Carrefour: 1 SLB, 2 KPIs, 3 Scopes of emissions included

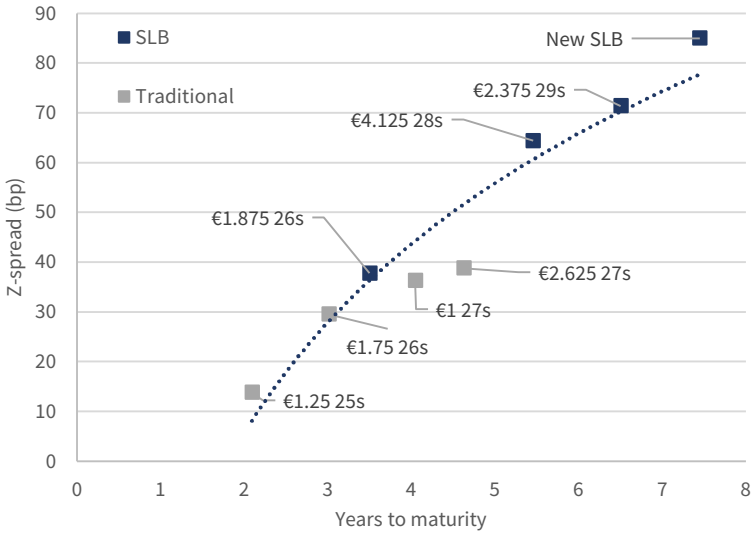
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Carrefour (ticker CAFP), a French multinational retail company,[1] is in the market today with a 7y Sustainability-Linked Bond (SLB), with pricing tightening from mid-swaps + 115bp, to MS+85bp. Books were just under 4x oversubscribed, slightly above average for 2023.[2]

Here we review the structure and pricing of Carrefour's three existing SLBs, to illustrate the impact that ambitious SLB targets can have on funding spreads.

Figure 1 shows current bond pricing for the existing issuances, including initial pricing on the new SLB. The curve does not have traditional issuance at the longer end to easily compare pricing. CAFP €1.875 26s looks most convincingly wide of the curve as it is trading wider than two vanilla bonds with longer maturities. This suggests the market currently assigns no material value to the step-up coupon on SLBs.[3]

Figure 1. Carrefour bond spreads, longer than 1y maturity. Source: Bloomberg, accessed 02 May 2023.



The structure of the new SLB appears more ambitious; it includes a more stretching target for Scope 1 + 2 emissions than previously and includes Scope 3 emissions.[4] It also re-pivots the retail giant's sustainable financing framework towards climate change-related KPIs that are complementary to their existing issuance. **Ambitious SLB targets give investors a higher chance of receiving the coupon step-up, and so should be rewarded with lower financing spreads. If the market considers these targets to be more challenging, we would expect the bond to outperform existing issuance.**

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[1] For a review of the broad sector usage of SLBs please see "SLB: complementary my dear Investor", AFII, 13 Apr 2023.
[2] As shown in "Cargill Euro Bonds Boomed Despite EU Deforestsation Law Risks", Bloomberg, 21 Apr 2023.
[3] If the market assigns a high chance of receiving the step-up coupon, i.e. of the issuer missing its sustainability targets, then we will observe a lower market spread for the SLB compared to traditional bonds. For more details please see "An option pricing approach for sustainability-linked bonds", AFII, 08 Nov 2022.
[4] Showing a commitment to decarbonising supply chains may also de-risk the issuer with regards to new EU deforestation regulation, see "Cargill: EUR bond, EU deforestation regulation", AFII, 14 Apr 2023.

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Existing issuance

Carrefour's SLB framework lists three KPIs; direct greenhouse gas (GHG) emissions, packaging and food waste generated in stores.[5] It has three existing SLBs (for details please see Table 1), which reference only the two KPIs linked to circular economy, to reduce packaging and food waste.[6] As Figure 1 shows, it is hard to confidently observe a pricing discount for these SLBs compared to traditional debt, and this implies the market believes these targets are unambitious.

The new SLB uses two KPIs that will be measured at the end of 2027; one to reduce direct emissions by 39.5% (more ambitious than the 30% by 2030 originally listed in the financing framework), and the second to reduce Scope 3 emissions (from purchased goods and services) by 5 mt, both compared to a baseline in 2019.

Carrefour report that 98% of the group's emissions are indirect, with 72% coming from products and packaging sold in stores, and 5% from upstream transport of goods,[7] which we would reasonably believe to be included in this KPI. This suggests that a significant portion of its emissions will be covered, which will have the benefit not only of holding an issuer to account for its reduction plans, but also improving transparency and dialogue around Scope 3 emissions.

However, in terms of sizing the target, CAFP commits in its general reporting to a 30% reduction in Scope 3 emissions coming from purchased goods and services by 2030, which is described as being equivalent to a reduction in 20 mt of CO_2. This makes the 5 mt target to 2027 of the SLB look less material, which may counter-balance the ambition of including Scope 3 emissions.

Table 1. CAFP existing SLBs. Source: Bloomberg, accessed 02 May 2023.

Description	ISIN	Issue Date	Maturity	KPI observation date	Currency	Amount Outstanding
CAFP €4.125 28s	FR001400D0F9	12-Oct-22	12-Oct-28	31-Dec-27	EUR	850,000,000
CAFP €1.875 26s	FR0014009DZ6	30-Mar-22	30-Oct-26	31-Dec-25	EUR	750,000,000
CAFP €2.375 29s	FR0014009E07	30-Mar-22	30-Oct-29	31-Dec-25	EUR	750,000,000

In conclusion, existing Carrefour SLB issuance is pricing at levels suggesting the market believes its Sustainability Performance Targets will be easily achieved. The new issuance not only tightens direct emissions targets, it also includes targets on Scope 3 emissions. If the market believes these targets are ambitious, our pricing model would expect the bond to tighten.

[5] "Carrefour – Sustainability-Linked Bond Framework", Carrefour, accessed 02 May 2023.
[6] KPI information is from the AFII SLB database, with details sourced from bond prospectus. For full details please contact a member of the AFII team.
[7] "Reducing GHG emissions", Carrefour, accessed 02 May 2023.

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