

CEE CORPORATE BOND MARKET

An emerging asset class in challenging times

Dr. Stefan Kolek, EEMEA Corporate Credits & Strategy

Montenegro, May 2013



OUR FOOTPRINT

Local access – global reach
Leadership positions in Italy,
Germany, Austria and CEE
Presence in over 50
countries around the globe
Local banks in 22
European countries

OUR CORE CLIENT OFFER

1. Corporate Banking and
Transaction Services
2. Structured Finance, Capital Markets
and Investment Products
3. Access to Western, Central and
Eastern Europe

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#1 Bookrunner EMEA Corporate Loans in EUR*
#1 Cash Mgmt. House in CEE, **#2** in Italy
and **#3** in Germany (*Euromoney Poll*)
#1 Trade Finance Bank in Italy, Austria and
CEE (*Global Finance Magazine*)
Best FX Provider 2013 in Austria,
Italy and Poland (*Global Finance Magazine*)

* This reflects FY 2012 league table positions by volume, source: Dealogic

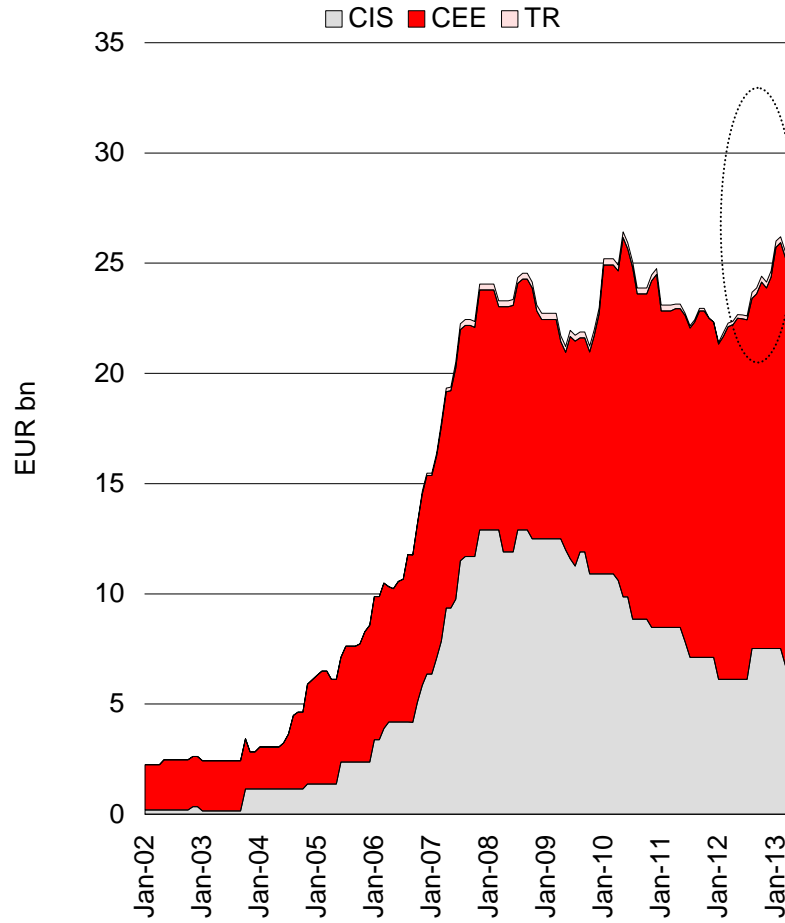
AGENDA

- PUTTING CEE CORPORATES IN A REGIONAL PERSPECTIVE
- CEE CORPORATE EUROBOND SUPPLY FORECAST
- ASSESSING THE RISK-REWARD PROFILE OF CEE CORPORATES

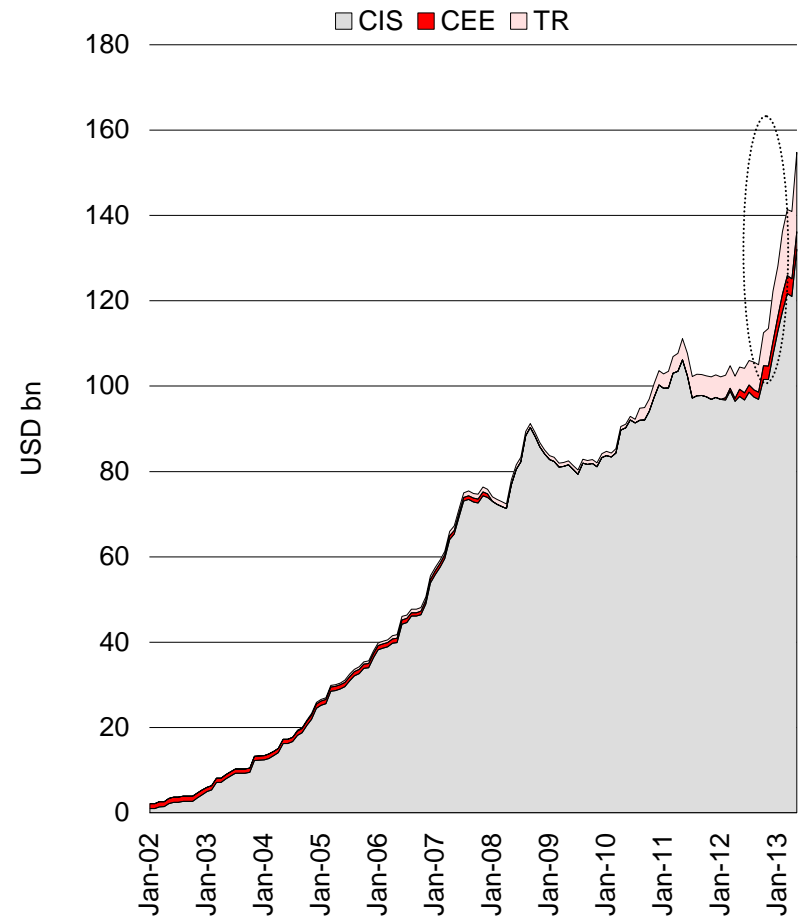
The CEE Eurobond market is growing rapidly, ...

The euro remains the issuance currency of choice for CEE corporates vs. USD for CIS and Turkish corporates.
At USD 104bn, the entire Emerging European Non-Financials market represents 64% of the iBoxx HY market

EUR-denominated Emerging European corporate bonds outstanding volumes – regional split



USD-denominated Emerging European corporate bonds outstanding volumes – regional split

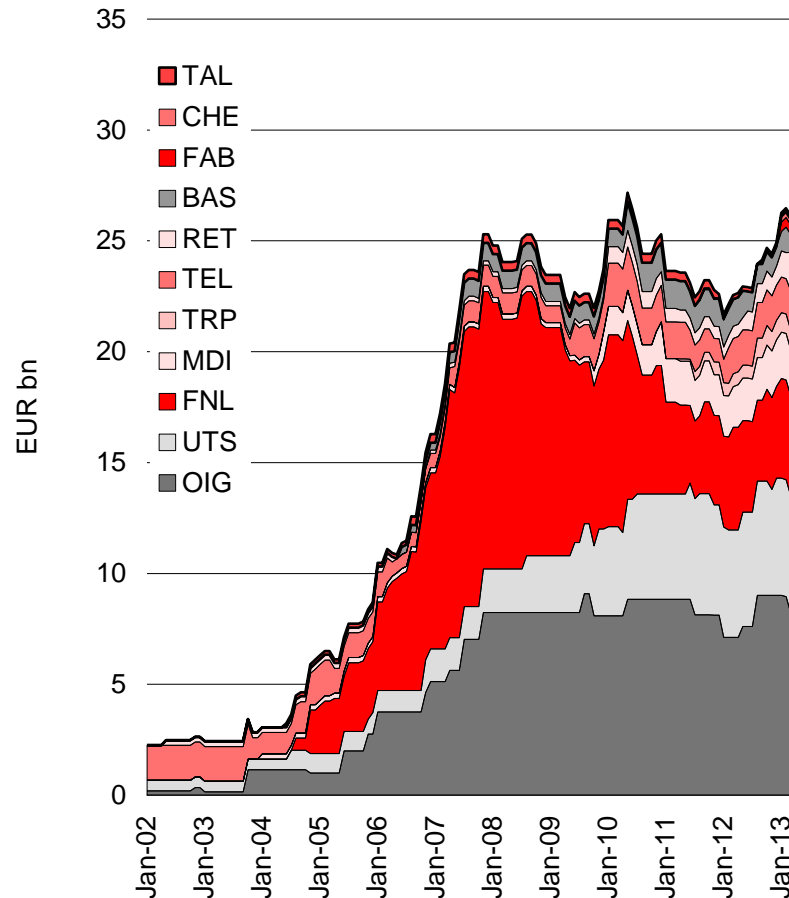


Source: Bond Radar, Bloomberg, UniCredit Research

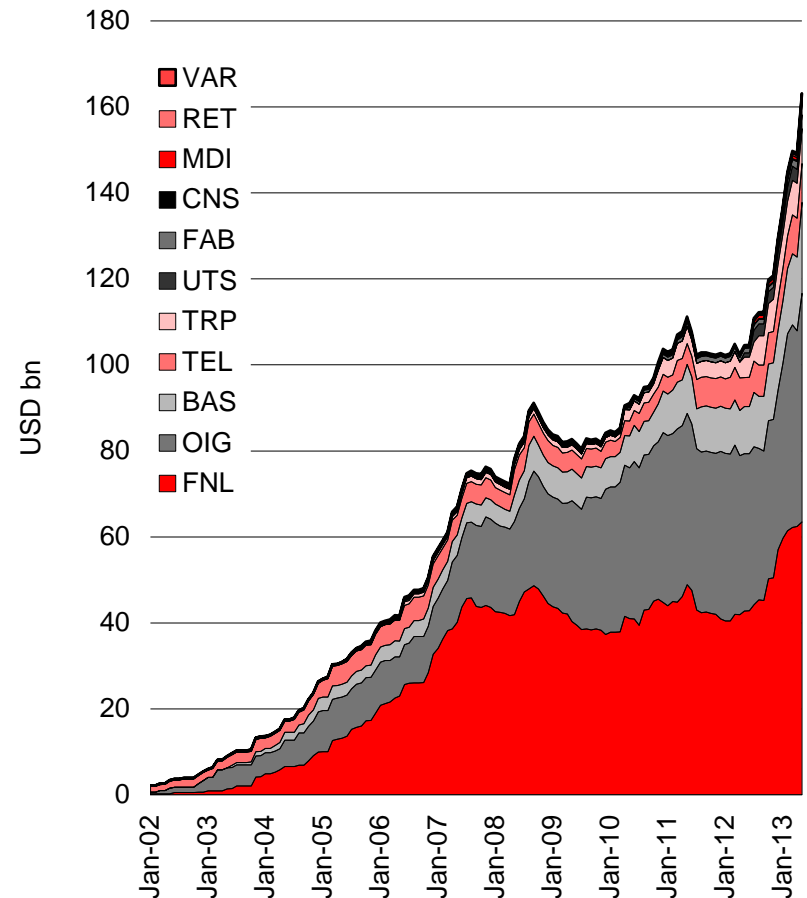
... with Oil & Gas, Financials and Utilities being the major sectors...

These sectors – as well as Transportation – need to catch up, supporting demand for long-term investment funds

EUR-denominated Emerging European corporate bonds outstanding volumes – sector split



USD-denominated Emerging European corporate bonds outstanding volumes – sector split

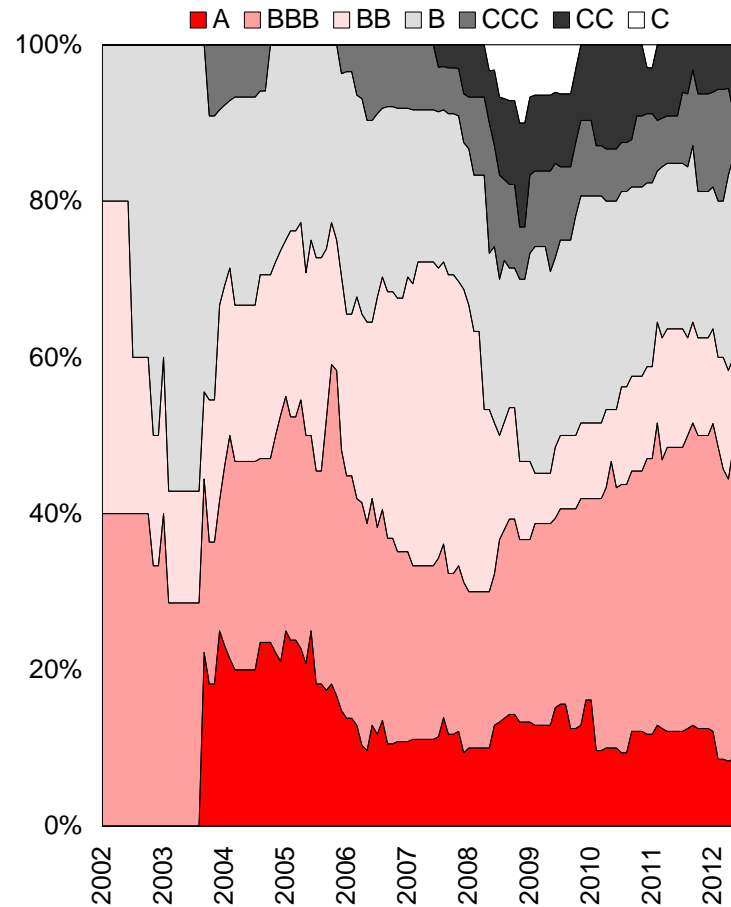


Source: Bond Radar, Bloomberg, UniCredit Research

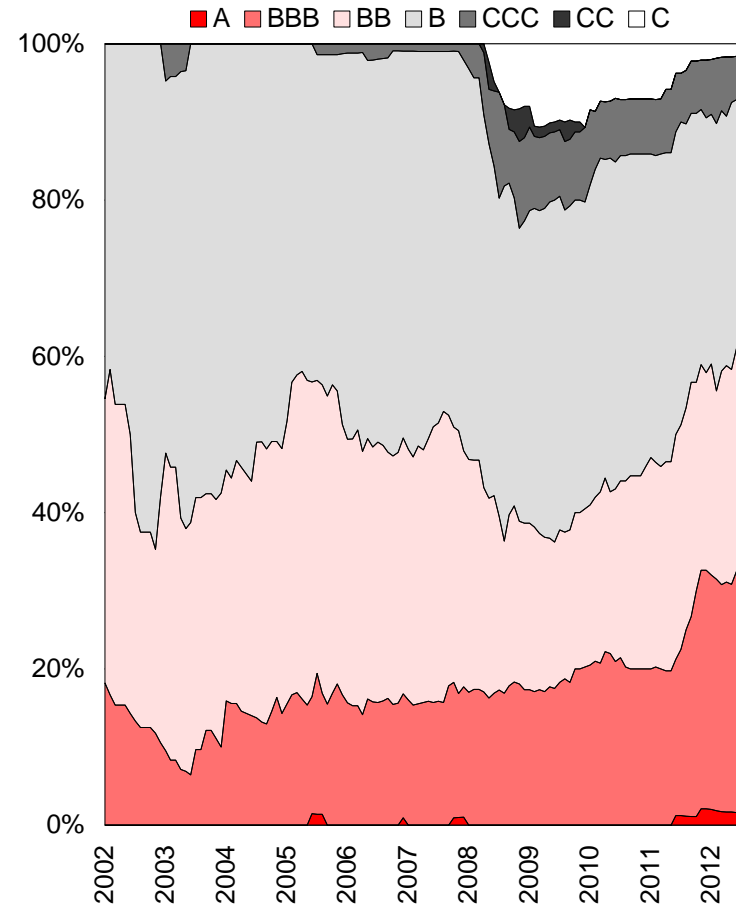
The majority of issuers of EUR-denominated bonds are IG-rated

Credit quality has steadily improved with some 50% of EUR denominated issuers being investment grade rated

EUR-denominated Emerging European corporate issuers – rating quality split



USD-denominated Emerging European corporate issuers – rating quality split

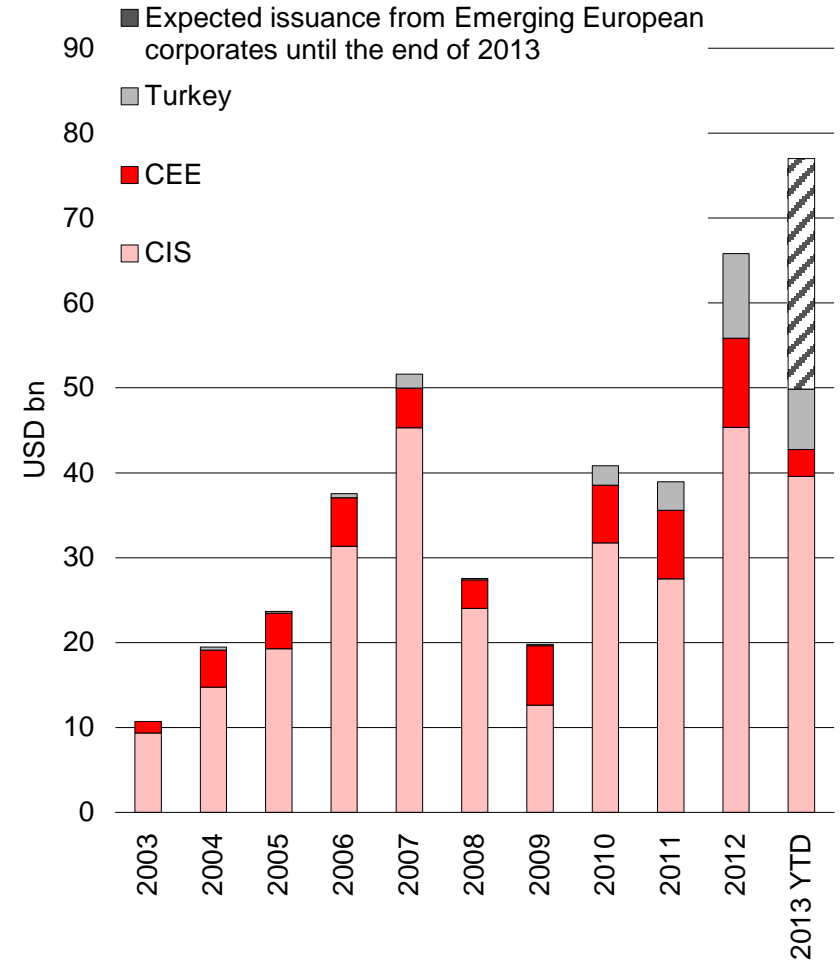
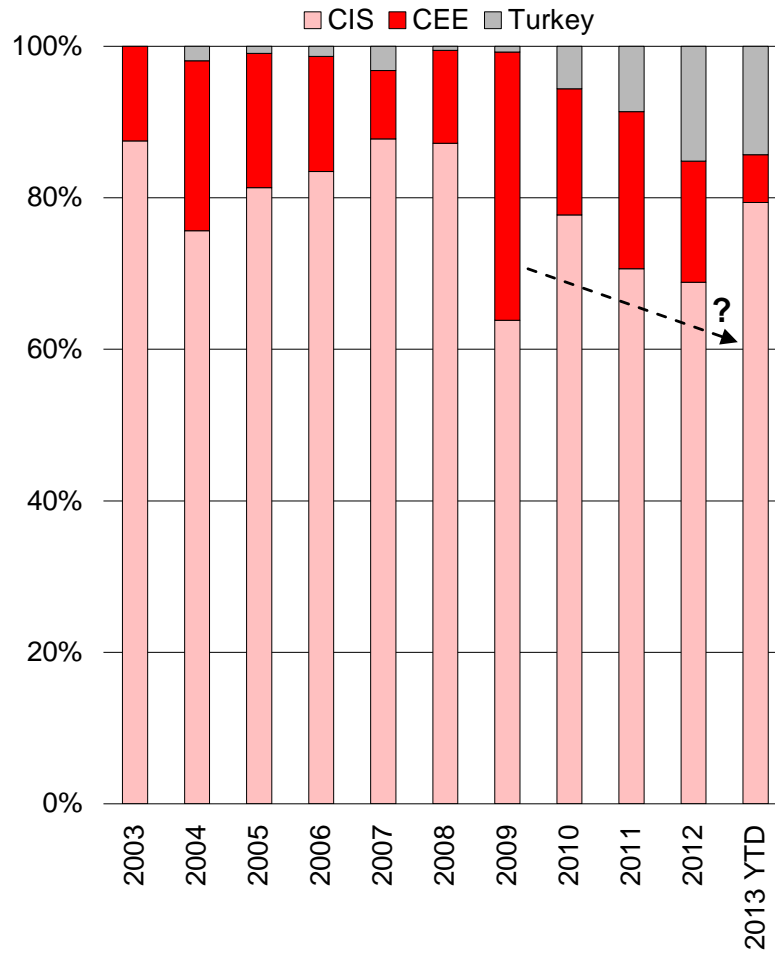


Source: Moody's, S&P, Fitch, Bloomberg, UniCredit Research

Eurobond issuance to hit a new high this year

CEE (ex-CIS) corporate issuance is lagging behind the primary activity over the past four years, but this may change

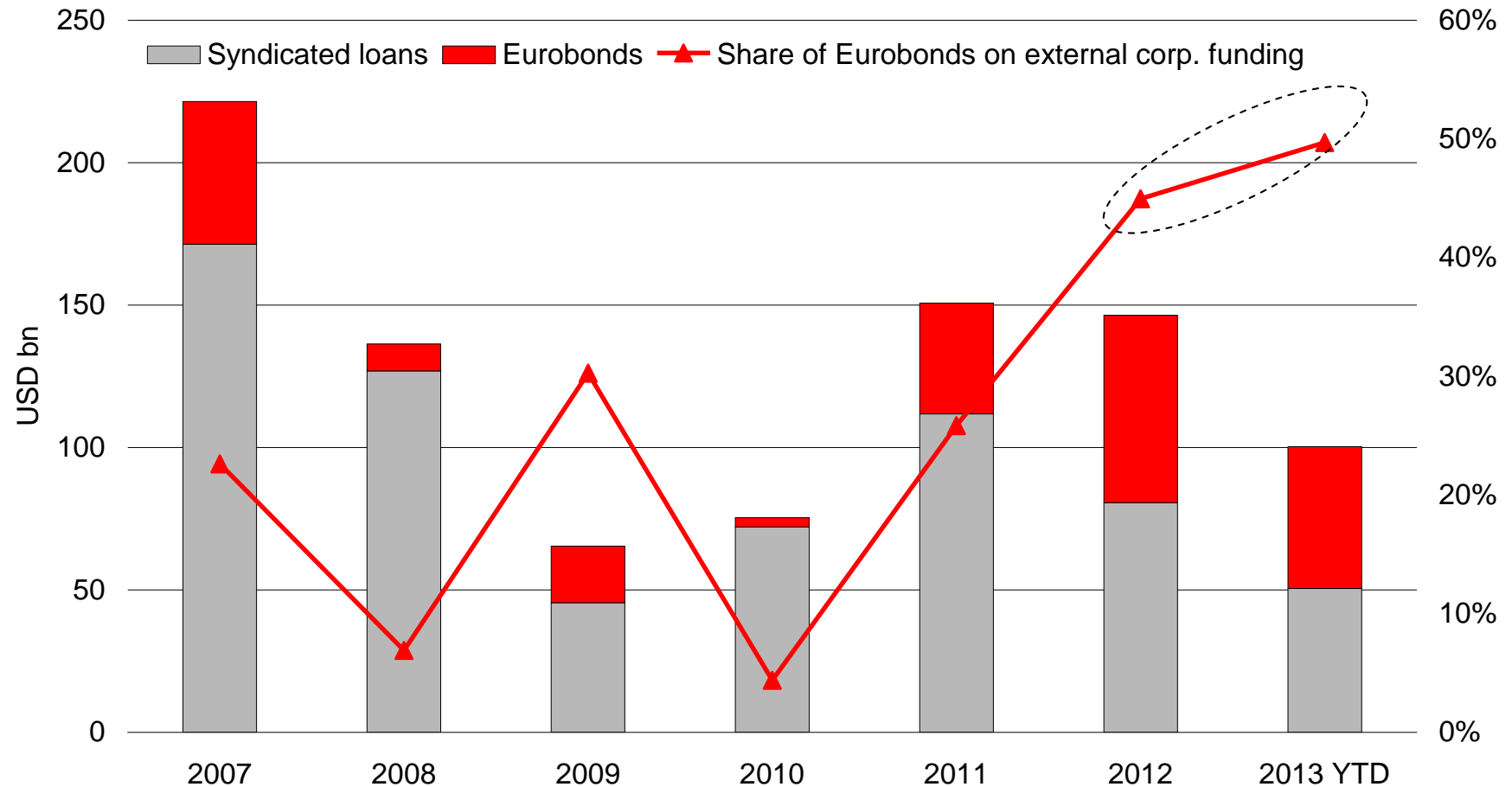
Eurobond issuance from Emerging European corporates



The CEE corporate Eurobond issuance gains momentum...

Global banks are set to reduce RWA due to the regulatory overhaul, leading to firms tapping the bond market rather than the loan market

Emerging European syndicated loans vs. Eurobond issuance*



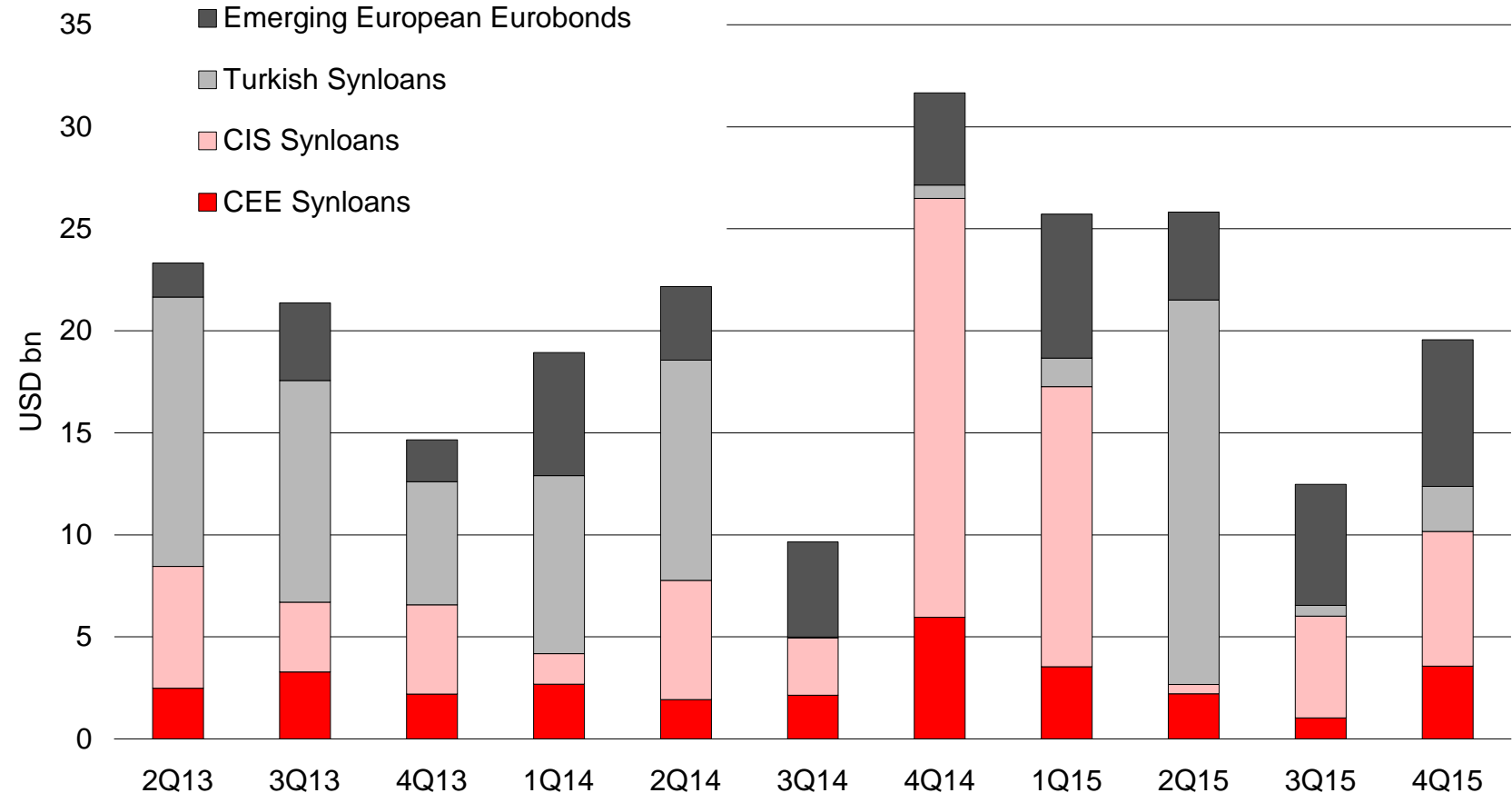
Source: Bond Radar, Dealogic, UniCredit Research

* Emerging Europe refers to the Czech Republic, Hungary, Poland, Slovakia, the Baltic states, Croatia, Bosnia-Herzegovina, Bulgaria, Romania, Serbia, Turkey, Russia, Ukraine, Kazakhstan, Georgia and Azerbaijan

... as syndicated loan refinancing needs are high

Between 2Q13 and 4Q13, USD 38.6bn in syndicated loans will be redeemed in CEE and Turkey vs. USD 11bn in CIS; in 2014, USD 25.7bn in syndicated loans will come due in CEE and Turkey vs. USD 23.9bn in CIS

Emerging European syndicated loans and Eurobond redemptions

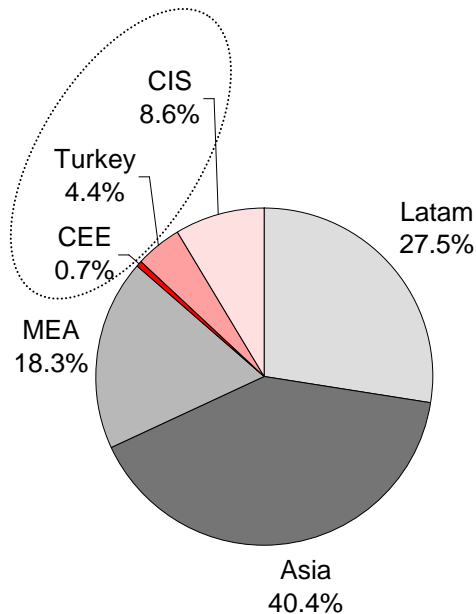


Source: Bloomberg, Dealogic, UniCredit Research

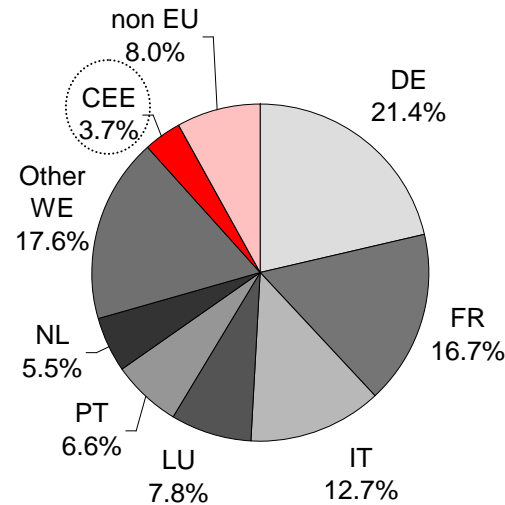
Who wants me? CEE corporates sought by EM and iBoxx investors

But CEE Eurobonds are still a niche market, both from an EM and a “pan-European” perspective

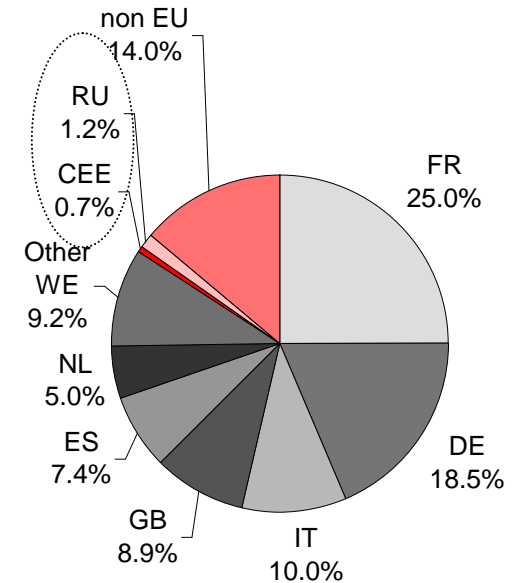
JPM CEMBI index weightings



iBoxx High Yield index weightings



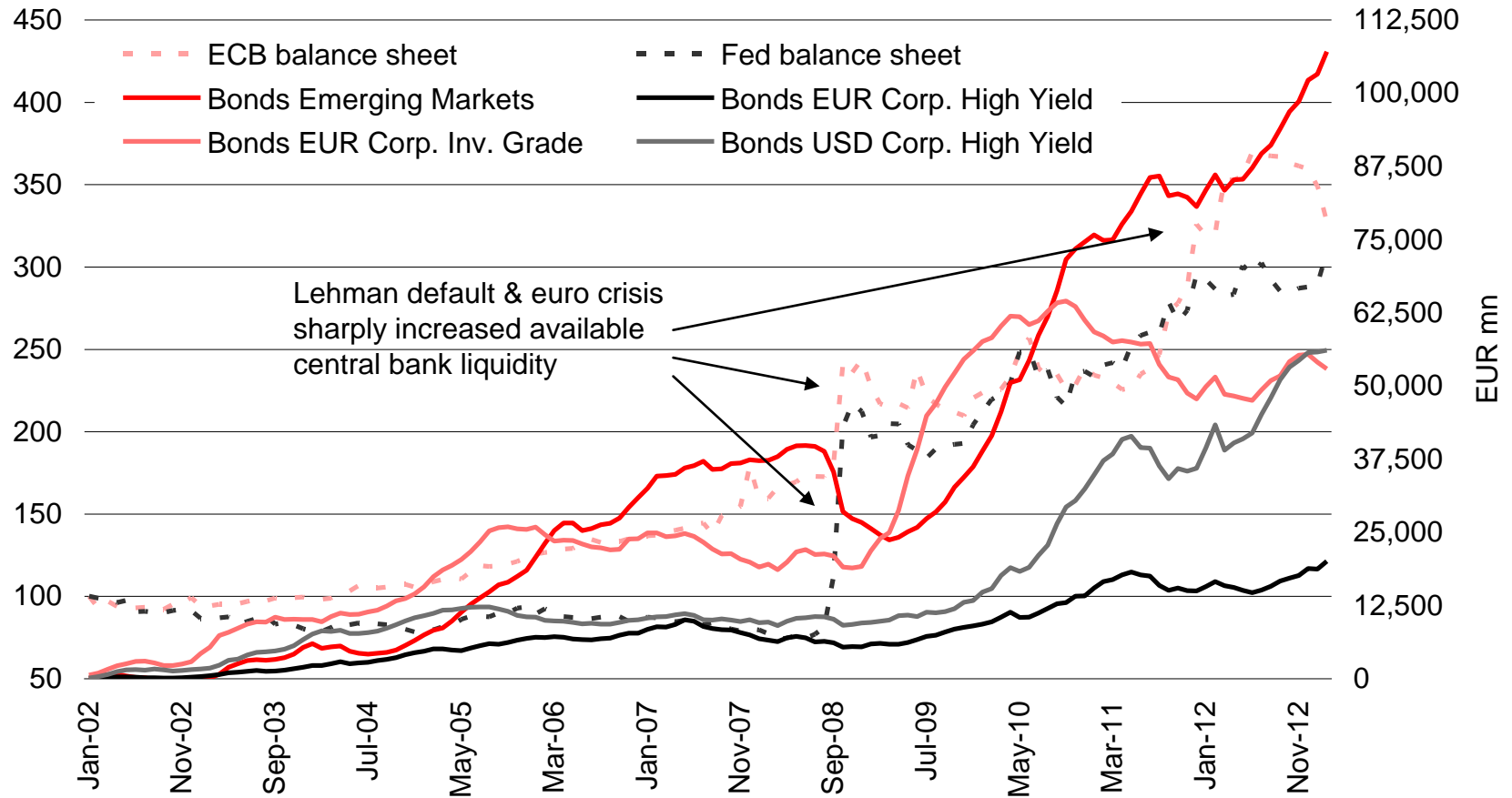
iBoxx Investment Grade index weightings



Ultra-low yields in DM and diversification needs feed EM risk appetite

EM funds were the primary beneficiary of G2 central banks' balance sheet expansion

Cumulative EM bond fund flows

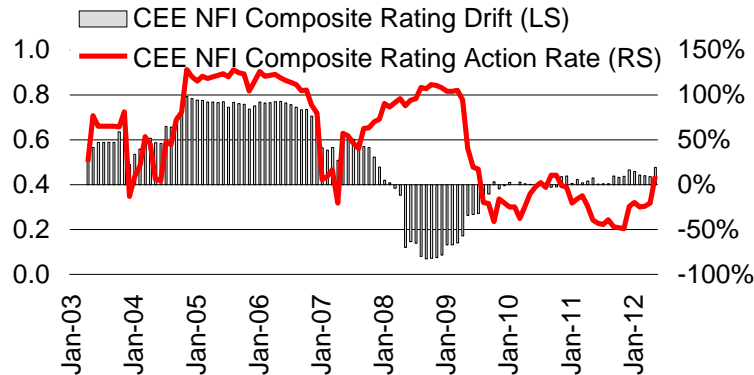


Source: Lipper, UniCredit Research

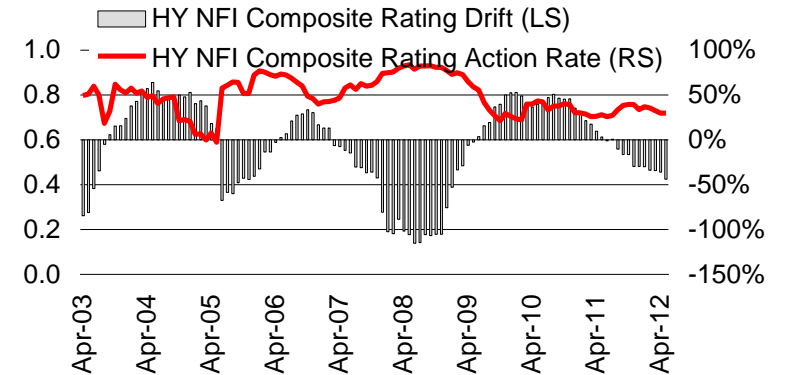
Emerging European corporates' credit rating momentum is positive

This is in contrast with the momentum in European High Yield

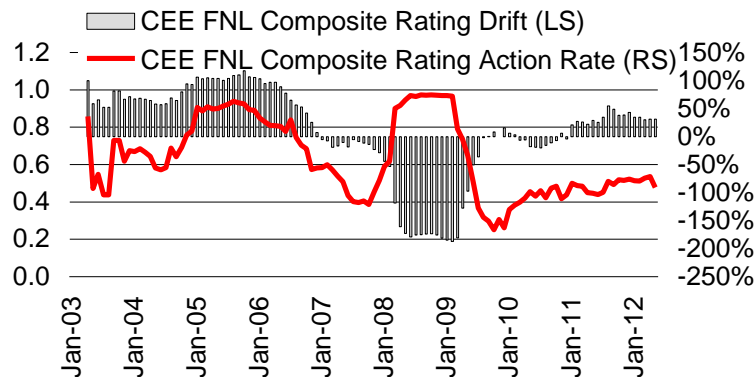
Rating drift* in Emerging European non-financials



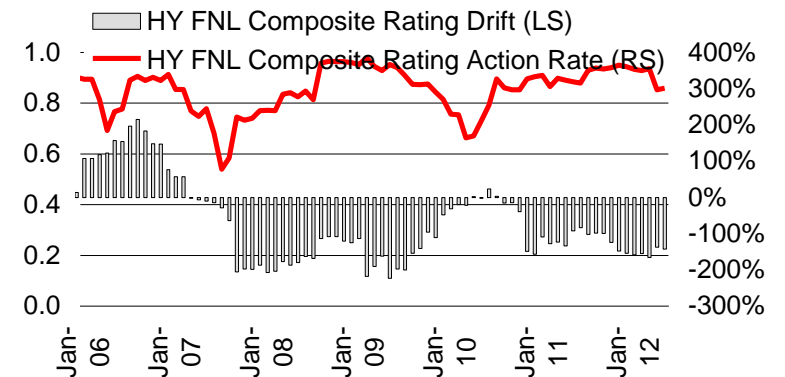
Rating drift in European high-yield non-financials



Rating drift in Emerging European financials



Rating drift in European high-yield financials

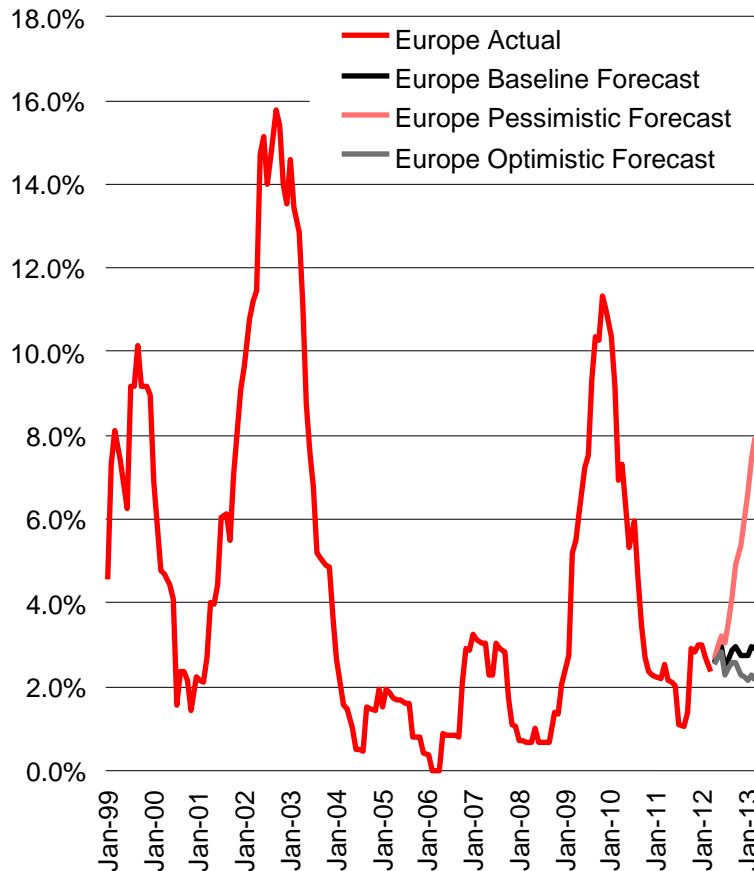


*Rating drift = (no. of upgrades - no. of downgrades)/(no. of rating actions)
Source: Bloomberg, Moody's, S&P, Fitch, UniCredit Research

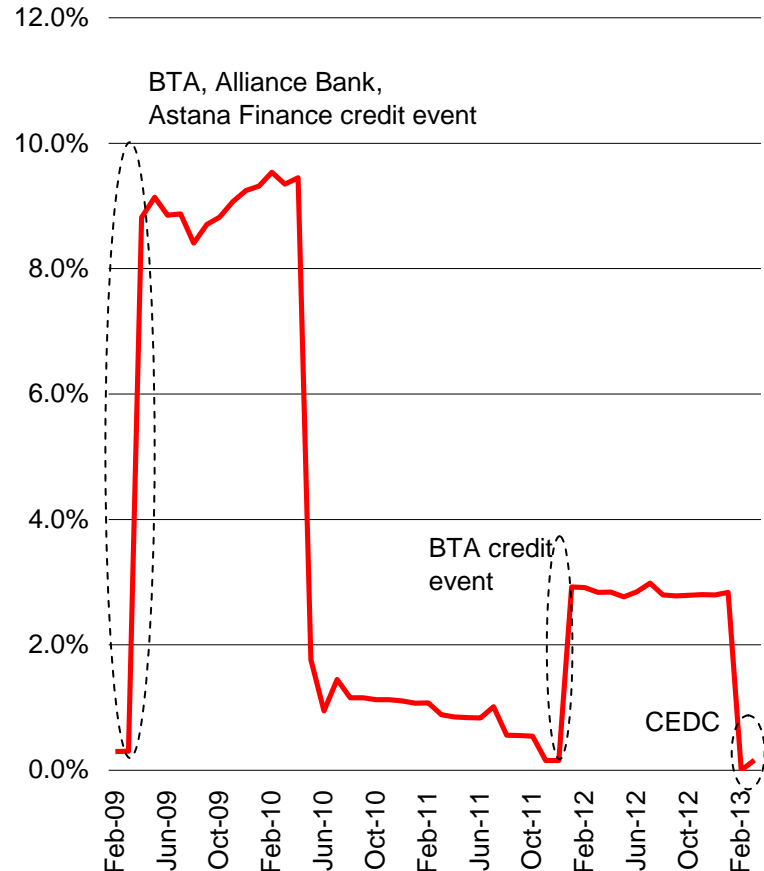
Default rates in Emerging European corporates are at all-time lows

The CEDS (USD 257.8mn) credit event is the first in more than a year in Emerging Europe

Moody's European speculative default rate



Emerging European corporate default rate

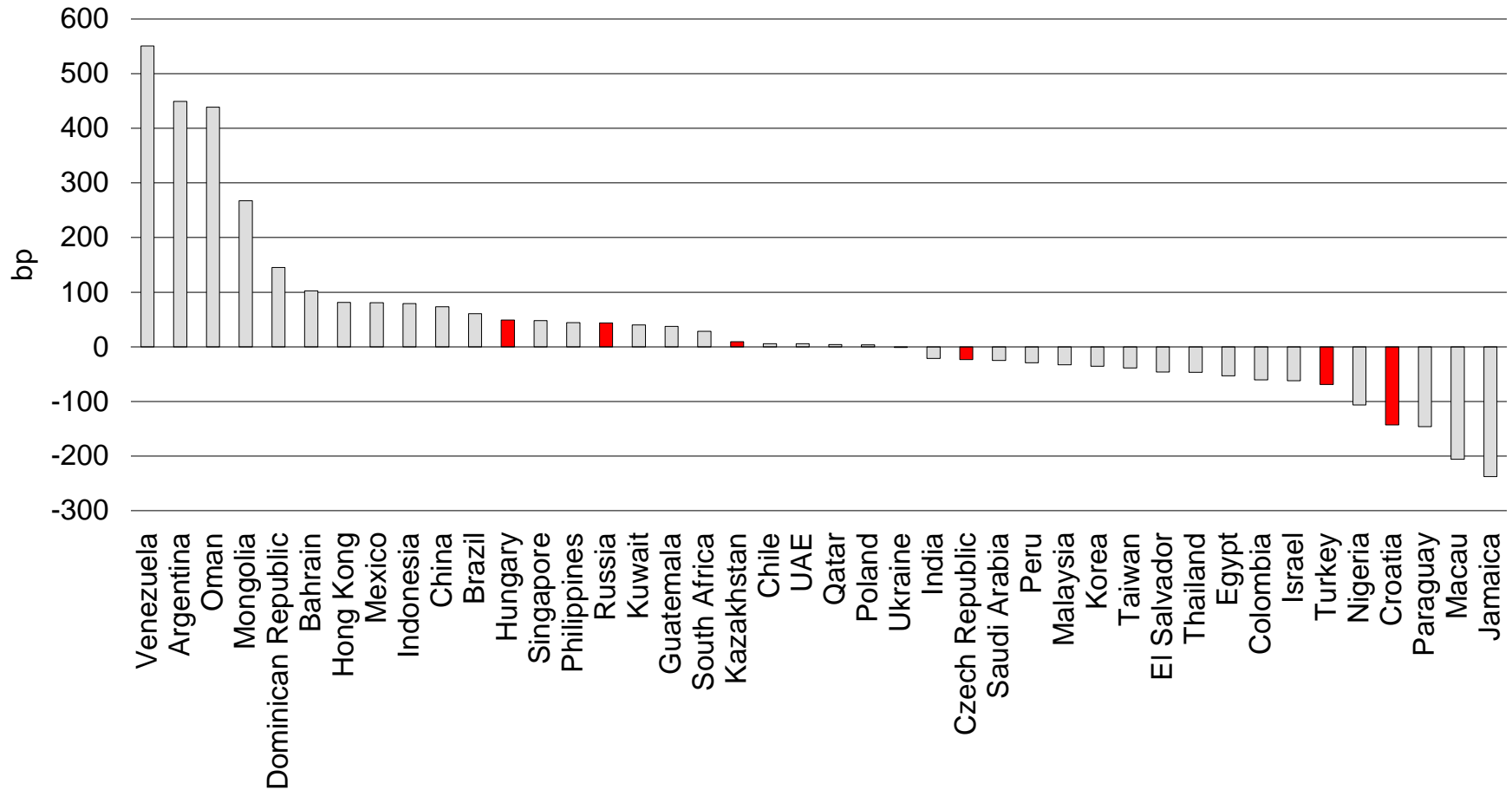


Source: Moody's, S&P, UniCredit Research

Emerging European corporates are on balance fairly valued

The Hungarian and Russian components in the JPM CEMBI index are slightly cheap vs. fair value, while the Croatian and the Turkish components are slightly rich

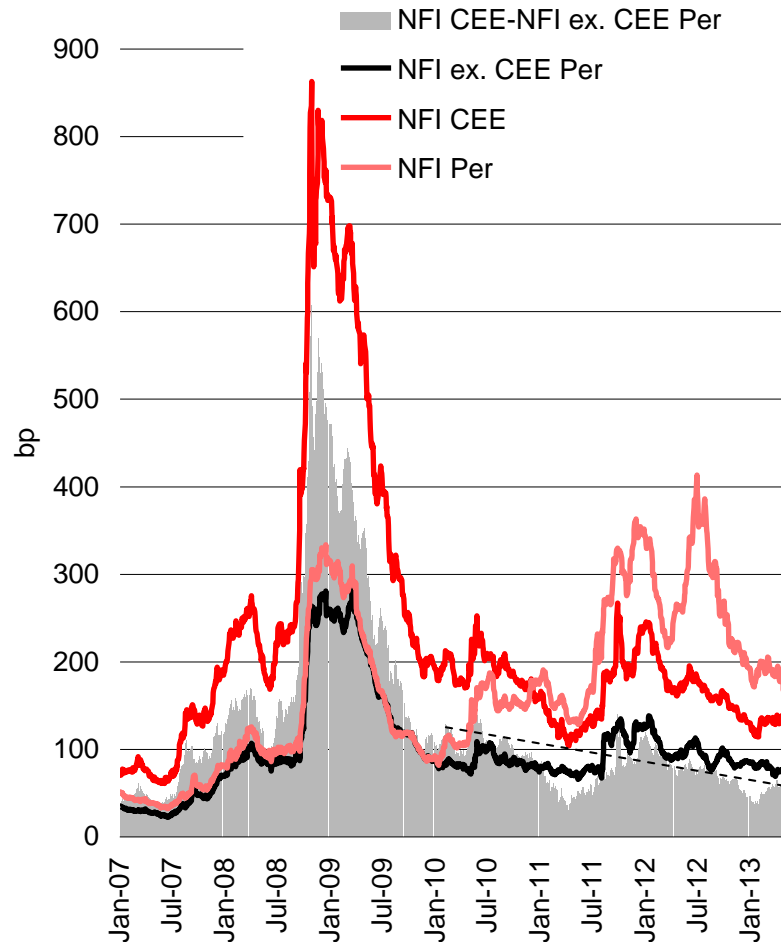
JPM CEMBI index country constituents deviation from fair value



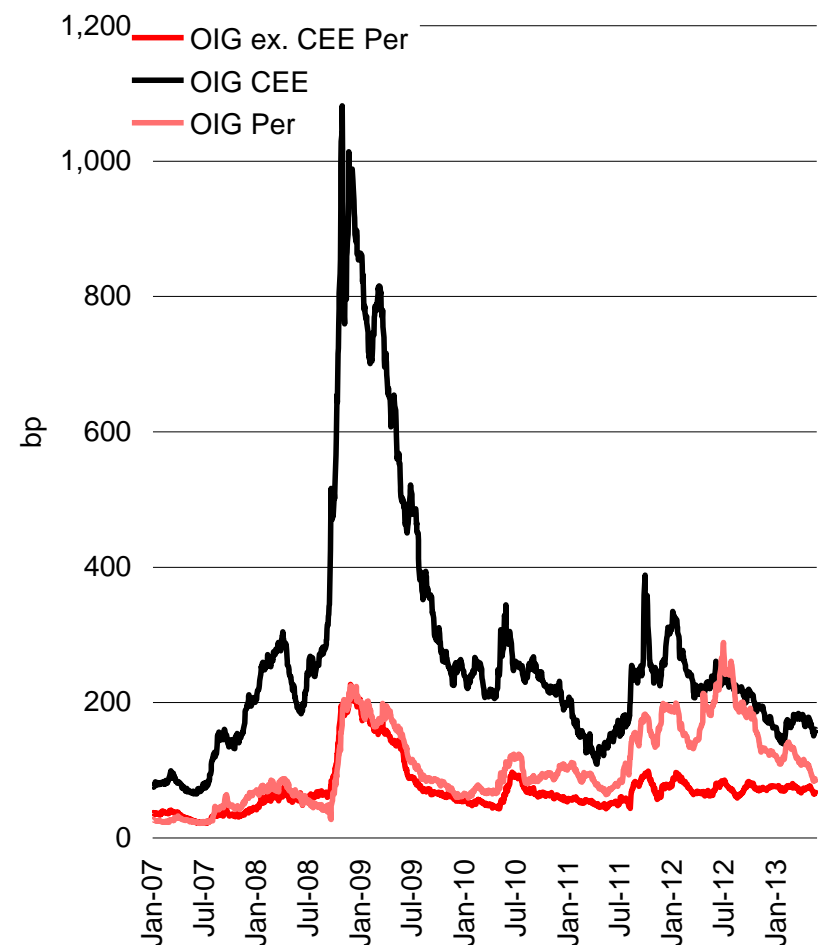
Source: Moody's, S&P, UniCredit Research

CEE iBoxx components are lagging behind the credit rally in core and periphery names

iBoxx Non-Financials – CEE vs. periphery and others



iBoxx Oil & Gas – CEE vs. periphery and others



Source: Moody's, S&P, UniCredit Research

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