Global risks to weigh on loan market

By Alasdair Reilly

Rising geopolitical and economic risks will have the most influence on the EMEA syndicated loan market over the next 12 months, according to a Loan Market Association survey of its membership.

The war in Ukraine, the energy crisis, continuing supply chain issues, rising interest rates and rampant inflation was seen as having the most impact on the loan market by 67% of those surveyed. Rising funding costs at banks was seen as the most important factor by 21.2% of those polled.

Competitive pressures were seen as having the most influence by just 2.5% of respondents, down from the 33.1% seen in last December’s survey as Europe emerged from the pandemic.

Restructuring was seen as providing the best opportunities in the loan market in 2023 by 38.6% of those surveyed as rising inflation and interest rates put many economies under extreme budgetary pressure.

Refinancing might provide the best prospects for business next year according to 35.7% of those polled, although many companies have already tapped the market to refinance their credit facilities early while interest rates were low.

Just 11.4% of those polled thought that corporate M&A would provide good opportunities next year as a negative outlook replaced the optimism seen last year.

Meanwhile, the leveraged loan market could also face a stiff year with just 5.9% of those polled thinking it will provide the best opportunities next year.

2022 Sustainable Finance Volume at Almost US$1.3trn

With almost three weeks left to the year, global sustainable financing has logged nearly US$1.3trn of combined loan and bond issuance, compared to US$1.5trn for full year 2021.

Against a backdrop of broad market volatility, ESG bond volume was down quarter over quarter throughout 2022 to less than US$682bn year to date.

In the loan market, issuance has been steadier and remained on par with year ago levels as a percentage of total global volume. Year to date, over US$608bn of sustainable loan volume has been completed.

LARGEST GREEN/SLL LOANS ANNOUNCED YEAR TO DATE 2022

<table>
<thead>
<tr>
<th>Issuer</th>
<th>Deal Size</th>
<th>Market</th>
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</thead>
<tbody>
<tr>
<td>1. Ford Motor Co</td>
<td>US$17.20bn</td>
<td>Americas</td>
</tr>
<tr>
<td>2. Alstom SA</td>
<td>€12.70bn</td>
<td>EMEA</td>
</tr>
<tr>
<td>3. Mercedes-Benz</td>
<td>€11.00bn</td>
<td>EMEA</td>
</tr>
<tr>
<td>4. Airbus SE</td>
<td>€8.00bn</td>
<td>EMEA</td>
</tr>
<tr>
<td>5. Crown Castle International</td>
<td>US$8.20bn</td>
<td>Americas</td>
</tr>
<tr>
<td>6. RWE AG</td>
<td>US$7.00bn</td>
<td>EMEA</td>
</tr>
<tr>
<td>7. Pfizer Inc</td>
<td>US$7.00bn</td>
<td>Americas</td>
</tr>
<tr>
<td>8. Speedbreak BidCo</td>
<td>€6.36bn</td>
<td>EMEA</td>
</tr>
<tr>
<td>9. ENI Spa</td>
<td>€6.00bn</td>
<td>EMEA</td>
</tr>
<tr>
<td>10. Orange SA</td>
<td>€6.00bn</td>
<td>EMEA</td>
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Source: Refinitiv LPC
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A majority of those polled thought that primary loan market volume would remain unchanged or increase in 2023, with 31.2% expecting an increase of more than 10%.

However, a substantial 36.8% of respondents thought loan market volume would decrease by more than 10% in 2023, with 6% thinking it would decrease by more than 20%.

**EMERGING OUTLOOK**

Rising interest rates and general economic uncertainty was seen as the main barrier to improving developing market lending by 44.1% of those polled while political instability was seen as the main impediment by 22.1% of respondents, as global economic conditions hit appetite for international investments.

A lack of bankable transactions was cited by 11% of those polled as being the main challenge in the developing markets while the retrenchment of international banks was cited by 9.8% of those surveyed.

Emerging markets was seen as offering the best loan market opportunities in 2023 by 8.5% of those surveyed, down from the 10.9% seen last year.

The involvement of development finance institutions and export credit agencies is seen as the most important factor in supporting developing market lending by 28.8% of respondents, followed by standardisation of loan market practices, which polled 23.3%.

International investment by commercial banks, funds and other sources was seen as the most important factor by 21.3% of respondents, while increased sources of domestic finance and local currency lending, and commercial risk mitigation through insurance, each polled 13.3%.

**SUSTAINABLE PUSH**

The inexorable rise of sustainability-linked loans is expected to continue with 66.7% of respondents thinking that SLLs had the most potential for growth in the sustainable lending markets over the next 12 months.

Green loans were seen as having the greatest potential for growth by 18.6% of those polled, while social loans polled 5.3%, down from the 7.5% seen last year.

Meanwhile, ESG CLOs are expected to offer the best potential for growth in the sustainable lending space by 5.3% of those polled.

The availability and quality of ESG data in the market is the main obstacle to the integration of ESG issues in the syndicated loan market, according to 33.8% of those polled, while a related issue of a limited availability of adequate ESG information from borrowers was seen as the most significant barrier by 25.9%.

A lack of understanding of ESG issues within the market was seen as an important hurdle by 23.6% of those polled, while regulatory framework could also limit the integration of ESG issues into the market, according to 11.8% of respondents.

A rising tide of ESG litigation could also stymie and slow down the drive to sustainability in the loan market, 4.9% of those polled said.
The group's sustainability targets are aligned to the United Nations Sustainable Development goals and are designed to deliver a real and positive impact. Airtel Africa's inaugural Sustainability Report was published in October 2022, detailing the Group's performance to date and the progress being made towards achieving the set targets and goals.

IFC’s loan is supported by co-financing from institutional investors through IFC’s Managed Co-Lending Portfolio Program.

In August, Airtel Africa signed a US$125m sustainability-linked revolving credit facility, the company’s first SLL.

The RCF, provided by Citigroup, has a maturity out to September 2024 and will be used to support Airtel’s operations and investments in four of its subsidiaries.

Airtel has a presence in 14 countries in Africa, primarily in East Africa and Central and East Africa.

VERBUND RAISES €500M SSD

Austria’s largest energy supplier Verbund has placed a €500m sustainability-linked Schuldscheindarlehen. Interest margins are linked to the company’s sustainability rating from ESG research and ratings provider Sustainalytics.

The financing closed more than three times oversubscribed and was increased from the €300m originally marketed.

It supports Verbund’s strategy to strengthen the integrated domestic market, expand renewable energies in Europe and actively promote energy transition by establishing itself as a European hydrogen player.

The financing was arranged by Commerzbank, Helaba, Raiffeisen Bank International and UniCredit.

The SSD builds on Verbund’s previous green and sustainable financings including a €500m bond issued in November 2014, the first green bond issued in German-speaking countries; as well as the first green and digital SSD and the first 100% ESG-linked syndicated loan, both placed in 2018.

Verbund agreed a €500m five-year syndicated loan in December 2018, the first loan with a margin determined purely on the ESG performance of the borrower.

Typically margins on ESG-linked loans had been primarily linked to the company’s credit ratings, which were then adjusted depending on the company’s ESG performance.

The margin on Verbund’s loan was based solely on the basis of an external sustainability rating provided by Sustainalytics.

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JOST PLACES €130M SSD

German truck commercial vehicle systems company Jost Werke has placed a €130m debut ESG-linked Schuldscheindarlehen.

Proceeds will be used to refinance existing loans maturing in 2023 and to repay drawn down credit lines.

The SSD has maturities of three, five and seven years, providing the company with a long-term mix of fixed and floating interest rates without financial covenants.

The interest rate is additionally linked to the achievement of ESG targets for CO2 reduction and for increasing the proportion of women in management positions.

A total of 23 institutional investors participated in the financing, leading to a high oversubscription in the order book and an increase in the amount from the originally planned €100m.

Jost was able to secure advantageous pricing at the lower end of the marketing range, despite the challenging capital market environment, the company said.

BayernLB and Helaba were joint lead arrangers on the financing, while Hengeler Mueller advised Jost.

MAJID RAISES US$1.25BN SLL

Dubai-based shopping mall operator Majid Al Futtaim has signed a US$1.25bn-equivalent sustainability-linked revolving credit facility.

It is the company’s second SLL after it raised a US$1.5bn five-year SLL in August 2021 and positions the company as the region’s largest SLL borrower.

The financing also means that Majid Al Futtaim remains the only ‘penalty only’ SLL borrower in the region.

In line with Majid Al Futtaim’s sustainability strategy of reaching a net positive business model by 2040, the financing has a set of three sustainability performance targets, which will be measured on an annual basis throughout the life of the facility.

The targets include the reduction of Scope 1 and 2 emissions intensity of the company’s property portfolio measured by tons of CO2-equivalent per managed square metres, in line with the company’s Science Based Target initiative goal towards net positive by 2040.

The second target is having all malls certified LEED Gold or equivalent or better by 2026. In addition, the company has also set a target of increasing the number of malls in its portfolio with a LEED Platinum or equivalent rating by 2027.

The third target is achieving 32% of women in the top three seniority levels - board, senior executive and senior management - by 2027, exceeding the target of 30% set on the previous SLL.

“Sustainable finance options are a vital solution in the quest to ensure the private sector creates a resilient economy and supports development that meets the needs of the present without compromising the future,” Ziad Chalhoub, CFO at Majid Al Futtaim, said.

First Abu Dhabi Bank led the financing as sustainability coordinator and agent.

Majid Al Futtaim owns and operates 29 shopping malls, 13 hotels and four mixed-use communities, with further developments underway in the region.

The shopping malls portfolio includes Mall of the Emirates, Mall of Egypt, Mall of Oman, City Centre malls, My City Centre neighbourhood centres, and five community malls, which are in joint venture with the Government of Sharjah.

KARTESIA PROVIDES ESG-LINKED FACILITY

Direct lender Kartesia has provided a sustainability-linked financing facility to the Universidad Catolica San Antonio de Murcia, a private university in Spain.

Being the first investment for Kartesia’s impact investing strategy, the facility will provide support for the continuing expansion of the university, while promoting certain ESG measures that reinforce UCAM’s stance on maintaining and developing its social impact.

UCAM will benefit from more attractive financing conditions if they continue to meet certain KPIs agreed with Kartesia.

The cost of financing is linked to the achievement of sustainability targets linked to promoting access to high quality education and reducing inequalities. The fulfilment of these KPIs will be annually audited by a third party specialised in ESG auditing.

Kartesia also assisted the company in reviewing its carbon footprint for potential areas of improvement and in setting the guidelines for an ESG strategy to be followed during the tenure of the financing facility.

UCAM has more than 20,000 students and offers bachelors, masters, PhDs and vocational training programmes across its two campuses in the Murcia region of southeast Spain. It gains reputation in health degrees across areas like nursing, medicine, dentistry and physiotherapy.

Javier Castillo at Kartesia, said: “UCAM’s mission has always been closely tied to key ESG targets, such as greater access to education and the promotion of socially inclusive learning, so it makes perfect sense for our impact strategy to provide this unique financing structure with clear sustainability-linked goals. We are confident they will be successful in meeting these targets and continue to be at the forefront of the private education sector in Spain.”

Kartesia manages over €5bn in assets and is operated by a team of 80 personnel across investment and operating teams led by its four founding managing partners. It has offices in Brussels, London, Luxembourg, Madrid, Munich and Paris.

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NEWS . . . CONT’D

TAX BREAKS TO SPUR US ESG ISSUANCE

ESG-labelled debt issuance is set to rise in the US as the energy transition accelerates in the country and companies gear up to take advantage of the incentives on offer from the Inflation Reduction Act.

Although US sustainable debt issuance of US$297bn this year is 16% lower than US$355bn in the same period last year, bankers are already seeing RFPs for IRA-related financings from a range of companies and are cautiously optimistic about an upturn.

“ESG-labelled debt is continuing to trend upwards in the US, and as the market recovers I expect it to ramp up more, but I think the IRA is more interesting as it will stir investment,” said Robert White, head of the green and sustainable hub for the Americas at Natixis. “The IRA is all carrot and no stick. It’s all incentives.”

The US$430bn IRA, which was signed into law by US president Joe Biden in August, includes US$369bn earmarked for clean energy technologies, in particular incentivising solar, wind and other forms of alternative energy through tax breaks.

The IRA legislation is “US-first” as it makes tax breaks conditional on US-manufactured content, which is expected to strengthen demand for capital and deals (although that may change under pressure from the European Union).

“Within the IRA, there is a strong emphasis on US manufacturing. That will be extremely stimulating as companies look to take advantage of some of the incentives and may need to increase production in the US, so that will probably stimulate a lot of capex in the US over the foreseeable future,” said Genevieve Piche, head of sustainable finance and advisory at Wells Fargo.

Increased capex demand for new manufacturing facilities is already translating into financing requests that could produce a range of deals from corporate ESG-labelled debt to project financing and private placements with ESG overlays.

“We’ve seen a number of investment memorandums come across our desk directly because of the IRA – looking at carbon capture and storage and biofuels, particularly sustainable aviation fuel,” White said.

Banks are nonetheless wary of the risk that the legislation could be overturned by a new administration and challenges that states controlled by the Republican Party are mounting against banks and investors active in ESG financing.

“There is the risk question and we’re doing our due diligence. Is there a chance that some of this could get unwound in 2024?” White said.

The US energy transition is moving forwards regardless, however, as US companies’ net-zero and ESG targets trickle into their supply chain and banks such as Wells Fargo – a major lender to the power sector – consider the bigger picture.

“It’s important for us to support our clients through their transition, especially since so many of the companies in the energy sector are going to be critical to many important developments,” Piche said.

The bulk of US ESG-labelled debt is currently issued as loans. Some US$201bn of ESG loans have been issued this year, an 8% drop on the US$219bn issued by the same point last year (and US$237.8bn in full-year 2021), according to LPC data. – IFR

SBI EYES DEBUT SOCIAL LOAN

State Bank of India is raising up to US$1bn from a social loan, marking its debut with such a financing and following in the footsteps of Housing Development Finance Corp, which completed the world’s largest such borrowing a couple of months ago.

MUFG and Taipei Fubon Commercial Bank are the mandated lead arrangers, bookrunners and equal underwriters of a US$500m initial financing that carries a greenshoe option of up to US$500m.

MUFG is the lead social coordinator, while Taipei Fubon is also a joint social coordinator as well as facility agent for the five-year borrowing that has been launched into senior syndication.

The financing pays an interest margin of 110bp over term SOFR.

The two MLABs will pre-fund the loan and look to transfer all participating lenders into the facility by March 31.

That gives the borrowing a remaining average life of 4.75 years. Prospective lenders are invited to join in senior syndication as MLAs with two commitment levels: US$75m or above for upfront fees of 80bp and US$50m–$74m for fees of 70bp.

The all-in pricing amounts to 126.84bp and 124.74bp, respectively.

The deadline for senior syndication is January 6, after which the loan will be launched into general syndication.

Proceeds will finance eligible projects under a social loan framework that SBI is putting in place.

SBI’s social loan is the second such large-sized borrowing from India, following mortgage lender HDFC’s US$1.1bn three-year financing that closed in October after attracting 14 lenders in general syndication.

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