

# Corporate Credit Monthly Update

## March 2017

« Politics took centre stage just as they did last month. »



Pierre Glat-Levra,  
Chairman of Anaxis  
Asset Management

Politics took centre stage just as they did last month. The markets were reassured by the results of the Dutch elections, which marked the failure of the extreme right party. The development of the French presidential campaign was also well received. The Fed's new statements on likely rate hikes in 2017 drove High Yield bonds lower, however. Oil price fluctuations were another contributing factor to volatility.

US High Yield credit ended the month slightly down. March was actually split into two parts. The first half saw credit spreads widening on the back of i) a quick pivot in Fed rhetoric and attendant climb in US Treasury yields, ii) a significant setback for oil prices, iii) a record new issuance calendar and iv) a stretch of USD3.4bn in ETF outflows. Credit markets then recovered in the last two weeks alongside an increase in Oil prices, rising stocks, and receding rate concerns.

In March, EM credit declined slightly. As for the US, EM credit declined in the first half of the month due to i) a quick pivot in Fed rhetoric and attendant climb in US Treasury yields and ii) a significant setback for oil prices. It then partly recovered on the back of i) strong inflows, ii) an EM-supportive macro backdrop (economic data have surprised on the upside recently) and iii) limited primary market activity.

### Companies in the Spotlight

#### SMCP (Europe)

Ready-to-wear group SMCP, which owns the Sandro, Mage and Claudie Pierlot brands, posted excellent earnings for 2016. Revenue climbed 16.4%. The group's international growth continued at a strong pace, with sales up 24% outside France, thanks in large part to the opening of 90 new stores (in addition to 15 new French stores). Online sales and sales of accessories both went up (10% and 7% of revenue, respectively). EBITDA improved 22% year-on-year to €130 million, boosting the margin to 16.5%. The business is generating solid cash flows, which are predominantly reinvested in expanding the network of stores. Despite the rise in debt stemming from the change in control that took place in 2016, the net debt/EBITDA ratio is still virtually unchanged at 3.1x (excl. leading). On 24 March, the group announced it would be redeeming 10% of its 2023 bonds, issued in November 2016.

#### American Axle (US)

American Axle, a US auto-parts manufacturer, completed a USD1.2Bn, two-part bond offering in March (10NC5 and 8NC2) backing its planned acquisition of Metaldyne Performance Group. The transaction, which is expected to close in Q3 17, amounts to USD3.3Bn, of which around USD1.6Bn in cash and stocks and around USD1.7Bn in net debt. The deal should create a giant in the US auto-parts industry.

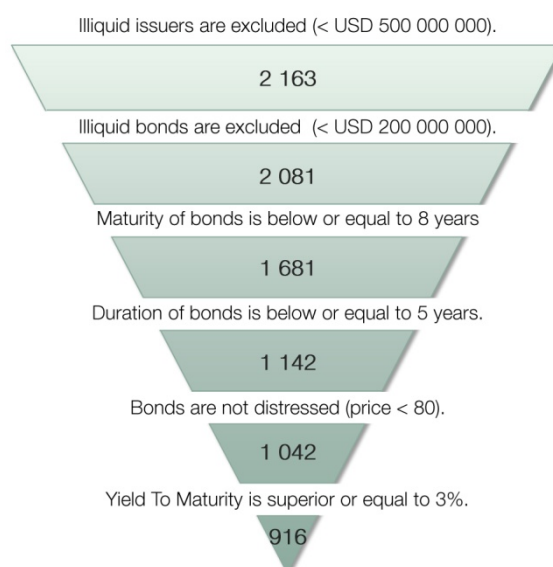
#### Intralot (Emerging Countries)

Greek-based gaming services company Intralot reported solid 4Q16 results, with core sales of EUR366m (+7.5% yoy) and EBITDA of EUR52m (+32%). Operationally, results were strong with solid sports betting volumes, a new acquisition (Eurobet in Bulgaria) and persistently high US volumes. Recent refinancing, de-leveraging disposals and a new asset-light growth focus have improved the group's debt maturity profile and will structurally improve its FCF generation.

## 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 HYEY indices)



## Significative Primary Issues

## EUR

Issuer	Coupon	Maturity	Amount	Rating
Aramark	3.125%	2025	€325M	Ba3
HP Pelzer	4.125%	2024	€350M	B1
Loxam	4.250%	2024	€300M	BB-
Paprec	5.250%	2022	€225M	B1
Spie	3.125%	2024	€600M	Ba3

## US

Issuer	Coupon	Maturity	Amount	Rating
Mercer Intl	6.500%	2024	\$250M	B1
Rain Carbon II	7.250%	2025	\$550M	B1
Valeant Pharma.	6.500%	2022	\$1.25Bn	Ba3

## EM

Issuer	Coupon	Maturity	Amount	Rating
Golden Legacy	6.875%	2024	€150M	B1
Grupo Unicomer	7.875%	2024	€350M	BB-

## Rating Moves

Agrokor	Moody's	↓	Caa1
British airways	Fitch	↗	BBB-
Campofrio food Group SA	Moody's	↗	Ba2
Frigoglass SAIC	S&P	↓	CC
Ineos Styrolution Holding	Moody's	↗	Ba3
Metinvest BV	Moody's	↗	Caa2
Nexans SA	S&P	↗	BB
ProGroup AG	S&P	↗	BB-
Solocal	Moody's	↗	Caa1
Telenet Group Holding NV	Moody's	↗	Ba3

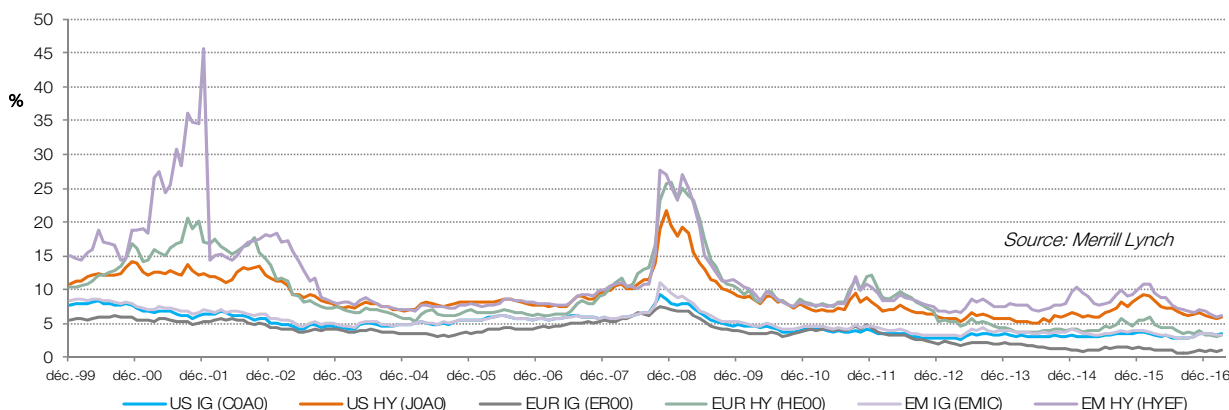
Macro Economic Events

- **Euro zone:** the Chief Economist of the ECB, Peter Praet, reiterated the central bank's status quo position on its ultra-accommodative monetary policy. As expected, the ECB kept its key rates as-is, and confirmed its bond-buying plan of €60 billion per month from April through December 2017.
  - **France:** Fitch confirmed the country's AA sovereign rating with a stable outlook. The economy grew +1.1% in 2016 according to INSEE, confirming the +0.4% upturn in Q4 2016. The public deficit hit the equivalent of 3.4% of GDP in 2016. Growth is expected to come out at +0.3% in Q1 2017.
  - **Germany:** Fitch confirmed the country's long-term AAA rating with a stable outlook.
  - **United Kingdom:** the BoE left its main policy rate unchanged at 0.25%. On 29 March, Theresa May formally launched the process of the UK's exit from the EU.
  - **Netherlands:** the People's Party for Freedom and Democracy behind Prime Minister Mark Rutte won the largest number of seats in the legislative election, ahead of Eurosceptic Geert Wilders' Party for Freedom.
  - **Greece:** the economy contracted much more than expected in Q4 2016, after two consecutive quarters of growth. GDP dipped -1.2% versus a preliminary estimate of just -0.4%.
  - **Cyprus:** S&P raised its long-term sovereign debt rating from BB to BB+ with a stable outlook.
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- **United States:** the Fed raised its key rate by 25 bp. The interbank rate currently ranges from 0.75% to 1%. The Fed still plans to carry out two more rate hikes in 2017, with two more to follow in 2018.
  - **China:** the country lowered its growth target for 2017 vs. 2016, placing a greater priority on risk supervision as opposed to economic stimulus. China has pegged 2017 growth at 6.5%.

Market Data Indices

Market Data Indices		Performance		Duration	Yield	Spread
High Yield		MTD	YTD	DTW	YTW	STW
JOA0	US HY Cash Pay	-0.21%	2.71%	3.89	5.81%	400
HE00	Euro HY	-0.03%	1.67%	3.24	3.15%	359
JC4N	US HY BB/B Non-Fncl Constr.	-0.15%	2.28%	3.98	5.13%	331
H7PC	Euro HY BB-B EUR/GBP Non-Fncl Constr.	-0.08%	1.70%	3.26	2.94%	327
HYEF	EM HY Ex. Subordinated Financial	-0.10%	3.44%	3.37	6.23%	467
Investment Grade						
COA0	US Corporates Master	-0.12%	1.42%	6.93	3.35%	120
ER00	EMU Corporates	-0.33%	0.25%	5.26	0.93%	117
EMIC	Emerging Markets Corporates	0.18%	2.15%	5.10	3.27%	155
Governments						
10Y US	10 Year US Benchmark	0.03%	0.54%		2.39%	
10Y GE	10 Year German Benchmark	-1.16%	-1.18%		0.33%	

Corporate Bond Yield (YTW) by Index



Realized and expected inflation

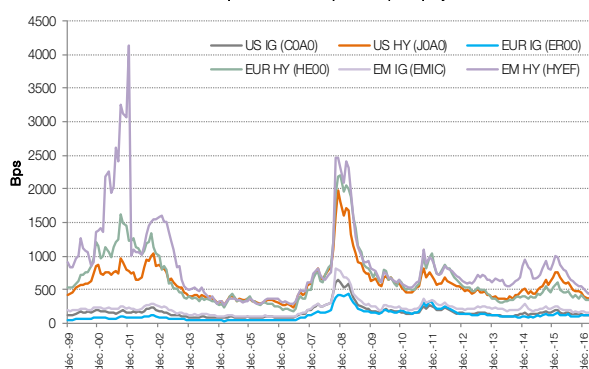
Exp. Inflation	Bloomberg's expected CPI 12M forward	March	February	January	6M	12M
US INF	US CPI Economic Forecast (YoY %)	2.50%	2.40%	2.40%	2.20%	1.30%
EURO INF	Eurozone CPI Economic Forecast (YoY %)	1.70%	1.50%	1.40%	1.30%	1.40%
Realized Inflation		March	February	January	6M	12M
US CPI	US CPI YoY		2.70%	2.50%	1.50%	0.90%
EUR CPI	Eurozone CPI YoY	1.50%	2.00%	1.80%	0.40%	0.00%

Source: Merrill Lynch

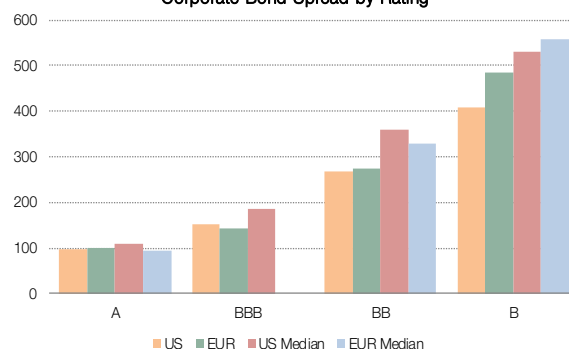
Corporate Bond Spreads

Corporate Bond Spreads (STW)	March	February	6M	12M	Median since Oct, 31 2002	
COA0	US Corporates Master	120	118	138	165	142
ER00	EMU Corporates	117	122	111	126	117
EMIC	Emerging Markets Corporates	155	154	169	214	514
JOA0	US HY Cash Pay	400	386	501	701	514
HE00	Euro HY	359	359	418	498	447
HYEF	EM HY Ex. Subordinated Financial	467	443	576	846	514
COA3	US A	97	95	109	127	110
ER30	EURO A	100	105	93	106	95
EMAQ	EM A	128	127	136	166	95
COA4	US BBB	153	151	180	225	185
ER40	EURO BBB	143	150	141	161	
EM2B	EM BBB	200	201	227	287	161
JUC1	US BB	269	267	337	438	359
HE10	EURO BB	273	274	307	342	329
EM3C	EM BB	291	290	356	486	341
JUC2	US B	408	391	514	686	530
HE20	EURO B	485	483	565	647	557
EM6B	EM B	497	488	566	868	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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