

LISTED CREDIT MARKET QUARTERLY REPORT AS AT 31 DECEMBER 2021

The cautious rebound in the credit market continues

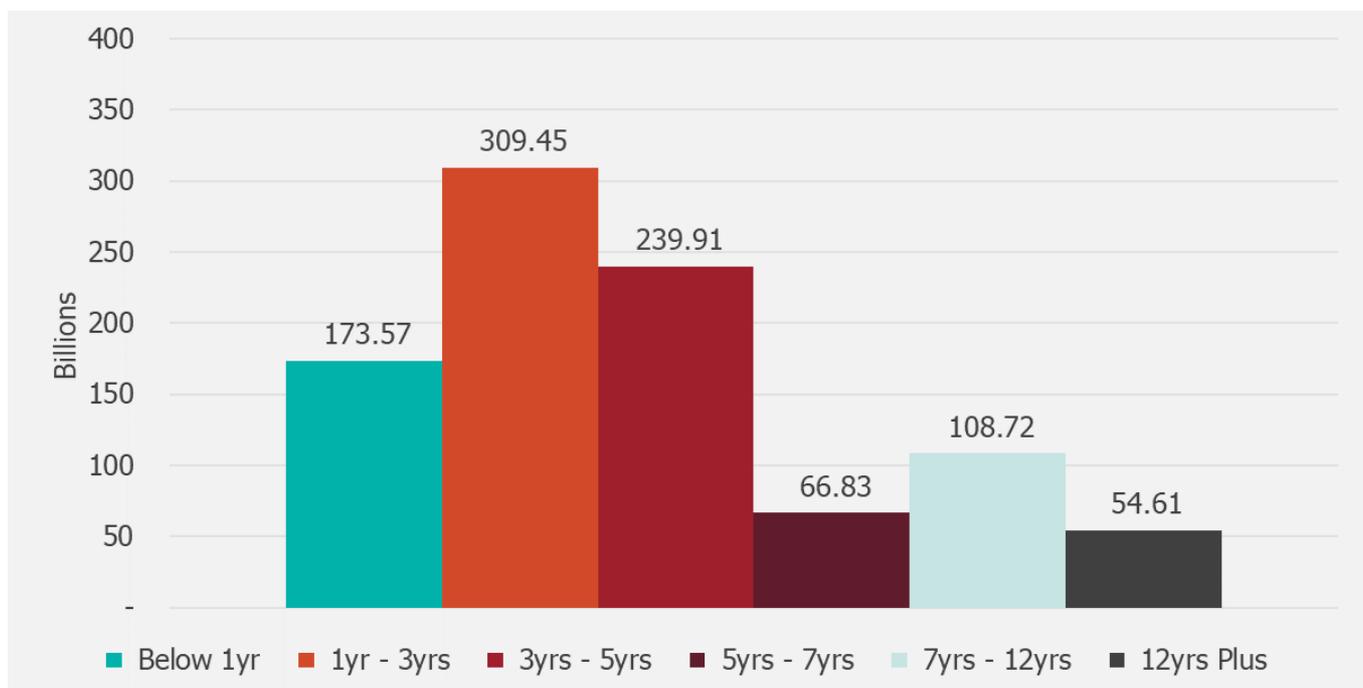
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OVERVIEW

As most of the credit market continues to rebound, its structure remains massively skewed to the short end. Quarter 4:2021 recorded a R10 billion market net issuance with R62 billion gross issuance, marginally down from the R67 billion Quarter 3:2021 gross issuance. More than 60% of Quarter 4's issuance tenor was at 3 years or less, further contributing to the short-end bias market maturity profile. As at December 2021, over 75% of the credit market outstanding instruments will mature within 5 years - and 50% within 3 years. The maturities above 5 years are mostly contributed by banks and sub-sovereigns; and the majority of other corporate outstanding debt will mature within three years. The credit market rebound in investor appetite still shows a great amount of caution. We expect the first half of 2022 to continue to project this caution.

Figure 1: Credit market size [by Maturity]



Source: JSE, Futuregrowth

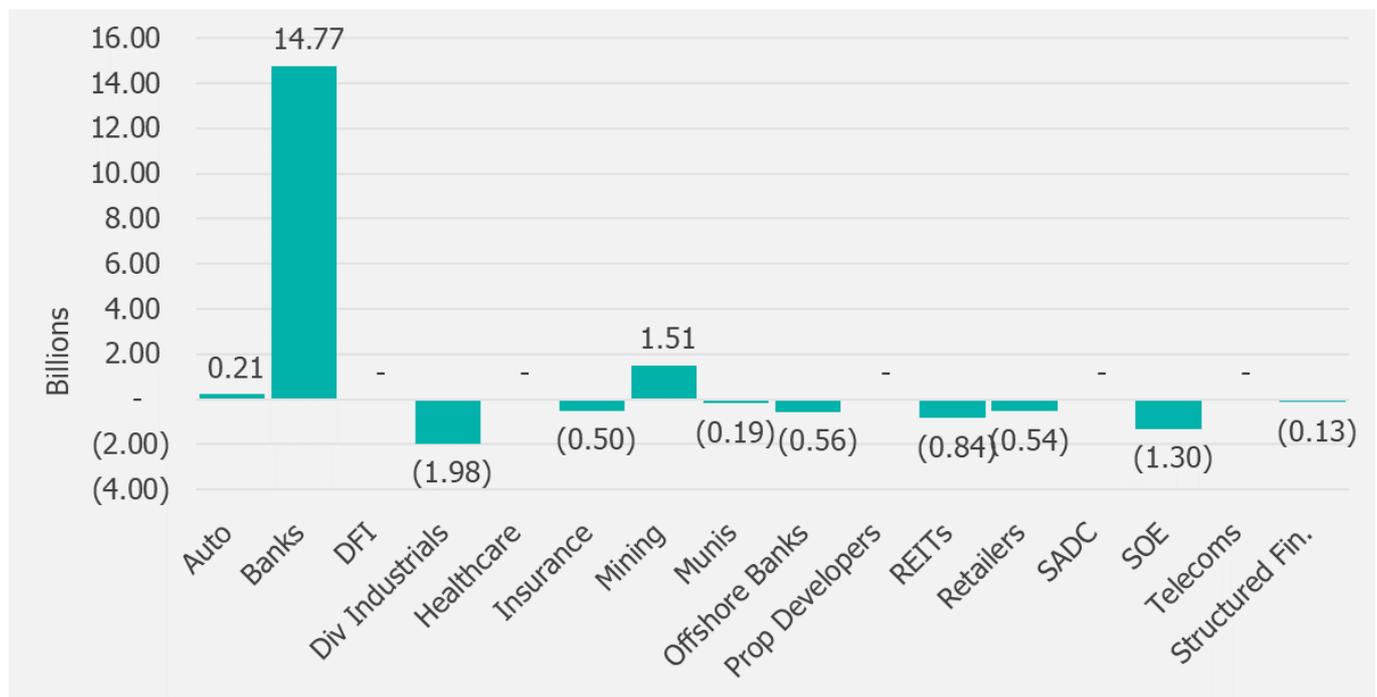
Credit maturities over the next quarter (Quarter 1:2022) amount to R64 billion, R40 billion of which is in bank credit instruments. Bank senior maturities account for R33 billion of the quarterly bank maturities. This was partially pre-funded during Quarter 4:2021 by around R7 billion. Quarter 4:2021 also saw the State-Owned Enterprise (SOE) issuers come back to the capital market, with Transnet and Eskom tapping existing longer-dated bonds and a DBSA switch auction. Denel also raised 2-month guaranteed debt at 225 basis points (bps) over Jibar. We expect the sector to be net issuers this year, albeit at elevated spreads.

PRIMARY MARKET ACTIVITY

The primary market was largely quiet, with the majority of the sectors in a net redemption position. The banking, automotive and mining sectors were the only net issuers. The banking sector issuance was made up of R25 billion senior, R4.7 billion Tier 2, R3.2 billion Additional Tier 1 and R7.05 billion

structured credit instruments. As a result of the bank senior pre-funding, the sector was at a R14.8 billion net issuance position. Northam Platinum was the sole mining sector issuer with R4.7 billion gross issuance, upsizing its refinance requirement by R1.5 billion. Toyota Financial Services issued over R1 billion, contributing to the R210 000 net issuance. The diversified industrial sector was the largest net redeemer of debt with around R2 billion, as the sector continues to de-gear.

Figure 2: Net issuance/redemption



Source: JSE, Futuregrowth

The R41 billion banking gross issuance was largely contributed by Standard Bank and ABSA, with R10.5 billion and R11.6 billion, respectively. Nedbank raised over R2.5 billion in total, including a 7-year senior unsecured green bond at 145bps /3m Jibar. Nedbank and Standard Bank AT1 issuances cleared at 391bps/3m Jibar and 5yrs (176bps /3m Jibar), respectively. FirstRand's Subordinated Tier 2 issue spread was 10bps tighter than its peers, at 190bps/3m Jibar. Nedbank and Standard Bank Tier 2 cleared at 200bps.

There was a slight stabilisation of bank senior spreads during Quarter 4:2021 in the primary market. This is after bank spreads peaked at 480bps (INLV08) and 467bps (NGT108) for AT1; 260bps (INLV07) for Tier2; 135bps (IBL160) and 124bps (ABFN50) for 5-year senior unsecured in the first quarter of 2021.

Quarter 4:2021's gross market issuance for the quarter was R62 billion, down from R67 billion in quarter three. The issuance drivers remain the same since COVID started: high bank issuance and short-dated credit bias. The short-term refinance activity has led to the short end issuance skew shown in Figure 1. Although this market phenomenon has led to a collapse in spreads in short-dated credit, it also presents opportunities to term out when credit conditions are favourable to investors. Eskom and Transnet tapped ES42 and TN40 respectively, totalling the R317 000 +12years issuance. The 5- to 7-year bucket comprises bank structured credit and R25 million TN30 tap issuance.

Figure 3: Issuance

Q4:2021	Below 1yr	1yr - 3yrs	3yrs - 5yrs	5yrs - 7yrs	7yrs - 12yrs	12yrs Plus	Total
Auto	-	438,000,000.00	650,000,000.00	-	-	-	1,088,000,000.00
Banks	19,621,500,000.00	5,157,320,000.00	10,439,900,000.00	6,311,400,000.00	127,000,000.00	-	41,657,120,000.00
DFI	-	-	-	-	-	-	-
Div Industrials	-	-	-	-	-	-	-
Healthcare	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	-	-
Mining	75,000,000.00	1,870,935,000.00	2,779,435,000.00	-	-	-	4,725,370,000.00
Munis	-	-	-	-	-	-	-
Offshore Banks	-	-	-	-	-	-	-
Prop Developers	-	-	-	-	-	-	-
REITs	1,001,000,000.00	1,430,000,000.00	-	-	-	-	2,431,000,000.00
Retailers	-	-	-	-	-	-	-
SADC	-	-	-	-	-	-	-
SOE	107,000,000.00	847,000,000.00	222,000,000.00	130,000,000.00	25,000,000.00	317,300,000.00	1,648,300,000.00
Telecoms	-	-	-	-	-	-	-
Structured Fin.	5,889,500,000.00	1,791,500,000.00	2,549,000,000.00	-	484,670,633.71	-	10,714,670,633.71
	26,694,000,000.00	11,534,755,000.00	16,640,335,000.00	6,441,400,000.00	636,670,633.71	317,300,000.00	62,264,460,633.71

Source: JSE, Futuregrowth

2021 also saw a spike in sustainability-linked bonds (SLB) issuance, as issuers attempted to embrace the United Nations Sustainable Development Goals (SDGs) and also to optimise the cost of funding. A number of REITs, Banks and Rand Water have contributed to this "responsible credit" market. We expect a continued surge in the SLB issuance.

Figure 4 shows that only six sectors were active in the primary market during the fourth quarter and that banks contributed two-thirds of gross issuance. Structured finance was the second largest gross issuing sector, with Fox Street, Thekwini Fund 17, Transsec, Merchant West and other asset backed commercial paper (ABCP) issuers. SA Home Loans was the biggest contributor to the sector's R10.7 billion gross issuance, with R2.35 billion Thekwini Fund issuance and R2.8 billion Thekwini Warehouse Conduit. Alongside the banks, asset backed securities benefited massively from the high credit risk environment and we expect this theme to prevail during 2022. Nitro 7, Wesbank's auto-backed securitisation, failed to redeem one of its notes at the expected maturity date due to financial relief given to underlying consumers that were facing COVID-triggered distress. Over 24% of Nitro's book was affected by the low receipts.

Figure 4: Issuance schedule

Sector	Q4:2021	Q3:2021	% Change	% Q2 Contr.	Grand total
Auto	1,088,000,000.00	2,066,000,000.00	-47.34%	1.75%	3,154,000,000.00
Banks	41,657,120,000.00	38,124,122,231.00	9.27%	66.90%	79,781,242,231.00
DFI	-	-	0.00%	0.00%	-
Div Industrials	-	1,000,000,000.00	-100.00%	0.00%	1,000,000,000.00
Healthcare	-	-	0.00%	0.00%	-
Insurance	-	3,500,000,000.00	-100.00%	0.00%	3,500,000,000.00
Mining	4,725,370,000.00	-	0.00%	7.59%	4,725,370,000.00
Munis	-	-	0.00%	0.00%	-
Offshore Banks	-	2,547,000,000.00	-100.00%	0.00%	2,547,000,000.00
Prop Developers	-	-	0.00%	0.00%	-
REITs	2,431,000,000.00	3,555,000,000.00	-31.62%	3.90%	5,986,000,000.00
Retailers	-	-	0.00%	0.00%	-
SADC	-	-	0.00%	0.00%	-
SOE	1,648,300,000.00	20,000,000.00	8141.50%	2.65%	1,668,300,000.00
Telecoms	-	2,300,000,000.00	-100.00%	0.00%	2,300,000,000.00
Structured Fin.	10,714,670,633.71	14,205,658,445.00	0.00%	17.21%	24,920,329,078.71
	62,264,460,633.71	67,317,780,676.00	-7.5%	100%	129,582,241,309.71

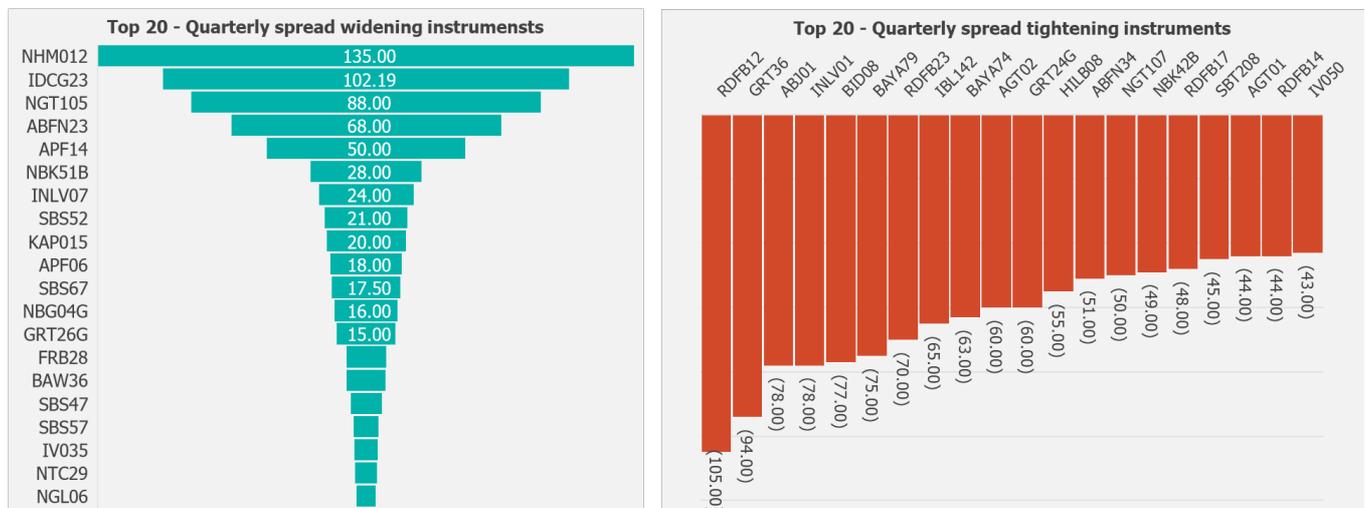
Source: JSE, Futuregrowth

SECONDARY MARKET

The total number of listed credit instruments with spread movement decreased from 361 in Quarter 3:2021 to 296 in Quarter 4:2021. There were 200 bonds with spread compression during the fourth quarter (282 in Quarter 3:2021) and 96 with spread widening (79 in Quarter 3:2021). Redefine Properties (RDFB12), maturing in November 2022, had the largest Floating Rate Note (FRN) spread compression with 105bps, and Eskom (ECN22), with March 2022 maturity, had the largest Fixed Rate Note (FXD) spread compression with 70.5bps. These were mostly due to book overs to money market. The largest widening FRN and FXDs were Northam Platinum (NMH012) and Barloworld (BAW21), with 135 and 70 basis points respectively. The momentum continues to be on spread compression as demand remains higher in the short end, as well as repricing due to tenor roll down.

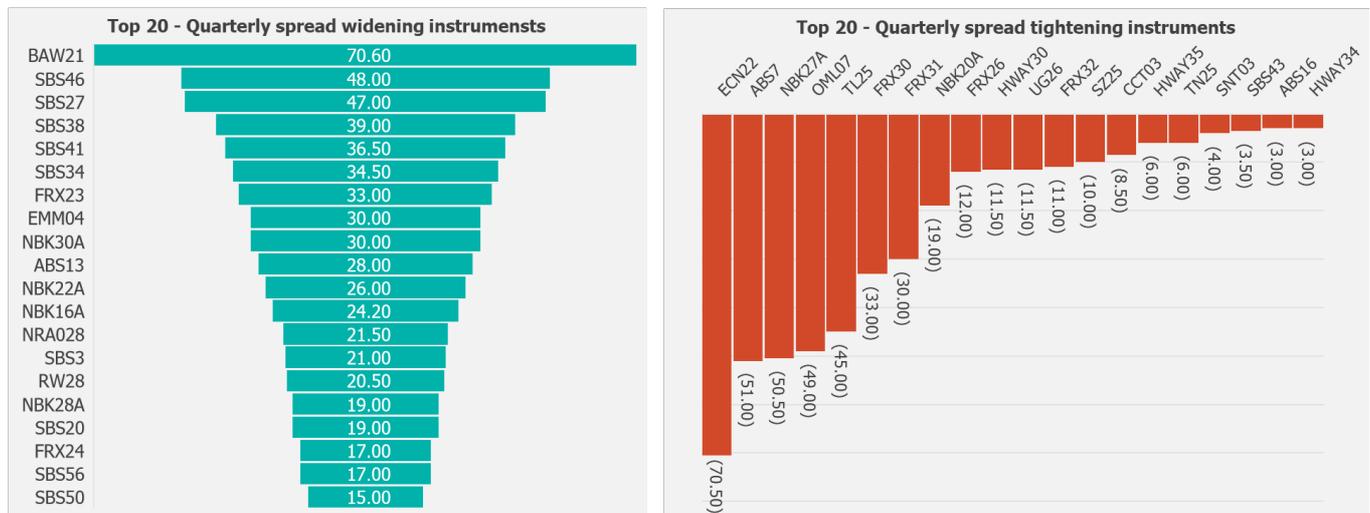
Most businesses have resumed operations and have embarked on different strategies to stabilise ailing balance sheets owing to the COVID lockdown. These interventions include right-sizing of the workforce, de-gearing, high gearing tolerance, asset disposal, and off-balance sheet funding, etc. These measures are not expected to yield instantaneous results on issuance practices and credit pricing. However, if coupled with the calling off of the country's state of national disaster and permanent resumption of corporate activity, they may help boost credit market confidence and thus, a return to more term issuances and credit spread normalisation. Although most issuers have reported better-than-expected financials, the ongoing state of national disaster (which has been extended until 15 February 2022) still presents great uncertainty for investors.

Figure 5: Floating Rate Notes



Source: JSE, Futuregrowth

Figure 6: Fixed Rate Notes



Source: JSE, Futuregrowth

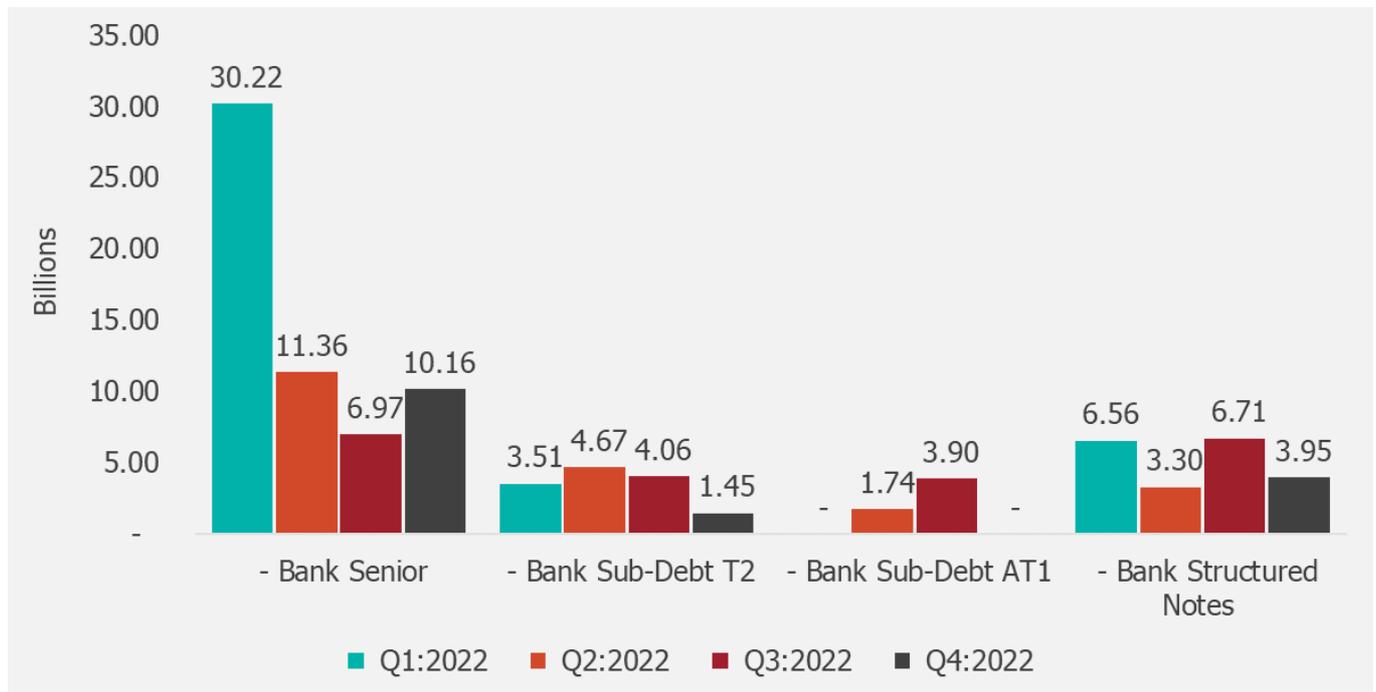
CREDIT RATING ACTIONS

Transnet SOC was downgraded by Moody's to A.za National Scale Rating (NSR) from AA-.za. The issuer had struggled during the year to raise long-term funding and thus relied on short-term debt raising, which increase its refinance risk. In addition, the legacy governance issues have not been resolved such that the issuer can clear its irregular expenditure and the resultant audit qualification.

BANK MATURITY PROFILE

The banking sector has a R98 billion refinancing requirement for the year ahead. For the first quarter of 2022, the expected refinancing requirement is around R15 billion due to the previous quarter's R14.8 billion pre-funding. Additional Tier 1 capital has no refinance obligation during Quarter 1:2022; however, we do expect the second quarter refinancing requirement to be executed in quarter one, as has become the norm for the sector. The bank senior unsecured maturities include uncertificated notes issued out of the banks' structured note programmes. ABSA has the largest Quarter 1:2022 bank maturities with R13.4 billion of the R33.7 billion bank maturities (excluding structured notes).

Figure 7: Bank debt maturities - by Instrument type (for year 2022)



Source: JSE, Futuregrowth

CREDIT MARKET OUTLOOK

The credit market expects R173 billion maturities during 2022, and R64 billion of that matures in the first quarter of the year. Of the R64 billion Quarter 4:2022 maturities, banks, SOEs and securitisation account for R40 billion, R7.5 billion and R6.7 billion, respectively. The banks pre-financed some of the Quarter 1:2022 obligations in Quarter 4:2021; however, we do expect them to continue to ramp up their capital buffers prior to the market anticipated interest rate hike(s). SOEs are also expected to re-enter the market during the year. The negative sentiment around the sector still persists; however, it was encouraging to see DBSA come to market and manage to issue at favourable spreads. Transnet and Eskom have sizable upcoming maturities and have already indicated appetite to raise long-term funding in the local capital market.

Figure 8: Maturity schedule

Sector	Q1:2022	Q2:2022	Q3:2022	Q4:2022	Grand total
Auto	2,915,000,000.00	1,694,000,000.00	2,500,000,000.00	1,250,000,000.00	8,359,000,000.00
Banks	40,283,311,273.00	21,072,901,616.64	21,637,619,275.00	15,564,900,000.00	98,558,732,164.64
DFI	-	-	-	-	-
Div Industrials	1,398,100,000.00	2,989,000,000.00	2,176,000,000.00	3,120,000,000.00	9,683,100,000.00
Healthcare	823,000,000.00	500,000,000.00	500,000,000.00	-	1,823,000,000.00
Insurance	409,000,000.00	1,000,000,000.00	1,548,000,000.00	2,000,000,000.00	4,957,000,000.00
Mining	-	1,693,185,996.00	-	-	1,693,185,996.00
Munis	-	-	-	-	-
Offshore Banks	2,167,000,000.00	-	60,000,000.00	-	2,227,000,000.00
Prop Developers	10,000,000.00	-	-	-	10,000,000.00
REITs	2,040,000,000.00	250,000,000.00	1,083,000,000.00	3,087,000,000.00	6,460,000,000.00
Retailers	-	-	-	-	-
SADC	-	-	-	1,560,000,000.00	1,560,000,000.00
SOE	7,478,000,000.00	70,000,000.00	4,361,000,000.00	5,827,000,000.00	17,736,000,000.00
Telecoms	-	793,000,000.00	2,015,000,000.00	529,000,000.00	3,337,000,000.00
Structured Fin.	6,728,808,308.00	920,681,174.00	4,724,460,707.24	4,787,763,172.00	17,161,713,361.24
	64,252,219,581.00	30,982,768,786.64	40,605,079,982.24	37,725,663,172.00	173,565,731,521.88

Source: JSE, Futuregrowth

Investec is also expected to come to market with a new commercial mortgaged-backed securitisation (CMBS) in the first quarter of 2022. Wesbank's auto-backed structure has a refinance requirement in Quarter 1:2022. Diversified industrials, net redeemers in Quarter 4:2021, are expected to come to market as well, post the release of better-than-expected financial results. As a result, the number of issuers in the market is expected to increase and spread compression is expected to taper due to the increased supply. Although the market imbalance is expected to correct, this is only likely to happen over a period of time.

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