S&P Global
Ratings

Irish Snapshot H2 2021

New Issuer Activity Surges As Portfolio Credit Quality Stabilizes

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Overview

A greater number of rating actions and a sharp rise in newly rated issuers is the top-line news for the Irish portfolio in the first half of 2021. Upon closer inspection, we see that the nature of the rating actions shifted, with upgrades now matching downgrades, and most of those positive changes were in the corporate sector in the half. As for new ratings, those were mostly in structured finance, with 11 of the total of 14 assigned in the first half. Residential mortgage-backed securities (RMBS) led the charge as issuers primarily sought to exploit favorable financing conditions. The outlook bias for Irish incorporated issuers has also improved, with the number of ratings carrying a stable outlook increasing to 83% from 73% at year-end 2020, and those with a negative outlook decreasing to 12% from 22%. This is not only due to the surge of new structured issuers, whose ratings typically have a stable outlook, but also the expectations of greater rating stability as the global economy continues to recover, all be it unevenly, from the ongoing pandemic.

Sector Comment

Sovereign: On May 31, we affirmed the 'AA-' sovereign rating on Ireland with a stable outlook, reflecting the country's high income levels; open, productive, and diversified economy; educated and flexible workforce; and healthy demographics. The ratings also take into account Irish policymakers' track record of prudent, flexible, and predictable macroeconomic policies, which we believe have bolstered economic resilience. We forecast Ireland's underlying domestic economy will rebound by 4% on average in 2021-2022 as authorities gradually phase out social-distancing requirements and global travel and trade volumes pick up. Constraints to the ratings include high public debt, elevated external leverage, and outsized statistical effects in external accounts. We also think the willingness of the OECD, the EU, and the new U.S. administration to tighten tax rules could weigh significantly on Ireland's budgetary revenues. The stable outlook reflects our view that Ireland is likely to contain the pandemic's adverse effect on the country's economic and budgetary position, with no lasting structural damage to its credit metrics.

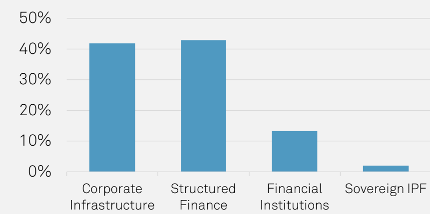
Financial Institutions: Despite Ireland's anticipated economic recovery, banks' earnings and profitability remain under pressure due to modest growth opportunities, significant cost bases, high capital requirements for mortgage loans, and low revenue diversification. Banks have started taking steps to widen their product offerings and diversify their revenue streams, but this has not yet had a noticeable impact on profitability. As a result, while we recently affirmed the ratings on all Irish domestic banks, most still carry a negative outlook, indicating that we could downgrade them if they are unable to resolve current weaknesses in profitability. In particular, we will monitor how pre-provision income evolves, apart from the potential one-off benefits from acquiring portfolios from Ulster Bank and KBC, as they implement exit plans from the Irish market.

Corporate/Infrastructure: The global economic recovery is clearly good news for the corporate sector, which the outlooks on our ratings illustrate: the percentage with negative outlooks has fallen to 20% from 31% at the start of the year.

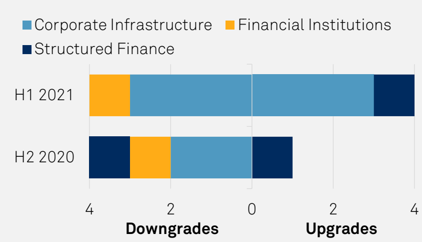
Irish Public Ratings Dashboard

	H1 2021	H2 2020
Public ratings	98	86
Downgrades	4	4
Upgrades	4	1
New ratings	14	5
Stable outlook	83%	73%

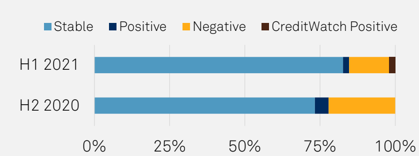
Total Irish Issuers



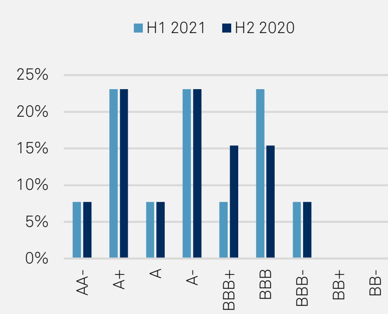
Upgrades/Downgrades



Outlook Distribution



Financial Institutions Ratings*



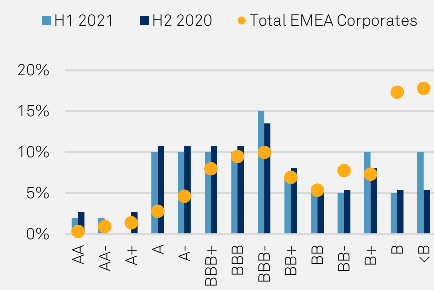
However, corporates, long the most exposed sector to the pandemic, still represent two-thirds of all ratings on Irish issuers with negative outlooks. We expect it could be at least 2023 before certain sectors, such as those related to transportation, return to pre-pandemic credit metrics. We also expect European M&A activity and shareholder returns to reach or exceed pre-pandemic levels. We already see issuers stepping back from conversative financial policies adopted at the outset of the pandemic, with the volume of European dividend recaps year-to-date 2021 already above any other year, bar 2017. Nonetheless, with its stronger rating profile, the overall Irish rated corporate portfolio compares favorably with the broader EMEA portfolio.

Structured Finance: Strong growth exhibited by Irish issuers in 2020 accelerated in the first half of 2021 with 11 new issuers, exceeding the total of seven for full-year 2020. RMBS transactions led the way, with transactions secured by performing and reperforming collateral--four were collateralized loan obligations (CLO), including two refinancings, from Irish-based asset managers. The performance of Irish structured finance transactions was stable in the first half with no downgrades, one upgrade, and all--bar one issuer--carry stable outlooks on their ratings. Irish RMBS transactions should benefit from domestic economic growth and house price appreciation, and CLOs from the continuing reopening of the European economy and favorable financing conditions.

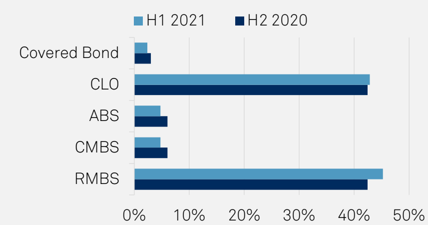
Related Research

- Industry Top Trends Update: Transportation Infrastructure EMEA - The dual-track recovery shows a widening gap, July 15, 2021
- Ratings On Irish Banks Affirmed Amid Ongoing Profitability Pressure; Most Outlooks Still Negative, June 24, 2021
- Research Update: Ireland AA-/A-1+ Rating Affirmed; Outlook Stable, May 31, 2021
- ESG Industry Report Cards For Structured Finance Published, March 31, 2021

Corporate Ratings



Structured Finance Issuers



*Ratings reflect operating company as opposed to holding company entities, where applicable.
ABS--Asset-backed securities.
CLO--Collateralized loan obligation.
CMBS--Commercial mortgage-backed securities.
IPF--International public finance.
RMBS--Residential mortgage-backed securities.

Source: S&P Global Ratings.

S&P Global Ratings publicly rates 98 Irish incorporated or headquartered issuers across financial institutions, sovereign international public finance (IPF), corporate/infrastructure, and structured finance sectors.

The commentary and charts reflect the portfolio as of June 30, 2021, and do not reflect any actions which may have been taken subsequent to this date.

This report does not constitute a rating action.