

Ratings Weekly Digest

September 15, 2021

Key Takeaways

- Evergrande’s worsening liquidity woes are part of a rapidly evolving risk outlook in APAC.
- Real-time data suggest the U.S. economy has hit a COVID-related speed bump.
- Coal and wind are at the polarities of energy transition—both with risks and opportunities.

Key developments

China Evergrande’s liquidity woes continue to worsen. On Sept. 15, S&P Global Ratings [downgraded](#) Evergrande and its subsidiaries, Hengda Real Estate Group Co. Ltd. and Tianji Holding Ltd., to 'CC' from 'CCC'. We also lowered our long-term issue rating on the U.S. dollar notes issued by Evergrande and guaranteed by Tianji to 'C' from 'CCC-'. The liquidity and funding access of Evergrande are shrinking severely, as demonstrated by an announced material drop in sales, a fall in the cash balance, and the continued use of physical properties to settle payments. The company is negotiating repayment terms, and two subsidiaries have failed to meet guarantee obligations on wealth management products to retail investors. We believe the company may not be able to service debt in time, which will lead to a default scenario including the possibility of debt restructuring.

Investors are bracing for more idiosyncratic and regulatory events in Asia on growing recognition that COVID and China risks are lasting rather than transitory, according to [panelists at our recent webcast](#). Lower credit ratings, higher debt levels, and higher default rates will push winners and losers to emerge over many years to come. Government decisions on which state-owned enterprises to support, along with rising maturity walls and working capital needs, will be key determinants of which firms default. Please join our leading S&P Global Ratings Asia-Pacific analysts for a live interactive webinar on Sept. 20, for their perspective on Evergrande, Huarong, and China's recent policy measures. Register [here](#).

Real-time data suggest that U.S. economic activity has hit a speed bump as COVID-19 cases remain elevated. On the plus side, the weekly pace of vaccinations has doubled since late July, but mobility rates across most parts of the U.S. have softened as people became more reluctant to visit restaurants and take trips. Weekly consumer confidence readings have stabilized at their August lows. Same-store retail sales grew 16.6% year-over-year, somewhat lower than their 17.9% peak the week of July 2. The manufacturing and services industries reportedly saw relatively faster deliveries of supplies at lower prices. While positive, the indicators we track largely remain largely above pre-pandemic levels, indicating that supply constraints haven't disappeared.

The growing imperative to cut carbon emissions involves significant credit risk, with both challenges and opportunities. “[Australia's Coal Sector Looks To Dig Itself Out Of A Funding Hole](#)” looks at the challenges for a sector whose product is increasingly frowned-upon. In contrast, “[European Offshore Wind Will Continue To Lead Global Growth](#)” highlights opportunities for a rapidly growing source of renewable energy. Finally, “[The Path To Net-Zero Emissions: Credit Perspectives On What This Means For Some U.S. Regulated Electric Utilities](#)” looks at the challenges of energy transition.

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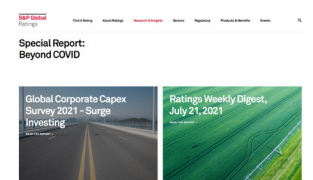
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Links

Research updates, including a summary of related ratings actions, are available at:

<https://www.spglobal.com/ratings/en/research-insights/topics/special-report-beyond-covid>

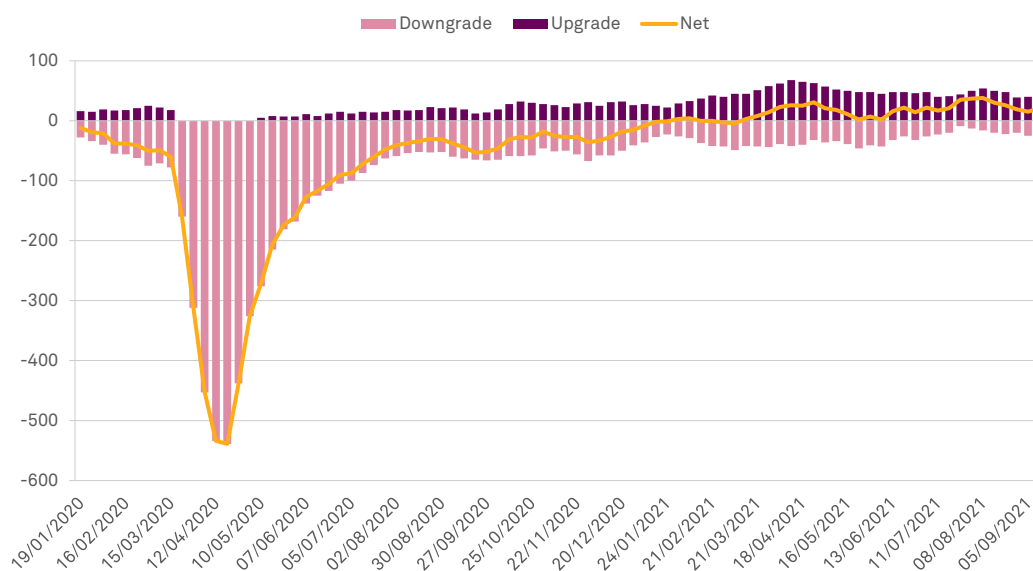


Credit Market Update

Ratings Trends

Chart 1

Rating Actions Remain Positive As The Number Of Upgrades Continues To Out Pace Downgrades



Source: S&P Global Ratings. Data as of September 13, 2021.

Table 1

Recent Rating Actions

Date	Action	Issuer	Industry	Country	To	From	Debt vol (mil. \$)
10-Sep	Upgrade	Sysco Corp.	Consumer Products	U.S.	BBB	BBB-	11,565
6-Sep	Downgrade	Western Power Distribution PLC (PPL Corp.)	Utility	U.K.	BBB+	A-	7,791
10-Sep	Downgrade	M&T Bank Corp.	Bank	U.S.	BBB+	A-	6,107
9-Sep	Downgrade	China Huarong Asset Management Co. Ltd.	Financial Institutions	China	BBB	BBB+	5,100
8-Sep	Downgrade	Cornerstone OnDemand, Inc.	High Technology	U.S.	B-	B+	3,717
10-Sep	Upgrade	K+S Aktiengesellschaft	Chemicals, Packaging & Environmental Services	Germany	B+	B	2,627
9-Sep	Upgrade	Cincinnati Bell Inc. (Red Fiber Holdings LLC)	Telecommunications	U.S.	B	B-	2,410
9-Sep	Downgrade	Poseidon Investment Intermediate, L.P.	Chemicals, Packaging & Environmental Services	U.S.	B-	B	2,405
8-Sep	Upgrade	CCC Intelligent Solutions Inc.	High Technology	U.S.	B	B-	2,050
10-Sep	Upgrade	Kraton Corp	Chemicals, Packaging & Environmental Services	U.S.	BB-	B+	1,827

Source: S&P Global Ratings

Credit Market Research

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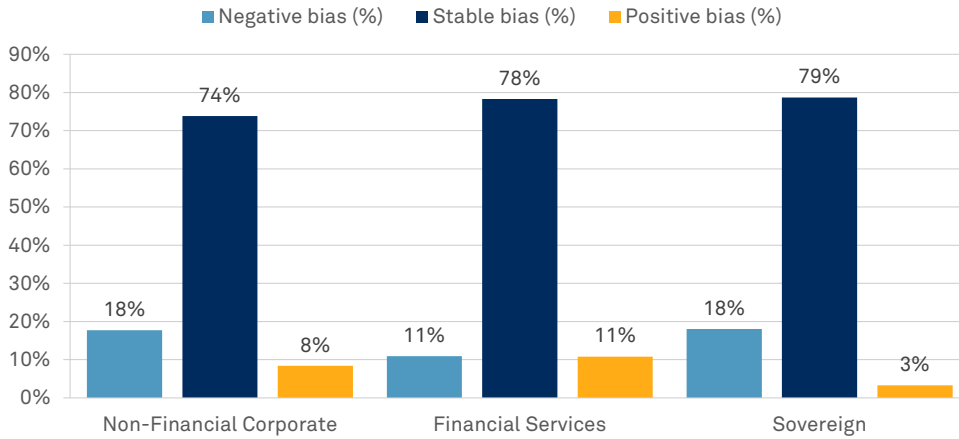
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- **The positive rating actions continue to outweigh the negative actions** so far in September at a consistent pace as companies continue to show improving signs of recovery.
- **We upgraded U.S.-based foodservice distributor Sysco Corp. this week to 'BBB'** from 'BBB-', reflecting strong fourth-quarter profitability. We expect the company's profitability and credit metrics to strengthen further as it gains market share, notwithstanding labor, inflation, and renewed virus uncertainty.
- **The 2021 corporate default tally remained at 59 this week after no defaults.** Several factors have contributed to the slowdown in defaults, including a stronger-than-expected U.S. economic recovery fueled by the success in the COVID-19 vaccine, as well as stabilizing credit quality propelled by exceptionally favorable financing conditions.

Chart 2

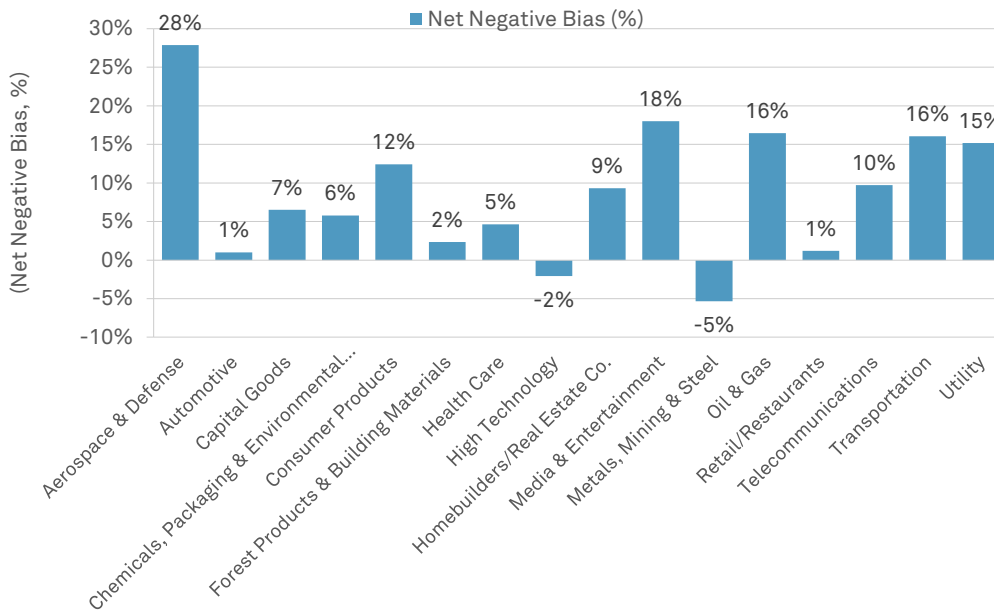
Non-Financial Corporates Continues To Stabilize



Source: S&P Global Ratings. Data as of September 13, 2021.

Chart 3

The Transportation Sector's Net Negative Bias Improved The Most This Week—Shrinking To 16%

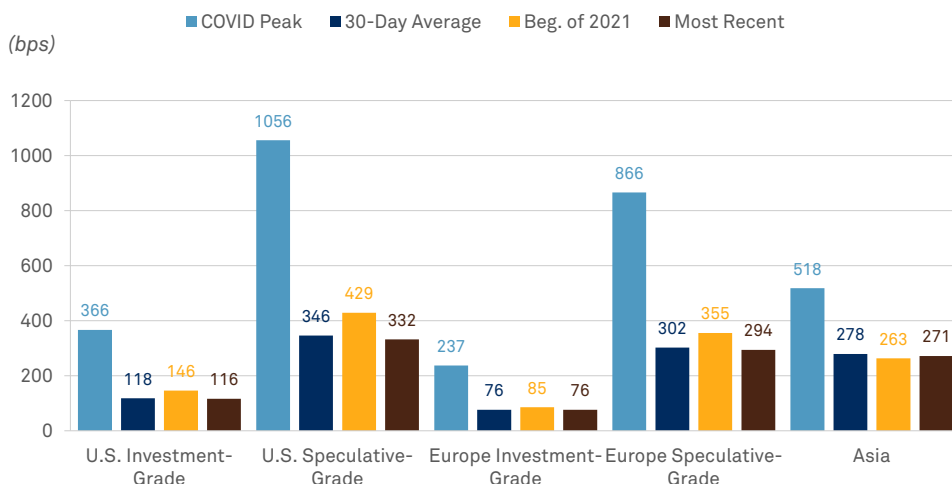


Source: S&P Global Ratings. Data as of September 13, 2021.

Financing Conditions

Chart 4

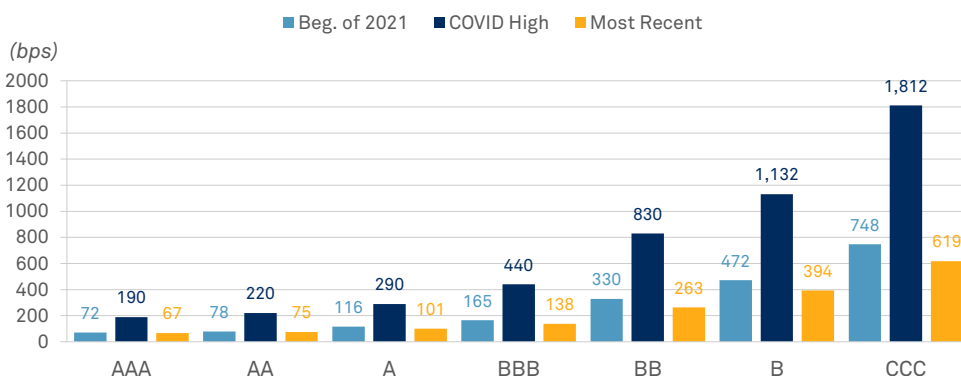
Secondary Market Credit Spreads, U.S., Europe, And Asia



Source: ICE Benchmark Administration Limited (IBA), 'ICE BofAML Asia Emerging Markets Corporate Plus Sub-Index Option-Adjusted Spread', 'ICE BofAML Europe, the Middle East, and Africa (EMEA) Emerging Markets Corporate Plus Sub-Index Option-Adjusted Spread', retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/BAMLEMRECRPIEMEAOAS>, U.S. Investment-Grade and Speculative-Grade Spreads from S&P Global Ratings, Europe Investment-Grade Spreads From S&P Dow Jones Indices. September 13, 2021.

Chart 5

S&P Global U.S. Composite Spreads By Rating, Secondary Market



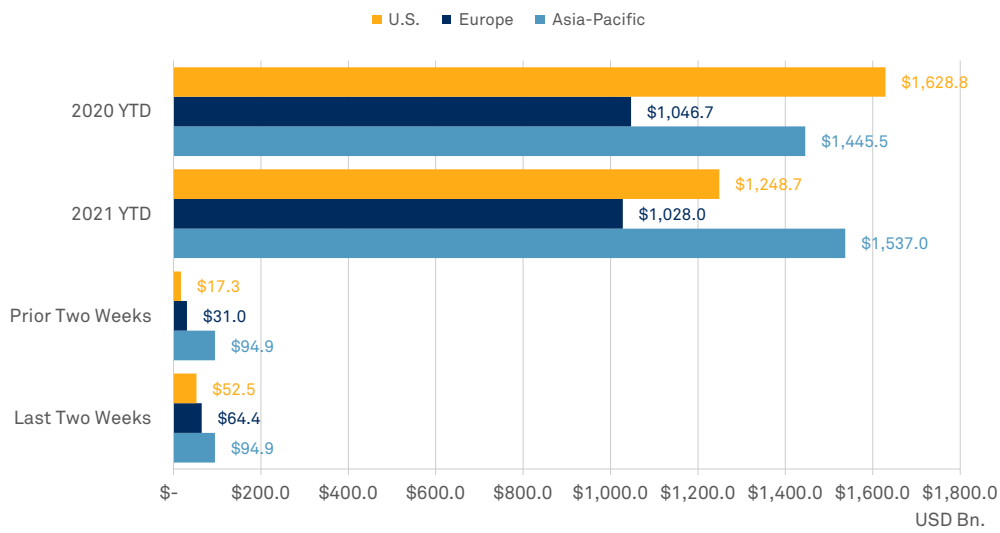
Source: S&P Global Ratings. Data as of September 13, 2021.

- **Debt issuance.** Speculative-grade year-to-date issuance volumes are higher than year-end volumes of five of the past six years, but the pace of new issuance has slowed.
- **U.S. and Europe secondary market spreads continued to narrow** in the past week.

Debt Capital Markets

Chart 6

Financial And Nonfinancial New Bond Issuance



Source: S&P Global Ratings. Data as of September 13, 2021.

Asset Class Trends

Corporates

- Notable publications include:
 - [Credit Trends: Growing Risks, Diminishing Rewards--Has The U.S. Speculative-Grade Market Hit A Peak?](#)
 - [Default, Transition, and Recovery: The 2021 Global Corporate Default Tally Remains At 59](#)
 - [Favorable High-Yield Oil And Gas Market Fuels Financing Activity And Lifts Recently Restructured Entities](#)
 - [Default, Transition, and Recovery: 2020 Annual Latin American Corporate Default And Rating Transition Study](#)
- Notable ratings actions include:
 - Research Update: Sysco Corp. Upgraded To 'BBB'; Debt Ratings Raised; Outlook Stable
 - Chilean Conglomerate Empresas Copec Outlook Revised To Positive On Brighter Operating Prospects, 'BBB-' Ratings Affirmed
 - Bharti Airtel Outlook Revised To Stable On Strengthening Operations And Leverage Management; 'BBB-' Rating Affirmed
 - Container Liner A.P. Moller-Maersk A/S Upgraded To 'BBB+' On Strengthened Credit Profile; Outlook Stable

Banks and financial institutions

- In China, we lowered the long-term issuer credit ratings on distressed asset management company [China Huarong and China Huarong International Holdings Ltd. to 'BBB' from 'BBB+'](#). We also lowered the long-term issuer credit rating on Huarong Financial Leasing to 'BBB-' from 'BBB+'. The outlook is negative. The downgrade reflects our expectation that the company's asset quality will remain weak because of its high proportion of stage 2 and stage 3 assets (mainly debt instruments at amortized costs), which surged to 41% at end-2020 from 22% at end-2018. The quality of some of these assets could deteriorate further, and warrant additional provisions despite the huge impairment allowance made in 2020. We continue to view China Huarong as a government-related entity (GRE) with a very high likelihood of receiving extraordinary government support if needed.
- In North America, we lowered our long-term rating on [M&T Bank Corp. to 'BBB+' from 'A-'](#) and our ratings on Manufacturers & Traders Trust Co., its primary bank subsidiary, to 'A-/A-2' from 'A/A-1'. The outlook is stable. M&T Bank Corp.'s asset quality has deteriorated, as evidenced by an increase in criticized loans and nonperforming assets in recent quarters. We think commercial real estate loans are largely responsible for the weakness, including in the New York City area. We think M&T's various loan and geographic concentrations are more economically sensitive to pandemic-related disruptions, and we think its historically strong track record of low loan losses may weaken somewhat.

Sovereign

- [Austria 'AA+/A-1+' Ratings Affirmed; Outlook Stable](#)

Structured finance

- **Cyber Risks - Structured Finance:** In our view, securitizations have lower direct exposure to cyber events than non-special-purpose entities, such as corporates and financial institutions. However, the potential negative credit impact following a cyberattack could be more pronounced given the limited resources available to securitizations. Many of the structural features already in place to ensure operational continuity in structured finance transactions have positive spill-over

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effects on cyber readiness. These include cash reserves to address liquidity risks, performance triggers that may change the priority of payments, and replacement provisions for key transaction parties who may become materially affected by a cyber event. Concerns over a key transaction party's level of preparedness for a cyberattack, or demonstrated poor management of an attack, could increase operational risk, and potentially result in a ratings cap on the securitization. While we expect more structured finance transactions will be exposed to future cyber events, we believe transaction parties and deal structures are generally well positioned to manage these risks. See "[Credit FAQ: How Could Cyber Risks Affect Structured Finance Transactions?](#)" published on Sept. 8.

- **Covered Bonds:** Economic conditions are supportive and long-term scarring to the economy should be limited by Europe's coordinated fiscal and monetary policy response, enabling the region to close the output gap by 2024. EU member states had until July 2021 to transpose the harmonized legislative package on covered bonds into national laws. While only a handful of countries enacted new legislation by the target transposition date, we still think most member states will be able to do so by the July 2022 implementation deadline. Sustainable covered bonds have so far increased to almost 17% of overall issuance in 2021, from less than 5% in 2018. See "[Global Covered Bond Insights Q3 2021](#)" published on Sept. 9.
- **Australia and New Zealand ABS:** Arrears levels increased slightly for most Australia and New Zealand asset-backed securities (ABS) transactions during Q2. They rise in some transactions in one quarter before curing in the following months. In some transactions a fall in arrears is associated with a rise in recognized cumulative losses. While arrears have increased in some transactions since the expiration in March of the initial payment-deferral arrangements, COVID-19's overall effect on delinquencies has been relatively modest to date. We do not anticipate a significant deterioration in performance. The pandemic has disrupted employment in certain sectors, and this could continue to affect some borrowers' ability to pay their loan obligations. However, the build-up of credit support for most classes of notes due to the relatively low cumulative losses experienced to date would provide a buffer for transactions should there be upward pressure on arrears or an increase in losses over the coming months. See "[Australian and New Zealand ABS Portfolio Arrears Increased in Q2 2021, Report Says](#)" published on Sept. 7, and "[ABS Performance Watch: Australia and New Zealand Q2 2021](#)".

This report does not constitute a rating action

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