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Credit Trends:

Fallen Angels In Emerging And Developed Markets, Including The U.S. And Europe: Stabilizing Commodities Bring The Fallen Angels Tally To A Three-Year Low

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The 2017 global fallen angels tally rose to 28 as of Dec. 31 after three issuers were downgraded to speculative grade from investment grade since our last report. The oil and gas and metals, mining, and steel sectors experienced the greatest drops in their fallen angels tallies year over year, decreasing by seven and five, respectively. The year-end tally was last lower in 2014, at 25 fallen angels.

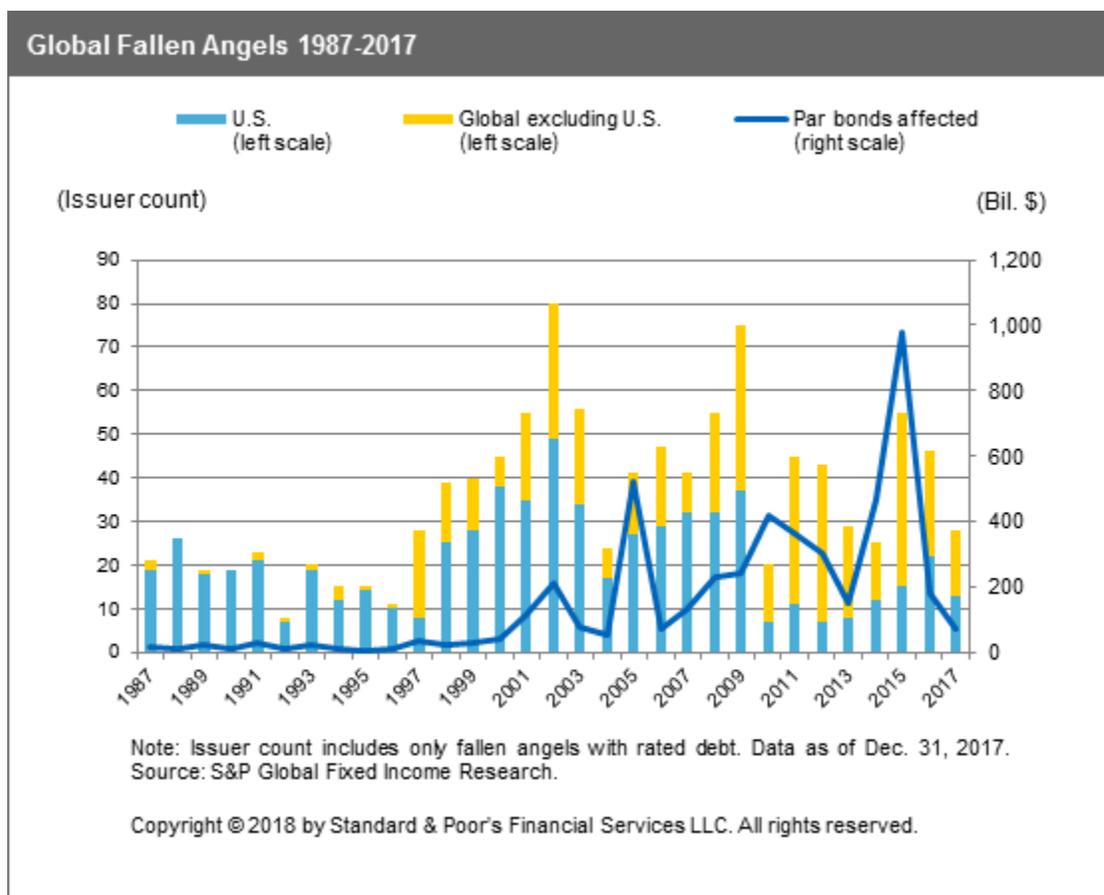
The oil and gas and metals, mining, and steel industries remained relatively stable in 2017. The year's prices were influenced largely by the market perception of the effectiveness and longevity of the OPEC cuts and by the production response from U.S. shale. Moving into 2018, hydrocarbon prices remain the number one risk to the oil and gas sector and will be determined by how long the OPEC production cuts continue. Because a significant amount of oil and gas debt is set to mature in the next five years, a meaningful drop in prices could lead to an increase in fallen angels.

We define fallen angels as issuers S&P Global Ratings has downgraded to speculative grade (rated 'BB+' or lower) from investment grade (rated 'BBB-' or higher) and potential fallen angels as issuers rated 'BBB-' with negative outlooks or ratings on CreditWatch with negative implications.

Overview

- Two Colombia-based issuers and one U.K.-based issuer were added to the fallen angels tally since our last report.
- The oil and gas and metals, mining, and steel sectors had the greatest year-over-year drops in fallen angels, of seven and five, respectively.
- The potential fallen angels count fell to 42 as of Dec. 31 from 44 as of Dec. 11, with two additions and four removals.
- The financial institutions sector has the most potential fallen angels, with eight, followed by utilities, media and entertainment, and high technology with five each.

Chart 1



Fallen Angel Activity

Since our last report, three issuers were downgraded to speculative grade from investment grade (see table 1). All three were previously on our potential fallen angels list in December. The U.S. leads fallen angels with 13, followed by the Eastern Europe, Middle East, and Africa (EEMEA) region with seven, Europe with four, Latin America with two, and Asia-Pacific and Canada with one each. Rising stars (39) continued to surpass fallen angels (28) as of Dec. 31, and the annualized count of fallen angels is at its lowest since 2014.

On Dec. 22, 2017, S&P Global Ratings lowered its long- and short-term corporate credit ratings on U.K.-based media group Daily Mail & General Trust PLC (DMGT) to 'BB+' from 'BBB-'. The downgrade reflected DMGT's decreasing earnings and lower forecast EBITDA margin, as well as the view that the group's recently improved credit metrics may not be sustainable as it transitions through its strategic plan in fiscal year 2018 (see "U.K.-Based Daily Mail & General Trust Downgraded To 'BB+' On Declining Profitability; Outlook Stable").

On Dec. 12, 2017, S&P Global Ratings lowered its long-term foreign currency credit rating on Banco de Bogota S.A. y Subsidiarias to 'BB+' from 'BBB-'. The rating action followed the downgrade of the Republic of Colombia to 'BBB-' from 'BBB'. The sovereign downgrade reflected Colombia's weakening external profile given high external debt and

lower-than-expected benefits from fiscal reform (see "Various Rating Actions Taken On Six Colombian Financial Institutions After Downgrade Of Sovereign, BICRA Remains At '6'").

Also on Dec. 12, 2017, S&P Global Ratings lowered its long-term foreign currency credit rating on Bancolombia S.A. y Companias Subordinadas to 'BB+' from 'BBB-', also following the downgrade of the Republic of Colombia.

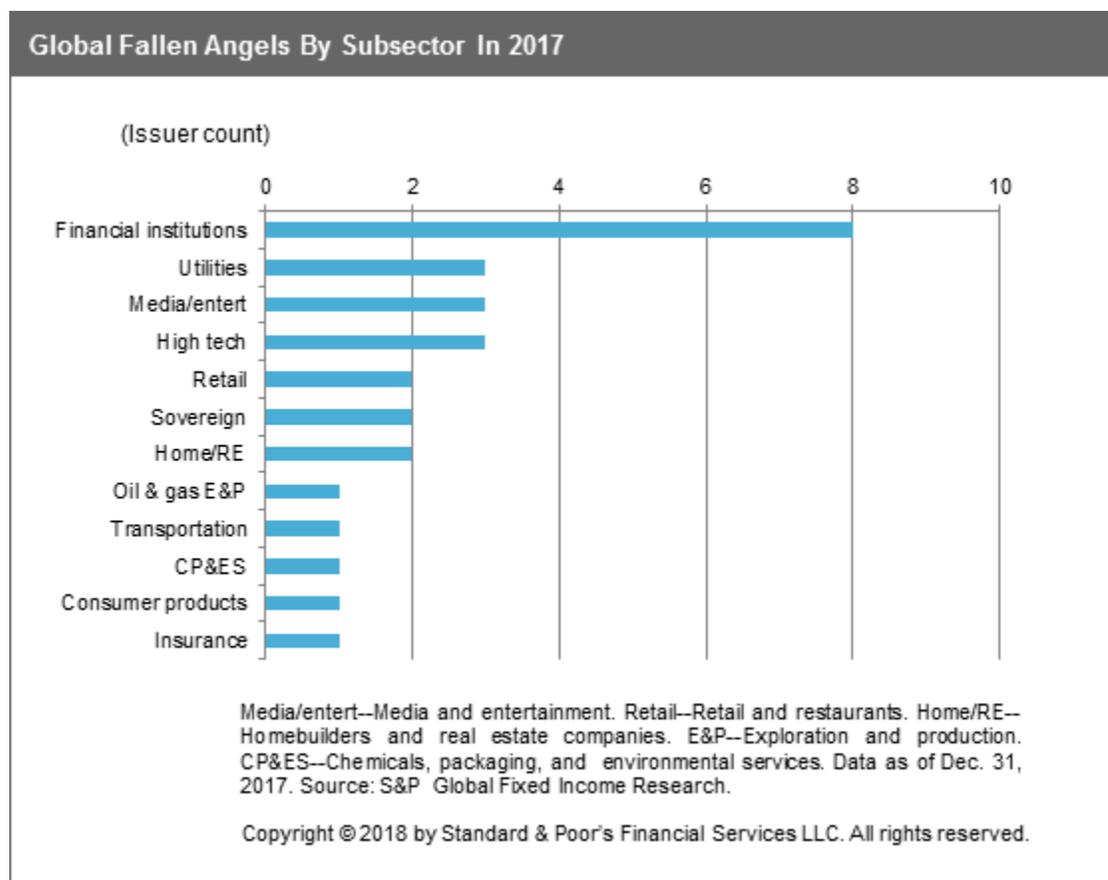
Table 1

Global Fallen Angels In 2017						
Date	Issuer	To	From	Sector	Country	Rated debt amount (mil. \$)
12/22/2017	Daily Mail & General Trust PLC	BB+	BBB-	Media and entertainment	U.K.	845
12/12/2017	Banco de Bogota S.A. y Subsidiarias	BB+	BBB-	Financial institutions	Colombia	600
12/12/2017	Bancolombia S.A. y Companias Subordinadas	BB+	BBB-	Financial institutions	Colombia	500
12/4/2017	Hartford Life Inc. (Hartford Financial Services Group Inc. (The))	BB	BBB	Insurance	U.S.	975
12/1/2017	Clipper Acquisitions Corp.	BB+	BBB-	Financial institutions	U.S.	1,026
12/1/2017	Dillard's Inc.	BB+	BBB-	Retail	U.S.	628
11/13/2017	Ezdan Holding Group Q.S.C.	BB	BBB-	Homebuilders/real estate companies	Qatar	1,500
10/27/2017	Mattel Inc.	BB	BBB-	Media and entertainment	U.S.	1,810
10/23/2017	Nabors Industries Ltd.	BB	BBB-	Oil and gas	Bermuda	5,025
10/3/2017	Brink's Co. (The)	BB+	BBB-	Transportation	U.S.	500
9/29/2017	H.B. Fuller Co.	BB+	BBB-	Chemicals, packaging, and environmental services	U.S.	400
8/8/2017	Staples Inc.	B+	BBB-	Retail/restaurants	U.S.	5,000
7/27/2017	Seagate Technology PLC	BB+	BBB-	High technology	Ireland	4,950
7/24/2017	Ericsson (Telefonaktiebolaget L.M.)	BB+	BBB-	High technology	Sweden	2,166
6/12/2017	Intrum Justitia AB (publ)	BB+	BBB-	Financial institutions	Sweden	4,590
5/17/2017	Yuexiu Property Co. Ltd. (Guangzhou Yuexiu Holdings Ltd.)	BB+	BBB-	Homebuilders/real estate companies	Hong Kong	350
5/15/2017	BankMuscat S.A.O.G.	BB+	BBB-	Financial institutions	Oman	1,000
5/15/2017	Oman Electricity Transmission Co.	BB+	BBB-	Utilities	Oman	2,000
5/12/2017	Sultanate of Oman	BB+	BBB-	Sovereign	Oman	8,234
4/27/2017	Home Capital Group Inc.	B+	BBB-	Financial institutions	Canada	587
4/6/2017	Rand Water	BB+	BBB-	Utilities	South Africa	37
4/6/2017	Transnet SOC Ltd.	BB+	BBB-	Utilities	South Africa	1,616
4/3/2017	Republic of South Africa	BB+	BBB-	Sovereign	South Africa	18,493
3/27/2017	Dun & Bradstreet Corp. (The)	BB+	BBB-	Media and entertainment	U.S.	750
3/8/2017	Fifth Street Finance Corp.	BB	BBB-	Financial institutions	U.S.	375
2/1/2017	Under Armour Inc.	BB+	BBB-	Consumer products	U.S.	600
2/1/2017	Symantec Corp.	BB+	BBB-	High technology	U.S.	7,300
1/5/2017	Och-Ziff Capital Management Group LLC	BB+	BBB-	Financial institutions	U.S.	400

Data as of Dec. 31, 2017. Source: S&P Global Fixed Income Research.

Financial institutions led with eight fallen angels in 2018, followed by utilities, media and entertainment, and high technology with three each (see chart 2). In comparison, there were 46 global fallen angels in 2016, led by oil and gas with eight and financial institutions with six, surpassing the total of 33 rising stars.

Chart 2



Profile Of Potential Fallen Angels

As of Dec. 31, 42 issuers with rated debt worth \$166.8 billion (€139 billion) were at risk of becoming fallen angels. Of the 42 issuers, 34 had negative rating outlooks, and the other eight were on CreditWatch with negative implications.

Since our last report, we added two issuers to our list of potential fallen angels. Ohio-based Ohio Valley Electric Corp. was added after S&P Global Ratings revised the outlook on the issuer to negative from stable after one of its sponsors filed for bankruptcy. Dallas-based Trinity Industries Inc. was added after S&P Global Ratings placed the issuer on CreditWatch with negative implications following the announcement that its board of directors has approved the spin-off of its infrastructure-related businesses to the company's shareholders.

Meanwhile, we removed four issuers from our potential fallen angels list, of which two were from Latin America, one was from Asia-Pacific, and one was from the Europe region. Colombia-based financial institutions Banco de Bogota S.A. y Subsidiarias and Bancolombia S.A. y Companias Subordinadas and U.K.-based Daily Mail & General Trust PLC

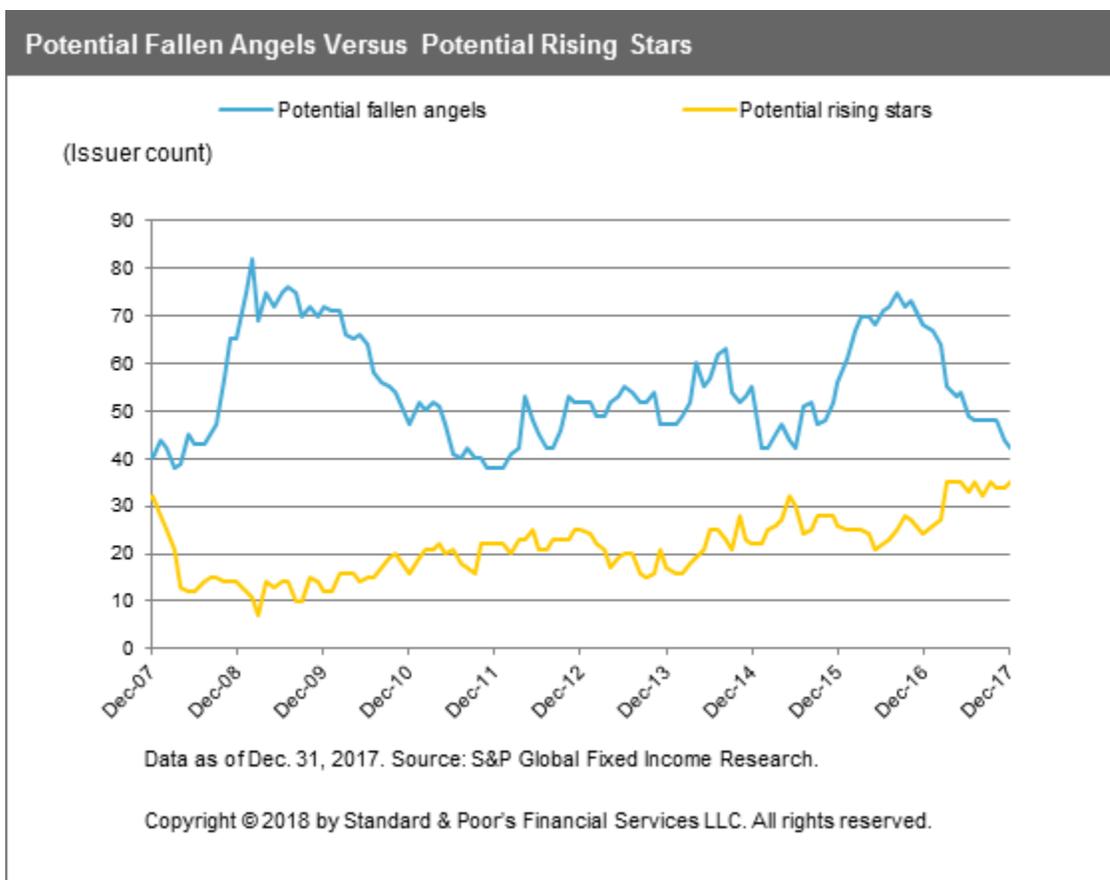
were removed after S&P Global Ratings lowered the corporate credit ratings on the issuers to 'BB+' from 'BBB-' and revised the outlooks to stable. China-based Beijing Capital Group Co. Ltd. was removed after S&P Global Ratings revised the outlook to stable.

We incorporated a list of the top 250 corporate obligations held in rated U.S. cash flow collateralized loan obligations in our potential fallen angels research, and we found that none of them was a potential fallen angel.

Although fallen angels are relatively rare in any single year (constituting only 1.98% of total investment-grade issuers on average from 1981-2009), these issuers' performance usually has market significance. The cumulative share of bonds in the fallen angels category among the total outstanding is often substantial, both in the number of issuers and in the amount of debt affected (see "Crossover Credits: A 24-Year Study Of Fallen Angel Rating Behavior," March 22, 2005).

Potential fallen angels have historically outnumbered potential rising stars (see chart 3). At their peak, potential fallen angels (82) outpaced potential rising stars (11) by 71 during the financial crisis in March 2009. In 2017 (through Dec. 31), potential fallen angels (42) outpaced potential rising stars (35) by seven.

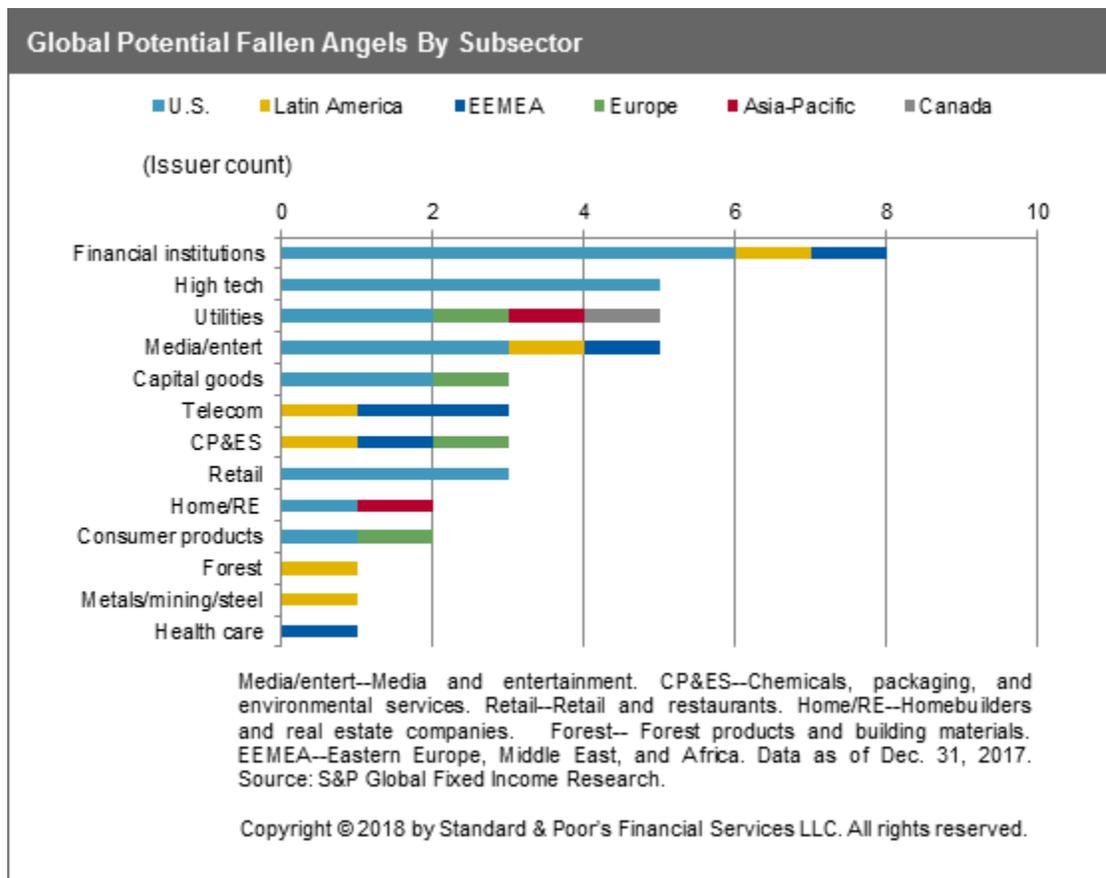
Chart 3



The financial institutions sector leads potential fallen angels with eight, followed by the media and entertainment, utilities, and high technology sectors with five each (see chart 4). By region, the U.S. leads potential fallen angels with

23, followed by Latin America and EEMEA with six each, Europe with four, Asia-Pacific with two, and Canada with one.

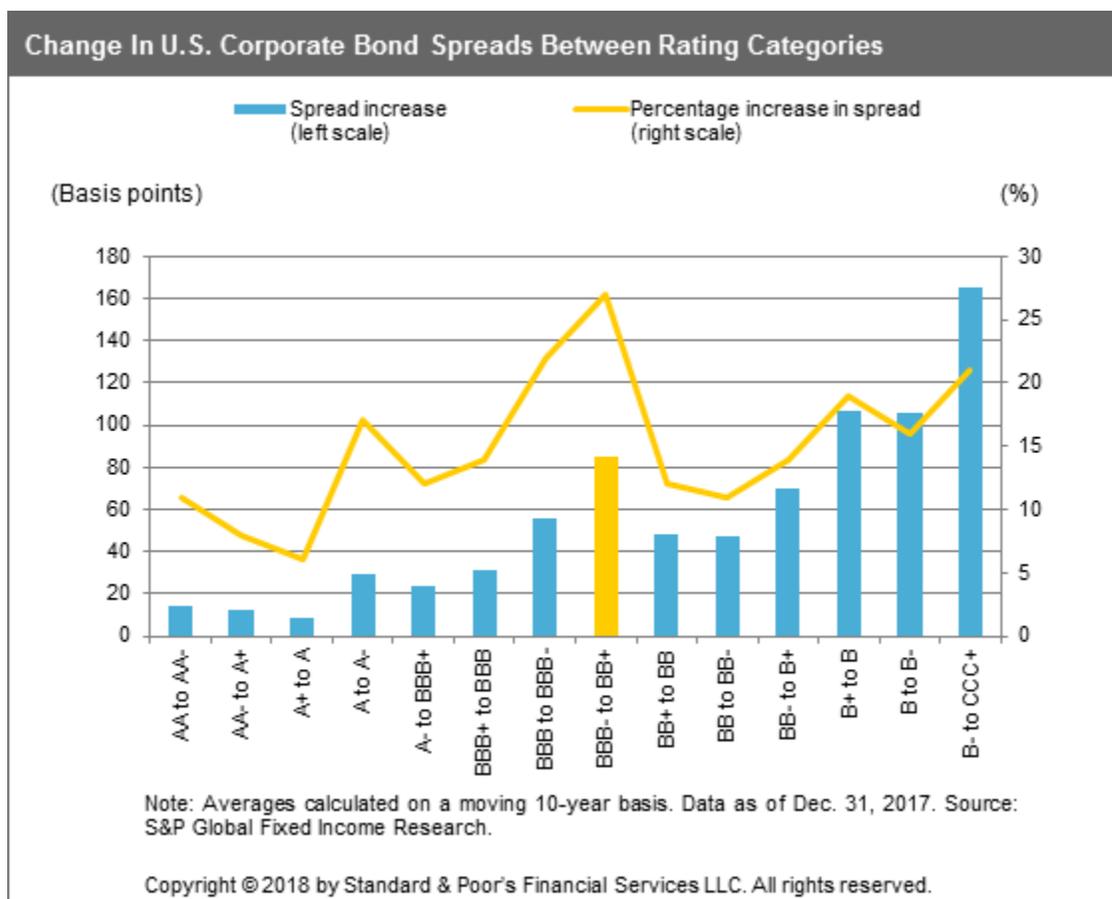
Chart 4



Potential fallen angels play an important role for bondholders because the value of holdings can change more when crossing from investment grade to speculative grade than when moving within one of those two broad categories. Generally, the cost of capital also increases significantly for issuers across the fallen angel threshold (to 'BB+' from 'BBB-').

S&P Global Ratings' credit ratings play a critical role in determining the margins that issuers pay above risk-free U.S. Treasuries to access credit markets. The threshold between investment-grade ratings and speculative-grade ratings has important market implications for the cost of borrowing among issuers. For issuers rated 'BBB-', bond spreads ranged from 310 basis points (bps) to 395 bps greater than the benchmark five-year Treasury's yield as of Dec. 31, 2017 (see chart 5). For issuers in the 'BB' rating category, borrowing spreads ranged from 395 bps to 560 bps more than Treasuries. 'BB' spreads are both higher and span a wider range than 'BBB' spreads. In general, U.S. corporate bond yields change by rating category, and borrowing costs increase noticeably when moving down the ratings scale to 'CCC+' from 'AA'.

Chart 5



Business And Financial Risk Among Potential Fallen Angels

Of the 42 global potential fallen angels as of Dec. 31, 34 nonfinancial issuers have business and financial risk scores based on S&P Global Ratings' latest available issuer rankings. S&P Global Ratings ranks companies with the same rating and outlook according to its opinion of credit quality, based on business risks for investment-grade companies and on financial risks for speculative-grade companies. Factors such as country risk, industry statistics, company position, and profitability and peer group comparison support business risk assessments. Factors such as accounting, governance and risk tolerance, cash flow adequacy, capital structure and asset protection, and liquidity and short-term events support financial risk assessments.

S&P Global Ratings categorizes corporate business risk profiles as excellent, strong, satisfactory, fair, weak, or vulnerable. Financial risk profiles are categorized as minimal, modest, intermediate, significant, aggressive, or highly leveraged. For more information, see "Table Of Contents: S&P Global Ratings Criteria," published April 30, 2016. Of the 34 nonfinancial issuers for which business risk and financial risk assessments are available, 18 companies have significant financial risk or higher (see table 2). In 2017, Symantec Corp. led global corporate fallen angels by debt volume, with \$7.3 billion (see table 3).

Table 2

Distribution Of Risk Assessments For Nonfinancial Potential Fallen Angels						
--Financial risk profile--						
Business risk profile	Minimal	Modest	Intermediate	Significant	Aggressive	Highly leveraged
Excellent						
Strong		1		2	4	
Satisfactory	1	2	7	9		1
Fair		3	2		2	
Weak						
Vulnerable						

Data as of Dec. 31, 2017. Source: S&P Global Fixed Income Research.

Table 3

Leading Global Corporate Fallen Angels By Debt Volume (1997-2017)						
Date	Company	To	From	Subsector	Country	Rated debt (mil. \$)
1997	Korea Development Bank	B+	BBB-	Financial institutions	Korea	13,791
1998	SB Treasury Co. LLC	BB+	BBB-	Financial institutions	Japan	1,800
1999	Lyondell Chemical Co.	BB	BBB+	Chemicals, packaging, and environmental services	U.S.	4,775
2000	Nissan Motor Co. Ltd.	BB+	BBB-	Automotive	Japan	6,169
2001	Enron Corp.	B-	BBB-	Utilities	U.S.	13,623
2002	WorldCom Inc.	BB	BBB	Telecommunications	U.S.	30,000
2003	Parmalat Finanziaria SpA	B+	BBB-	Consumer products	Italy	7,177
2004	AT&T Corp.	BB+	BBB	Telecommunications	U.S.	17,010
2005	General Motors Corp.	BB	BBB-	Automotive	U.S.	291,800
2006	Harrah's Entertainment Inc.	BB+	BBB-	Media and entertainment	U.S.	10,800
2007	Residential Capital LLC (General Motors Corp.)	BB+	BBB-	Financial institutions	U.S.	16,632
2008	Lehman Brothers Holdings Inc.	SD	A	Financial institutions	U.S.	79,455
2009	CIT Group Inc.	BB-	BBB-	Financial institutions	U.S.	38,191
2010	Alpha Bank A.E.	BB	BBB	Financial institutions	Greece	29,217
2011	Tokyo Electric Power Co. Inc.	B+	BBB	Utilities	Japan	64,994
2012	ArcelorMittal	BB+	BBB-	Metals, mining, and steel	Luxembourg	23,824
2013	Telecom Italia SpA	BB+	BBB-	Telecommunications	Italy	48,302
2014	Navient Inc. (Navient Corp.)	BB	BBB-	Financial institutions	U.S.	18,846
2015	Gazprom OAO	BB+	BBB-	Oil and gas	Russia	63,911
2016	EMC Corp. (Dell Technologies Inc.)	BB+	A	High technology	U.S.	27,125
2017	Symantec Corp.	BB+	BBB-	High technology	U.S.	7,300

Note: Ratings may not depict the current ratings on the issuers. Data as of Dec. 31, 2017. Source: S&P Global Fixed Income Research.

We closely monitor issuers as they descend to fallen angel status to evaluate the size of the ratings' movements. In terms of becoming a fallen angel, the smallest possible downward movement is to the highest speculative-grade rating from the lowest investment-grade rating (to 'BB+' from 'BBB-'). This transition captures 75% of our current fallen

angels (see table 4).

Table 4

Fallen Angels Matrix (%)						
Rating	BB+	BB	BB-	B+	B	B-
A+	0.00	0.00	0.00	0.00	0.00	0.00
A	0.00	0.00	0.00	0.00	0.00	0.00
A-	0.00	0.00	0.00	0.00	0.00	0.00
BBB+	0.00	0.00	0.00	0.00	0.00	0.00
BBB	0.00	3.57	0.00	0.00	0.00	0.00
BBB-	75.00	14.29	0.00	7.14	0.00	0.00

Data as of Dec. 31, 2017. Source: S&P Global Fixed Income Research.

Table 5

'BBB-' Rated Issuers On CreditWatch With Negative Implications								
Subsector	Issuer	Parent organization (if applicable)	New to the list this month	Change in OLCW placement	Country	Rated debt amount (mil. \$)	Business risk	Financial risk
Capital goods	Pentair PLC				Ireland	2,223	Satisfactory	Significant
Capital goods	Trinity Industries Inc.		Yes		U.S.	850	Satisfactory	Intermediate
Consumer products	Owens & Minor Inc.				U.S.	2,050	Satisfactory	Intermediate
Chemicals, packaging, and environmental services	Syngenta AG	China National Chemical Corp.			Switzerland	2,720	Strong	Significant
Financial institutions	Cantor Fitzgerald L.P.				U.S.	1,538		
High technology	Pitney Bowes Inc.				U.S.	3,925	Fair	Intermediate
Media and entertainment	Viacom Inc.				U.S.	12,450	Satisfactory	Significant
Media and entertainment	Wyndham Worldwide Corp.				U.S.	3,625	Satisfactory	Significant

OLCW--Outlook or CreditWatch. Data as of Dec. 31, 2017. Source: S&P Global Fixed Income Research.

Table 6

'BBB-' Rated Issuers With Negative Outlooks								
Subsector	Issuer	Parent organization (if applicable)	New to the list this month	Change in OLCW placement	Country	Rated debt amount (mil. \$)	Business risk	Financial risk
Capital goods	Flowserve Corp.				U.S.	1,400	Satisfactory	Intermediate
Consumer products	G4S PLC				U.K.	2,273	Strong	Significant
Chemicals, packaging, and environmental services	Braskem S.A.	Odebrecht S.A.			Brazil	6,400	Satisfactory	Significant

Table 6

'BBB-' Rated Issuers With Negative Outlooks (cont.)

Subsector	Issuer	Parent organization (if applicable)	New to the list this month	Change in OLCW placement	Country	Rated debt amount (mil. \$)	Business risk	Financial risk
Chemicals, packaging, and environmental services	PhosAgro PJSC				Russia	500	Fair	Modest
Financial institutions	Apollo Investment Corp.				U.S.	485		
Financial institutions	BlackRock Capital Investment Corp.				U.S.	265		
Financial institutions	Corporate Capital Trust				U.S.	500		
Financial institutions	Koc Holding A.S.				Turkey	1,500		
Financial institutions	PennantPark Investment Corp.				U.S.	318		
Financial institutions	Prospect Capital Corp.				U.S.	5,809		
Financial institutions	Tanner Servicios Financieros S.A.				Chile	507		
Forest products and building materials	Empresas CMPC S.A.				Chile	3,000	Satisfactory	Significant
Health care	Teva Pharmaceutical Industries Ltd.				Israel	40,406	Strong	Aggressive
High technology	Avnet Inc.				U.S.	1,500	Satisfactory	Intermediate
High technology	Keysight Technologies Inc.				U.S.	2,200	Fair	Modest
High technology	Tech Data Corp.				U.S.	2,000	Satisfactory	Modest
High technology	Xerox Corp.				U.S.	7,155	Fair	Modest
Homebuilders/real estate companies	China Overseas Grand Oceans Group Ltd.	China Overseas Land & Investment Ltd.			China	400	Fair	Aggressive
Homebuilders/real estate companies	Government Properties Income Trust				U.S.	950	Fair	Intermediate
Media and entertainment	Discovery Communications Inc.				U.S.	14,870	Satisfactory	Significant
Media and entertainment	Globo Comunicacao e Participacoes S.A. (GLOBO)				Brazil	825	Satisfactory	Minimal
Media and entertainment	Naspers Ltd.				South Africa	3,200	Fair	Aggressive
Metals, mining, and steel	Gerdau S.A.	Metalurgica Gerdau S.A.			Brazil	2,701	Satisfactory	Significant
Retail/restaurants	Kohl's Corp.				U.S.	3,250	Satisfactory	Intermediate
Retail/restaurants	Macy's Inc.				U.S.	7,349	Satisfactory	Intermediate
Retail/restaurants	Signet Jewelers Ltd.				U.S.	400	Satisfactory	Significant

Table 6

'BBB-' Rated Issuers With Negative Outlooks (cont.)

Subsector	Issuer	Parent organization (if applicable)	New to the list this month	Change in OLCW placement	Country	Rated debt amount (mil. \$)	Business risk	Financial risk
Telecommunications	Operadora de Sites Mexicanos S.A. de C.V.				Mexico	494	Strong	Aggressive
Telecommunications	Turk Telekom	Ojer Telekomunikasyon A.S.			Turkey	1,500	Satisfactory	Intermediate
Telecommunications	Turkcell Iletisim Hizmetleri A.S.				Turkey	500	Satisfactory	Modest
Utilities	Ohio Valley Electric Corp.		Yes		U.S.	695	Satisfactory	Highly leveraged
Utilities	Plains All American Pipeline L.P.				U.S.	20,682	Strong	Aggressive
Utilities	PT Pelabuhan Indonesia III (Persero)	Republic of Indonesia			Indonesia	500	Satisfactory	Significant
Utilities	Societa Metropolitana Acque Torino SpA				Italy	162	Strong	Modest
Utilities	TransAlta Corp.				Canada	2,802	Strong	Aggressive

OLCW--Outlook or CreditWatch. Data as of Dec. 31, 2017. Source: S&P Global Fixed Income Research.

Related Criteria And Research

Related Criteria

- Table Of Contents: S&P Global Ratings Criteria, April 30, 2016

Related Research

- Industry Top Trends 2018: Oil And Gas, Nov. 13, 2017

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