

Enel – Market update on 2022 KPI observation

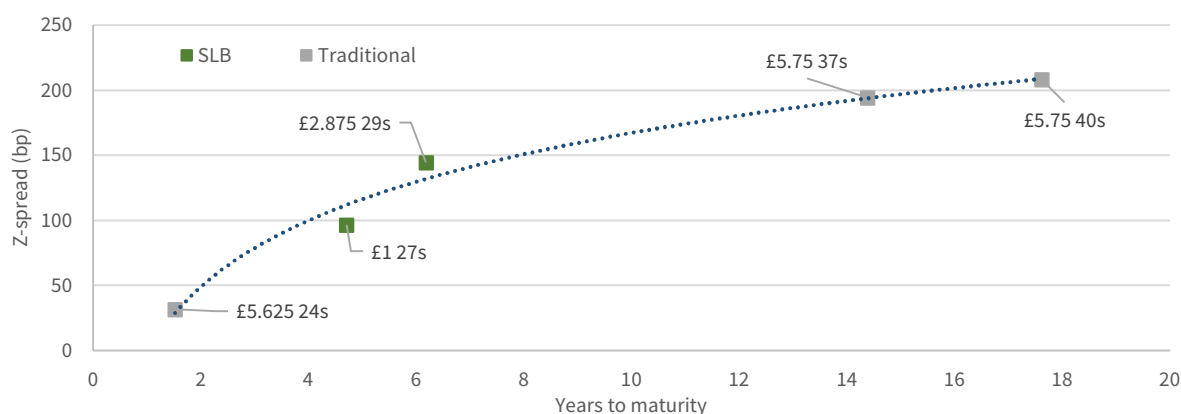
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Energy company Enel remains the flagship issuer of Sustainability-Linked Bonds (SLBs).¹ Due to its early adopter status, it is also the issuer of the majority of SLBs with imminent Sustainability Performance Target (SPT) observation dates.

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.² Recent media reports bring again into focus the question of whether the 2022 target has indeed been met.³ 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 2022.⁴ 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.⁵

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



¹ Please see “[Enel: A case study in transition finance using SLBs](#)”, AFII, 25 Jul 2023.

² Please see “[A review of Sustainability-Linked Bonds approaching KPI observation dates](#)”, AFII, 17 Nov 2022.

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 in 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.

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,⁶ or its Investor Relations team have guided that independent auditor’s reports have historically been released in mid-April.⁷

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.

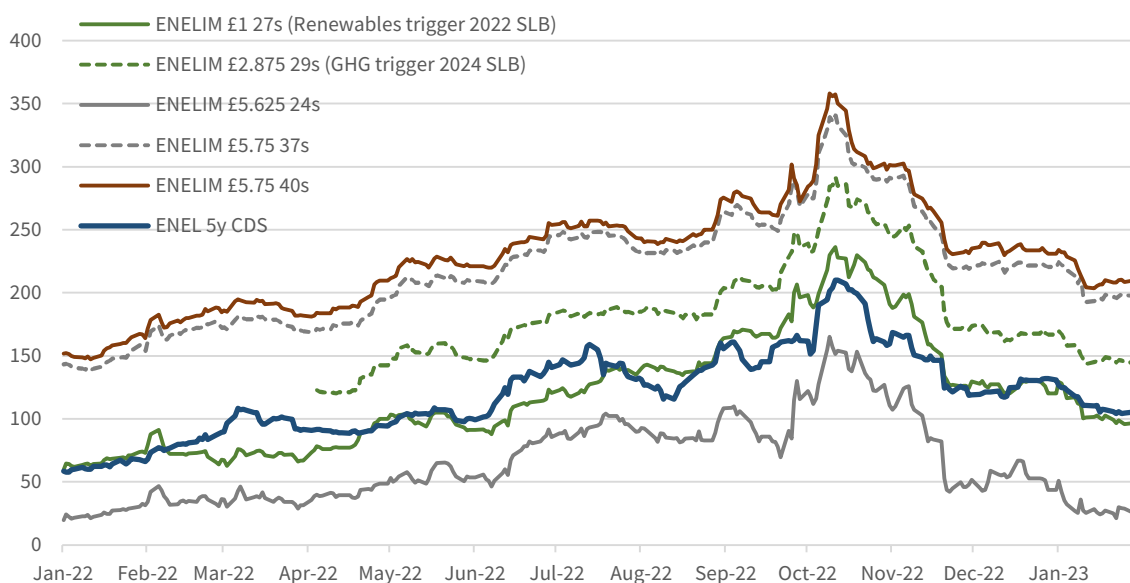
Enel has issued five sterling bonds (Figure 2) from which we make comparisons. One other is an SLB with an SPT observed at YE 2024.

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

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

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).

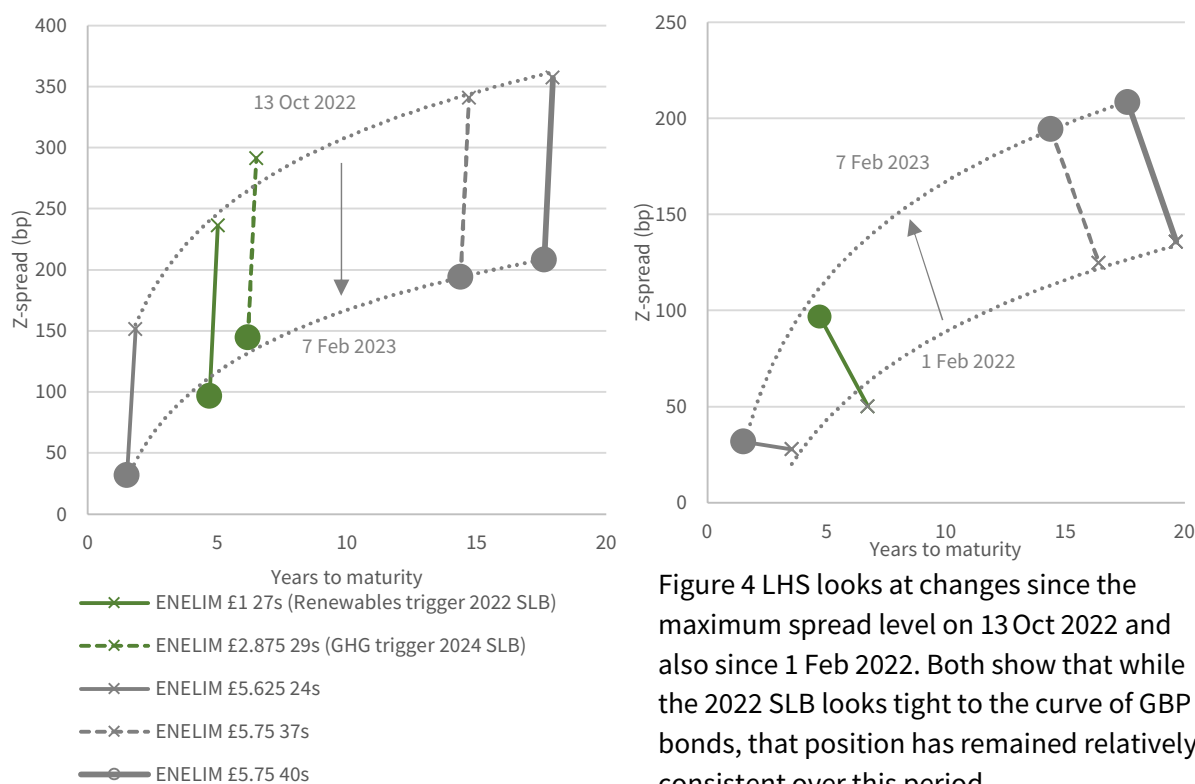
Figure 3. Historic Enel GBP bond and CDS spreads. Source: Bloomberg, accessed 7 Feb 2023.



⁶ “[2023 calendar of corporate events](#)”, Enel, 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. Enel GBP bond spread moves since 13 Oct 2022 (LHS) and 1 Feb 2022 (RHS). Note ENELIM £2.875 29s is missing from RHS as it was issued in Apr 2022. Source: Bloomberg, accessed 7 Feb 2023.



The 2022 SLB looks around 15bp rich to the curve, so using the AFII option pricing model,⁸ 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.

⁸ For full details please see “[An option pricing approach for sustainability-linked bonds](#)”, AFII, 8 Nov 2022.

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