Survey of Swedish non-financial corporations' financing

SURVEY 2011

The Riksbank's survey of corporations' loan-based financing

Numerous media reports and articles from journalists and financial analysts in the last couple of years have argued that structural changes are taking place in the debt financing of non-financial corporations. Corporations in Europe are said to be moving away from taking bank loans towards issuing corporate bonds, a development which started during the recent financial crisis. One explanation for this is that corporations expect the upcoming Basel III banking regulations to increase the price for bank loans to corporations and to decrease the supply of them. However, this trend has not been seen yet in statistics for the Swedish markets for loan-based financing following the crisis.

At the same time, Swedish banks and financial institutions have started preparing for increased demand for Swedish corporate bonds. In addition, a large number of Swedish corporations have shown an interest in moving part of their loan-based financing to the market for corporate bonds. However, several market participants indicate that this market is under-developed. They maintain that transparency is poor and liquidity is limited. They also claim that there are shortcomings in the statistics for corporate bonds and loans.

With the purpose of getting a better idea of Swedish corporations' financing structure and of the debt maturities coming up both in the bond and loan markets for Swedish corporations, the Riksbank conducted a survey in March 2011. In this survey, 160 Swedish non-financial corporations were asked to describe their financing structure and upcoming maturities on the bond and loan markets.[1] This survey was also meant to contribute towards increasing the transparency of the Swedish corporate debt market. Consequently, the corporations were also asked how they expect their financing structure to change in the future and how they view the Swedish corporate bond market.[2]

Survey sample

The 160 companies included in the survey were Swedish corporations listed on the OMX Large Cap and OMX Mid Cap, and corporations with outstanding corporate bonds according to Bloomberg statistics or outstanding bank loans according to Dealogic statistics. The survey was sent via e-mail to the CEO or the CFO of the companies through the research company Markör.

Out of 160 companies, 70 chose to answer the survey. Even though the response frequency was not high, we believe that the results can give us a good indication of the Swedish companies' current financing situations, and of the future development of financing. However, it is important to emphasise that the answers do not give us a complete view of the financing market.

The total assets of the participating companies are greater than those who did not, averaging SEK 31 billion compared to SEK 19 billion. This shows that the corporations choosing not to participate in the survey were primarily smaller corporations. As can be seen from the results presented below, we also noticed a positive correlation between the size of the corporation and its interest in answering the survey. The larger the total assets, the higher the probability of the respondent having an opinion on the questions asked. The lower rate of participation in the survey among the smaller companies could be because these corporations do not have the same resources or interest in discussing these questions.[3]

1 There are no available statistics showing the maturity profiles of Swedish corporate bonds and loans which cover the total market and take into account buybacks and refinancing. Swedish corporations are not required to report their borrowing to any data source. In 2011 the Riksbank received the Swedish Parliament's approval to collect the data it requires directly from all market participants, even if these do not fall under the supervision of Finansinspektionen (the Financial Supervisory Authority).
2 An analysis of Swedish corporations' loan-based financing is presented in the article "Markets for Swedish non-financial companies' loan-based financing" in the publication Economic Review no.2, 2011. This article analyses the results of this survey, together with other data.
3 Many corporations chose not to participate in the survey, even though the answers would only be reported on the aggregate level, referring to a lack of time or resources.

With the purpose of finding differences in the answers between smaller and larger companies, we divided the respondents into two groups, based on total assets. The 35 companies with the smallest nominal size of total assets are defined as "smaller companies", while the remaining 35 were defined as "larger companies". The smaller companies' total assets amounted to between SEK 0.5 and 7.9 billion, and the larger companies have total assets of between SEK 8 and 600 billion at time of the survey.

The survey's results indicate approaching changes in corporations' financing

The survey's results show the following:

- Bilateral bank loans[4] and equity capital form the most important financing sources for corporations, regardless of size.
- Bilateral loans are especially important for the smaller companies. On the other hand, syndicated loans[5] are more common among larger companies. In total, almost two-fifths of the bank loans reported are syndicated loans.
- Larger companies use the bond market for funding to a greater degree than smaller companies.
- The majority of the bank loans are denominated in Swedish kronor, while the majority of the corporate bonds are issued in foreign currency.[6]
- The majority of the outstanding bank loans and bonds among Swedish companies will mature in 2015 or later. Smaller companies have larger maturities coming up in the nearest future than larger companies.
- The larger companies expect changes to their financing structure to a greater degree than the smaller companies and are more interested in issuing on the corporate bond market than the smaller ones

Companies' financing structure

One of the survey's aims was to obtain a picture of the companies' financing structure. This section shows the average financing structure of the participating companies according to their survey responses. All of the companies are weighted equally, regardless of size, which gives us an indication of how the companies on average choose to diversify their funding between different sources. This is followed by the results for the financing structure on an aggregate level, allocated on the basis of the total amount reported for each financing source.

Average financing structure

The most important financing source for Swedish companies is bank loans, which stand for an average of 43 per cent of corporate financing (see Chart 1). The second most important financing source is equity which stands for an average of 28 per cent of the financing. Other financing sources are also of importance. For example, this includes retained earnings, provisions, short-

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[4] A bilateral loan is a loan that is granted to a borrower by a lender. For smaller corporations, bilateral loans often form the largest part of their loan-based financing. Market participants often call this relationship lending. This is because the lending bank has established a business relationship with the corporation over several years. This relationship means that the corporation can often feel secure that it will be able to obtain loans from the bank.

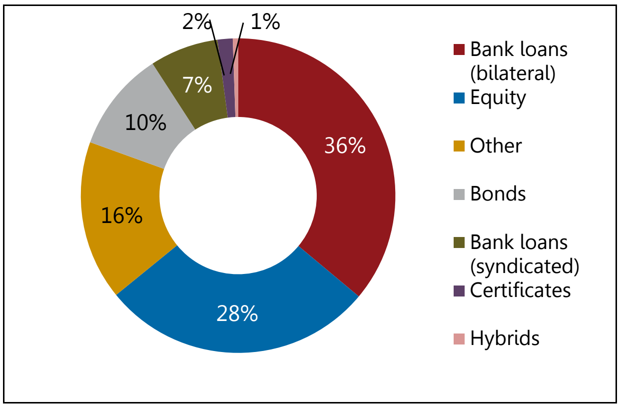
[5] A syndicated loan is a loan that is granted to a borrower by several lenders. This means that large corporations can obtain loans exceeding a single bank's loan limit. Syndicated loans are traded on the secondary market and thus have certain similarities with corporate bonds.

[6] No complete statistics are available showing the currencies that Swedish corporations borrow from banks. However, when looking at corporate bonds, Statistics Sweden's statistics show that 60 per cent of outstanding Swedish corporate bonds are in foreign currency, compared to 72 per cent in our survey sample.

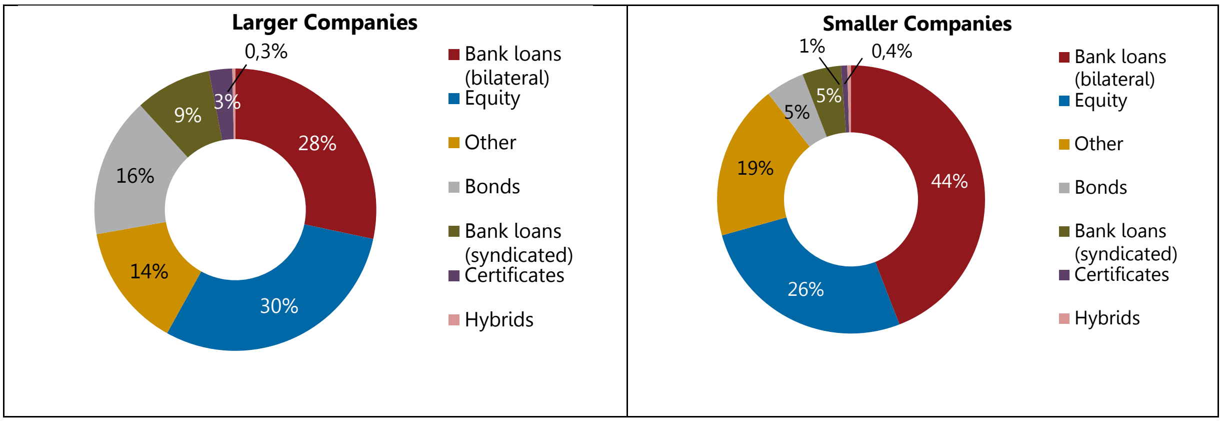
term loans etc. Bonds seem to be a more important source of financing for larger companies. On average, these stand for about 16 per cent of the financing structure of larger companies, but only 5 per cent for smaller companies.

Most bank loans are bilateral loans. On average, bilateral loans count for 36 per cent of companies' financing, while syndicated loans stand for 7 per cent. Bilateral loans are especially important for the smaller companies (see Charts 2 and 3). On average, 44 per cent of the financing comes from bilateral loans for small companies, while the corresponding value for the larger companies is 28 per cent.

Chart 1: Total financing structure, average percentage when all companies are equally weighted



Charts 2 and 3: Total financing structure, average percentage per company. Comparison of small and large companies



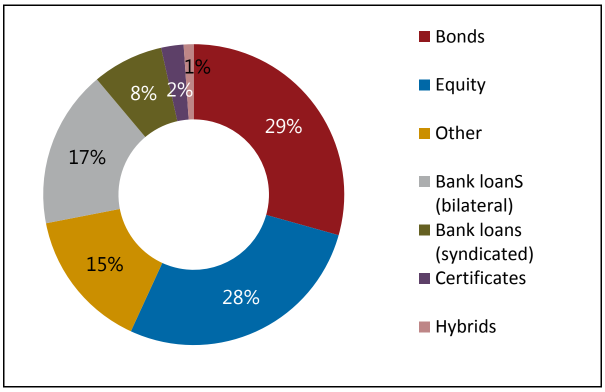
Financing structure on an aggregated level

On an aggregated level, the most important financing sources for Swedish companies are bonds and equity, each standing for almost a third of the total amount (see Chart 4). Bank loans are also important, representing 25 per cent of the total amount. The pattern is largely the same for the larger companies. This is because the larger companies' balance sheets form a larger part of the aggregated financing structure of all companies participating in the survey. However, for the smaller companies, the survey indicates that equity capital is the most important source of financing, with 51 per cent of the total amount. When it comes to debt-based financing, bank loans represent the largest part of financing for smaller corporations (see Charts 5 and 6).

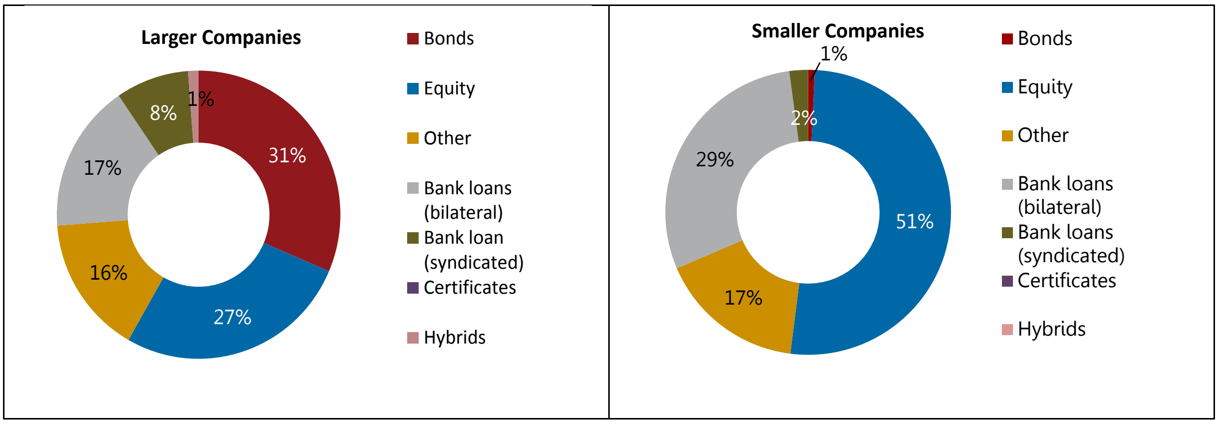
Slightly more than two thirds of the bank loans are bilateral loans. Syndicated loans are more common for the larger companies than for the smaller ones. For the larger companies syndicated loans represent 33 per cent of the total amount of bank loans. The corresponding value for the smaller companies is 7 per cent. On the other hand, there is no difference between larger and smaller companies regarding the proportion of companies with outstanding bank loans. 54 of 70 companies have bank loans. Just less than two fifth of these bank loans are in foreign currency. Loans denominated in foreign currency are most common among the larger companies, while only 10 per cent of the smaller companies' bank loans are in foreign currency.

Concerning corporate bonds, the survey responses indicate a significant difference between larger and smaller companies. As mentioned previously, corporate bonds are the most important financing source for larger companies, while only 1 per cent of smaller companies' financing comes from corporate bonds. The same pattern can be seen when counting the number of companies that have issued corporate bonds. According to the results, most corporate bonds are issued in foreign currency (74 per cent). However, among the few companies that have issued bonds in the smaller company category, the majority is in Swedish kronor (90 per cent).

Chart 4: Total financing structure



Charts 5 and 6: Financing structure – comparison of larger and smaller companies



Redemptions

The survey also included questions on upcoming maturities, both of bank loans and bonds. This was to try to confirm the pattern that other statistics sources, research reports and market participants have indicated, i.e. that there will be large redemptions of both bank loans and corporate bonds in the coming years for Swedish corporations.

Upcoming maturities

As can be seen from Charts 7 and 8 below, there will be a relatively greater amount of bank loan redemptions in 2012 and 2013, compared with 2011. However, most bank loans will mature in 2015 or later. This is because bank loans are usually given on a long-term basis. Disregarded to the level of maturities in 2015, which also includes maturities in later years, the largest amount of bank loans and corporate bonds will mature in 2013. The large amount maturing in 2015 is also due to the fact that corporate bonds are long-term instruments. For example, the average duration of issuance in 2009 and 2010 was five years. The companies also refinanced large amounts of their future financing needs in 2009.

Chart 7. Redemptions bank loans – total
(Redemptions per year of total amount reported)

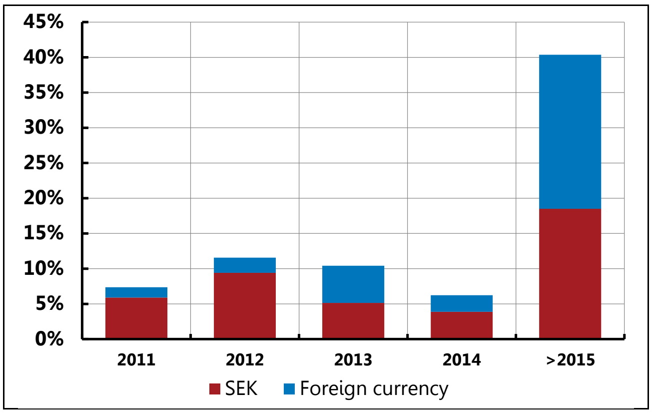
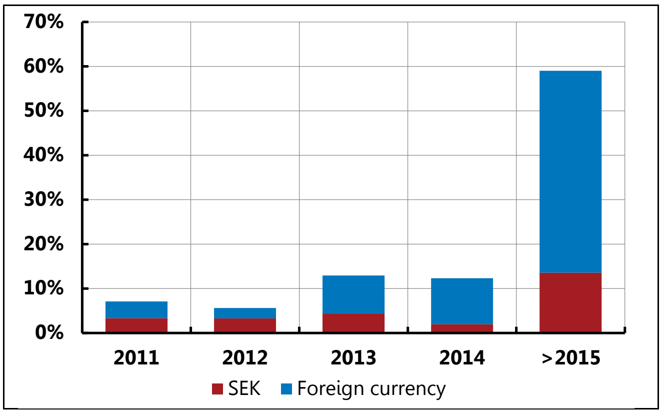


Chart 8. Redemptions corporate bonds – total
(Redemptions per year of total amount reported)



Comparison of upcoming maturities of larger and smaller companies

The survey result shows that smaller companies are expecting more significant maturities in 2011 and 2012, compared to the larger companies (see Charts 9 and 10). A similar pattern can be seen for bonds, with large maturities coming up from 2011–2013 for the smaller companies. At the same time, the results indicate that around half of the larger companies' maturities are expected in 2015 or later, both concerning bank loans and bonds. This is a much higher proportion than for the smaller companies. This may indicate that larger corporations already have extended their financing. This could be because conditions are better for them to obtain more long-term financing and they may perhaps have better access to funding markets than the smaller corporations.

Chart 9. Redemptions bank loans, comparison of large and small companies
(Redemptions per year of total amount reported)

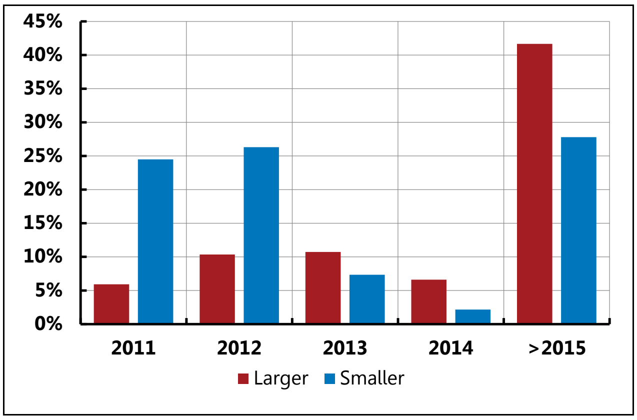
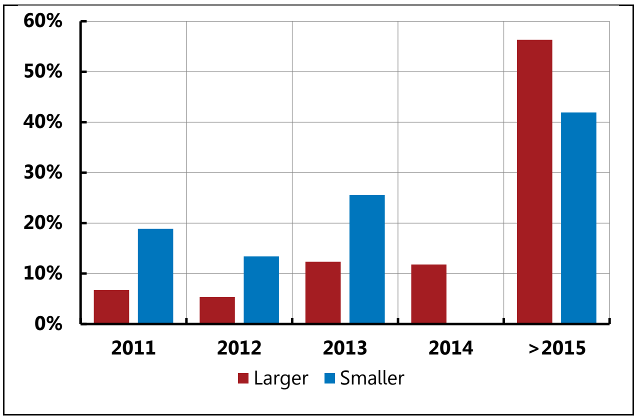


Chart 10. Redemptions corporate bonds, comparison of large and small companies
(Redemptions per year of total amount reported)



Open questions

The companies were also asked if they expected any changes in their financing structure in the near future, for example due to new banking regulations or the international financial situation. They were also asked how they view the Swedish corporate bond market.

Expected changes of financing structure

Around 40 per cent of respondents answered that they expected some changes in their financing structure, 47 per cent said that they did not expect any changes, and 13 per cent did not answer the question. However, there is a notable difference between the answers received from the larger and the smaller companies. 69 per cent of the larger companies expected changes, while only 21 per cent of the smaller companies said that they expected changes. In addition, more of the smaller companies chose not to answer this question. This is an indication that the larger companies have a higher degree of knowledge and interest in the upcoming changes on the financial markets. Another reason for the pattern could be that smaller companies do not have the same interest in finding alternatives to their current financing structure.

Most of the companies expecting changes described the situation as negative for them (68 per cent). Among other responses, they said that increased funding costs due to new regulations will affect them. Furthermore, a number of companies said that the banks have stated that they will have to increase interest rates on companies' bank loans. Several companies have already seen the rates increase, even though the implementation of the regulations has not yet been completed. A number of corporations also said that increased prices for bank loans could lead them to search for alternative financing, such as corporate bonds.

Views of the Swedish corporate bond market

The companies were also asked about their views of the Swedish corporate bond market with respect to cost, liquidity, transparency and new regulations. Here, 37 per cent of the companies said that they were interested in the market, while 27 per cent said that they were not interested. However, 36 per cent of respondents chose not to answer this question. Just as with the earlier results presented above, this question also showed a significant difference in answers between the larger and the smaller companies. Of the larger companies, 57 per cent of respondents said that they had some interest in the Swedish corporate bond market, compared to only 17 per cent of the smaller companies.

Several of the smaller companies answered that they had too little knowledge of the market to be able to answer the question. Of the smaller companies interested in the market, some said that they view the corporate bond market as an interesting financing alternative. However, a number of these companies said that, although it is an interesting market, it is too expensive compared to bank loans.

On the other hand, most of the larger companies that said they have some interest in the corporate bond market said that they see certain limitations to the market. Examples of such limitations are poor transparency, problems with not having a credit rating, limited volumes, large credit spreads and limited liquidity. Other comments were that the market is sensitive to regulation and financial distress and, consequently, that there is a risk that the market may close down unexpectedly. A few also mentioned that the Swedish market for corporate bonds does not function well in comparison to international corporate bond markets, which they indicated as a problem.

Financial Stability Department
Sveriges riksbank, 2011