Enel – Market update on 2022 KPI observation

Josephine Richardson(*)

Energy company Enel remains the flagship issuer of Sustainability-Linked Bonds (SLBs). Due to its early adopter status, it is also the issuer of the majority of SLBs with imminent Sustainability Performance Target (SPT) observation dates.

We published research in Nov 2022 concluding that the issuer's Dec 2022 renewables targets would probably be met, primarily due to divestments of Russian assets, but its Dec 2023 emissions targets looked less achievable. Recent media reports bring again into focus the question of whether the 2022 target has indeed been met. This note presents market pricing on the SLB in question, ENELIM £1 27s, whose coupon may step-up 25bp depending on whether the issuer has achieved 60% renewables installed capacity by YE 2022. We analyse both current levels and recent moves and interpret pricing into market-implied probabilities for SPTs being met or missed.

ENELIM £1 27s trade rich to the sterling curve (see Figure 1), at a level which has remained relatively unchanged through 2022. Attributing this all to SLB option premium implies a probability of 72% of missing the target. Our view remains that it will likely make the target, but this shows uncertainty in the market. When the result is confirmed (expected April), we would expect a price movement as the market digests confirmation of whether the step-up will be paid or not. This would provide a useful first data point on SLB trigger reactions in a more liquid bond market.

Figure 1. Enel GBP bond spreads. Source: Bloomberg, accessed 7 Feb 2023.

---

3 “SLB issuers ‘likely to miss majority of 2022 and 2023 targets’”, Responsible Investor, 6 Feb 2023.
4 Even though this date has passed, the level has not yet been reported. Enel will publish its annual report on 16 Mar 2023, and (according to Enel Investor Relations) the independent auditor report on sustainability metrics is expected is mid-April.
5 For details of a less liquid SLB which has paid a step-up coupon please see “One small step for Orlen, one giant leap for the SLB market”, AFII, 29 Nov 2022.

Not investment advice. This version 08 Feb 2023. Important disclaimers at the end of the document.
(*) Anthropocene Fixed Income Institute (www.anthropocenefii.org), jor@anthropocenefii.org
Enel SLB details

Only one Enel SLB has its SPT at YE 2022; £1 27s (ISIN XS2244418609) will pay 25bp if renewable installed capacity is below 60%. Even though the observation date for this SPT of 31 Dec 2022 is in the past, the result is not yet in the public domain. It may be announced as part of Enel’s 2022 reporting on 16th March, or its Investor Relations team have guided that independent auditor’s reports have historically been released in mid-April.

As the bond approaches this date of potential discontinuous performance (as it will be confirmed the step-up will either be paid or not), we analyse what the market is telling us about implied probability of missing the target.

Enel has issued five sterling bonds (Figure 2) from which we make comparisons. One other is an SLB with an SPT observed at YE 2024.

As the bond approaches this date of potential discontinuous performance (as it will be confirmed the step-up will either be paid or not), we analyse what the market is telling us about implied probability of missing the target.

Enel has issued five sterling bonds (Figure 2) from which we make comparisons. One other is an SLB with an SPT observed at YE 2024.

Figure 2. Enel GBP bonds. Source: Bloomberg, accessed 7 Feb 2023.

<table>
<thead>
<tr>
<th>Bond</th>
<th>ISIN</th>
<th>Issuing Entity</th>
<th>Type</th>
<th>Issue Date</th>
<th>Maturity</th>
<th>Currency</th>
<th>Amount Outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>ENELIM £5.625 24s</td>
<td>XS0452188054</td>
<td>ENEL FINANCE INTL NV</td>
<td>Vanilla</td>
<td>17-Sep-09</td>
<td>14-Aug-24</td>
<td>GBP</td>
<td>850,000,000</td>
</tr>
<tr>
<td>ENELIM £1 27s</td>
<td>XS2244418609</td>
<td>ENEL FINANCE INTL NV</td>
<td>SLB</td>
<td>20-Oct-20</td>
<td>20-Oct-27</td>
<td>GBP</td>
<td>500,000,000</td>
</tr>
<tr>
<td>ENELIM £2.875 29s</td>
<td>XS2466363202</td>
<td>ENEL FINANCE INTL NV</td>
<td>SLB</td>
<td>11-Apr-22</td>
<td>11-Apr-29</td>
<td>GBP</td>
<td>750,000,000</td>
</tr>
<tr>
<td>ENELIM £5.75 37s</td>
<td>XS0306647792</td>
<td>ENEL SPA</td>
<td>Vanilla</td>
<td>20-Jun-07</td>
<td>22-Jun-37</td>
<td>GBP</td>
<td>550,000,000</td>
</tr>
<tr>
<td>ENELIM £5.75 40s</td>
<td>XS0452187320</td>
<td>ENEL FINANCE INTL NV</td>
<td>Vanilla</td>
<td>17-Sep-09</td>
<td>14-Sep-40</td>
<td>GBP</td>
<td>1,400,000,000</td>
</tr>
</tbody>
</table>

Figure 3 shows historic spreads for Enel GBP bonds and CDS. The £1 27s seems to have outperformed CDS since Oct 22 (although alongside a roll which will have lengthened the CDS contract).

Figure 3. Historic Enel GBP bond and CDS spreads. Source: Bloomberg, accessed 7 Feb 2023.

---


7 “Sustainability-Linked Bonds”, Enel. As SLBs gain in volume, and analysis of sustainability performance becomes an essential part of investment decisions, the process around releasing market-critical data on KPIs needs to become more predictable.
Figure 4 LHS looks at changes since the maximum spread level on 13 Oct 2022 and also since 1 Feb 2022. Both show that while the 2022 SLB looks tight to the curve of GBP bonds, that position has remained relatively consistent over this period.

The 2022 SLB looks around 15bp rich to the curve, so using the AFII option pricing model, we will analyse what implied probability of missing the target this could imply.

The bond pays an annual coupon in October and matures in 2027. The SPT is observed at YE 2022, so there are four annual 25bp coupons that could be paid. Applying that step-up over the full maturity of the bond is equivalent to 20.8bp running on the bond.

There are many reasons a bond could be trading away from its curve; lower coupon bonds are often tighter as they have lower cash prices that need to be funded, or sometimes labelled bonds trade tight due to ‘greenium’ effect (although we note the other sterling SLB is wide of the curve. If we attribute the full 15bp discount to SLB option premium, the market is implying a probability of 72% (=15bp/20.8bp) of Enel missing its 2022 renewables target. There are different views on whether the target will be achieved or not, so it seems reasonable the market is pricing this event with some doubt. As the 2022 result is announced, and so the SLB step-up is confirmed as either being paid or not, this probability will move to either 0% or 100%.

Investors should consider if the market-implied probability aligns with their view on Enel’s renewables capacity when investing in this SLB.

For full details please see “An option pricing approach for sustainability-linked bonds”, AFII, 8 Nov 2022.
IMPORTANT DISCLAIMER:

This report is for information and educational purposes only. The Anthropocene Fixed Income Institute (‘AFII’) does not provide tax, legal, investment or accounting advice. This report is not intended to provide, and should not be relied on for, tax, legal, investment or accounting advice. Nothing in this report is intended as investment advice, as an offer or solicitation of an offer to buy or sell, or as a recommendation, endorsement, or sponsorship of any security, company, or fund. AFII is not responsible for any investment decision made by you. You are responsible for your own investment research and investment decisions. This report is not meant as a general guide to investing, nor as a source of any specific investment recommendation. Unless attributed to others, any opinions expressed are our current opinions only. Certain information presented may have been provided by third parties. AFII believes that such third-party information is reliable, and has checked public records to verify it wherever possible, but does not guarantee its accuracy, timeliness or completeness; and it is subject to change without notice.

Any reference to a company’s creditworthiness or likelihood of positive or negative performance in the current or future market is purely observational and should not be taken as a recommendation or endorsement or critique of such company or security.

The Anthropocene Fixed Income Institute is a non-profit organization “to monitor, advocate for and influence the impact of the fixed income and bond markets in the age of human induced climate change.” For more information about the Institute, please visit www.anthropocenefii.org or follow us using the hashtag #anthropocenefii.

AFII is not in any way associated with, nor are any of its directors, employees or advisors, any of the companies it references in its materials or reports and is not receiving compensation or consideration of any nature for its observations and/or insights.