

# Corporate Credit Monthly Update

## January 2017

« *Uncertainty has sparked fears of heightened volatility on the markets* »



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In the wake of Donald Trump's election, US policy has taken a new turn, inspired by a wave of protectionism and withdrawal from international commitments. This new policy was initially perceived from the standpoint of an announced tax cut and the easing of regulatory constraints. Of course, other aspects may well come to have greater influence in the coming months. As a rule, the uncertainty surrounding the measures proposed by the new US administration, and its effects on the global economy, have sparked fears of heightened volatility on the markets. This situation, combined with the problems in the European Union, whose cohesion has been sorely tested by Brexit and the success of nationalist movements, paints a gloomy overall picture for the year to come. What's more, sovereign yields in Europe could be driven up by the gradual moderation of the ECB's asset-buying programme, improved economic conditions or an inflation hike. In that respect, Germany's 1.7% inflation for the month of December took economists by surprise.

In US markets, the month of January was marked by the inauguration of President Trump and with it, the first clues of what to expect in his presidency ahead. Credit performed well overall, driven by i) Trump/Congressional optimism, ii) rising stock prices (S&P 500 returned +1.79%) and iii) solid macro data and earnings. Meanwhile, there was limited movement in US rates, with Treasury yields plateauing at 2.45%.

Emerging-market credit enjoyed a positive performance in January. Supportive economic data fully offset fears linked to anti-trade rhetoric from the Trump administration.

### Companies in the Spotlight

#### Thom Europe (Europe)

French jeweller Thom Europe published solid Q4 2016 results (July-September), with revenue up 3% (+0.4% on a same-store basis) compared to a 3% decline for the market as a whole. EBITDA climbed 6.6% to EUR 11 million, taking the operating margin to 13.7% (+40 bp). Net debt fell from EUR 335m in Q4 2015 to EUR 314.1m in Q4 2016, i.e. leverage of 3.9x, down 0.6x year-on-year. Various sources recently indicated that the group may be put up for sale by the Bridgepoint fund, but nothing has been confirmed at this point.

#### HCA (US)

US hospital chain HCA Holdings reported solid Q4 2016 numbers and provided initial 2017 guidance calling for EBITDA growth of 2.2% to 5.9%. In Q4, HCA's net revenue increased 3.8% YoY to USD 10.6 billion, while adjusted EBITDA reached USD 2.1 billion, up 2.6% yoy. Overall, net secured leverage ended the year at 2.6x and net total leverage at 3.9x.

#### Vimpelcom (Emerging Countries)

Telecom operator Vimpelcom is planning to tender its shares in Global Telecom Holding (57.8%) to Telenor in exchange for 12% of its own shares, which may speed up Telenor's exit from Vimpelcom. Telenor currently owns 24% of Vimpelcom and had mentioned its intention to exit the company back in autumn 2015. If the transaction were to go ahead, Telenor would end up holding a 12% stake in Vimpelcom.

## Anaxis AM Universe

The universe studied by Anaxis AM for the management of its portfolios and the publication of this document is as follows :

On 2 786 European, US and EM corporate bonds (ex-Financials)  
(H7PC, JC4N and HYEF indices)

Illiquid issuers are excluded (< USD 500 000 000).

2 163

Illiquid bonds are excluded (< USD 200 000 000).

2 081

Maturity of bonds is below or equal to 8 years

1 681

Duration of bonds is below or equal to 5 years.

1 142

Bonds are not distressed (price < 80).

1 042

Yield To Maturity is superior or equal to 3%.

916

## Significative Primary Issues

## EUR

Issuer	Coupon	Maturity	Amount	Rating
Hapag Lloyd	6.750%	2022	€600M	B-

## US

Issuer	Coupon	Maturity	Amount	Rating
Mercer	6.500%	2024	\$225M	B1
Navistar	8.250%	2021	\$1.5Bn	Caa1
US Concrete	6.375%	2024	\$200M	B2

## EM

Issuer	Coupon	Maturity	Amount	Rating
Rumo	7.375%	2024	€750M	BB-
Standard Industries	5.000%	2027	€500M	Ba2

## Rating Moves

Agrokor dd	Moody's	↘	B3
BAT Industries PLC	Moody's	↘	Baa2
BMW	Moody's	↗	A1
Cemex SAB de CV	S&P	↗	BB-
CGG	Moody's	↘	Caa3
FMG Ltd	Moody's	↗	Ba1
Gecina	S&P	↗	A3
General Motors Co	Moody's	↗	Baa3
Magyar Telecom BV	S&P	↗	B-
Nissan Motor Co Ltd	Moody's	↗	A2
Prologis Inc.	Fitch	↗	BBB+
Rolls Royce PLC	S&P	↘	BBB
Sappi Ltd	S&P	↗	BB

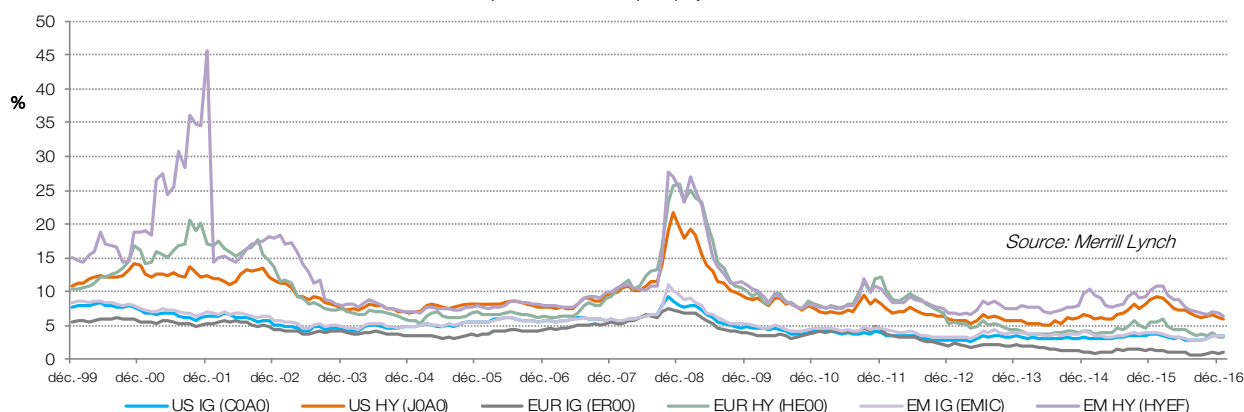
### Macro Economic Events

- **Eurozone:** growth picked up the pace slightly in Q4, against expectations. GDP rose 0.5% qoq, vs. 0.4% in the third quarter and 1.8% year-on-year. Not surprisingly, the ECB left its rates unchanged despite recent signs of improved growth and higher inflation.
  - **France:** economic growth accelerated to +0.4% in Q4, in line with the consensus but not enough for 2016 to end on a better note than 2015.
  - **United Kingdom:** the economy maintained robust momentum in Q4, gaining 0.6%, a figure that defied projections on the consequences of a pro-Brexit vote. Prime Minister Theresa May has argued for making a “clean break” from the EU, while also stressing that Brexit would mean leaving the single market.
  - **Spain:** Fitch confirmed the country's long-term BBB+ rating with a stable outlook. By the government's estimate, the Spanish economy posted higher-than-expected growth of 3.3%. The unemployment rate dropped to a seven-year low of 18.6% by the end of 2016.
  - **Italy:** DBRS lowered Italy's solvency rating from A to BBB with a stable outlook.
  - **Greece:** S&P confirmed the country's long and short-term ratings (B- and B, respectively) with a stable outlook.
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- **United States:** Donald Trump signed an order taking the US out of the Trans-Pacific Partnership (TPP) and threatened to follow suit with the North American Free Trade Agreement (NAFTA) unless a fair deal is negotiated with Mexico and Canada.
  - **China:** the economy enjoyed stronger-than-expected growth of 6.8% in Q4, stimulated by public spending and lending.

### Market Data Indices

Market Data Indices		Performance		Duration	Yield	Spread
		MTD	YTD	DTW	YTW	STW
<b>High Yield</b>						
JOA0	US HY Cash Pay	1.34%	1.34%	3.86	5.85%	410
HE00	Euro HY	0.74%	0.74%	3.20	3.16%	354
JC4N	US HY BB/B Non-Fncl Constr.	1.20%	1.20%	3.95	5.15%	339
H7PC	Euro HY BB-B EUR/GBP Non-Fncl Constr.	0.69%	0.69%	3.20	2.97%	322
HYEF	EM HY Ex. Subordinated Financial	1.86%	1.86%	3.46	6.28%	479
<b>Investment Grade</b>						
COA0	US Corporates Master	0.41%	0.41%	6.87	3.38%	124
ER00	EMU Corporates	-0.58%	-0.58%	5.24	1.00%	117
EMIC	Emerging Markets Corporates	0.64%	0.64%	5.06	3.37%	166
<b>Governments</b>						
10Y US	10 Year US Benchmark	-0.05%	-0.05%		2.45%	
10Y GE	10 Year German Benchmark	-2.26%	-2.26%		0.43%	

Corporate Bond Yield (YTW) by Index



Realized and expected inflation

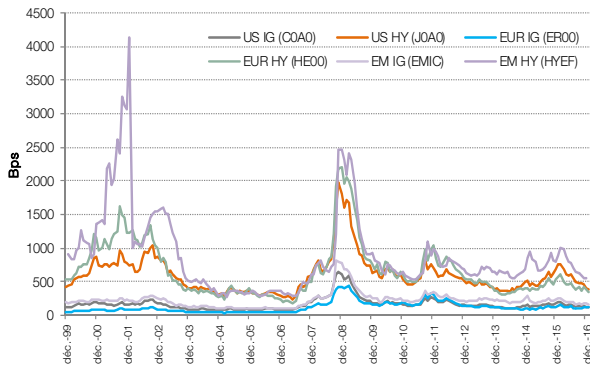
Exp. Inflation	Bloomberg's expected CPI 12M forward	January	December	November	6M	12M
US INF	US CPI Economic Forecast (YoY %)	2.40%	2.30%	2.30%	2.20%	1.55%
EURO INF	Eurozone CPI Economic Forecast (YoY %)	1.40%	1.30%	1.30%	1.30%	0.80%
Realized Inflation		January	December	November	6M	12M
US CPI	US CPI YoY		2.10%	1.70%	0.80%	1.40%
EUR CPI	Eurozone CPI YoY	1.80%	1.10%	0.60%	0.20%	0.30%

Source: Merrill Lynch

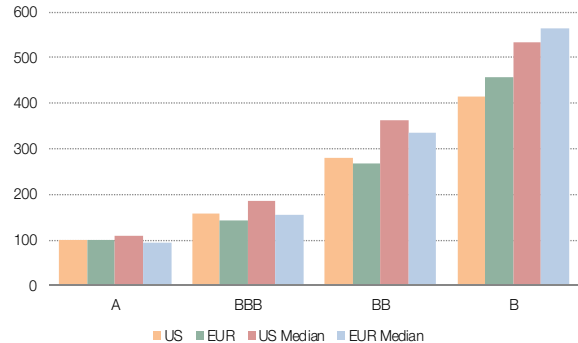
Corporate Bond Spreads

Corporate Bond Spreads (STW)		January	December	6M	12M	Median since Oct, 31 2002
COA0	US Corporates Master	124	126	146	196	143
ER00	EMU Corporates	117	120	111	142	116
EMIC	Emerging Markets Corporates	166	173	190	251	515
JOA0	US HY Cash Pay	410	430	573	772	515
HE00	Euro HY	354	378	431	560	450
HYEF	EM HY Ex. Subordinated Financial	479	519	644	974	515
COA3	US A	100	101	114	145	110
ER30	EURO A	99	102	93	114	94
EMAQ	EM A	135	141	153	184	95
COA4	US BBB	157	161	192	271	185
ER40	EURO BBB	144	148	140	187	155
EM2B	EM BBB	217	225	249	343	161
JUC1	US BB	280	286	373	496	361
HE10	EURO BB	269	292	302	441	335
EM3C	EM BB	307	333	387	643	341
JUC2	US B	414	432	584	790	534
HE20	EURO B	457	466	588	673	565
EM6B	EM B	468	524	649	1021	566

Corporate Bond Spreads (OAS) by Index



Corporate Bond Spread by Rating



Source: Merrill Lynch

Anaxis Asset Management

Anaxis Asset Management is the Anaxis group's asset management firm specialized in corporate bonds. For more than 10 years Anaxis Group has provided high performance and resilient investment solutions to European investors. Anaxis benefits from a team of experienced and recognized investment professionals. The team adopts a fundamental approach to credit, based on thorough financial analysis and a rigorous control of risks.

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