

Investment research

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18 February 2025



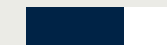
Credit analysis in practice

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Danske Bank

Renowned team with strong sector knowledge and broad coverage – 14 analysts covering ~200 companies



Danske Bank – Credit research platform

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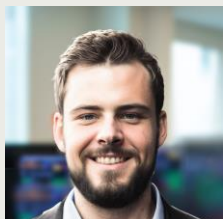
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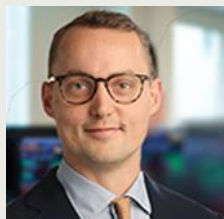
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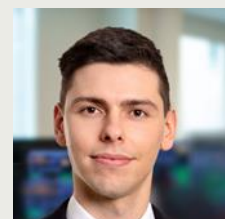
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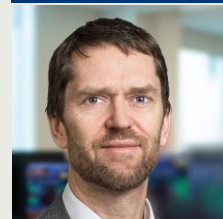
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Danske Bank Credit Research Sweden

Overview

- Louis Landeman (Head) + 3 analysts
- Quarterly comments and reports
- Company analysis in primary cases
- Trade recommendations
- ESG analysis
- Thematic studies
- Market outlooks

Main stakeholders

- Investors
- Companies that issue debt
- Other internal and external stakeholders

By the numbers

43

Companies under coverage

39%

High yield companies



Presentation overview

1. **Intro:** Corporate bonds and the market
2. **Part 1:** Evaluating bond documentation
3. **Part 2:** Financial analysis



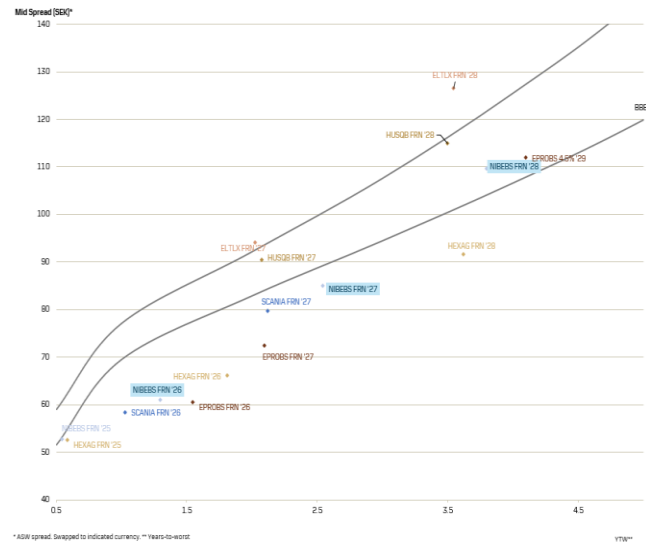
Intro - the corporate bond market

Characteristics

- Listed but traded via brokers (OTC)
- Division high-yield and investment grade
- Pricing as a spread over a reference rate
- Macro impact, volatility
- Fund flows
- Reflexivity and procyclicality

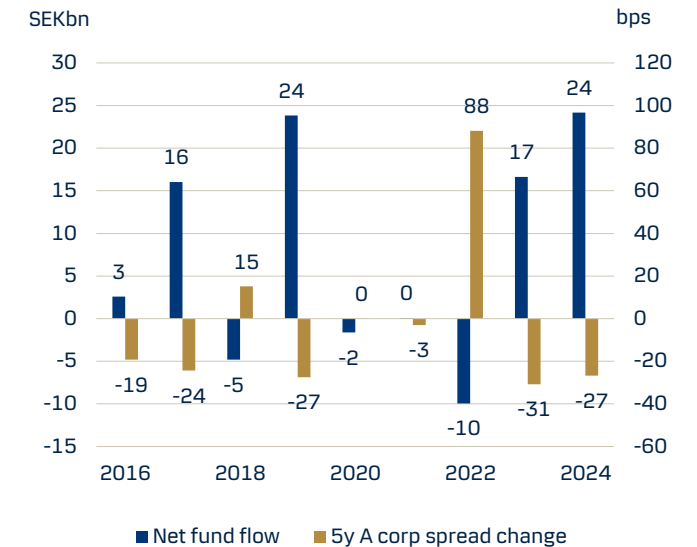
Pricing - spreads

The difference in yield between a corporate bond and a reference rate, reflecting additional risk of the corporate bond.



Fund flows

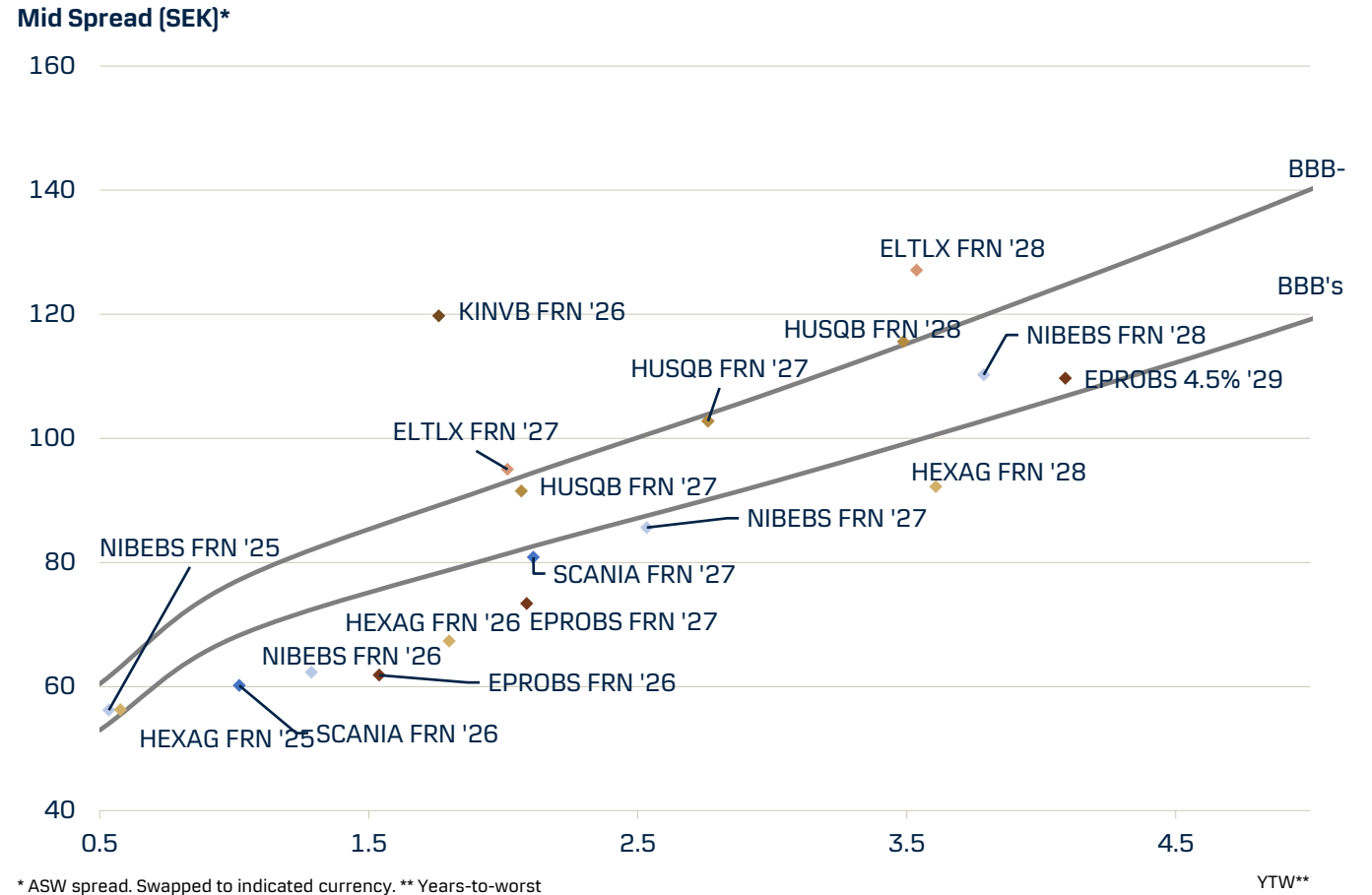
Although a derivative of sentiment and other dynamics, fund flows are a driver of spreads.



Intro - relative valuation

Spreads

- Pricing relative to (aggregate) curves of issuers with specific credit ratings
- Pricing relative peers



Term Sheet

Esmacilzadeh Holding AB (publ)
 First Subsequent Bond Issue of SEK 375,000,000
 Senior Unsecured Callable Floating Rate Bonds 2022/2025
 (the "First Subsequent Bonds" or the "First Subsequent Bond Issue")

ISIN: SE0017133564
 LEI: 549300T6QRNXUOE2MB11

First Subsequent Issue Date: 23 January 2023

The following overview included in this term sheet does not purport to be complete, and is qualified in its entirety by the terms and conditions for the Bonds dated 18 January 2022 (the "Terms and Conditions") and related documents.

- Fixed interest and floating rate notes (FRNs)
- Denominations typically SEK 1,250,000 EUR 100,000
- Maturities 2-7 years (time horizon)
- Typically repaid 100% at maturity (no amortization)
- Contract-driven (stocks: laws)

Issuer:	Esmacilzadeh Holding AB (publ), a limited liability company incorporated in Sweden with reg. no. 559242-7388.
Group:	The Issuer and each of its Consolidated Subsidiaries from time to time and "Group Company" means any of them.
Currency:	SEK.
Initial Bond Issue:	SEK 1,200,000,000.
First Subsequent Bond Issue:	SEK 375,000,000
Subsequent Bond Issue:	The Issuer may at one or more occasions after the First Issue Date issue additional Bonds (each a "Subsequent Bond") provided that (a) the amount of Bonds in issue (i.e. the Initial Bond Issue aggregated with any Subsequent Bonds (including the First Subsequent Bond Issue)) does not exceed SEK 2,400,000,000, and (b) the Issuer meets the Incurrence Test (tested on a <i>pro forma</i> basis).
Interest Rate:	The Bonds shall carry interest at STIBOR (three months) plus the Floating Rate Margin, payable quarterly in arrears. STIBOR floor of zero per cent. will apply.
Floating Rate Margin:	7.50 per cent. <i>per annum</i> .
First Issue Date:	26 January 2022.
First Subsequent Issue Date:	Expected to be 23 January 2023. Notice is expected to be given to subscribers at least two business days prior to the First Issue Date.
Final Redemption Date:	26 January 2025 (three years after the First Issue Date).
Interest Payment Dates:	26 January, 26 April, 26 July and 26 October each year (with the last Interest Payment Date being the Final Redemption Date or such earlier date on which the Bonds are redeemed in full), or to the extent such day is not a business day, the first following day that is a business day, unless that day falls in the next calendar month, in which case that date will be the first preceding day that is a business day.



Credit analysis – Part 1

Qualitative elements

Qualitative analysis in addition to quantitative components has an important role in understanding potential credit risks beyond numerical data.

Market Trends

Monitor market conditions and trends to better understand their impact on bond valuations.

Overview - the five C's

A way to describe an assessment structure for tool, credit analysis evaluates a borrower's ability to repay debts by examining five key components to arrive at a conclusion.

Conditions	Character	Capacity	Capital	Colateral
Analysis of bond terms, covenants, and risks, which influence the borrower's ability to meet obligations.	The borrower's reputation and credit history in assessing reliability in meeting debt obligations.	Financial ability to repay a loan. Analysis of income sources, stability, and ratios to assess coverage of new and existing debt.	Analysis of a borrower's financial reserves. Provides a cushion against setbacks, improving creditworthiness.	Assets pledged by the borrower to secure a loan. Includes valuation of these assets to mitigate default risk.

Practical considerations

Beyond public data, draw on sector expertise and pieced-together insights to address information gaps, ensuring thorough credit assessments amid data limitations and market uncertainties.

Evaluating bond documentation

Characteristics

Contents of documentation

- Wide scope
- Detailed

High yield and investment grade documentation

- Degree of customization
- Standardization

Review in practise

Key points of interest

- Debt seniority and security
- Call and put provisions
- Amendment procedures (via t
- Covenants and restrictions
- Events of default

Covenants

Safeguards, requires a company to maintain certain key financial ratios, either on ongoing basis or as a requirement when taking up new loans or paying dividends.

Calls

Option of the issuer to redeem the bonds at certain times and prices.
- A benefit of the issuing company.

Defaults

Key points

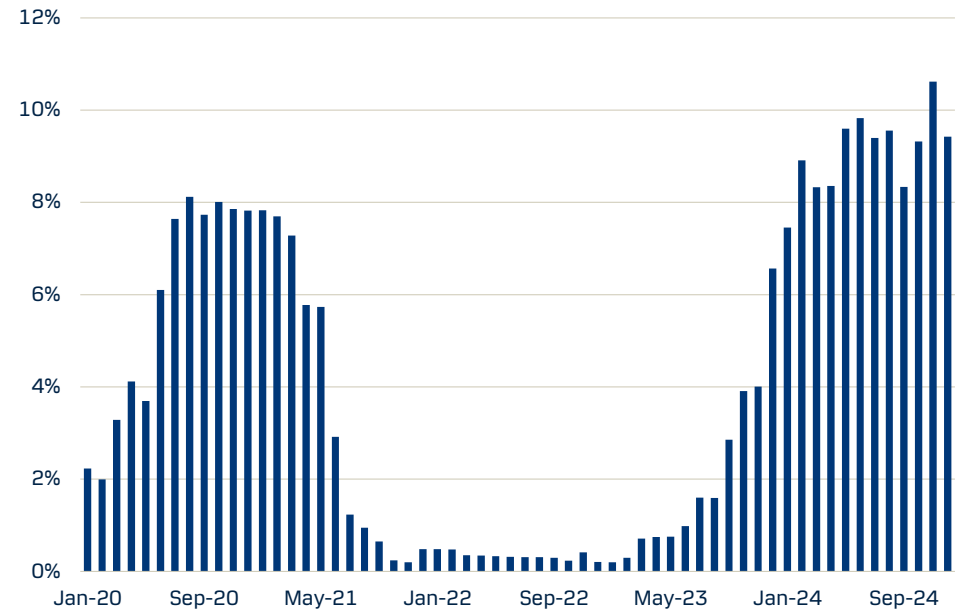
Contractual (technical) term

- Defined in the documentation
- Payment default

Impact in practice

- Decisions in practice (waivers, amendments and acceleration)
- Recovery and loss

High yield defaults as of Jan 2025 (Stamdata)



Evaluating bond documentation – cases

Structural subordination

- What is the *structure* in this context?
- Common circumstances- issuer group
- Dependent on bond terms

Example - SBB's structural subordination manoeuvre

- Sometimes it is not what IS written but what is NOT written in the documentation
- Can be a problem with covenant-light documentation
- Other implications and considerations: laws and reputation



Evaluating bond documentation – cases

Contractual subordination

What it is

- What is written goes holds primacy
- Legal exceptions

Implications and considerations

- Alteration of conventions
- Expectations and reality may diverge

BALDER SUCCESSFULLY COMPLETES PLACEMENT OF EUR 480M SENIOR UNSECURED CONVERTIBLE BONDS

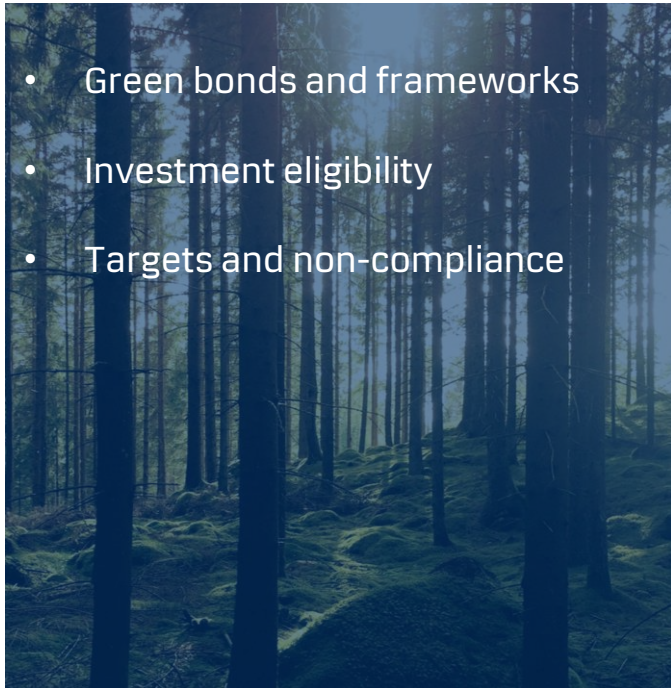
Regulatory press releases – 16 Feb 2023

Credit Suisse's AT1s – contractual subordination deluxe

	Obligations and Junior Obligations.
Write-down:	If a Contingency Event, or prior to a Statutory Loss Absorption Date (if any), Viability Event occurs, the full principal amount of the notes will be mandatorily and permanently written down. The notes are not convertible into shares of the Issuer upon the occurrence of a Contingency Event or a Viability Event or at the option of the Holders at any time. See "Terms and Conditions of the Notes—Condition 7 "Write-down"" in the Information Memorandum for the definitions of Contingency Event, Statutory Loss Absorption Date and Viability Event.
CET1 Write-down Trigger:	7.00%, based on Credit Suisse Group AG consolidated CET1 ratio
Use of Proceeds:	The Issuer will use the net proceeds from the sale of the notes for general corporate purposes.
Listing:	SIX Swiss Exchange
Governing Law / Forum:	Swiss law / Zurich
Rule 144A ISIN:	US225401AJ72
Rule 144A CUSIP:	225401AJ7
Reg S ISIN:	USH3698DBW32
Reg S CUSIP:	H3698DBW3
Sole Active Book-Running Manager:	Credit Suisse Securities (USA) LLC
Passive Book-Running Manager:	Wells Fargo Securities, LLC

ESG – analysis and risks

Environmental



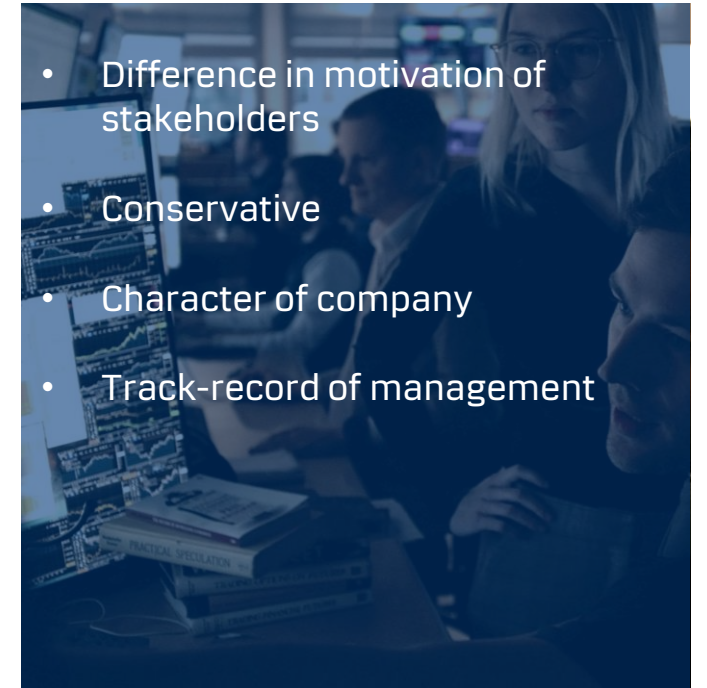
- Green bonds and frameworks
- Investment eligibility
- Targets and non-compliance

Social



- Social bonds
- Risks - targets

Governance



- Difference in motivation of stakeholders
- Conservative
- Character of company
- Track-record of management

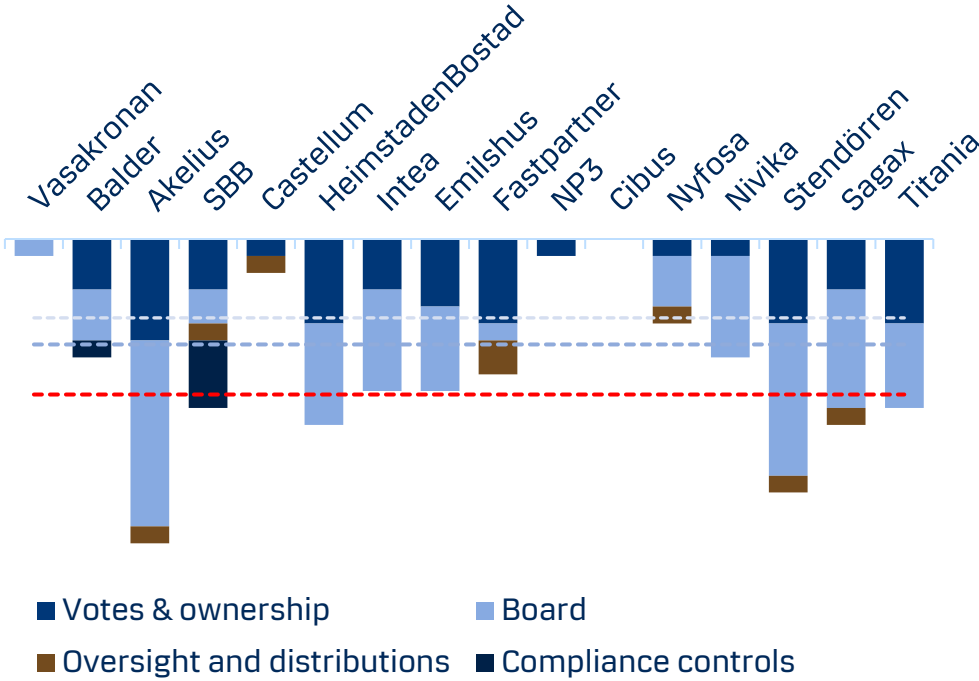


ESG - more on corporate governance

Factors and considerations

- Stakeholder considerations
- Control
- Checks and balances
- Management and board
- Policies

Example - real estate companies





Credit analysis – Part 2

Qualitative elements

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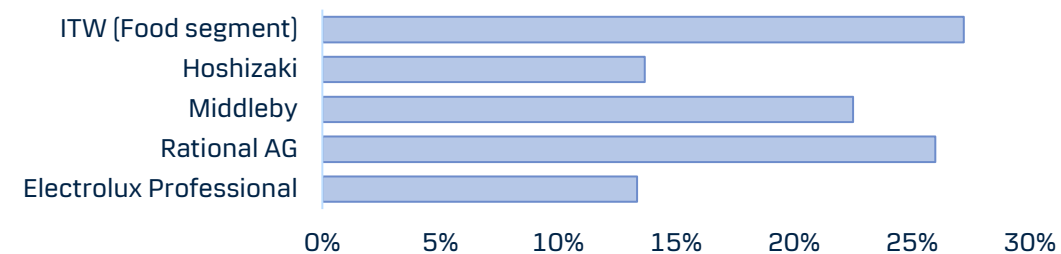
Capacity

Key points

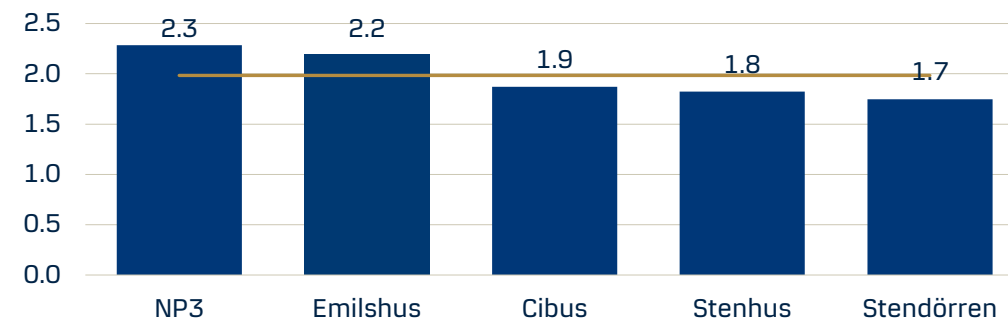
- Capacity (to maintain, repay or refinance)
- Time-horizon of bond investors
- Profitability (EBITDA - cash flow generation)
- Industry-specific measures (ex: EBIT margins, NOI and ICR)
- Earnings stability, predictability and profit margins
- Sensitivity to economic cycles

Examples

EBITDA margins relative peers



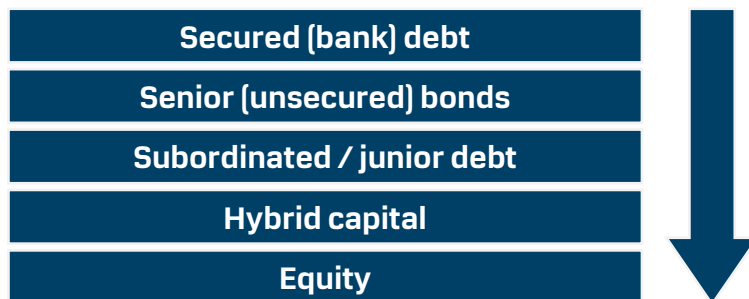
Interest coverage relative peers



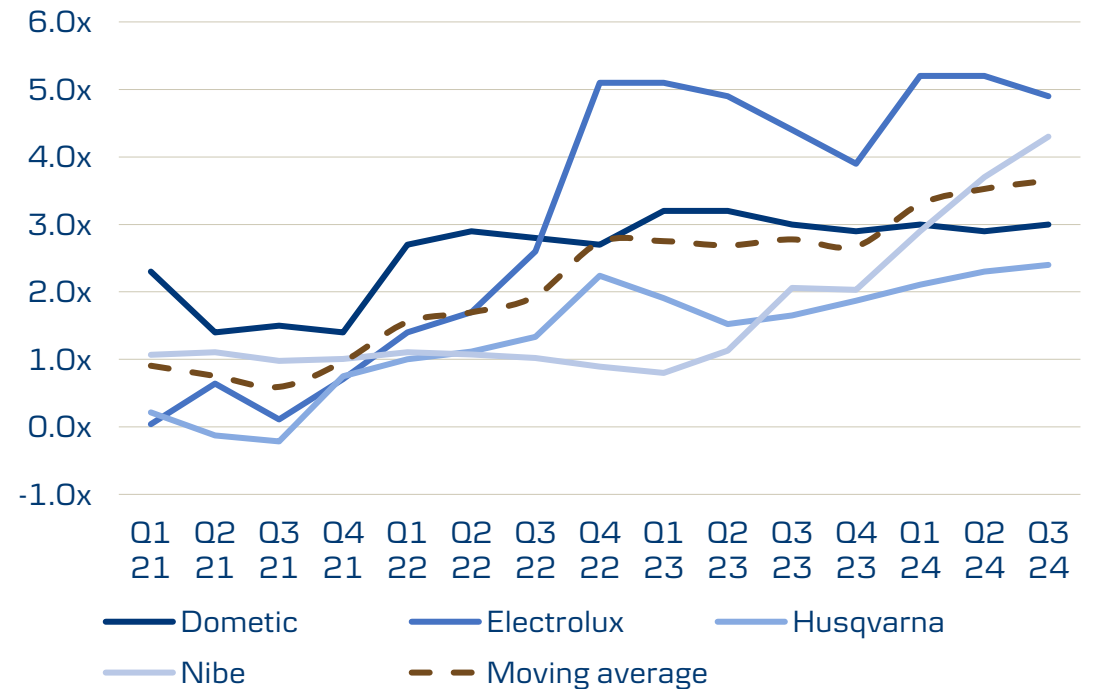
Capital

Key points

- Capital structure analysis
- Measures of leverage (LTV, net debt to EBITDA, equity ratio)
- Financial flexibility (access to capital)
- Sector-specific capital considerations



Example: leverage development, net debt to EBITDA



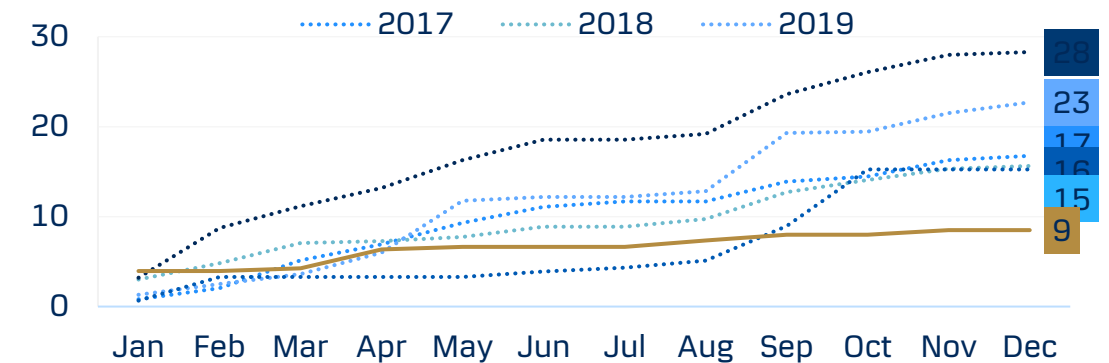
Capital – case

Lien subordination

- More bank loans - incurrence of “higher ranked” debt as such debt oftentimes is secured
- More of the same ranked debt in a subsidiary
- Implications – risk of less assets covering the original bond investor

Swedish corporate real estate market 2022-2023

- Bond market “closed” for HY RE amid low sentiment, rising inflation and interest rates
- Difficult to refinance bonds of real estate companies
- Banks provided capital - ratios of secured loans increased (refinancing risk vs. subordination also a consideration)



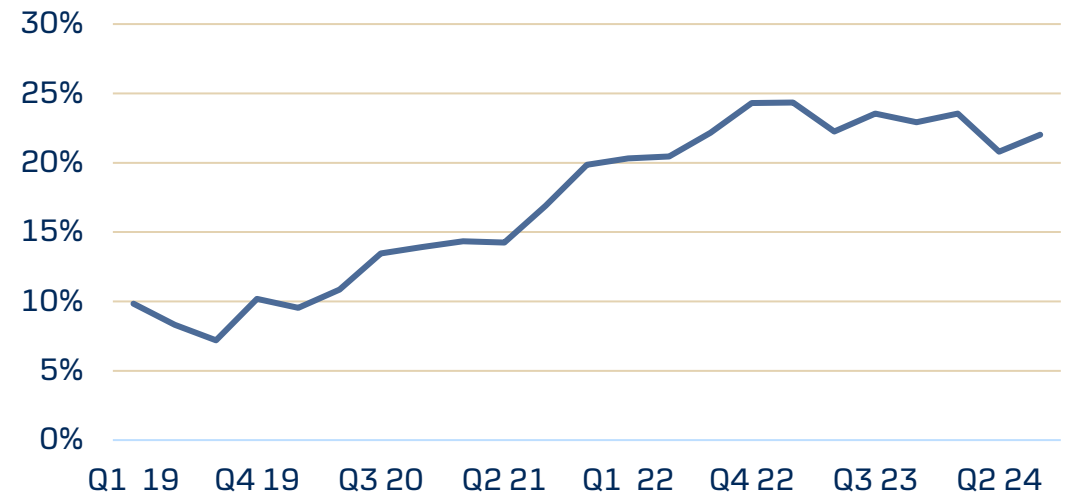
Collateral

Key points

- Collateral in secured vs. unsecured bonds
- Collateral value and quality assessment
- Importance of asset liquidity
- Asset coverage ratio (LTV, equity ratio)
- Adjustments
- Sector-specific collateral considerations

Example

NCC - equity ratio



Credit ratings

Some notes of its use in analysis

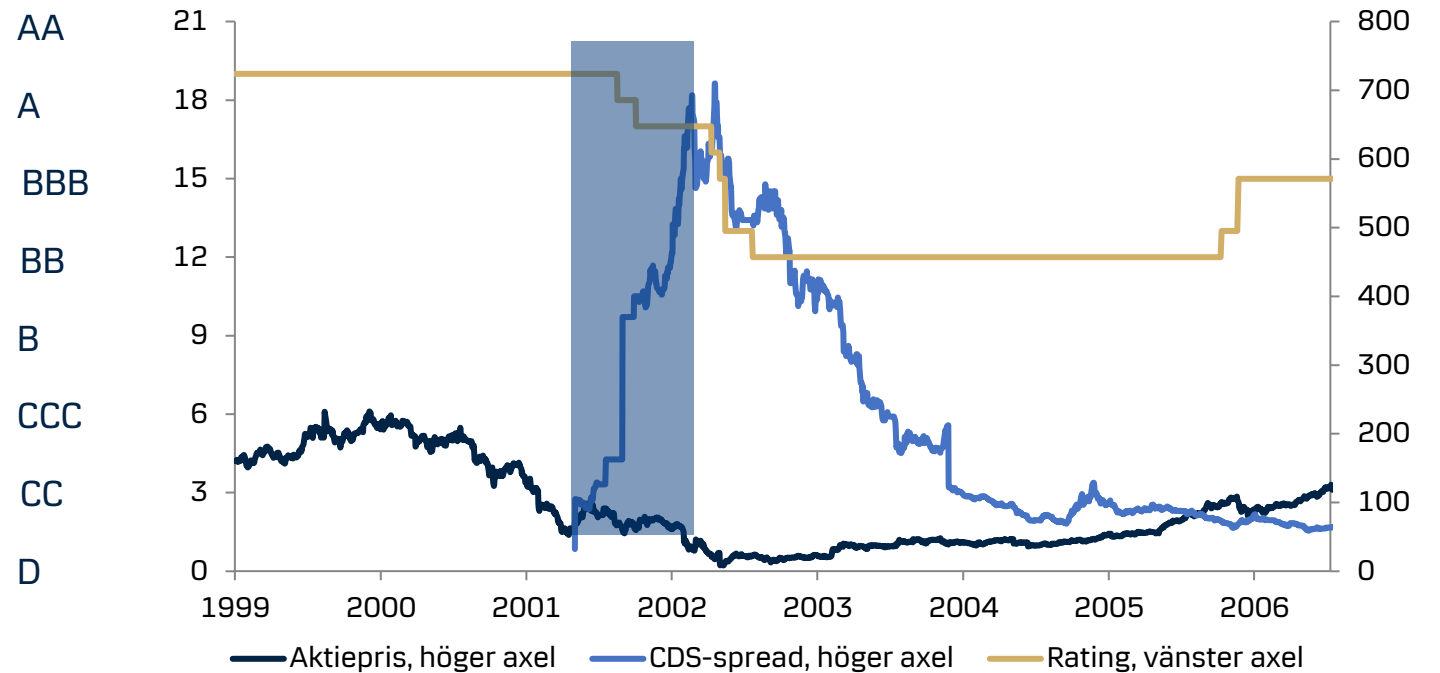
A view on credit ratings

- Independent, global broad reference
- Based on large amount of statistics

Practical considerations

- Calculating agencies' key metrics
- Reviewing agencies' estimates
- Monitoring the agencies' review cycles
- Implications - investment grade vs. high yield

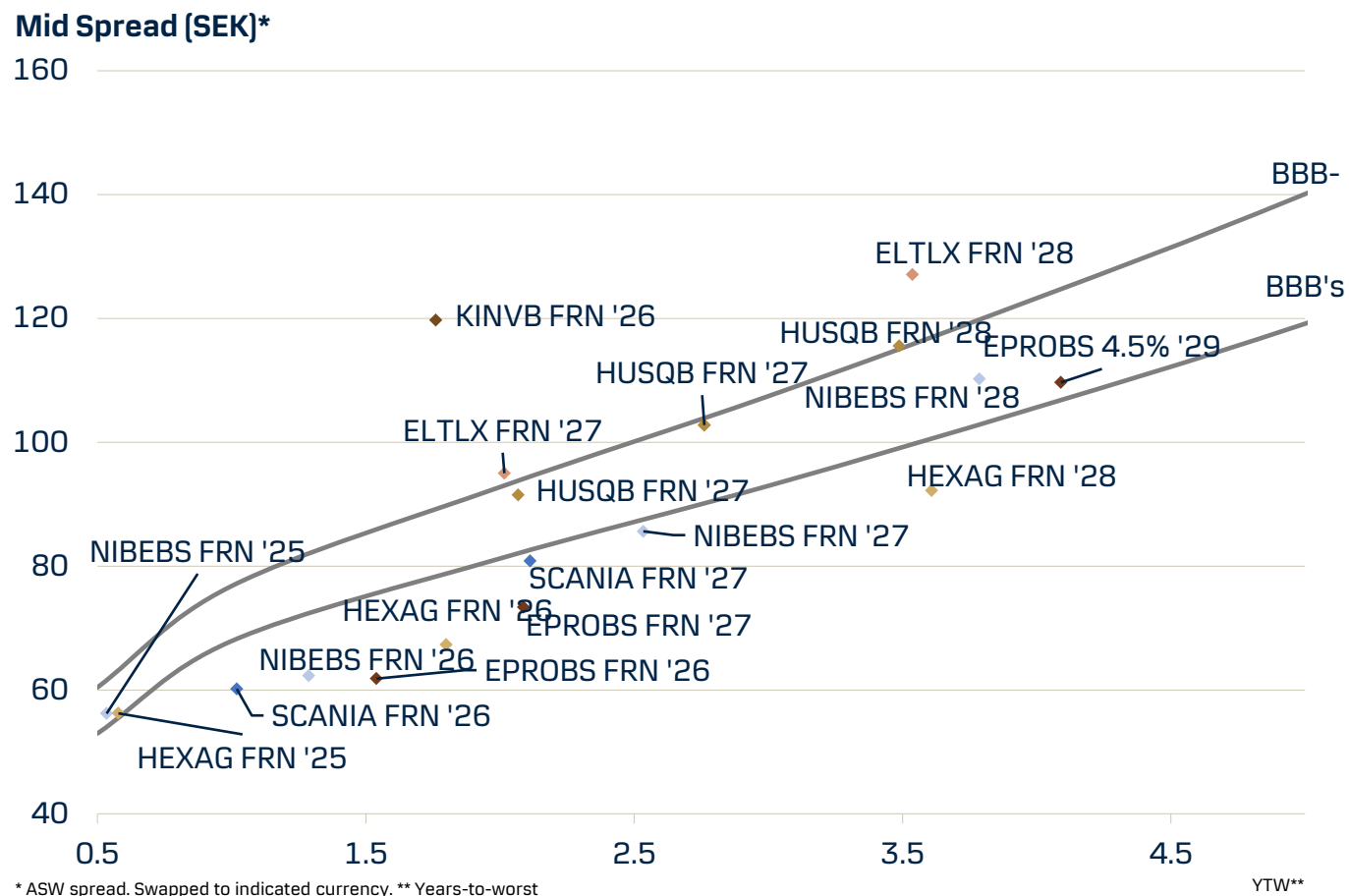
Example: ABB's CDS move preceded ratings change



Back to relative valuation

Using credit curves

- After considering fundamentals of a company and peers:
- Pricing relative peers
- Pricing relative time to maturity/call/worst
- Pricing for primary market deals (refinancing impact on companies)



Wrap-up

Summary and key takeaways

- Importance of bond terms
- Use of credit metrics
- Relative valuation of credits

Want to keep up with credit events?

- Danske Research
- Podcasts
 - Kredithændelser
 - Kreditvärden

