

Corporate Credit Monthly Update

February 2017

« A supportive uptick in global economic activity »



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European markets focused their attention primarily on political events, pending the upcoming French presidential elections. End-2018 French government bond yields (November 2018 OAT) have climbed from -0.70% to -0.50% year-to-date. Meanwhile, countries with the biggest debt burden benefited from the questioning of the ECB's government bond buying policy based on the relative size of each economy.

The month of February was positive for US High Yield credit, driven by Trump/Congressional optimism, a positive earnings season, improving nominal growth expectations, plateauing Treasury yields and overall limited new supply.

Emerging credit continued to perform strongly. In terms of geography, all regions enjoyed positive performance. The main growth driver was a supportive uptick in global economic activity combined with a solid performance by commodities, including Silver (+4%), Gold (+3%) and Oil (+2%).

Companies in the Spotlight

Play (Europe)

Play published excellent Q4 2016 earnings, with double-digit growth in sales (+10.6%) and EBITDA (+21.8%). Over full-year 2016, revenue (PLN 6.12bn) and adjusted EBITDA (PLN 2.04bn) were up +12.5% and +14%, respectively. Play used PLN 1.06bn in FCF over the year after paying PLN 1.72bn on the acquisition of 4G frequencies early in the year. Published net debt came out at PLN 5.14bn (PLN 7.02bn including PIK bonds). Pro-forma of the acquisition of 4G frequencies, the net debt/EBITDA ratio improved to 2.4x at end-2016 versus 2.8x at end-2015. Including the PIK Toggle bonds, the net debt/EBITDA ratio stood at 3.3x.

Dish Network (US)

US satellite operator Dish reported satisfactory Q4 16 results, with revenues down 1% to USD 3.7bn while adjusted EBITDA increased 6% to USD 783m, beating street expectations. We particularly appreciated the fact that the company added 28k pay-TV subs, reversing a six-quarter trend of significant customer attrition. Dish's net leverage ended Q4 16 at 2.5x, in line with Q3.

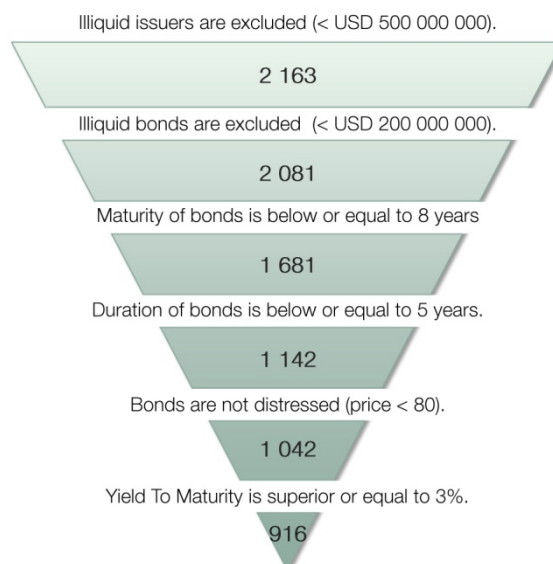
Pemex (Emerging Countries)

Mexican oil company Pemex (BBB+) issued 3 bond tranches in February for a total of EUR 4.25bn. This is the largest euro issue in history by an EM issuer. The 2021 bond pays a coupon of 2.5%, the 2024 3.75% and the 2028 4.875%.

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*)



Significative Primary Issues

EUR

Issuer	Coupon	Maturity	Amount	Rating
Louis Dreyfus Co	4.000%	2022	€400M	N/A

US

Issuer	Coupon	Maturity	Amount	Rating
Ardagh Packaging	6.000%	2025	\$1.7Bn	B3
Post Holdings	8.750%	2027	\$750M	B3
Transdigm	6.500%	2025	\$300M	B3

EM

Issuer	Coupon	Maturity	Amount	Rating
Aeropuertos	6.875%	2027	€400M	B2
Cia Latino	9.500%	2023	€300M	B-

Rating Moves

ArcelorMittal	Moody's	↗	Ba1
Daimler AG	Moody's	↗	A2
Eircom Holding Ireland	Fitch	↗	B+
INEOS Group Holding SA	Moody's	↗	B2
Marcolin SpA	S&P	↗	B
Telenet International Finance	S&P	↗	BB-
TUI AG	S&P	↗	BBB
UPM Kymmene OYJ	Moody's	↗	Baa3

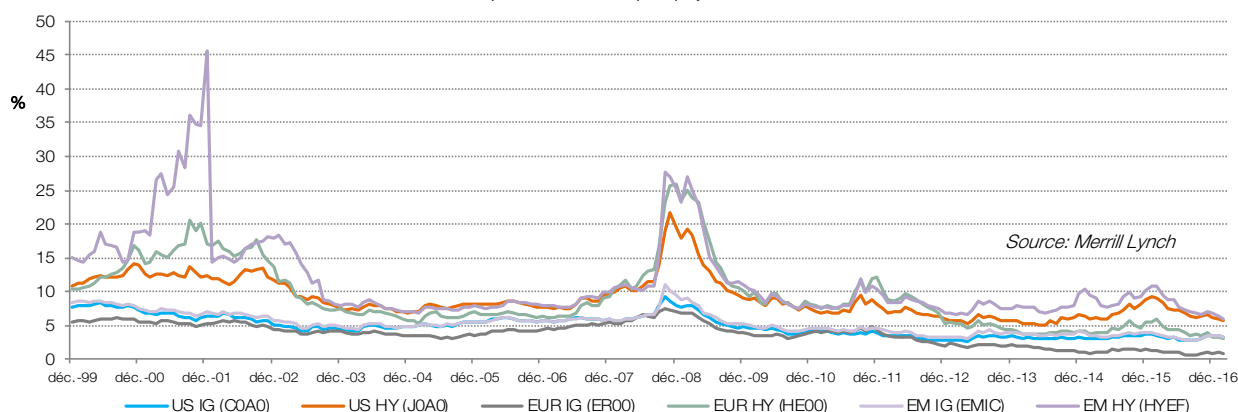
Macro Economic Events

- **Euro zone:**
 - inflation climbed more than expected in January (+1.8% year-on-year). Growth picked up the pace somewhat in Q4, i.e. +0.5% qoq and +1.8% yoy. Despite the uncertainties surrounding US policy, elections in several European countries and the conditions of Brexit, the European Commission raised its growth forecasts, including growth of 1.6% in 2017 and 1.8% in 2018.
 - the European Parliament approved CETA, the controversial free trade agreement between the EU and Canada, by a vote of 408 to 254, with 33 abstentions.
 - **United Kingdom:** inflation was slightly lower than expected at 1.8% in January. Theresa May got the greenlight from the House of Commons to trigger the UK's exit from the EU. The Scottish Parliament very substantially voted against Brexit.
 - **Portugal:** the country made a payment of €1.7 billion to the IMF, covering half the aid package received during the debt crisis in 2011. Lisbon announced that the budget deficit was limited to 2.1% of GDP in 2016, its lowest level since the country returned to democracy.
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- **World:** thanks in large part to Saudi Arabia's efforts, OPEC achieved over 90% of the targeted production cuts in January (29,888 million barrels/day).
 - **United States:** the uncertainties plaguing the Trump administration's ability to stimulate inflation and growth will not be cleared up soon enough to warrant a rate hike at the next Fed meeting in March, according to the president of the St. Louis Fed.
 - **China:** the PBoC took the financial markets by surprise in February when it raised its short rates, a new sign it is tightening its monetary policy as growth stabilises.

Market Data Indices

Market Data Indices		Performance		Duration	Yield	Spread
		MTD	YTD	DTW	YTW	STW
High Yield						
JOA0	US HY Cash Pay	1.56%	2.93%	3.77	5.57%	386
HE00	Euro HY	0.95%	1.70%	3.11	2.97%	359
JC4N	US HY BB/B Non-Fncl Constr.	1.22%	2.43%	3.84	4.94%	323
H7PC	Euro HY BB-B EUR/GBP Non-Fncl Constr.	1.08%	1.78%	3.10	2.72%	322
HYEF	EM HY Ex. Subordinated Financial	1.66%	3.54%	3.43	5.92%	443
Investment Grade						
COA0	US Corporates Master	1.13%	1.55%	6.94	3.28%	118
ER00	EMU Corporates	1.18%	0.59%	5.28	0.82%	122
EMIC	Emerging Markets Corporates	1.31%	1.96%	5.09	3.20%	154
Governments						
10Y US	10 Year US Benchmark	0.58%	0.53%		2.39%	
10Y GE	10 Year German Benchmark	2.28%	-0.03%		0.21%	

Corporate Bond Yield (YTW) by Index



Realized and expected inflation

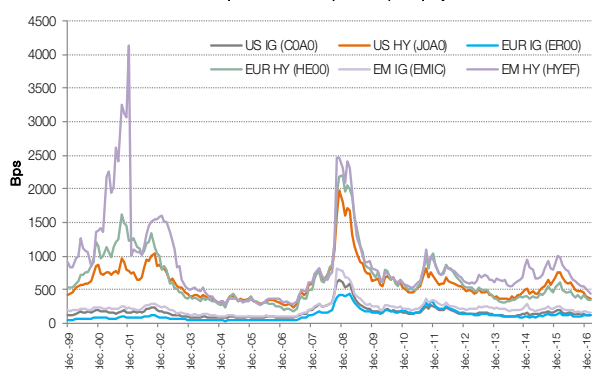
Exp. Inflation	Bloomberg's expected CPI 12M forward	February	January	December	6M	12M
US INF	US CPI Economic Forecast (YoY %)	2.40%	2.40%	2.30%	2.20%	2.20%
EURO INF	Eurozone CPI Economic Forecast (YoY %)	1.50%	1.40%	1.30%	1.30%	1.50%
Realized Inflation		February	January	December	6M	12M
US CPI	US CPI YoY		2.50%	2.10%	1.10%	1.00%
EUR CPI	Eurozone CPI YoY	2.00%	1.80%	1.10%	0.20%	-0.20%

Source: Merrill Lynch

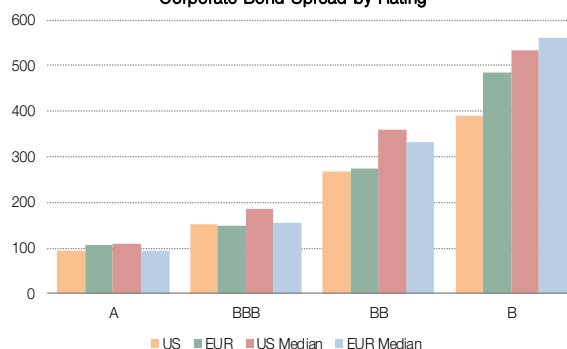
Corporate Bond Spreads

Corporate Bond Spreads (STW)		February	January	6M	12M	Median since Oct, 31 2002
COA0	US Corporates Master	118	124	135	200	143
ER00	EMU Corporates	122	117	104	150	117
EMIC	Emerging Markets Corporates	154	166	167	252	515
JOA0	US HY Cash Pay	386	410	514	773	515
HE00	Euro HY	359	354	390	598	449
HYEF	EM HY Ex. Subordinated Financial	443	476	610	965	515
COA3	US A	95	100	105	150	110
ER30	EURO A	105	99	87	125	94
EMAQ	EM A	127	135	134	184	95
COA4	US BBB	151	157	178	275	185
ER40	EURO BBB	150	144	133	192	154
EM2B	EM BBB	201	217	221	347	161
JUC1	US BB	267	280	335	485	360
HE10	EURO BB	274	269	278	459	332
EM3C	EM BB	290	307	352	628	341
JUC2	US B	391	414	517	777	532
HE20	EURO B	483	457	504	742	561
EM6B	EM B	488	468	612	1009	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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