Media Release

Climate Bonds Releases Green Bond Pricing Report for Q1-Q2 2019

Spotlighting EUR utility bonds, pricing & performance

LONDON:15/10/19 12:00 BST: Climate Bonds Initiative releases its 8th iteration in the series of the Green Bond Pricing in the Primary Market reports that commenced in 2016.

Green Bond Pricing in the Primary Market January-June 2019 monitors the performance of 46 EUR and 15 USD denominated benchmark size green bonds with a total value of USD56.6bn issued during the first half of 2019. This includes Climate Bonds Certified sovereign green bonds issued by the Netherlands and COP 25 hosts Chile during the reporting period.

Notable during the reporting period was new issue premium characteristics - where almost two thirds of the green bonds in our sample priced without a normal new issue premium, growing green issuance amongst EUR utility bonds, and EUR green bond performance against comparable vanilla bonds.

Among our H1 2019 sample, 32 bonds from 26 issuers had enough data to build yield curves. Eighteen of those issuers have already issued at least one green bond.

Twelve green bonds priced with normal new issue premia, 15 priced on their curves, and six exhibited a greenium: in EUR, EIB 2042, Terna 2026, Vodafone 2026, KfW 2027, and Netherlands (Sovereign) 2040, and in USD Chile (Sovereign) 2050.

In spotlight studies of TenneT, Vodafone and development banks KFW and NRW, positive pricing differentials between green and vanilla bonds in the sample were observable.

Highlights from Q1-Q2 2019:

- 46 EUR and 15 USD labelled green bonds issued in H2 2018 were analysed
- 36 out of 61 bonds came from repeat issuers. Among the 23-issuing debut green bonds were the Netherlands, Chile, Telefonica, and LG Chemical (a two currency, three tranche issue)
- EUR Green bonds achieve larger book cover and greater spread compression than vanilla equivalents on average
- USD green bonds were similar to vanilla equivalents on average
- Two thirds of green bonds in our sample priced without new issue premium
- 53% of green bonds were allocated to investors declaring themselves green
- 28 days after pricing, green bonds had, on average, tightened by more than matched indices and baskets of bonds sharing similar characteristics
- Spotlight: Half of all EUR Utility bonds issued in H1 2019 were green

Detailed Findings:

- This research encompasses over half of the green bonds issued in H1 2019, compared to a historical norm of around 30%. This suggests that more large green bonds are being issued. Fourteen bonds in our sample were larger than USD1bn.
- Investors were keen to buy bonds of all types, spread compression and book sizes were the largest we have seen in any period to date since 2016, for green and vanilla bonds.
- On average, EUR green bonds were more oversubscribed and tightened by more than vanilla equivalents during the pricing process. USD green bonds were similar to vanilla equivalents on average.
- Green bonds appear to have performed well compared to matched indices and baskets of vanilla bonds after 28 days.
- Green bonds attract a range of investors, but on average, 53% of green bonds in our sample were allocated to investors describing themselves as green. We reiterate that green bonds are included in all broad market indices and therefore, most investors have no reason to avoid green bonds.
- Three issuers have offered definitions of 'green' investors.
- Two thirds of green bonds in our sample priced without a new issue premium. Climate Bonds Initiative has built yield curves for 27 issuers, including 33 bonds. Six bonds exhibited a greenium and 15 priced on their curves, compared to 12 having a normal new issue premium.
- Spotlight on Utilities: Half of EUR Utility bonds issued in H1 2019 were labelled green. This skew was particularly notable in Q2, when only two out of ten benchmark sized utility bonds were not labelled green.

Sean Kidney, CEO, Climate Bonds Initiative:

"The H1 2019 report conclusions on investor and pricing behaviour is consistent with anecdotal evidence in the market over the course of this year. Investors are increasingly seeking quality green product, particularly in EUR denominated offerings, and that demand is being reflected in performance."

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Notes for Journalists:

The green bond pricing in the primary market reports are part of a longitudinal market analysis series from the Climate Bonds Initiative that commenced with a Q4 2016 Snapshot Report.

Green Bond Pricing in the Primary Market January-June 2018 is the third semi-annual report, marking the period January-June 2019. Prior to 2018, reports were released every quarter.

Report methodology: This report includes labelled green bonds issued during H1 2019. We have included labelled green bonds meeting the following specifications:

- Announcement date between 01/01/2019 and 30/06/2019
- Currency: EUR or USD
- Benchmark size i.e. >= USD500m
- Investment grade rated
- Minimum term to maturity of three years at issue
- Consistent with Climate Bonds taxonomy

Amortising, perpetual, floating-rate, and other non-vanilla structures are excluded. We have designed these parameters to capture the most liquid portion of the market while not limiting the diversity of data.

All historical data is based on asset swap spreads for EUR denominated bonds. USD bonds are compared to a US treasury curve. All historical data is from Refinitiv EIKON.

Four bonds qualified for our analysis but could not be included due to paucity of available data:

- Indonesia 3.9% 08/20/2024
- ADIF-Alta Velocidad 0.95% 04/30/2027
- MAF Sukuk Ltd 4.638% 14/05/2029
- Russian Railways 2.2% 23/05/2027

Comparable baskets include bonds issued in the same quarter as the subject green bond. Comparable bonds must fit the parameters described above except that the use of proceeds is not green. The resulting baskets are a proxy for how money could have been invested in the same quarter in which the green bond was issued. The number of bonds in each basket ranges from one to five bonds. We acknowledge that bonds behave differently depending on when they are issued, and geopolitical events can affect bond prices from one day to the next. We have designed this proxy to circumvent the fact that vanilla bonds and green bonds with similar characteristics are rarely issued on the same day.

Acknowledgements: *Green Bond Pricing in the Primary Market January-June 2019* was prepared by the Climate Bonds Initiative, with sponsorship kindly provided by Obvion Hypotheken and Lyxor.

Previous Pricing Reports:

- Green Bond Pricing in the Primary Market: Q4 2016 Snapshot can be found here.
- Green Bond Pricing in the Primary Market: Jan 2016 – March 2017 can be found here.
- Green Bond Pricing in the Primary Market: April – June 2017can be found here.
- Green Bond Pricing in the Primary Market: July – September 2017can be found here.
- Green Bond Pricing in the Primary Market: October – December 2017 can be found here.
- Green Bond Pricing in the Primary Market: January – June 2018 can be found here.
- Green Bond Pricing in the Primary Market: July – December 2018 can be found here.

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