



Debt Alert

Credit and Capital
Markets Overview

4th Quarter 2022

General comment for the Polish corporate debt market as of Q4 2022



**Ewa
Mochocka**
Associate Partner

*Capital & Debt Advisory,
Poland*

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Decline in GDP growth, historically high energy prices and inflation marked the fourth quarter of 2022 in Poland.

Government implemented inflation shields and capped energy costs, easing the problem for some but making it more difficult for others.

However we may be on the eve of the reversal of those trends, albeit we should not expect return to the low interest rate environment we all enjoyed until late 2021 (3M WIBOR in September 2021 was 0.21%).

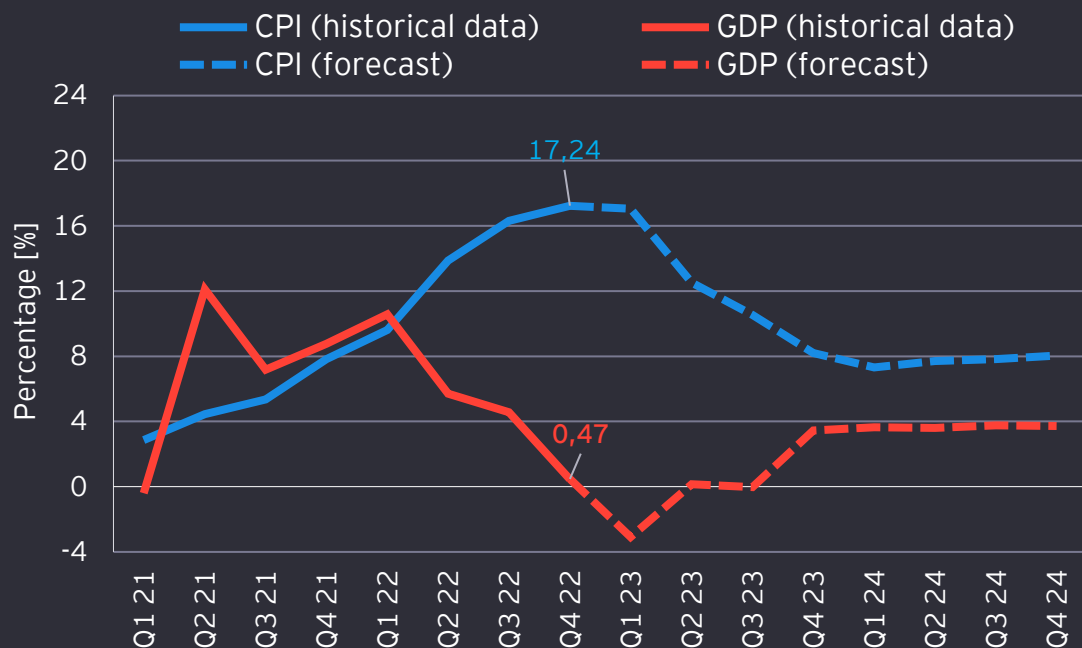
Most corporates are facing the mix of the following challenges:

- ▶ High cost of energy
- ▶ High cost of financing
- ▶ Increase in other costs due to increasing inflation
- ▶ Reduced demand for products and increase in stock
- ▶ Further problems in the supply chain, including due to the war in Ukraine
- ▶ ESG-related transformation needs
- ▶ Increase in wages costs

Macroeconomic outlook

Q4 2022 was marked primarily by a further increase of inflation and a sharp GDP growth slowdown

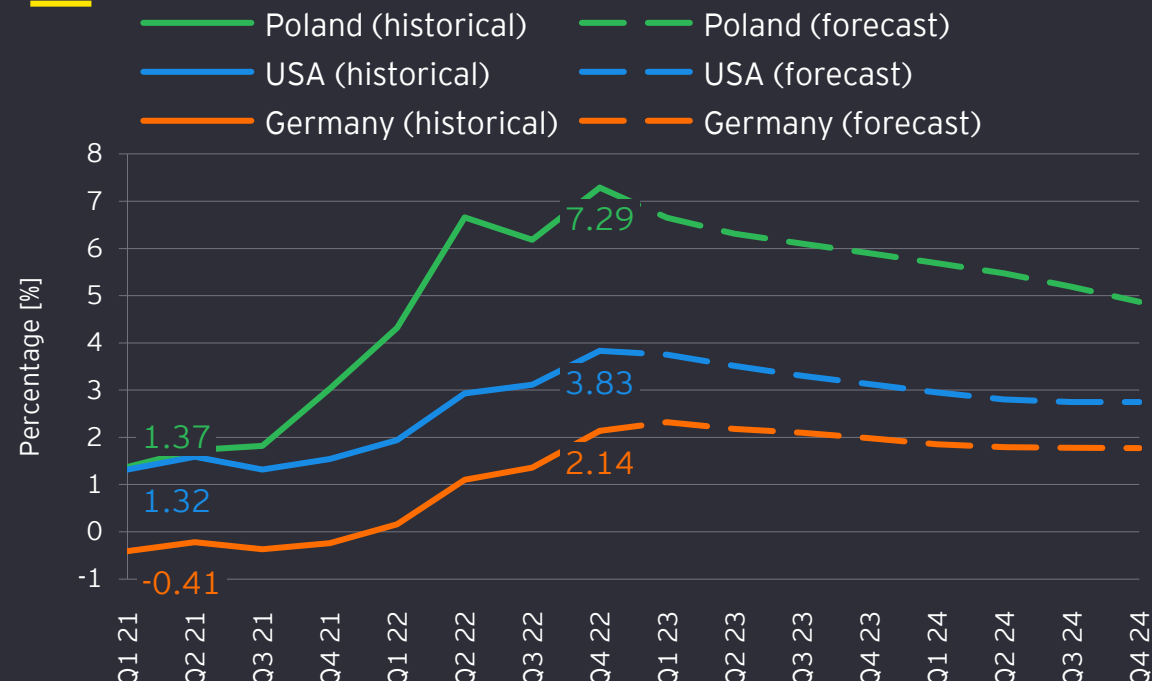
Inflation and GDP growth for Poland



Source: EY EAT forecast

- ▶ Inflation is likely to have peaked in February 2023 and should be falling quite rapidly throughout the rest of 2023, reaching single digits by the end of the year. Nevertheless, it is likely to remain well above the central bank target also in 2024.
- ▶ Quarterly GDP growth stalled after the outbreak of the war in Ukraine, leading to a sharp slowdown in annual growth rates. Annual growth will reach a trough in 2023 Q1 and is expected to rebound throughout the rest of the year.

10-Year Polish, German and US Government Bond Yields



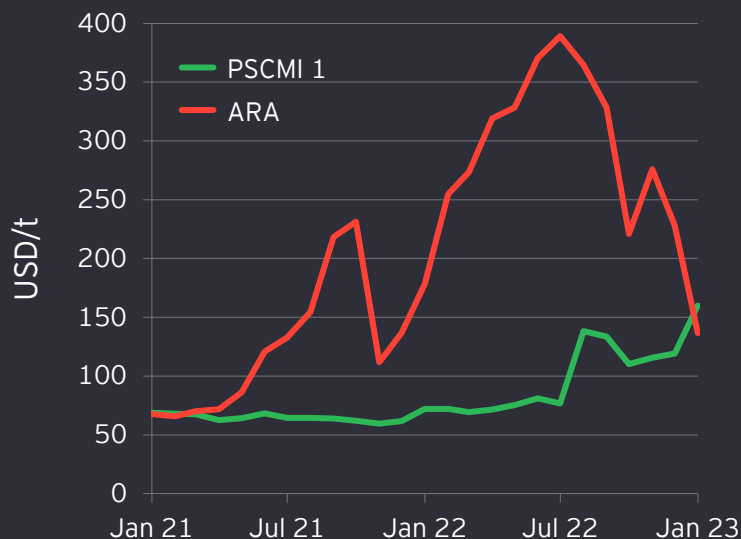
Source: Oxford Economics

- ▶ After a temporary sharp increase to almost 9% in October, Polish 10-year bond yields returned to the 5.5-7.0% range in the following months.
- ▶ NBP ended the tightening cycle already in September 2022 after interest rates reached 6.75%.
- ▶ Bond yields are expected to remain above 5% until the end of 2024 on the back of fears of persistent inflation, even though NBP is expected to cut rates in 2024.

Energy Commodities

Despite falling, energy prices continue to be the main factor driving inflation

Polish PSCMI 1* and European ARA - Energy Coal Market Indexes



Sources: polskirynekwegla.pl, investing.com, stooq.pl (for FX rates)

*Index 1 for sale to commercial and industrial power plants (spot prices)

Dutch TTF Natural Gas Futures



Source: investing.com

Crude Oil Brent - Europe (spot prices)



Source: Energy Information Administration, FRED

- ▶ Prices of energy sources started falling in Q4 2022, and have reached pre war in Ukraine (Feb. 2022) levels already, with exception of Polish coal prices index. However, compared to early 2021 they are still at high levels with the compound annual growth rate ranging from 24% (crude oil) to 70% (gas).
- ▶ Despite falling, energy prices continue to be the main factor affecting inflation as their increased costs already caused higher prices of most goods and services.

Energy prices in Poland

As fuel prices decrease, CO2 emission allowance costs have increasing effect in determining energy price

- ▶ In recent months, the price of CO2 emission allowances has stabilized. However, as the prices of energy sources are decreasing, its weight in determining energy prices are becoming significantly important.
- ▶ The price peak on the Day-Ahead Market was seen in first half of Q3 2022 - reaching prices of around PLN 1380 per MWh. Additionally, even higher prices were observed in forward contracts with delivery in 2024 (TGBASE_Y-24). However, in Q4 2022, the prices of both indices fell.

Energy Price Caps

In order to mitigate the effects of high energy prices, i.a. the following regulations have been introduced by the Polish State:

1. Limitation of the price for **households** at 414 PLN/MWh (at 2022 average levels¹) or 693 PLN/MWh in case of exceeding the energy consumption limit² and **for SMEs** at 785 PLN/MWh. The difference (loss) incurred by energy sales companies between the price approved by the Energy Regulatory Office and the maximum set price is paid as a compensation from the fund managed by Zarządca Rozliczeń S.A.
2. Mandatory write-offs **for electricity producers** to the fund managed by Zarządca Rozliczeń S.A., based on power price caps for particular technologies for all generation units with installed capacity above 1 MW or total capacity if owned by the same entity above 3 MW
3. Mandatory write-offs **for energy trading companies**, to the fund managed by Zarządca Rozliczeń S.A., in respect of the difference between the actual sales price (actual price) and purchase costs including regulated margin³ (price cap)

1) Average energy price for households in Poland in 2022 indicated by Energy Regulatory Office.

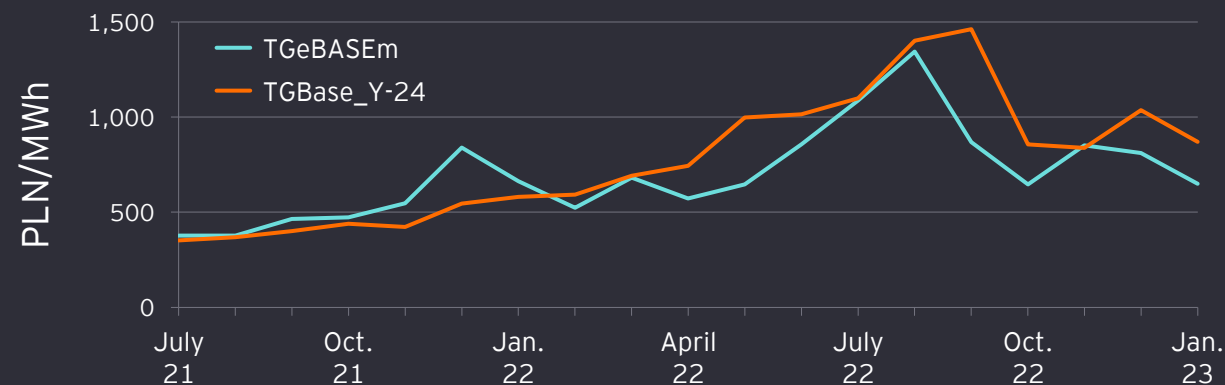
2) standard household limit 2 MWh per year, for households with disabled people 2.6 MWh per year and for families with 3 or more children as well as farmers - 3MWh per year.

3) set at the level between 1% to 3,5% depending on whether electricity is sourced through Power Exchange or bilateral contracts and whether power is sold to wholesale or final customers.

Clearing price of CO2 emission allowances (RC^{CO2})



Historical and forward Energy prices indices⁴ in Poland (zł/MWh)



4) TGeBASEm - is calculated as a simple arithmetic average of volume-weighted average hourly prices, taking into account only transactions for hourly Day-Ahead Market instruments.

TGBase_Y-24 - takes into account daily settlement price (PLN/MWh)

Polish Credit Market Overview

Volume of outstanding corporate debt continues to decrease for the 4th consecutive quarter

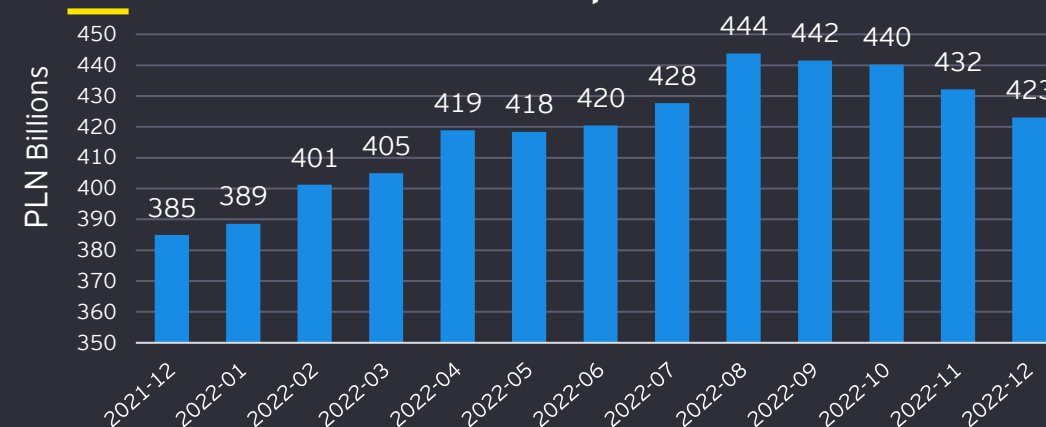
- ▶ Decrease in corporate gross debt value (total outstanding loans to corporates) is caused among others by tightening of banks credit policies which are likely to continue in the 1st quarter of 2023.
- ▶ Growth of the debt market in 2022 was driven to large extent by green transformation, technology and energy-related transactions. Renewables and infrastructure related projects remained the most often reported transactions in 2022.

Selected reported Corporate Loan Deals signed in Q4 2022:

Borrower	Deal value (m)	Signing date	Use of Proceeds
DCT Gdańsk	863.5 EUR	31.10.2022	Financing the expansion of the container port in Gdańsk conducted by consortium of banks including EBRD, PKO BP, Citibank and others
Gulermak	1 013.4 PLN	29.12.2022	Financing of the fourth stage of construction of a 4.5 km tram line as part of the project implemented in the PPP model Krakowski Fast Tram in Krakow. Financing provided by a consortium of banks: EBRD, Pekao S.A., and EIB
Gaz-System	1 000 PLN	31.10.2022	Credit to finance the construction of a new cross-border gas pipeline conducted by consortium of banks including EIB, BGK, Alior Bank, PFR, Millennium Bank, BNP Paribas and others
Q-Energy	100 EUR	06.10.2022	Financing provided by PKO BP for the construction of the Milkowice Solar Park and associated infrastructure in Legnica
Lewandpol Łańcut	120 PLN	14.10.2022	Łańcut Wind Farm (68MW) Facility provided by consortium of banks: Bank Ochrony Środowiska, PKO BP, Pekao S.A.

Source: IJ Global

Gross* debt value - corporates in Poland



* Gross value is a carrying amount as at the date of a statement, without deducting impairments, write-offs, or any specific allowances

Source: nbp.pl „dane_sektora_bankowego”

Bond Market in Poland (1/2)

Decreasing yields reflect expectation of lower interest rates

- ▶ In past decades, as interest rates were increasing, we witnessed higher yields on the outstanding bonds.
- ▶ Similarly coupons for bonds based on a floating rate followed the growth of WIBOR.
- ▶ We are currently seeing change of this trend with decreasing yields following the WIBOR decrease outlook and expected disinflation.

Overview of selected corporate bonds issued in 2022:

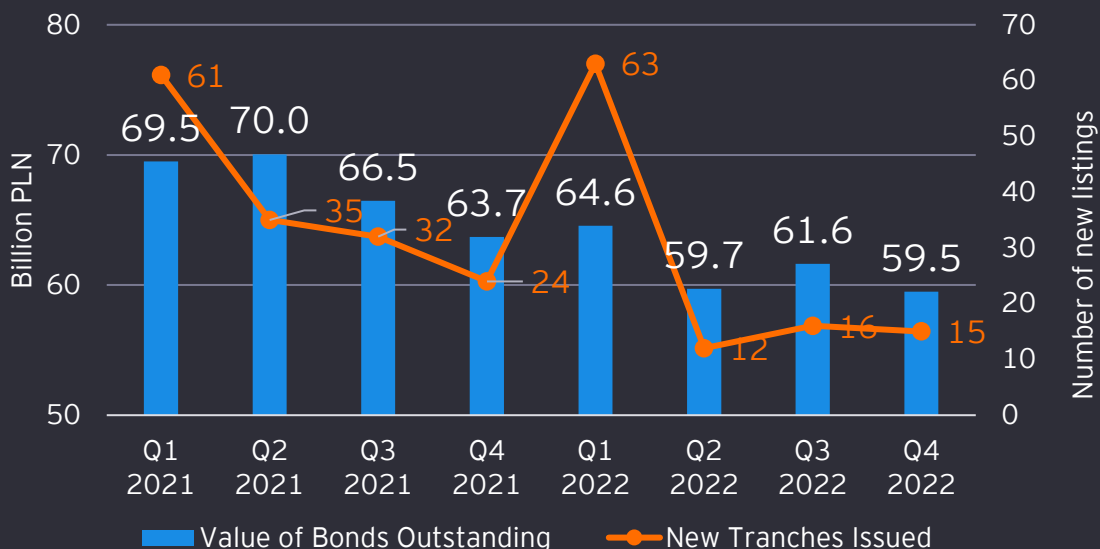
Issuer	Volume (mPLN)	Term	Date of issue	YTM as of 08/11/22 (%)	YTM as of 02/03/23 (%)	Coupon (%) as of 02/03/23	Issuer's industry
Kruk S.A.	350	2027	28.03.2022	12.23	8.84	10.14	Debt collection
Dino Polska S.A.	200	2023	04.01.2022	n/a	8.11	8.13	Grocery retailer
ECHO Investment S.A.	172	2025	10.01.2022	12.88	11.38	12.22	Developer
Polska Grupa Farmaceutyczna S.A.	130	2024	16.09.2022	n/a	6.8	9.55	Pharmaceutical
R.Power S.A.	80	2027	04.11.2022	13.88	11.92	12.44	Renewable energy
ECHO Investment S.A.	50	2026	22.03.2022	12.88	10.96	11	Developer
Kruk S.A.	60	2027	26.08.2022	n/a	10.5	10.22	Debt collection
DEVELIA S.A.	15.4	2025	28.12.2022	n/a	11.15	11.19	Developer

Sources: Oxford Economics, www.gpwcatalyst.pl, Refinitiv

Bond Market in Poland (2/2)

Polish bond issue remains at a relatively low level

Catalyst data - Corporate Bond Market in Poland



Source: Catalyst

Polish sovereign bonds [PLN]

Years to maturity	02/12/22 YTM (%)	01/03/23 YTM (%)	Coupon (%)	Date of issue
1	6.62	6.03	2.5	08/10/18
3	6.75	6.28	0	20/12/22
5	6.54	6.49	2.75	20/05/13
10	6.35	6.58	6	20/12/22

Sources: Refinitiv (Government Bond Prices)

- ▶ Most of the newly drawn tranches are from the existing bond programs with very limited number of new issues.
- ▶ As in case of the corporate bonds, with the exception of 10 year tenors, the Polish sovereign bond yields were in a downward trend q/q in line with the expected drop of interest rates.

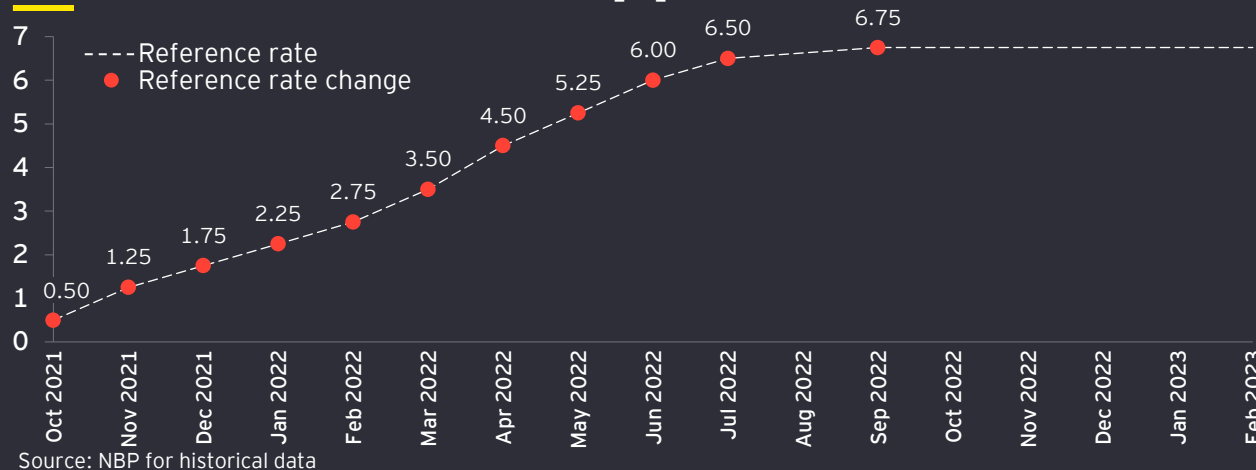
Interest rates overview

No further increases of interest rates are expected in Poland

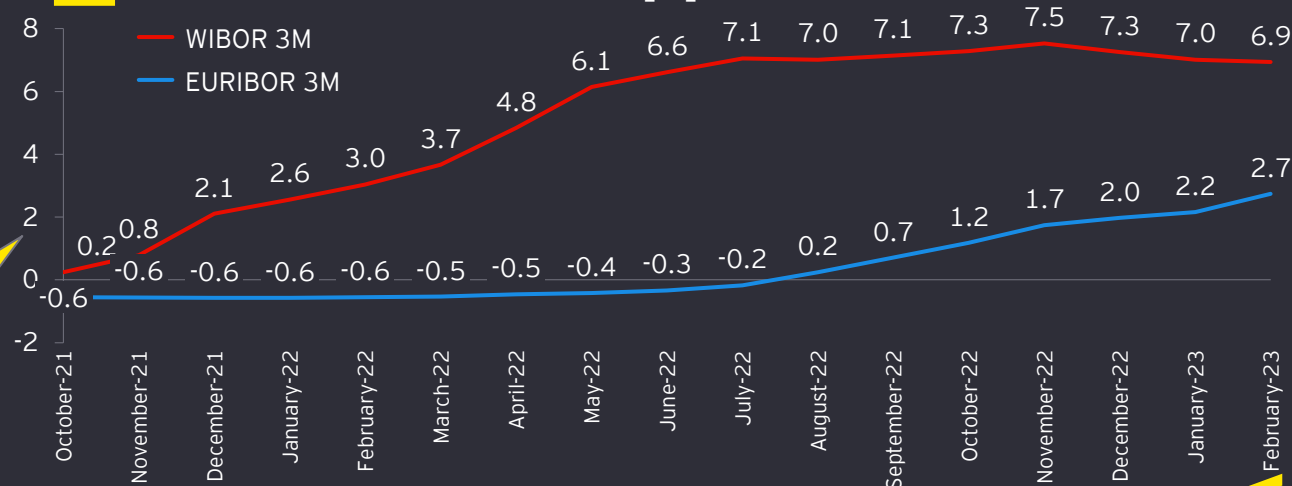
- ▶ The Monetary Policy Council (Rada Polityki Pieniężnej, RPP) increased the reference rate 11 times - from 0.1% before the first increase in October 2021 to 6.75% in September 2022.
- ▶ RPP is expected to keep rates unchanged throughout the year, with first cut likely in Q1 2024. As inflation will remain elevated, interest rate cuts will be gradual, with the reference rate reaching 4.75% by the end of this year.
- ▶ As at the same time cost of hedging increased, many corporates, especially Eurozone exporters, contemplate funding in EUR.
- ▶ The European Central Bank is expected to further increase interest rates in 2023. Markets expect the ECB's deposit rate to peak at approx. 4.0% (against 2.5% currently).

The central bank's response has resulted in an increase in the key interest rates at which the market is providing debt financing quoting Polish WIBOR 3M 7.25% at the end of Q4 2022

NBP Reference rate in Poland [%]



WIBOR 3M* vs EURIBOR 3M* [%]



Source: gpwbenchmark.pl and global-rates.com

*First day of the month standing

Private debt* in Poland

Tightening of banks' credit policy may direct companies to seek financing from private debt funds

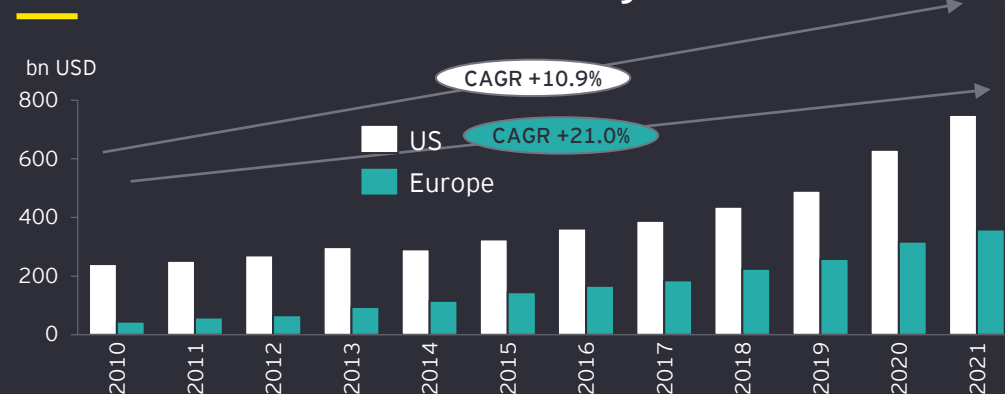
- ▶ Due to challenges facing banking sector (CHF-related litigations, debt repayment holidays), banks take a more conservative approach to corporate financing, which creates demand for alternative sources of financing, including private debt.
- ▶ Private debt is an attractive solution for borrowers with limited access to bank financing, as:

1. private debt funds usually accept higher credit risk than banks
2. private debt funds are more flexible in respect of required financial ratios and collateral package
3. private debt is often more available for SMEs than other forms of debt financing provided by banks
4. private debt does not cause share holding dilution unlike financing from private equity funds

*private debt - debt financing provided to companies by non-banking institutions in the private market

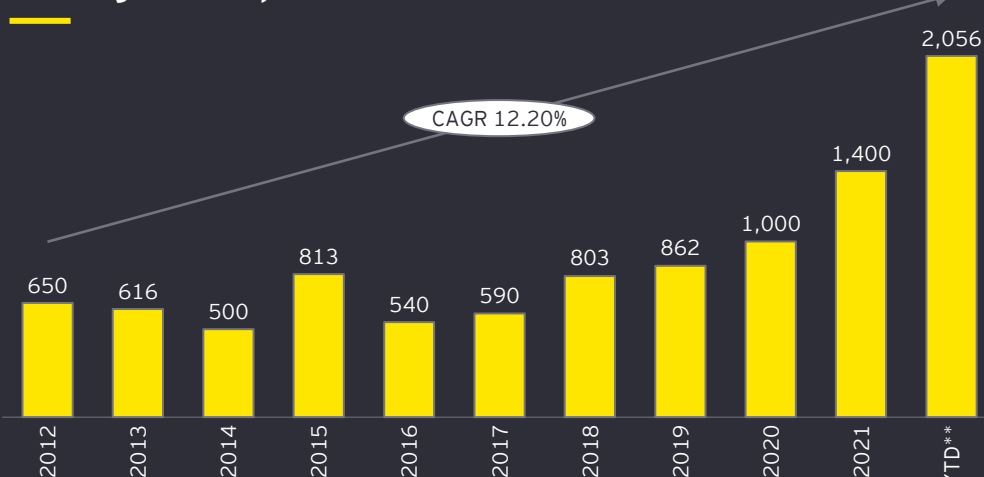
** YTD as at 7 August 2022

Private Debt - Assets under Management: US vs Europe



Source: https://arcmont.com/app/uploads/content/1664452312446850938/The-European-Private-Debt-Opportunity_Sep-22.pdf

Average European Private Debt fund size (\$m)



Source: https://arcmont.com/app/uploads/content/1664452312446850938/The-European-Private-Debt-Opportunity_Sep-22.pdf

Capital & Debt Advisory – key contacts



Ewa Mochocka
Associate Partner

*Capital & Debt Advisory
leader in Poland*

Tel.: +48 660 440 042
Ewa.Mochocka@pl.ey.com



Paweł Antkowiak
Manager

Tel.: +48 504 112 788
Pawel.Antkowiak@pl.ey.com



Joanna Truszkowska
Manager

Tel.: +48 519 033 772
Joanna.Truszkowska@pl.ey.com



Aleksandra Kerner
Manager

Tel.: +48 797 974 297
Aleksandra.Kerner@pl.ey.com



Michał Jadczyński
Senior Consultant

Tel.: +48 519 033 706
Michal.Jadczyński@pl.ey.com



Wiktor Kopczyński
Consultant

Tel.: +48 573 005 736
Wiktor.Kopczynski@pl.ey.com

CDA Alert is prepared in cooperation with:

- *EY Chief Economist Marek Rozkrut*
- *EY Energy Team – Jarosław Wajer, Maciej Markiewicz, Katarzyna Labinowicz*

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