

The credit research report – an important instrument for investors?

Regarding its benefit and importance for the successful issuance of SME bonds

More and more SMEs are taking the opportunity to procure borrowed capital via corporate bonds and thus finance themselves on the capital market.

In the run-up to a bond issue, the SME should focus on addressing and informing investors. In addition to the legally binding securities prospectus and the rating report – which is now prescribed by virtually all stock exchanges – a credit research report represents an important instrument for successfully addressing and informing investors.

Possibilities for risk assessment important for investors

To convince investors and win them over to subscribe to the company's own bonds, the issuer must make it possible for investors to assess the risk associated with the company and the company bond, and to do so wherever possible in a transparent, easy and quick manner. For this purpose, the issuer should provide potential investors with the following three documents:

1. **Security prospectus** (regarding the legal risk assessment)
2. **Rating report** (on the economic appraisal of the credit standing based on historic data)
3. **Credit research report** (on the commercial credit standing assessment based on future-oriented analyst forecasts and classification of the bond in a market comparison)

The potential legal risks regarding the company and the company bond have to be listed and described in detail in the **securities prospectus**. Investors are thus given, for

Figure 1: Helma Eigenheimbau data and credit ratios (example)

in million EUR	FY 2012	FY 2013e	FY 2014e	FY 2015e
Revenues	113,99	142,50	171,00	205,20
EBIT	7,34	9,19	12,00	14,87
EBIT-margin	6,4%	6,4%	7,0%	7,2%

credit ratios	FY 2012	FY 2013e	FY 2014e	FY 2015e
EBITDA-Interest Coverage	5,34	5,32	5,36	5,95
EBIT-Interest Coverage	4,46	4,62	4,8	5,41
Total Debt/EBITDA	4,32	4,17	3,91	3,45
Total Net Debt/EBITDA	4,14	3,77	3,31	2,78
ROCE	12,6%	13,1%	14,7%	16,4%
Equity-Ratio	24,1%	28,0%	28,8%	31,3%
Total Debt/Capital	0,65	0,62	0,62	0,59

Source: GBC AG

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instance, clear information about ownership circumstances, possible ongoing legal disputes and the details regarding the bond conditions. A legal **risk appraisal thus becomes possible for investors**. With public bond issues, a securities prospectus is usually stipulated by law.

In addition to the aforementioned, almost all stock exchanges stipulate the provision of an **issuer rating** on the credit standing assessment. The investor is thus able to carry out a good **risk assessment of the SME on the basis of historic data**, in addition to the rating mark (such as e.g. BBB) at least an extract, but better the entire rating report is made available.

In our opinion, the securities prospectus and rating report are necessary but not sufficient information for investors still within the framework of an issue of company bonds. Neither the securities prospectus nor the rating usually includes transparent forecasts regarding the further development of the SME. Particularly the **anticipated development in the future** is very important for investors.

And the **analysis and classification of the bond** (e.g. amount of the interest coupon, bond term, interest payment intervals, termination rights, etc.) and the comparison with bonds already traded on the market or recently issued (so-called peer group comparison) are also not yet made possible by the securities prospectus and the rating.

Figure 2: Peergroup evaluation for Helma Eigenheimbau (example)

Company	Date of issue	Running time	Rating	Interest rate	Effective interest rate	Planned proceeds	Delay of interest payments	Disbursement constraint	Change of control
Laurél GmbH	16.11.12	5	BB	7,125%	9,905%	20,00	30	no	no
Jacob Stauder GmbH & Co. KG	23.11.12	5	BB-	7,500%	5,417%	10,00	7	no	yes
René Lezard GmbH	26.11.12	5	BB	7,250%	9,698%	15,00	20	yes	yes
Ekosem-Agrar GmbH (2012/2018)	07.12.12	6	BB+	8,500%	7,771%	60,00	30	yes	yes
Homann Holzwerkstoffe GmbH	14.12.12	5	BBB-	7,000%	6,438%	50,00	7	no	no
Rudolf Wöhr AG	12.02.13	5	BB	6,500%	3,873%	30,00	7	no	yes
Photon Energy Investments N.V.	12.03.13	5	BB-	8,000%	8,104%	40,00	90	yes	yes
EYEMAXX Real Estate AG (2013/2019)	26.03.13	6	BB+	7,875%	8,039%	15,00	60	no	no
ADLER Real Estate AG	03.04.13	5	BB	8,750%	8,750%	20,00	14	no	yes
Ekotechnika GmbH	10.05.13	5	BB-	9,750%	9,624%	60,00	30	no	yes
MBB Clean Energy AG	06.05.13	6	BBB	6,250%	6,855%	300,00	30	yes	yes
ALNO AG	14.05.13	5	B-	8,500%	10,457%	45,00	14	no	yes
DF Deutsche Forfait AG	24.05.13	7	BB+	7,875%	7,481%	30,00	15	no	yes
PNE Wind AG	15.05.13	5	BBB-	8,000%	7,257%	100,00	30	yes	yes
SANHA GmbH & Co. KG	04.06.13	5	BB+	7,750%	6,769%	25,00	30	yes	yes
Rickmers Holding GmbH & Cie. KG	11.06.13	5	BB	8,875%	8,716%	200,00	14	yes	yes
More&More AG	11.06.13	5	B+	8,125%	8,290%	13,00	30	yes	yes
gamigo AG	20.06.13	5	B+	8,500%	14,914%	15,00	30	yes	yes
HALLHUBER Beteiligungs GmbH	19.06.13	5	BB	7,250%	8,426%	30,00	30	yes	yes
Metalcorp Group B.V.	27.06.13	5	BB	8,750%	9,007%	30,00	30	no	yes
PEINE GmbH	05.07.13	5	BB-	8,000%	8,318%	15,00	20	yes	yes
paragon AG	02.07.13	5	BB+	7,250%	5,821%	20,00	7	yes	yes
Deutsche Rohstoff AG	11.07.13	5	BB+	8,000%	8,443%	100,00	30	no	yes
RENA GmbH	11.07.13	5	BB-	8,250%	8,290%	50,00	30	yes	yes
Euroboden GmbH	16.07.13	5	BB	7,375%	7,375%	15,00	30	yes	yes
Average				7,761%	8,939%	47,33			
Median				7,750%	8,104%	30,00			
HELMA Eigenheimbau AG	19.09.13	5	BBB	5,875%	5,875%	25,00	7	yes	yes

Source: GBC AG

Credit research analysis closes this information gap

A credit research analysis closes this information gap. First of all, the securities prospectus and the rating report are used as important information bases. In addition to this however, the Credit Research Analyst processes other significant information and insights from their own research and discussions with the SME's management. A credit research thus ultimately also includes clear forecasts and estimates regarding the company's further development.

Future credit standing is decisive for purchasing the bond

It goes without saying that an in-depth analysis in particular, and a forecast of the company's further development is of particular importance to bond investors. This is because the SME must be able to make interest payments and also (if there is no early extension) the future repayment in particular from future operating earnings. Here, key ratios such as e.g. forecast interest coverage ratios are of decisive importance. A "future credit standing" can thus be determined on the basis of the forecasts.

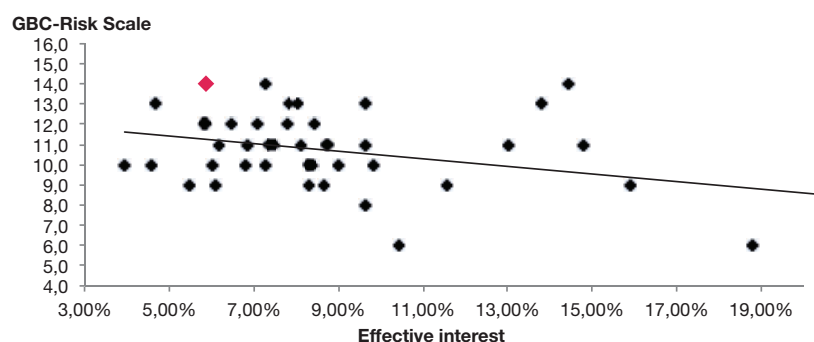
In credit research analyses, the planned use of funds from the company bond is also an essential factor and a pre-money

and post-money analysis, for instance, constitutes information that increases transparency for investors.

Analysis of a company bond's attractiveness in a market comparison

Finally, the classification and rating of the bond in a market comparison is the most important information for the investor to support his/her decision. A corporate bond which is being issued is of course competing with other bonds that are already listed on the market. In the credit research analysis, the positioning of the SME bond with its risk/return profile is thus made transparently visible on the basis of its features.

Figure 3: Rating (adjusted) effective interest matrix (example)



Source: GBC AG