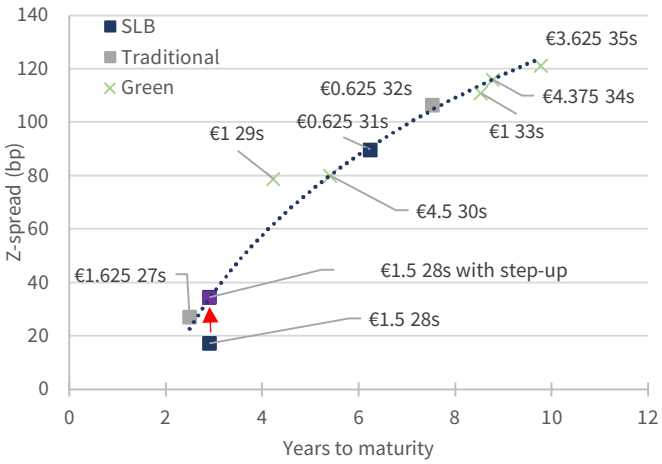
A2A: SLB missed target confirmed

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A2A (ticker AEMSPA), an Italian utility, is a frequent user of ESG-labelled debt, and was the first issuer of bonds using the EU Green Bond Standard.[1] It has also issued two Sustainability-Linked Bonds (SLBs), one of which has a target linked to installed renewable energy capacity. In its recently published 2024 integrated report, A2A confirmed that this Sustainability Performance Target (SPT), to install 3 GW by 31 Dec 2024, was not achieved,[2,3] leading to a coupon increase of 25bps on the 1.5% 28s (ISIN XS2457496359).

Figure 1. AEMSPA bond z-spreads including value of the step-up coupon, for bonds longer than 1year to first call. Source: Bloomberg, AFII, accessed 23 Apr 2025.



In an efficient market, the spread between an SLB and unaffected bonds (either non-SLBs, or those using different targets) should be driven by the expected value of this step-up, simply estimated using the probability of the target being missed, and the total cumulative step-up coupon.[4] In previous cases where SLB targets have been missed, there have been sudden market re-pricing once the miss is confirmed,[5] or after Bloomberg adjusts the bond structure.[6]

Figure 1 shows current market pricing on AEMSPA's bonds, including our calculation of the step-up value of 17.1bps. The impacted SLB, the 1.5% 28s, is already trading quite tight to the curve, around 10bps tighter than a shorter-dated non-SLB. In our earlier analysis, these bonds were trading flat, suggesting recent outperformance (for more details please see next page).[1]

The SLB market is continuing to mature, as more bonds reach the observation dates of their targets.[7] In this atmosphere of increased awareness, A2A's target miss was partially predicted by the market and effectively digested on confirmation. **As the market matures, ambitious structures can increasingly offer attractive pricing for issuers, while serving as hedges for investors.**

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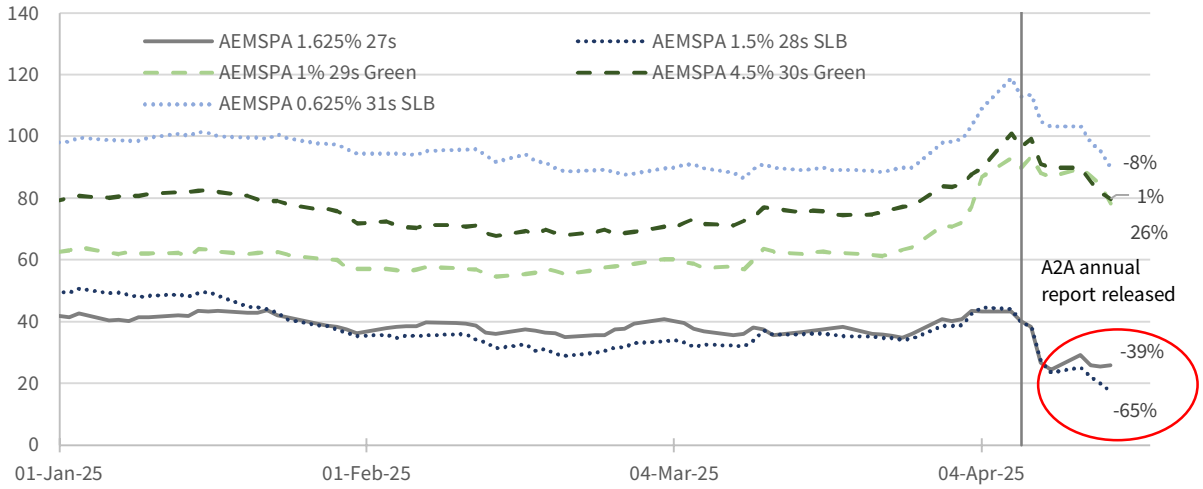
[1] "A2A goes for gold with an EU green bond", AFII, 23 Jan 2025.
[2] P358 of "Report on Operations 2024", A2A, Mar 2025.
[3] As noted in our earlier analysis, A2A's public target had reduced, and it was projecting to miss the SPT well in advance of final confirmation, as described in "SLBs: a summary of 2024 targets", AFII, 9 Jul 2024.
[4] For full details of the AFII SLB pricing framework please see "Sustainability Linked Bond Handbook", AFII, 12 May 2024.
[5] "Enel SLBs: fortest fortuna juvat", AFII, 26 Apr 2024.
[6] "London & Quadrant SLB: market update", AFII, 7 Oct 2024.
[7] We have identified 257 bonds which will observe their SPTs in 2025, a significant increase on the 24 bonds we analysed in 2024.

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Bond price moves

Figure 2 shows historic z-spreads for AEMSPA bonds since the start of 2025. There has been some variability of performance, especially amid volatile markets. The 1.5% 28s have shown the strongest relative performance, tightening 65% in this period.

Figure 2. AEMSPA historic bond z-spreads and YTD relative moves. Source: Bloomberg, accessed 22 Apr 2025.



The A2A annual report was released on 8 Apr 2025,[8] and since then the impacted SLB has specifically outperformed a shorter bond, the 1.625% 27s, by around 10bps. If the full SLB step-up is worth 17.1bps, this would suggest the market was pricing an implied probability of 42% of the target being missed.[9]

Since early 2024, A2A's own strategy has been updated to focus on achieving a lower amount of renewable installed capacity by end-2024 than that reflected in the SPT of this bond.[3] This being the case, we would argue that the probability of the target being missed was near certain. However, it took confirmation from the company for the majority of the value of the miss to be priced by the market, inline with earlier examples, such as Enel and PPC.[5]

Contrary to these earlier examples, however, there are some signs the market is becoming more efficient. Firstly, we note that the Bloomberg bond structure has not yet been adjusted to include the step-up coupon.[10] In some previous cases, the market did not re-price until it had.[6] Secondly, while there was a significant price move on confirmation of the KPI figure, there was some optionality priced into the market for some time, suggesting the SLB option is valued by investors.

Reporting schedules

While there may have been limited uncertainty around whether A2A would meet its target,[3] there has been some ambiguity around the exact length of the step-up coupon; specifically, whether it would begin to accrue in 2025 or 2026.

[8] According to Bloomberg.
[9] As the bond seems to have moved 10bps, we infer it was earlier pricing 7.1bps of option value, and is now pricing the full 17.1bps. This implies a market probability of 7.1 / 17.1 = 42% prior to the miss being confirmed.
[10] As of 22 Apr 2025.

The bond pays an annual coupon on 16 Mar, and the bond prospectus says that the step-up will apply to full coupon periods after the notification date, which is when the KPI results are confirmed by the independent auditor. Its 2023 report was dated 27 Mar 2024,[11] which suggested it was unlikely that the auditor results would be confirmed before the 2025 coupon payment date. The recently released 2024 report has an auditor statement dated 31 Mar 2025,[12] confirming that the coupon will not begin to accrue at the higher level until 16 Mar 2026.

This timing issue may have introduced uncertainty for investors. While typical SLB structures have their coupons step-up for the first full coupon after the observation date, there are structures where reporting timelines can create additional delays.[13]

However, to support market transparency, the details should be clearly reported in bond documentation, so that investors can accurately price the value of the step-up option. In this situation, without the full reporting timeline being detailed so far in advance, some degree of uncertainty has been introduced into the structure.

[11] P265 of "2023 Integrated Report", A2A, Mar 2024.
[12] P353 of "Report on Operations 2024", A2A, Mar 2025.
[13] These can be created by NDC reporting for example "Thai government embarks on SLB journey", AFII, 15 Nov 2024.

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