

The size of the sub-sovereign sector continues to shrink

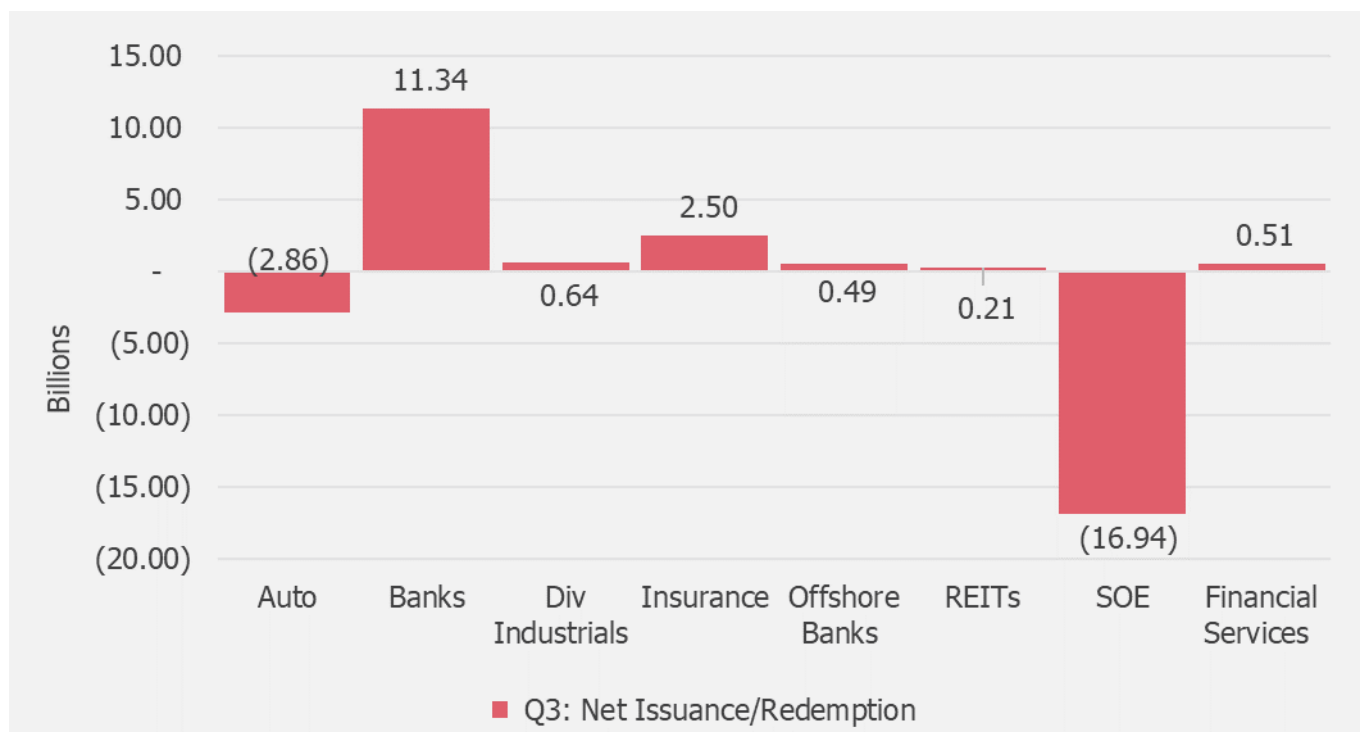
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Overview

The state-owned enterprise (SOE) sector shrinkage continues for the third consecutive quarter with a R16.9 billion net redemption position, taking the annual net redemption size (year to date) to over R30 billion. This was largely due to Land Bank delisting over R11.0 billion worth of bonds. It should be noted that these LBK bonds were delisted as opposed to redeemed, as the issuer is still in default. Some notable SOE real redemptions were Denel SOC and Eskom (E175 with R2.93 billion). The only other sector with a net redemption was Automotive, with just under R2.5 billion of its R4.9 billion maturities refinanced.

Figure 1: Quarter three - Net issuance/redemption



Source: JSE, Futuregrowth

The beneficiaries of this sectoral migration away from SOEs are still banks and structured finance instruments, with R11.34 billion and R14.21 billion respective quarterly net issuance positions. This structural change appears to be the major driver for the over-bid banks and securitisation credit, which has translated in significantly compressed spreads for these sectors. In an already concentrated local credit market, the inability of the SOEs to issue debt is a major impediment to investors' quest for credit portfolio diversification and sufficient market fair value price discovery.

Primary market activity

Despite the diminishing SOE sectoral contribution, the total credit market slightly increased by 2.75% (quarter on quarter) to R974 billion of outstanding debt. The banking sector issued R38.12 billion worth of credit instruments, R27.0 billion of which was the sell-down trade that has been highly utilised by the banks since late 2020. The largest contributor in the bank-structured credit activity was ABSA, with R12.69 billion gross issuance for the quarter.

Figure 2: Market size

Sector	Q2:2021	Q3:2021	Issuance Change_%	Q1:Market_Size_%	Q2:Market_Size_%	Size Change_%
Auto	29,014,000,000.00	28,624,000,000.00	-1.34%	3.06%	2.94%	-0.12%
Banks	419,865,876,978.75	437,105,913,535.50	4.11%	44.28%	44.87%	0.59%
DFI	1,000,000,000.00	1,000,000,000.00	0.00%	0.11%	0.10%	0.00%
Div Industrials	23,363,000,000.00	24,627,100,000.00	5.41%	2.46%	2.53%	0.06%
Healthcare	5,595,000,000.00	5,595,000,000.00	0.00%	0.59%	0.57%	-0.02%
Insurance	25,200,000,000.00	27,700,000,000.00	9.92%	2.66%	2.84%	0.19%
Mining	8,807,063,091.00	8,957,063,091.00	1.70%	0.93%	0.92%	-0.01%
Munis	16,512,499,997.69	16,410,833,330.69	-0.62%	1.74%	1.68%	-0.06%
Offshore Banks	4,498,000,000.00	4,984,000,000.00	10.80%	0.47%	0.51%	0.04%
Prop Developers	256,000,000.00	236,000,000.00	-7.81%	0.03%	0.02%	0.00%
REITs	38,731,000,000.00	39,293,000,000.00	1.45%	4.09%	4.03%	-0.05%
Retailers	4,206,000,000.00	4,206,000,000.00	0.00%	0.44%	0.43%	-0.01%
SADC	2,052,000,000.00	2,052,000,000.00	0.00%	0.22%	0.21%	-0.01%
SOE	287,183,509,635.13	287,931,463,903.46	0.26%	30.29%	29.56%	-0.73%
Telecoms	19,996,000,000.00	21,446,000,000.00	7.25%	2.11%	2.20%	0.09%
Financial Services	6,236,000,000.00	5,912,000,000.00	-5.20%	0.66%	0.61%	-0.05%
Structured Fin.	55,588,600,639.93	58,062,794,280.06	4.45%	5.86%	5.96%	0.10%
	948,104,550,342.50	974,143,168,140.71	2.75%	100.00%	100.00%	

Source: JSE, Futuregrowth

Standard Bank Namibia raised just under R750 million across 3 years (149bps/3-months Jibar) and 5 years (176bps /3-months Jibar). The insurance sector was also active in the primary market, with Old Mutual and Sanlam issuing R3.5 billion between themselves during the quarter. KAP industrials raise R1 billion across 3-year, 4.25-year and 5-year tenors.

The gross market issuance for the quarter was R67 billion, up from R65 billion in the second quarter. A large portion of the primary market issuance remains slanted toward the short end, with R33.7 billion issued with below 1-year tenors. Despite the increasing size of the listed credit market that has been evident throughout this year, it important to note that this has been largely propelled by the banks and securitisation. Moreover, the bank issuance has been characterised by the credit risk sell down trade. As a result, there is more credit risk been sold in the market; however, the number of active issuers has been declining.

What may appear as the return of confidence in the market, resulting from high volumes and tightening spreads, needs to be interrogated much closely. Very few issuers (banks, insurers and telecommunications) are able to raise term funding, due to investor reluctance and/or price for term.

Figure 3: Issuance

Q3:2021	Below 1yr	1yr - 3yrs	3yrs - 5yrs	5yrs - 7yrs	7yrs - 12yrs	12yrs Plus	Total	Q3: Net Issuance/Redemption
Auto	-	-	1,286,000,000.00	780,000,000.00	-	-	2,066,000,000.00	(2,858,000,000.00)
Banks	22,794,000,000.00	2,001,000,000.00	6,630,122,231.00	4,294,000,000.00	2,405,000,000.00	-	38,124,122,231.00	11,339,318,393.75
Div Industrials	-	-	750,000,000.00	250,000,000.00	-	-	1,000,000,000.00	640,000,000.00
Insurance	-	-	-	2,477,000,000.00	1,023,000,000.00	-	3,500,000,000.00	2,500,000,000.00
Offshore Banks	1,800,000,000.00	-	314,000,000.00	433,000,000.00	-	-	2,547,000,000.00	486,000,000.00
REITs	503,000,000.00	180,000,000.00	2,337,000,000.00	535,000,000.00	-	-	3,555,000,000.00	213,000,000.00
SOE	20,000,000.00	-	-	-	-	-	20,000,000.00	(16,939,076,300.13)
Telecoms	-	-	321,000,000.00	1,394,000,000.00	585,000,000.00	-	2,300,000,000.00	1,450,000,000.00
Financial Services	235,000,000.00	-	271,000,000.00	-	-	-	506,000,000.00	506,000,000.00
Structured Fin.	8,370,000,000.00	2,195,108,445.00	3,472,000,000.00	-	168,550,000.00	-	14,205,658,445.00	14,205,658,445.00
	33,722,000,000.00	4,376,108,445.00	15,381,122,231.00	10,163,000,000.00	4,181,550,000.00	-	67,823,780,676.00	11,227,900,538.62

Source: JSE, Futuregrowth

Over R160 billion gross issuance has been placed this year - and this has been dominated by a few counterparties and sectors. The pricing implication of this phenomenon is that the issuers that can access the market will continue garnering excessive demand and may become mispriced. The bank Additional Tier 1 capital is already pricing at sub-400 basis points (bps) largely due to the demand that the banking sector has attracted. The return of confidence in other sectors will have a dampening effect

on banks spreads. We have already observed from some issuers that have released financials that COVID risk might have been overestimated. This presents a great opportunity to re-enter the market at attractive spreads. We expect more clarity to prevail as more issuers show their post-lockdown performance.

Figure 4: Issuance schedule

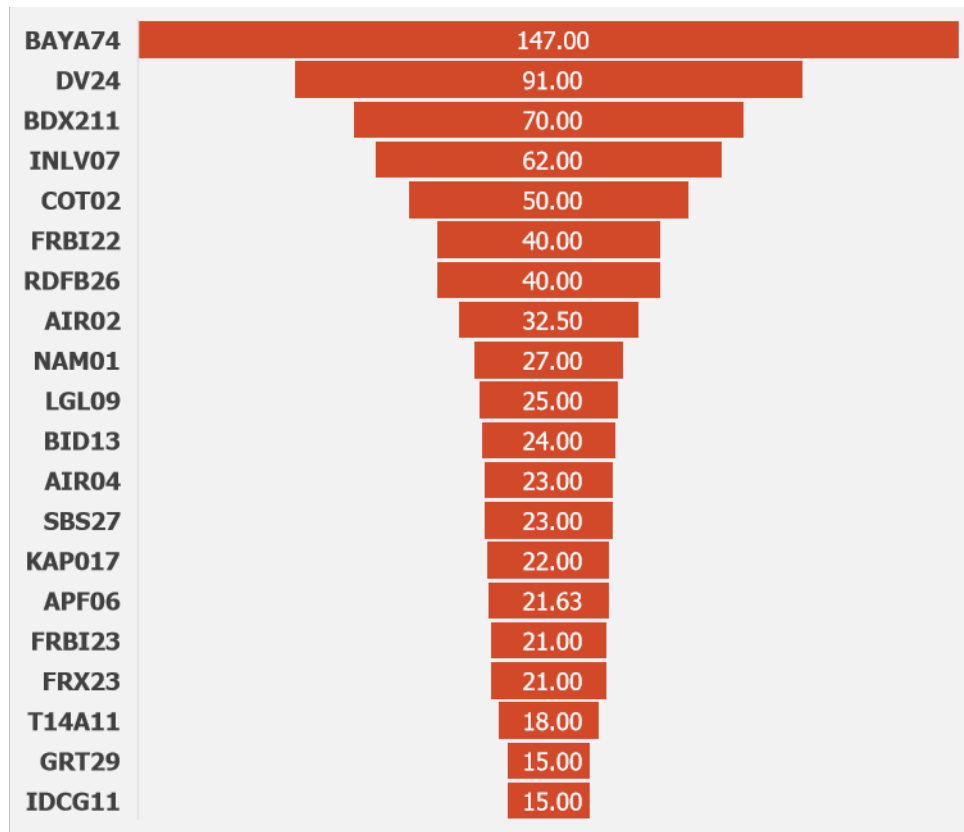
Sector	Q3:2021	Q2:2021	%_Change	%_Q3_Contr.	Grand Total
Auto	2,066,000,000.00	1,500,000,000.00	38%	3.05%	3,566,000,000.00
Banks	38,124,122,231.00	40,996,417,186.00	-7%	56.21%	79,120,539,417.00
DFI	-	-	0%	0.00%	-
Div Industrials	1,000,000,000.00	2,025,000,000.00	-51%	1.47%	3,025,000,000.00
Healthcare	-	-	0%	0.00%	-
Insurance	3,500,000,000.00	-	0%	5.16%	3,500,000,000.00
Mining	-	-	0%	0.00%	-
Munis	-	-	0%	0.00%	-
Offshore Banks	2,547,000,000.00	600,000,000.00	325%	3.76%	3,147,000,000.00
Prop Developers	-	-	0%	0.00%	-
REITs	3,555,000,000.00	3,187,000,000.00	12%	5.24%	6,742,000,000.00
Retailers	-	2,200,000,000.00	-100%	0.00%	2,200,000,000.00
SADC	-	-	0%	0.00%	-
SOE	20,000,000.00	1,779,000,000.00	-99%	0.03%	1,799,000,000.00
Telecoms	2,300,000,000.00	2,350,000,000.00	-2%	3.39%	4,650,000,000.00
Financial Services	506,000,000.00	-	0%	0.75%	506,000,000.00
Structured Fin.	14,205,658,445.00	10,902,220,497.00	30%	20.94%	25,107,878,942.00
	-	-	0%	0.00%	-
	67,823,780,676.00	65,539,637,683.00	3.49%	100%	133,363,418,359.00

Source: JSE, Futuregrowth

Secondary market

The third quarter saw an increase in the number of listed instruments, with spread movement to 361 from 279 in quarter two. There were 282 bonds with spread compression during the quarter (210 in Q2:2021) and 79 spread widening (69 in Q2:2021). Below are the top 20 bonds with quarterly spread widening, led by Bayport which spiked from 380bps to 527bps over 3-months Jibar with July 2024 maturity. Municipal bonds, SOEs and REITs dominated the large quarterly spread increases (see figure 5 below).

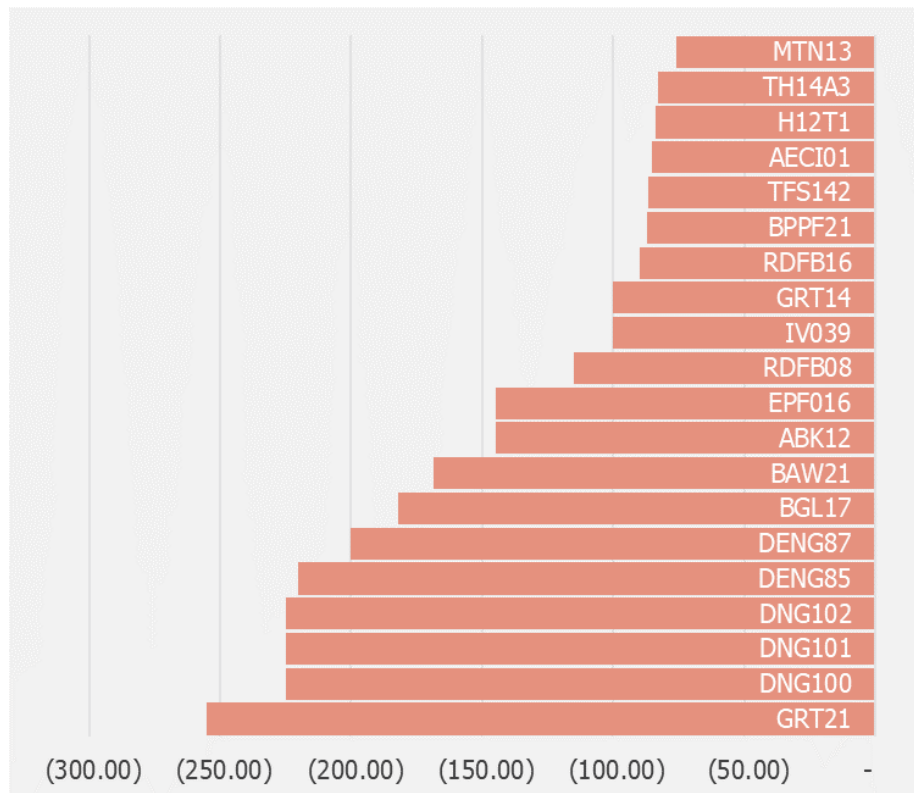
Figure 5: Top 20 - Quarterly spread widening Instr.



Source: JSE, Futuregrowth

The largest spread tightening bond for the quarter was Growthpoint (GRT21) with a 255bps change from 155bps to -100bps over the R186. The few REITs instruments that tightened were all due to term to maturity rolling down to below 3 months. The longest-dated bond in the top 20 spread tightening instruments was Rand Water (RWL28 maturing in June 2028) with a compression from 134bps over R2030 to 69bps over R2030. Standard Bank's sub debt instruments, SBT203 and SBT202, moved from 210bps to 137bps and 235bps to 160bps over 3-months Jibar, respectively. KAP Industrial bonds had an anomalous spread movement - KAP017 (Oct 2023) widened from 188bps to 210bps over 3-months Jibar, while KAP015 (Nov 2024) moved from 220bps to 160bps over 3-months Jibar.

Figure 6: Top 20 - Quarterly spread tightening Instr.

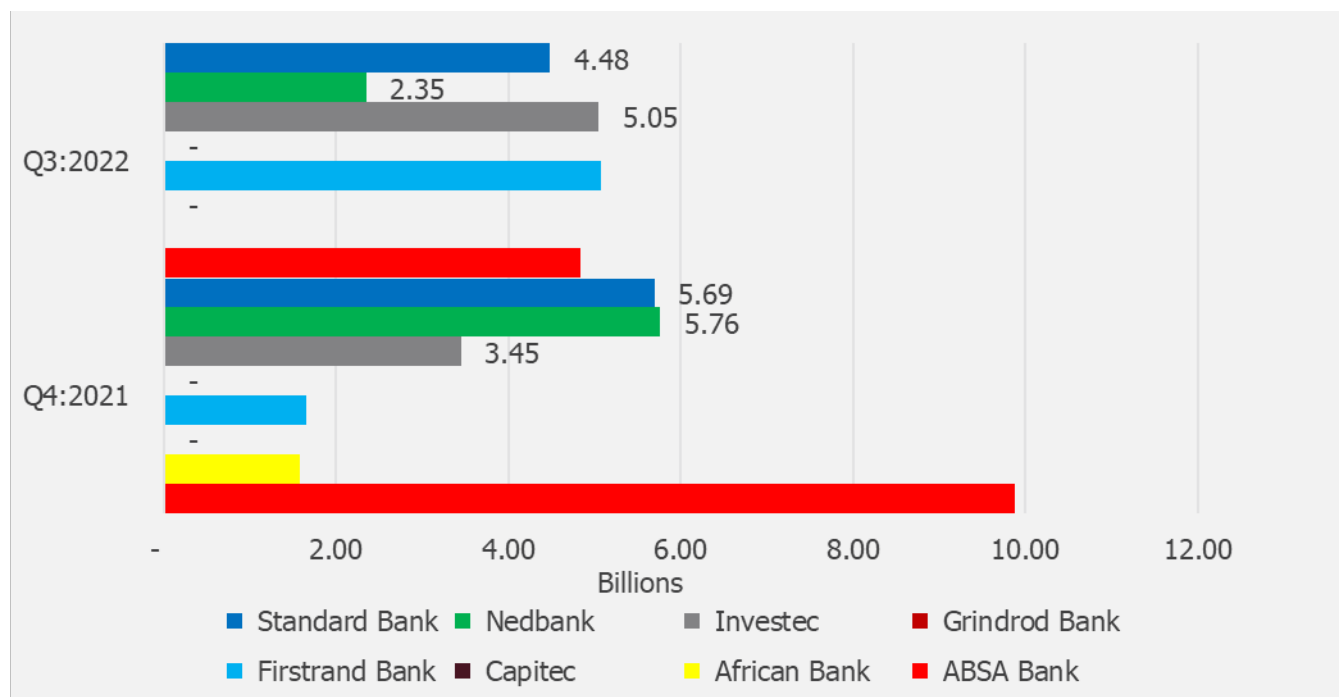


Source: JSE, Futuregrowth

Quarter 4 Bank Maturities

The fourth quarter (Q4:2021) bank maturities total R28 billion, R6.7 billion of which comprise bank capital instruments and the rest are structured credit instruments. R8.87 billion of ABSA’s R9.7 billion maturities are the earlier issued credit-linked and index-linked notes.

Figure 7: 2021 Bank Debt Maturity - By Bank



Source: JSE, Futuregrowth

Corporate Issuances

The table below shows the corporate issuers that placed credit in the market during quarter three (Q3 2021). There was over R24 billion in balance sheet issuances from the counterparties below. It is encouraging to see increased volumes in REITs primary market activity, and at substantially wider spreads. The property sector is one of the major issuers in the market and the recovery in issuance comes after COVID valuation fears have somewhat tapered. Premium Properties refinanced its maturing bond with a R50 million bond.

Counterparty	Term	Clearing Spread
Vukile Property	1yr & 3yr	135bps/Jibar & 185bps/Jibar
Toyota Financial Services	3yr & 5yr	110/Jibar, 189bps/Jibar
Sanlam	5yr, 7yr & 7yr Fxd	155bps/Jibar, 174bps/Jibar & 94bps/R186
Standard Bank [Senior]	3yr & 5yr	101bps/Jibar & 117.5bps/Jibar
Std Bank Namibia [Senior]	3yr & 5yr	149bps/Jibar & 176bps/Jibar
Resilient	4yr	192bps/Jibar
Premium Properties	1.5yr	195bps/Jibar
Redefine Properties	3yr	200bps/Jibar
MTN	3.5yr, 5.5yr & 7yr	150bps/Jibar, 185bps/Jibar & 220bps/Jibar
Old Mutual	5yr	154bps/Jibar
Merc Benz	3yr	99bps/Jibar
KAP	3yr, 4.25yr & 5yr	185bps/Jibar, 188bps/Jibar & 190bps/Jibar
Investec	3yr & 5yr	[115bps & 117.5]/Jibar & 132.5bps/Jibar
Fortress	3yr & 5yr	200bps/Jibar & 240bps/Jibar
Equites	5yr	195bps/Jibar
BNP Personal Finance	1yr & 3yr	95bps/Jibar & 125bps/Jibar

Source: JSE, Futuregrowth

Credit rating actions

These are all the ratings actions that took place during Q3:2021:

- Fitch Ratings affirmed Rand Water credit rating at AA+(zaf); outlook stable;
- Sanlam Life ratings were affirmed by Fitch at AAA(zaf); outlook stable;
- Eskom's national scale rating was affirmed by Fitch at A(zaf) with a negative outlook; and
- Instrument ratings for various Emira secured bonds were affirmed at AA+(za)(EL) by GCR.

Credit market outlook

The upcoming maturities for Q4:2021 will come from securitisation and banks. The former has R9.6 billion maturity, mainly due to the SA Homeloans Thekwini 14 (RF) structure that is coming down to its scheduled maturity. The Merchant West equipment rental-backed structure is also due for a R200 million maturity which is expected to be refinanced. SA Homeloan structures have performed fairly well during the COVID period and benefited from beneficial spread movement. We do expect SA Homeloans to come to market for a refinance issuance.

Figure 8: Maturity schedule

Sector	Q3:2021	Q4:2021	Q1:2022	Q2:2022	Grand Total
Auto	4,924,000,000.00	880,000,000.00	2,915,000,000.00	1,694,000,000.00	10,413,000,000.00
Banks	26,784,803,837.25	28,017,510,361.33	24,624,311,273.00	20,440,901,616.64	99,867,527,088.22
DFI	-	-	-	-	-
Div Industrials	360,000,000.00	2,475,000,000.00	898,100,000.00	2,989,000,000.00	6,722,100,000.00
Healthcare	315,000,000.00	-	823,000,000.00	500,000,000.00	1,638,000,000.00
Insurance	1,000,000,000.00	500,000,000.00	409,000,000.00	1,000,000,000.00	2,909,000,000.00
Mining	-	74,740,250.00	-	4,097,055,996.00	4,171,796,246.00
Munis	-	-	-	-	-
Offshore Banks	2,061,000,000.00	560,000,000.00	2,167,000,000.00	-	4,788,000,000.00
Prop Developers	-	-	10,000,000.00	-	10,000,000.00
REITs	3,342,000,000.00	2,517,000,000.00	1,620,000,000.00	250,000,000.00	7,729,000,000.00
Retailers	-	537,000,000.00	-	-	537,000,000.00
SADC	-	-	-	-	-
SOE	16,959,076,300.13	1,897,000,000.00	7,371,000,000.00	70,000,000.00	26,297,076,300.13
Telecoms	850,000,000.00	-	-	793,000,000.00	1,643,000,000.00
Financial Services	-	1,179,000,000.00	290,000,000.00	-	1,469,000,000.00
Structured Fin.	-	9,637,687,540.00	1,517,434,722.00	1,075,133,101.00	12,230,255,363.00
	-	-	-	-	-
	56,595,880,137.38	48,274,938,151.33	42,644,845,995.00	32,909,090,713.64	180,424,754,997.35

Source: JSE, Futuregrowth

The SOEs have R1.8 billion maturities in Q4:2021, which is made up of R452 million IDC (IDCG10 and IDCG14), R1.15 billion DBSA (DVF21), and just under R300 million Denel. The only active SOE, albeit in the short end, has been Transnet - and it remains doubtful whether the two DFIs will attempt to refinance these maturities in the market or if they will continue moving to bank funding. We expect the market to get a clearer view of the SOE underlying risk after a closer interrogation of the full post-lockdown financials. Many of the sector's problems are in the open though, and only a positive performance trajectory can sway the market back to stable confidence levels. It is important to emphasise that the disappearance of one of the biggest sectors in the primary market has negative structural repercussions, leading to pricing/valuation inconsistencies. We shall continue to watch this sector with keen interest, applying our robust analytical process to determine the time and price to re-enter - when it becomes investable from both a qualitative and quantitative basis.

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