

Enel SLBs: market update

Josephine Richardson (*)

In October we published a review of Enel’s Sustainability-Linked Bonds (SLBs), specifically considering an upcoming Sustainability Performance Target (SPT) due at the end of 2023.¹ Our analysis suggested that the target would likely be missed.

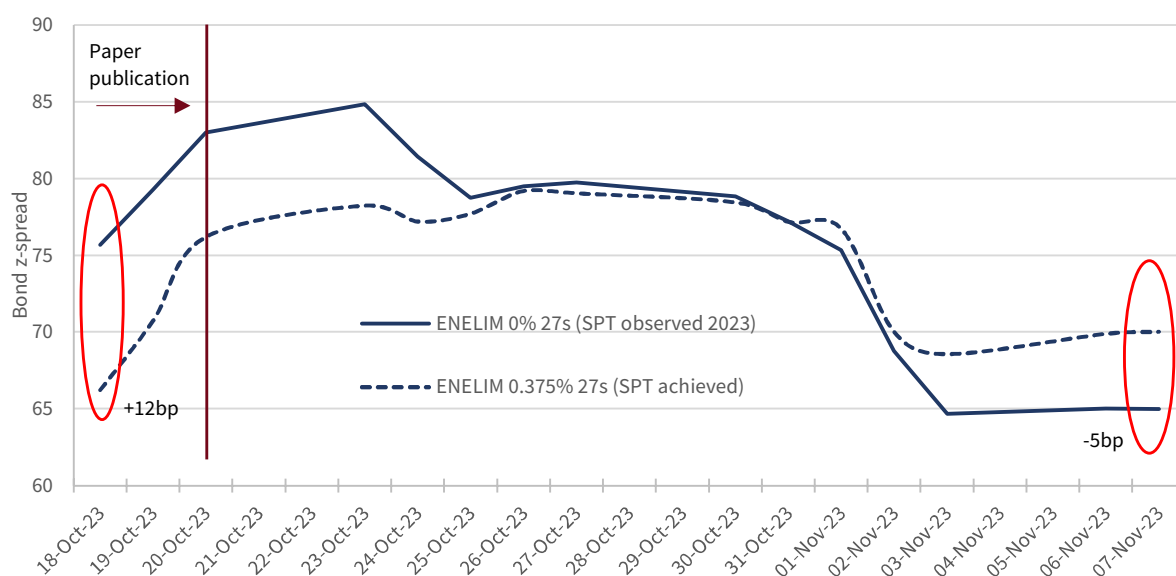
Enel, the largest issuer of SLBs, has a deep and complex bond curve, with securities referencing four separate Sustainability-Linked Financing Frameworks (SLFF). Ten bonds, with a total notional of \$10.8bn, will pay a step-up coupon if the Dec 2023 target is missed. However, the market did not seem to be pricing the fact that some bonds could receive a step-up coupon while others not.

In the last three weeks there have been significant moves within the EUR Enel bond curve; bonds with a step-up depending on the Dec 2023 SPT have outperformed compared to both non-SLBs and SLBs whose targets have already been achieved (Figure 1 shows performance for the EUR 2027 pair). SLBs with later targets have outperformed to a lesser extent, perhaps suggesting that missing a target in Dec 2023 would increase the chances of Enel missing subsequent targets.

This strong performance from the SLBs shows the step-up option has value to investors. Despite exogenous shocks being a factor in Enel’s emissions trajectory, the fact that a target could be missed shows there was ambition in its calibration, that its achievement was never guaranteed.

Secondary bond price tightening confirms that ambitious targets are rewarded with lower spreads, which we expect to feed through into delivering tighter primary costs-of-capital to issuers of ambitious SLBs.

Figure 1. Enel EUR 2027 historic bond spreads. Source: Bloomberg, accessed 7 Nov 2023.



¹ Please see “[Enel SLBs: update on 2023 observation date](#)”, AFII, 20 Oct 2023.

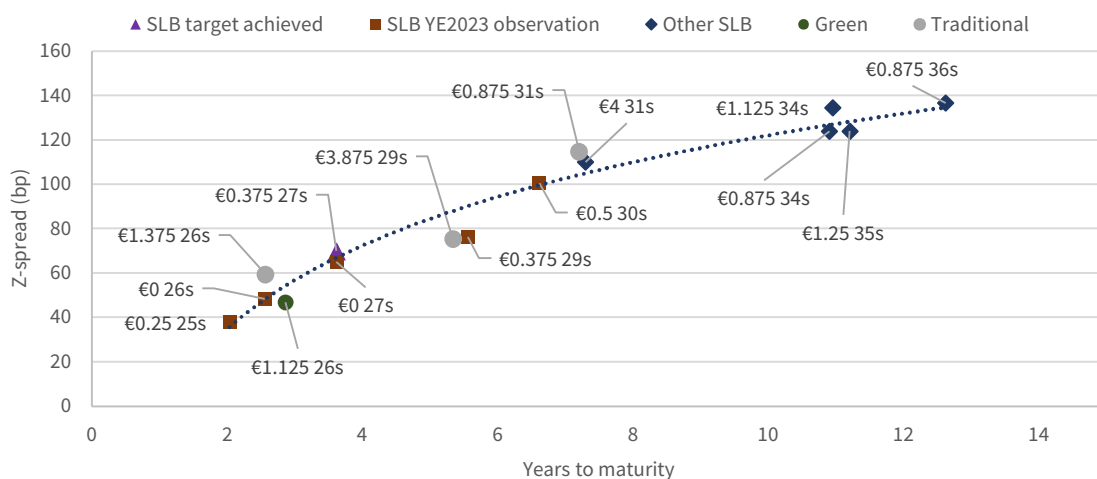
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(*) Anthropocene Fixed Income Institute (www.anthropocenefii.org), Author for contacts: jor@anthropocenefii.org

Figure 2 and Figure 3 show current Enel bond spreads for EUR and USD issuances. Table 1 (overleaf) shows bond details with spread moves since 18 Oct 2023, with bonds classified as SLBs with observation date in Dec 2023 highlighted in red. Bonds with no potential for receiving a step-up coupon, either SLBs whose targets have been met, or vanilla or green bonds, are shown in grey. SLBs with a further SPT are shown in white.

The EUR bonds show an outperformance particularly of ‘red’ bonds, with an average tightening of 8.8bps compared to ‘grey’ bonds, which on average have widened by 5.8bps. Interestingly, ‘white’ bonds, SLBs with a future SPT later than Dec 2023, have tightened but by less than ‘red’ bonds, on average by -6bps. This suggests that the market is implying a higher chance that these subsequent targets will also be missed, although a smaller chance than for the near-term targets. Figure 2 shows the current pricing. While the ‘red’ SLBs have outperformed, they still look generally in line with the overall bond curve.

Figure 2. Enel EUR bond spreads. Source: Bloomberg, accessed 7 Nov 2023.



The USD bonds have not reacted in the same way at this stage, with ‘red’ bonds actually widening slightly more than ‘grey’ or ‘white’ bonds. Figure 3 shows the current bond pricing. The SLBs with a Dec 2023 observation date seem to be trading in line with others, but there are fewer direct comparables to each bond. If the market expects a step-up to be paid, we would expect these bonds to tighten. As a refresher, Table 2 (at the end of this document) shows the estimated value of the step-up coupon for all SLBs.

Figure 3. Enel USD bond spreads. Source: Bloomberg, accessed 7 Nov 2023.

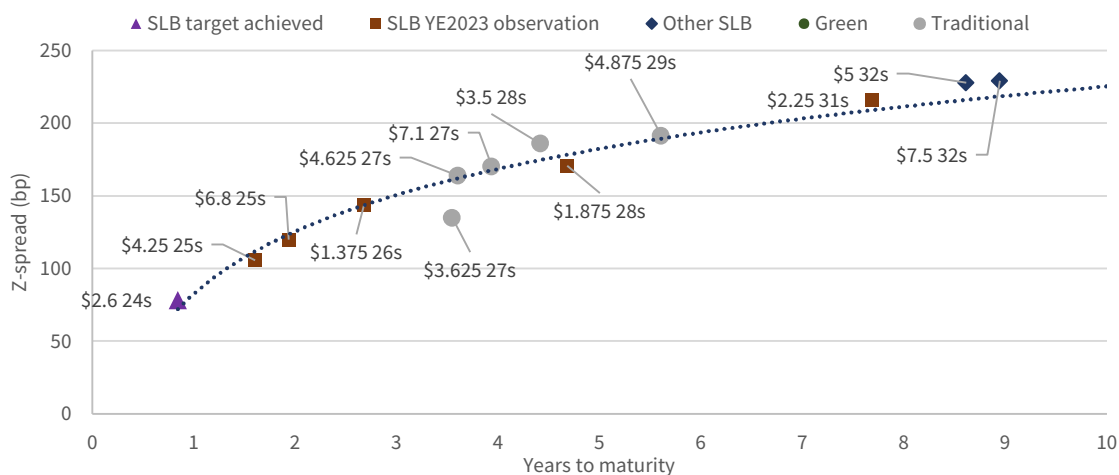


Table 1. Enel SLBs with SLFF details and observation date, and spread moves. Red highlighted bonds are SLBs with a trigger date in Dec 2023, white are future SLB triggers and grey are bonds with no future trigger. Source: Bloomberg, Bond Prospectuses, AFI, accessed 7 Nov 2023.

Description	ISIN	Maturity	SLFF used	KPI		Currency	Amount Outstanding (bn)	Spread		Change
				observation				18 Oct	6 Nov	
ENELIM €0 24s	XS2066706818	17-Jun-24	1	31-Dec-21		EUR	1.00	5.3	3.6	-1.7
ENELIM €1 24s	XS1550149204	16-Sep-24		GREEN		EUR	1.25	6.7	9.4	2.7
ENELIM €1.9 25s	XS1176079843	27-Jan-25		Vanilla		EUR	0.99	11.7	17.2	5.5
ENELIM €1.5 25s	XS1937665955	21-Jul-25		GREEN		EUR	1.00	24.1	30.9	6.8
ENELIM €0.25 25s	XS2432293673	17-Nov-25	2	31-Dec-23		EUR	1.25	40.4	39.2	-1.2
ENELIM €0 26s	XS2390400633	28-May-26	2	31-Dec-23		EUR	1.25	60.1	50.5	-9.6
ENELIM €1.375 26s	XS1425966287	01-Jun-26		Vanilla		EUR	1.00	53.6	59.7	6.1
ENELIM €1.125 26s	XS1750986744	16-Sep-26		GREEN		EUR	1.00	41.5	47.3	5.7
ENELIM €0.375 27s	XS2066706909	17-Jun-27	1	31-Dec-21		EUR	1.00	66.2	69.9	3.7
ENELIM €0 27s	XS2353182020	17-Jun-27	2	31-Dec-23		EUR	1.00	75.7	65.0	-10.6
ENELIM €3.875 29s	XS2531420656	09-Mar-29	3	31-Dec-24		EUR	1.00	83.2	75.5	-7.6
ENELIM €0.375 29s	XS2390400716	28-May-29	2	31-Dec-23		EUR	1.00	90.0	76.0	-13.9
ENELIM €0.5 30s	XS2353182293	17-Jun-30	2	31-Dec-23		EUR	1.25	108.7	99.9	-8.8
ENELIM €0.875 31s	XS2432293756	17-Jan-31	3	31-Dec-24		EUR	0.75	118.4	115.4	-3.0
ENELIM €4 31s	XS2589260723	20-Feb-31	4	31-Dec-25		EUR	0.75	116.9	110.1	-6.9
ENELIM €0.875 34s	XS2390400807	28-Sep-34	2	31-Dec-30		EUR	1.25	123.8	122.5	-1.3
ENELIM €1.125 34s	XS2066706735	17-Oct-34	1	31-Dec-30		EUR	0.50	130.8	134.1	3.3
ENELIM €1.25 35s	XS2432293913	17-Jan-35	2	31-Dec-30		EUR	0.75	121.6	122.7	1.1
ENELIM €0.875 36s	XS2353182376	17-Jun-36	2	31-Dec-30		EUR	1.00	139.6	136.1	-3.5
ENELIM €4.5 43s	XS2589260996	20-Feb-43	4	31-Dec-40		EUR	0.75	196.9	184.7	-12.2
ENELIM €5.625 24s	XS0452188054	14-Aug-24		Vanilla		GBP	0.85	53.8	53.4	-0.4
ENELIM £1 27s	XS2244418609	20-Oct-27	1	31-Dec-22		GBP	0.50	98.4	98.4	0.0
ENELIM £2.875 29s	XS2466363202	11-Apr-29	3	31-Dec-24		GBP	0.75	146.0	147.9	1.9
ENELIM £5.75 40s	XS0452187320	14-Sep-40		Vanilla		GBP	1.40	207.7	204.3	-3.4
ENELIM \$2.6 24s	US29278GAL23	10-Sep-24	1	31-Dec-21		USD	1.50	89.5	80.8	-8.7
ENELIM \$4.25 25s	US29278GAV05	15-Jun-25	2	31-Dec-23		USD	0.75	90.0	104.8	14.8
ENELIM \$6.8 25s	US29278GAZ19	14-Oct-25	2	31-Dec-23		USD	0.75	122.9	119.0	-3.9
ENELIM \$1.375 26s	US29278GAM06	12-Jul-26	2	31-Dec-23		USD	1.25	141.2	141.8	0.7
ENELIM \$3.625 27s	US29278GAA67	25-May-27		Vanilla		USD	0.97	134.6	134.0	-0.7
ENELIM \$4.625 27s	US29278GAW87	15-Jun-27	3	31-Dec-24		USD	0.75	161.0	163.0	2.0
ENELIM \$7.1 27s	US29280HAA05	14-Oct-27	3	31-Dec-24		USD	1.00	172.3	169.7	-2.6
ENELIM \$3.5 28s	US29278GAF54	06-Apr-28		Vanilla		USD	1.25	178.6	184.9	6.3
ENELIM \$1.875 28s	US29278GAN88	12-Jul-28	2	31-Dec-23		USD	1.00	173.4	170.1	-3.3
ENELIM \$4.875 29s	US29278GAK40	14-Jun-29		Vanilla		USD	0.80	188.0	190.8	2.8
ENELIM \$2.25 31s	US29278GAP37	12-Jul-31	2	31-Dec-23		USD	1.00	206.9	215.7	8.7
ENELIM \$5 32s	US29278GAX60	15-Jun-32	2	31-Dec-30		USD	1.00	220.5	228.0	7.4
ENELIM \$7.5 32s	US29278GBA58	14-Oct-32	2	31-Dec-30		USD	1.25	226.0	229.1	3.1
ENELIM \$6.8 37s	US29268BAC54	15-Sep-37		Vanilla		USD	1.00	250.3	254.6	4.2
ENELIM \$6 39s	US29268BAF85	07-Oct-39		Vanilla		USD	1.50	250.7	257.5	6.8
ENELIM \$2.875 41s	US29280HAB87	12-Jul-41	2	31-Dec-30		USD	0.75	263.0	254.8	-8.3
ENELIM \$4.75 47s	US29278GAC24	25-May-47		Vanilla		USD	1.50	254.4	258.7	4.3
ENELIM \$5.5 52s	US29278GAY44	15-Jun-52	3	31-Dec-40		USD	1.00	283.6	285.7	2.1
ENELIM \$7.75 52s	US29278GBB32	14-Oct-52	3	31-Dec-40		USD	1.00	298.7	296.1	-2.6

Table 2. Estimated running value of the SLB coupon step-up. Source: AFII, calculated 18 Oct 2023.

Description	ISIN	Issue Date	Maturity	KPI observation	Currency	Start of step-up accrual	Running value of step-up (bp)
ENELIM \$4.25 25s	US29278GAV05	15-Jun-22	15-Jun-25	31-Dec-23	USD	15-Jun-24	15.1
ENELIM \$6.8 25s	US29278GAZ19	14-Oct-22	14-Oct-25	31-Dec-23	USD	14-Apr-24	18.8
ENELIM €0.25 25s	XS2432293673	17-Jan-22	17-Nov-25	31-Dec-23	EUR	17-Nov-24	12.0
ENELIM €0 26s	XS2390400633	28-Sep-21	28-May-26	31-Dec-23	EUR	28-May-24	19.2
ENELIM \$1.375 26s	US29278GAM06	12-Jul-21	12-Jul-26	31-Dec-23	USD	12-Jan-24	22.9
ENELIM €0 27s	XS2353182020	17-Jun-21	17-Jun-27	31-Dec-23	EUR	17-Jun-24	20.5
ENELIM \$1.875 28s	US29278GAN88	12-Jul-21	12-Jul-28	31-Dec-23	USD	12-Jan-24	23.7
ENELIM €0.375 29s	XS2390400716	28-Sep-21	28-May-29	31-Dec-23	EUR	29-May-24	22.3
ENELIM €0.5 30s	XS2353182293	17-Jun-21	17-Jun-30	31-Dec-23	EUR	17-Jun-24	22.5
ENELIM \$2.25 31s	US29278GAP37	12-Jul-21	12-Jul-31	31-Dec-23	USD	17-Jun-24	22.6

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