial market and holding down interest rates to increase inflation and boost the economy. As the economy began to recover in 2017, the Finnish central bank ended net asset purchases and is only reinvesting maturities and coupons.

Figure 29. Finnish interest rates

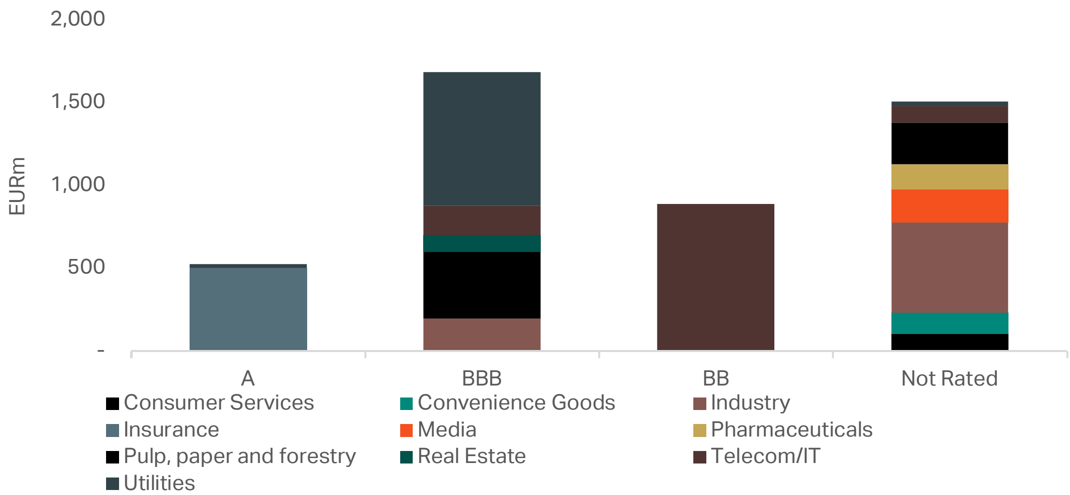


Based on data from the Finnish central bank

CORPORATES

The Finnish corporate bond market amounts to EUR 27bn, of which 17% matures this year. Utilities, industry, insurance and telecoms are the largest bond-issuing segments, representing 72% of all corporate bonds outstanding.

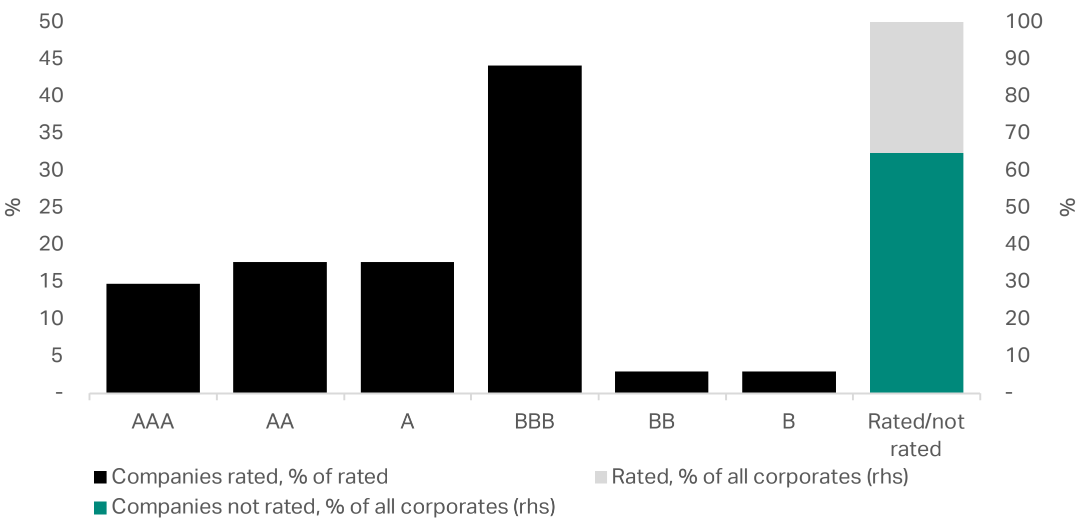
Figure 30. Finnish corporate bond maturities in 2019, by rating



Based on data from Stamdata and NCR

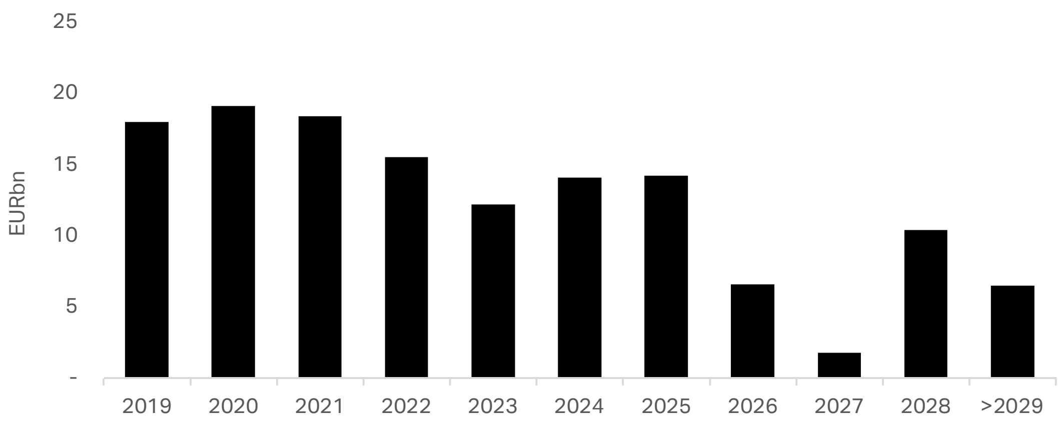
The Finnish market is smaller than those of Sweden and Norway and there are fewer rated corporates, with 26% of corporates holding a rating. The average coupon for rated corporates is 3.4%, against 5.1% for unrated corporates. For issuers rated investment grade, the average current coupon in 2.6% against 3.4% for issuers rated high yield.

Figure 31. Distribution of all rated Finnish issuers



Based on data from Stamdata and NCR

Figure 32. Finnish corporate bond maturities over next decade

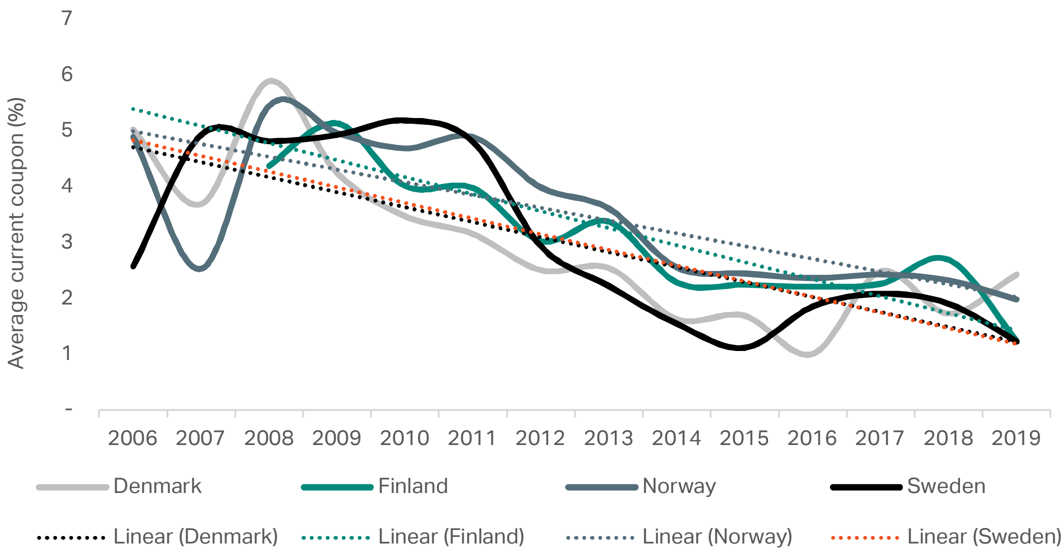


Based on data from Stamdata

PRICE OF REGIONAL FUNDING AFFECTED

Current coupons on Nordic corporate bonds have decreased in recent years. See Figure 33. This trend shows a strong correlation with regional domestic interest rates, which often constitute part of the coupon calculation. Figure 33 includes both fixed and floating interest rates. However, interest rate hikes are expected in all four countries. With the termination of asset purchase programmes by the European, Swedish and Finnish central banks, there could be a decrease in demand for government bonds and a corresponding impact on demand for corporate bonds. With ESMA (European Securities and Markets Authority) restricting banks issuing shadow ratings, the risk of asymmetrical information between issuers and prospective buyers could effectively distort the price of funding.

Figure 33. Current coupon on outstanding bonds, by issue year



Based on data from Stamdata and NCR

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