Questions That Matter

Corporates | How Quickly Can Corporates Get Back On Track?

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A wide gap has opened up between sectors hit hard by COVID and those least-affected. The latter will be back on track next year; for the worst-affected, 2022 or beyond.

How will this shape 2021

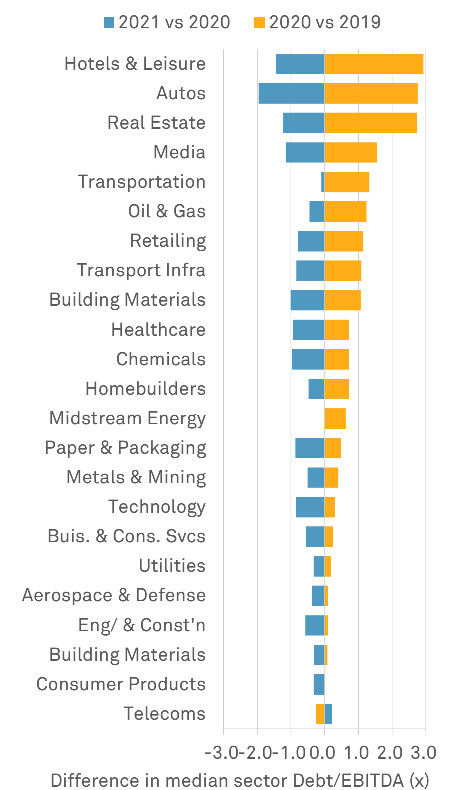
Damage. We estimate that, for non-financial corporates rated by S&P Global Ratings, 2020 will have seen revenues fall 9%, EBITDA fall 14% and capex decline 11%. The median debt/EBITDA ratio has risen from 4.3x to 4.9x.

Solvency. The rapid response by policy makers has helped soften the COVID blow, but many corporates are still wrestling with weaker revenues, cash burn and weaker debt metrics. Market liquidity remains, but solvency pressures are acute.

Response. While many factors remain out of their control, how corporates respond to ongoing pressures will have broader ramifications, particularly in terms of employment and investment decisions. More broadly, COVID has accelerated disruptive trends such as digitization, energy transition and work-from-home, and companies will need to adapt their strategies for the post-COVID world.

The impact of COVID-19 has been severe for some companies, negligible for others. Worst-affected sectors have seen EBITDA slump 27% and median debt/EBITDA rise by a full turn to 5.4x

Change in median speculative grade sector Debt/EBITDA in 2020 and 2021



What we think and why

Mind the gap. The pandemic's impact has been far from uniform. The worst affected sectors have seen revenues collapse and debt metrics surge (see chart). Credit metrics for these are unlikely to recover before 2022 at the earliest. For others the impact has been relatively marginal and next year should bring recovery.

Pressure on the weakest. We expect further ratings pressure and solvency risk for hardest hit companies in the near term. Leisure, transportation, retail, oil and autos are amongst those for whom recovery is likely to be slow and dependent on a successful deployment of vaccines.

Opportunities for the more robust. Some sectors have been relatively unscathed by the pandemic – utilities, telecoms, and technology, for example – and they will have wider scope for M&A, refinancing or improving credit metrics.

What could go wrong

Solvency. A slower vaccine rollout or lingering social distancing requirements may be a step too far for weaker credits, bringing more insolvencies and restructuring. Similarly, permanent changes to operating models – less business travel or online shopping for example – may render some business models unviable.

Stimulus withdrawal. The withdrawal of government stimulus efforts may prove too much for some companies to bear, triggering defaults and a surge in layoffs.

Market volatility. Central bank support has successfully underpinned market liquidity and brought financing costs down lower than they were pre-crisis. But should markets lose confidence in prospects for recovery or the timeline of ending pandemic-related restrictions, this could trigger renewed concerns for corporate solvency and asset quality more generally, which could trigger market volatility. This could place those companies most reliant of market financing at risk.

For the least affected, next year will bring full recovery; for the worst affected getting back on track will take until 2022 at the earliest

This report is an extract from the S&P Global Ratings report, “Global Credit Outlook 2021: Back On Track?”

This report does not constitute a rating action

S&P Global Ratings believes there remains a high degree of uncertainty about the evolution of the coronavirus pandemic. Reports that at least one experimental vaccine is highly effective and might gain initial approval by the end of the year are promising, but this is merely the first step toward a return to social and economic normality; equally critical is the widespread availability of effective immunization, which could come by the middle of next year. We use this assumption in assessing the economic and credit implications associated with the pandemic (see our research here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

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