Fitch Ratings

EMEA Corporate Credit View

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Corporate Credit View – February 2011

Welcome to the February edition of Fitch Ratings' "EMEA Corporate Credit View", a monthly enewsletter that highlights the agency's activity in the EMEA Corporate Finance market and includes links to relevant research and rating actions. Unless noted otherwise, ratings referred to below are Long-Term Foreign-Currency Issuer Default Ratings (IDRs).

January 2011 saw the euro zone pressures, which had built up during November and December, ease somewhat, with successful bond auctions from the *EFSF*, *Portugal* and *Spain* helping to calm nerves. It also allowed an issuance window for peripheral euro zone corporates, with deals priced for *EDP*, *Telefonica*, and *Iberdrola*. EDP's five-year bonds, at a yield of just under 6%, priced approximately 50bp inside similar duration Portugese government debt.

This situation is not entirely unusual – CDS on many corporate bonds in more defensive sectors in peripheral European countries are tighter than for related sovereign debt. Rating-wise, however, Fitch views it as unlikely, although not impossible, that the rating of a domestically-focused corporate would be unaffected by sovereign pressures in the medium term, largely due to the toll that a fiscally-challenged government may take on a country's overall economic performance. Fitch will, however, continue to assess each of these situations on its merits.

January ended with political tensions heightening in *north Africa*. Fitch's overall expectation of this very fluid situation is that it will not spill over into the GCC countries. If this is the case, the direct impact on bondholders should be limited – bond and loan maturities in the countries directly affected are only USD1.8bn in 2011.

The key publication of the month was Fitch's *Leveraged Finance Credit Review*. This highlights key trends from the LF market based on observations from the roughly three hundred European leveraged deals on which Fitch provides private credit opinions. In summary, a combination of cost cutting, mild revenue improvement, and the expiry of interest-rate hedges, has improved both leverage and coverage metrics. Combined with the low amortisation profiles of deals done in the period leading up to 2007, this means that the vast majority of borrowers are now looking able to service their debt until bullet maturities become due – much of these in 2013 and 2014.

It is those bullet maturities that are the biggest cause for concern. 2010 saw names in defensive sectors such as telco and cable address these issues – with companies

including *TDC* ('BBB'/Stable), *Virgin Media* ('BB'/Stable) and most recently Spain's *ONO* ('B'/Stable) successfully terming out near-term maturities. Companies rated 'B' or above should be relatively well-placed to refinance if necessary. However, these make up the minority of the portfolio – over half is rated 'B–' or below, with 14% 'CCC' or lower. While there is room for some of these companies to migrate upwards, prospects for terming out or refinancing for many are less rosy.

Part of the process of addressing these maturity issues is acting early, and the issuance of high-yield bonds is one way to do this. Two of Fitch's new ratings in January were in the leveraged finance space: *Labco* and *Crown Newco* (the Priory) both of which are rated 'B+'.

Rating actions were thin on the ground as we await the onset of the reporting season. Three companies saw favourable outlook revisions: *Transnet* and *Eskom* (Local-Currency IDR) following rating action on the *South African* sovereign, and *Acea* on the publication of an updated business plan. The Outlook on *Yakutskenergo* was revised to Stable from Positive due to state linkage considerations. Seven ratings were affirmed with no change in Outlook or Rating watch.

Eleven further sector outlooks were issued. Notable among these was *pharmaceuticals*, with a negative outlook indicating that the looming patent cliff is likely to combine with M&A and share buyback risks to put downward pressure on ratings. The Asian corporate team produced a *teleconference* and *report* on Chinese property – which many regard as key to China's immediate growth prospects. A full listing of outlooks to date is available on our *outlooks* page, with *videos* discussing the Corporate outlooks there.

A number of topical comments were issued. Following numerous investor enquiries, Fitch stated that, under certain assumptions *Vivendi* should be able to acquire the 45% of SFR it does not own without jeopardising its rating (note this was a purely hypothetical exercise – we have no more information on whether this much talked- about deal will actually happen than the market does.) Other company-specific comments covered *BP*, *Fiat*, *Iberdrola* and *Accor*. Fitch issued a piece discussing the potential impact of the *floods in Queensland* on global miners.

Finally, below is a list of major issuers that Fitch, at the time of writing, is expecting to take to committee for periodic review in the month of February:

- *Diageo*
- *Dubai Holding Commercial Operations Group*
- *EDF*
- *Lukoil*
- *Metro*
- *SABIC*
- *Siemens*
- *SPP*
- *Unilever*

This is, as usual, produced as a tool to help investors plan their workflow around Fitch's update cycle. Producing a definitive list is impossible, as ratings often move in response to real-world events, and even planned reviews sometimes have to be moved.

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