

Italian Corporates: risk profiles, ESG performances and investment potential for crossover credit

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24th November 2022



Cerved Rating Agency methodology and research

Bottom-up analysis taking into account 18K+ regulatory ratings, fully representative of the Italian economy

Credit and ESG risk profile evaluation

18.000+
Corporate ratings

1 million+
Data points

Source: Cerved Rating Agency

Probability of default (PD)



Balance sheet data



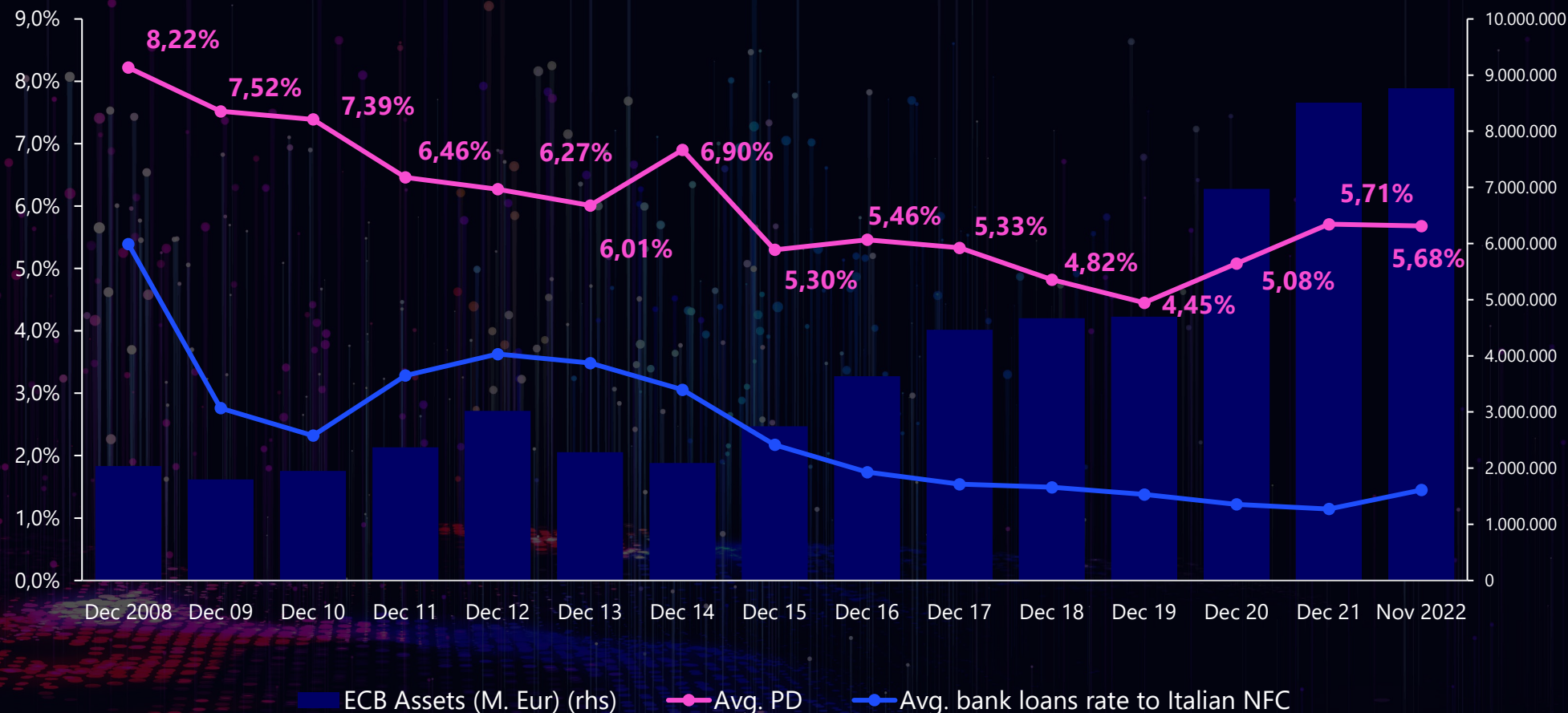
Financial, real time,
proprietary and public data
and corporate interviews



Forward-looking
qualitative analysis on
financial and business risk

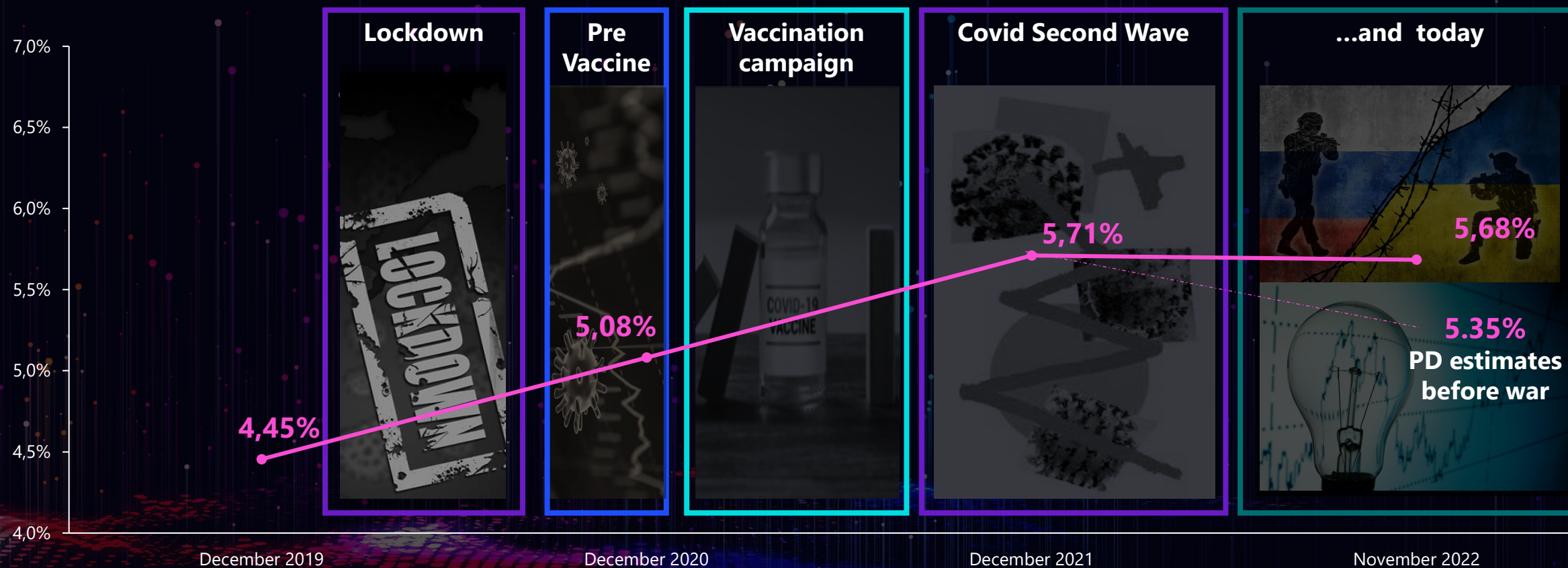
ECB monetary policy had an impact on corporate credit ratings and particularly on cost of debt

Since the great financial crisis (GFC), the ECB accommodative monetary policy contributed remarkably to cap the credit risk levels of EU corporates



Focus on the last three years and evolution of PDs

Different phases with high levels of uncertainty, from pandemic to the new normal



Macroeconomic and geo-political uncertainties increase credit risk

PD could rise up to 7.97% in the case of deep economic recession, worsening energy crisis and persistently high inflation in 2023. This value would represent the highest level of risk since GFC

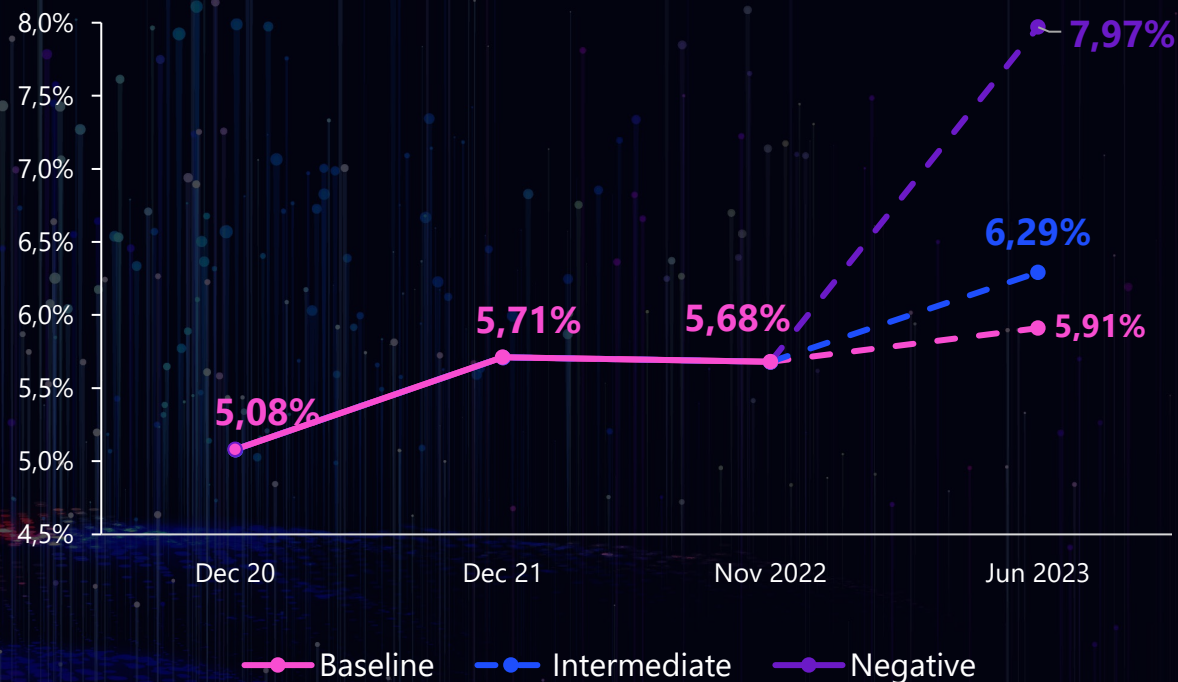
BASELINE SCENARIO

- Economic slowdown
- Gradual improvement of the geo-political scenario
- Consumption weakened by high inflation
- Commodity prices broadly at high levels across the forecast horizon
- No complete interruption of gas supplies from Russia
- Strong labor market and full implementation of the Recovery and Resilience Facility Plan to support growth

PORTFOLIO

18.000+

rated companies, analysed through a bottom-up approach and high level of **differentiation** of perceived risk by sector and size



Increasing levels of riskiness in the last years

Pandemic and worsening geo-political context contributed to deterioration of credit risk profile

In the last years, the share of investment grade companies has decreased, due to the rise of risk perception in the rated portfolio.

Sustainability trends will have higher and higher impact on credit assessments of Italian non financial corporates



ESG risks approach: a comprehensive analysis framework

Methodological approach



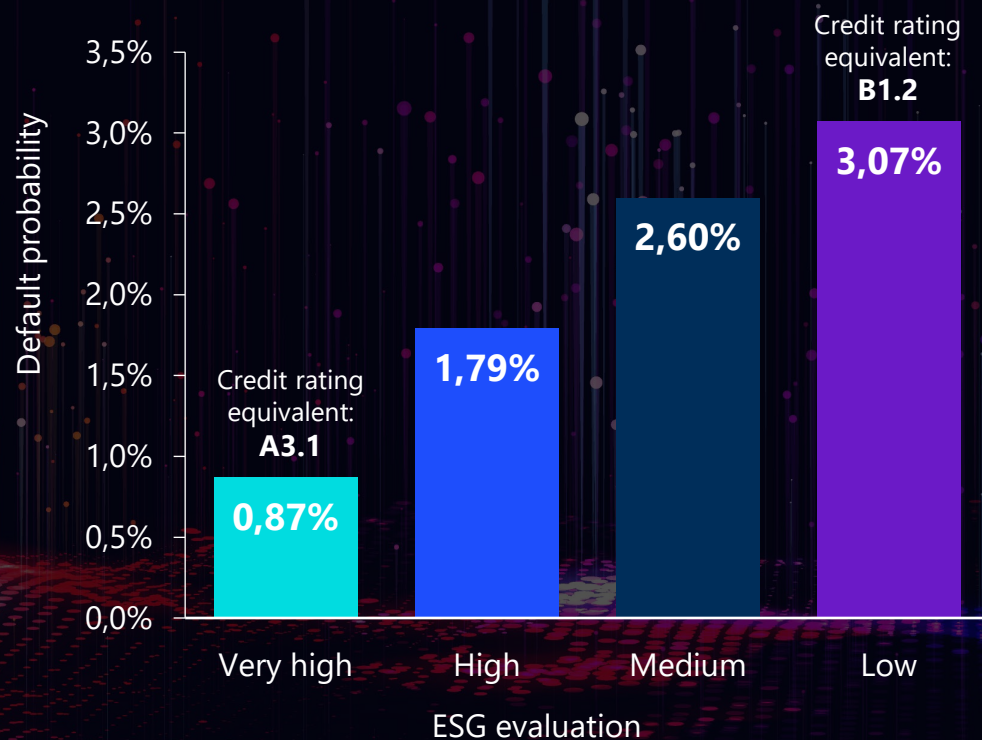
ESG General Issues analysed



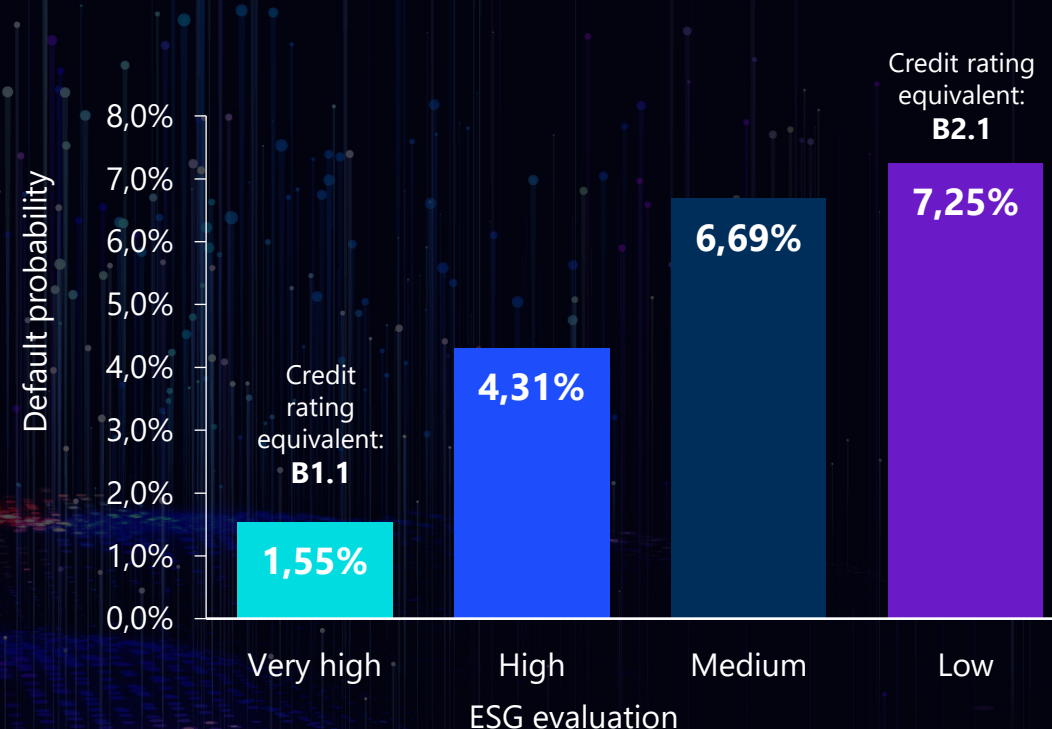
The sustainability-credit risk correlation trends are confirmed for both Large and SMEs Italian corporates

Evidences from over 3 million datapoints show that better ESG performances are linked to lower PD

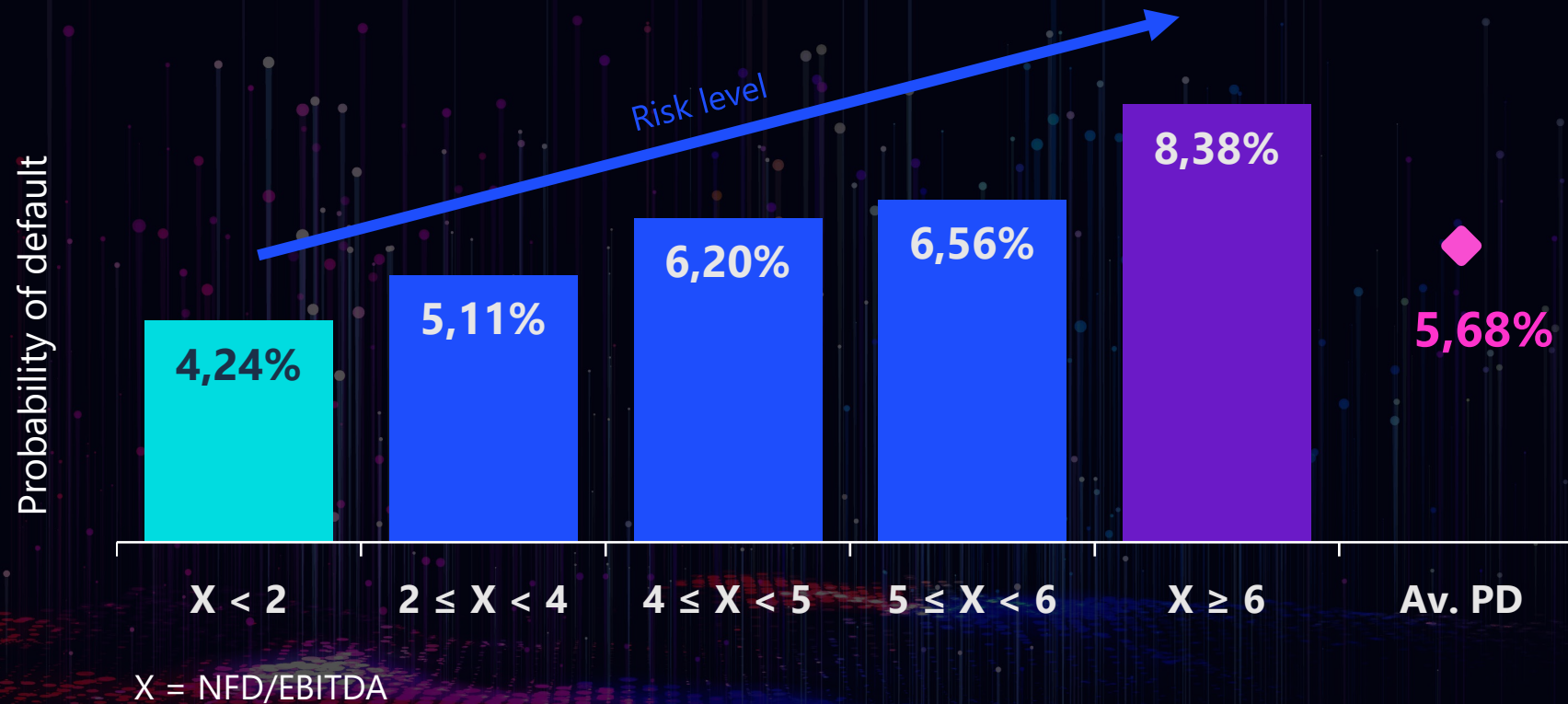
Average PD by ESG rating range ITALIAN MID & LARGE COMPANIES with ESG rating



Average PD by ESG rating range ITALIAN SMEs COMPANIES with ESG score

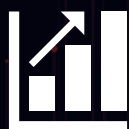


Stating the obvious: the higher the financial leverage, the higher the PD...



...but “surprisingly” some leveraged firms could still be IG...

Target IG



EBITDA margin

Consistently higher than **3%**
over the **last 3 years**

$$4 \leq \text{NFD} / \text{EBITDA} \leq 5$$

Criteria



28 B€+
total revenues



~53 K
total employees

Portfolio
figures



PD 1.81%

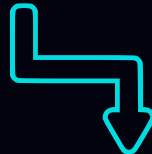
Risk level

...and the potential new market for Crossover Debt is almost 8 b€

Target IG



Target S-IG



300+ firms

in the rated portfolio

would be able to preserve an **investment grade rating** or **downgraded one notch below** the investment grade rating

7.81 € billions

Issuable potential

18.9 € billions

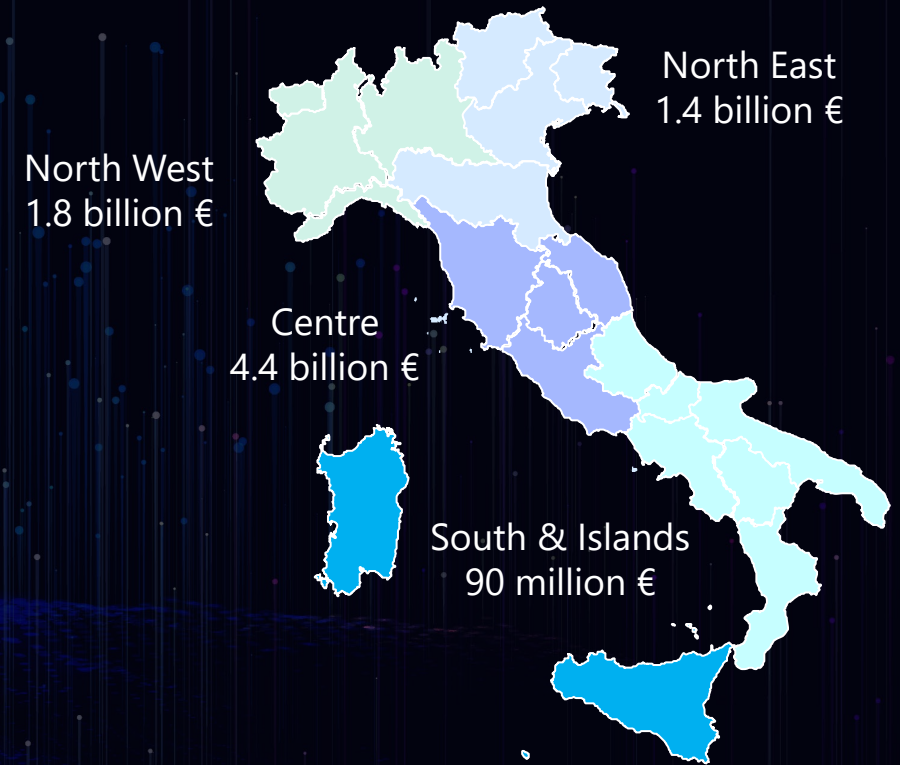
Outstanding CAPEX

Details on potential: 7.81€ billions debt issuable by IG and Crossover firms

Potential by sector (€ millions)



Potential by geographical area



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