

Europcar SLB: driving transparency

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EC Finance PLC (ticker EUROCA) is the financing subsidiary of Europcar, a B-rated European vehicle rental company. It has one bond outstanding, a Sustainability-Linked Bond (SLB), with Sustainability Performance Target (SPT) observation date at the end of 2024. The bond references three KPIs: emissions intensity from rental cars; emissions intensity from rental vans; and the percentage of green vehicles in Europcar's fleet.[1] On 22 Apr, Europcar released its 2024 report, which confirmed that none of the three SPTs were achieved. Indeed, all were missed by a significant margin (details in Table 1).[2,3] This will lead to an increase in the bond coupon of 0.25%.

Between 2021 and 2024, Europcar's full fleet emissions intensity fell 11.6%. However, this corresponds to just a 2.5% reduction in emissions from cars, and a 2.1% increase in emissions from vans. This implies that the absolute reduction was driven by a rebalancing within the fleet as a whole from vans to cars.

Table 1. Europcar historic KPI details and targets. Source: Europcar.

Year	Emissions from rental fleet - Cars	Emissions from rental fleet - Vans	Emissions from rental fleet - all	% green vehicles
2019	120	186		<1%
2020	111	150		3%
2021	119	195	147	6%
2022			141	9%
2023			135	12%
2024 Target	**93**	**144**		**20%**
2024 Result	**116**	**199**	130	**11%**

In the same period, the percentage of green vehicles increased from 6% to 11% (which is still a long way from the targeted figure of 20%). That a near-doubling of green vehicles can lead to limited change in emissions illustrates the difficulty with decarbonising the rental vehicle sector: you can take the rental car customer to a metaphorical water hole of EVs, but you cannot make her drink.

At first glance this may seem like a very disappointing. However, decarbonisation is struggling across the the rental vehicle sector, with several companies citing poor demand and high costs.

Nevertheless, the SLB has benefits in bringing transparency to corporate climate targets. By embedding targets in a bond, investors are assured that reporting on the relevant KPIs will continue (even if it lapsed in the interim), meaning that issuers can be held accountable for their promises. If an issuer struggles with a target, a dialogue can be opened between them and their investors and other stakeholders, which can lead to more support for their transition. And perhaps it will encourage bondholders to overcome any anxiety around the range of electric vehicles when choosing a holiday rental vehicle this summer.

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[1] Since 2022 it has reported only consolidated emisisons across the full fleet, and not the breakdown by vehicle type.
[2] P33 of "2024 Non-Financial Performance Statement", Europcar, 22 Apr 2025.
[3] This result is aligned with our earlier analysis "SLBs: a summary of 2024 targets", AFII, 9 Jul 2024.

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Bond pricing

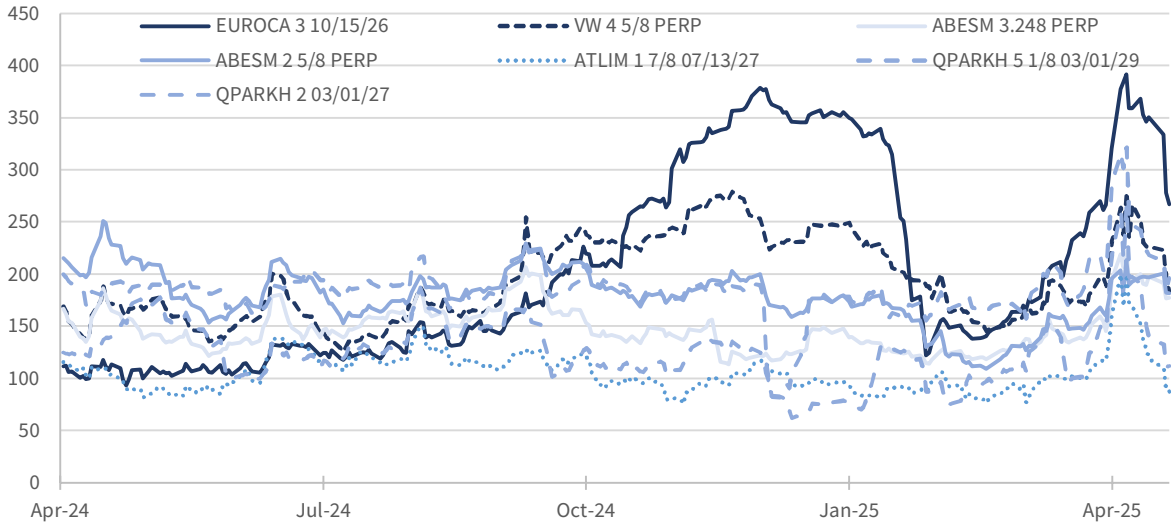
We analysed the market before and after the Europcar bond target miss to better understand how pricing of an SLB option can adjust.[4]

Europcar has only one bond, so there are no direct comparables from which to derive an implied SLB option price. Figure 1 shows pricing for the EUROCA bond alongside five comparable bonds, sourced using the Bloomberg COMB function.[5] We note two are perpetual bonds (trading to call) of investment-grade issuer Abertis (ABESM), and one is a BB+ rated name (also trading to call) from Mundys SPA (ATLIM). These bonds are likely to be less volatile than the Europcar instrument.

The VW perp has also been added for comparison (EUROCA is owned by VW, though its bonds are not guaranteed by the company).

The EUROCA bond has performed poorly over this past year in relation to these comparable instruments, widening from around 100bps to over 250bps, mirroring the volatility of the VW bond. Given the amount of volatility, it is hard to identify any movements that could potentially be related to the SLB option – which gives investors exposure to a possible 25bps coupon uplift for the final 18 months of the bond.

Figure 1. EUROCA and comp bond spreads. Source: Bloomberg, accessed 25 Apr 2025.



Call Price

One other characteristic of this bond worthy of examination is its callability. This is something for which the SLB market has historically been criticised – that calls can be exercised by issuers to avoid paying step-up coupons.[6] As is typical for high-yield (HY) bonds (Europcar is rated B+/B1) this

[4] For more details on AFII option pricing please see "Sustainability Linked Bond Handbook", AFII, 12 May 2024.
[5] These bonds are HY, denominated in EUR, issued by European Country entities in 'Transportation Services', and have a duration between 0.5 and 2.3.
[6] This concept of callability and SLBs is explored in more detail in "SLBs: No cal(l)amity", AFII, 20 Sep 2023.

SLB is callable by the issuer. The original maturity was five years, and after two years the bond can be called subject to a redemption price as detailed in the prospectus.[7]

Call prices for HY bonds often depend on the bond coupon and ratchet down towards maturity. Europcar's bond is callable at par in the final year, at par + 25% of the coupon in the penultimate year, and at par + 50% of the coupon in the year prior to that, which seems consistent with market convention.

What is interesting is that the call prices for the Europcar bond are calculated using the maximum coupon, assuming all SPTs are missed. If confirmation has been given that the targets are achieved, then the call prices will reduce.[8]

However, the structure of the call may not assuage criticisms that it could be used to avoid paying the step-up coupon. Missing the target will increase the semi-annual coupon by 0.25% for 18 months (0.375% in total), but the difference in call price in the penultimate year is only 0.0625%, as this includes only 25% of the coupon. For a bond currently trading around 97%, this does not seem economically significant enough to influence the call-behaviour, however.

Indeed, the bond can be called in the final year for par + accrued, and bonds are often called prior to maturity if refinancing opportunities exist. There may actually be more investor uncertainty if the higher coupon is received over this period. However, this duration uncertainty applies to all callable bonds, especially in the HY sector.

[7] P170 of bond prospectus.
[8] This mirrors language seen in this Swedish bond "Sdiptech taps its SLB: 'call' to action", AFII, 11 Dec 2024.

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