Ezien Hoo, CFA
+65 6722 2215
EzienHoo@ocbc.com

Andrew Wong
+65 6530 4736
WongVKAM@ocbc.com

Wong Hong Wei, CFA
+65 6722 2533
WongHongWei@ocbc.com

Seow Zhi Qi, CFA
+65 6530 7348
zhiqiseow@ocbc.com

The Path to a Greener Singapore

A brief re-cap: In 2019, Global Treasury Research & Strategy introduced a primer on ESG investments, giving readers an understanding of ESG concepts as well as ESG efforts in the Asian market. This was followed by a thought piece regarding the material benefits and costs of factoring in ESG analysis, while looking at top-down initiatives to push the need for green. Following the COVID-19 pandemic that has dominated headlines since 2020, it only seemed fair to question the long-term effects the pandemic has had on ESG and how corporates will look to align their ESG goals with shareholder value. After parsing through a macro-thematic view, the Credit Research team looked at ESG concerns from a debtholder's perspective, and added some thoughts with key ESG influences for covered companies in the annual Credit Outlook for 2021. This was dovetailed with an in-depth piece remarking on how Singapore may prepare for a low carbon future, with emphasis on urban solutions and sustainability.

A state-level emphasis on ESG: While there is still work to be done for Singapore to qualify as a heavyweight in the ESG field, the government has been introducing various initiatives to encourage Singapore-based corporates to improve their sustainability frameworks. The Singapore Stock Exchange ("SGX") introduced sustainability reporting on a "comply or explain" basis since 2016. While this came later than the Stock Exchange of Thailand who has a well-established track record in corporate governance rankings and sustainability reporting, Malaysia rolled out its sustainability reporting requirement around the same time as Singapore. All three are ahead of the Hong Kong Stock Exchange in their rollout. The most notable wide-ranging initiative so far has been the Singapore Green Plan 2030. Unveiled in February 2021, the plan is spearheaded by multi-ministries and looks to map Singapore's green targets over the next ten years. Some highlights of the plan include developing Jurong Island to be a sustainable energy and chemicals park, requiring all newly registered cars to be of cleaner-energy models from 2030 onwards, and more than doubling the network of electric vehicle charging points to 60,000 by 2030. The emphasis on green energy and infrastructure is also shown by the commitment to quadruple solar energy deployment by 2025 and to raise sustainability standards of buildings through the next edition of the Singapore Green Building Masterplan. Since 2019, Singapore has a carbon tax on large polluters. While it is currently only at SGD5 per tonne of emissions, the framework has been established where pollution is priced and will be reviewed in 2023.

The latest updates in ESG development in Singapore: In May 2021, a joint venture between DBS, Singapore Stock Exchange ("SGX"), Standard Chartered Bank and Temasek Holdings ("Private") Limited ("Temasek") announced plans to launch a new carbon credit platform, Climate Impact X, by the end of the year. The platform will host several nature conservancy projects that companies can invest in, as well as an exchange where offset credits can be traded. The Monetary Authority of Singapore ("MAS") also introduced a new taskforce, the Green Finance Industry Taskforce, which will seek to provide a "principles-based" approach for financial institutions to assess green trade finance transactions, and issue guidance on recommended industry green certifications for trade finance activities. Additionally, the SGX is in the midst of creating a tool for sustainability disclosures that will allow data to be easily collected from companies and shared with end-users such as data providers and investors.

The big picture: The drive towards a low carbon economy affects companies at different scales and at various paces. Some are direct and obvious, for example, companies which fail to transition away from coal amidst a pullback in financing by banks and insurers while others are less direct though consequential all the same. For example, Europe is targeting to expand legislation which will bind companies to conduct environmental and human rights risks due diligence in their supply chains, thus affecting any firm that sells to companies based in Europe. Within the region, Japan-based manufacturers have raised concerns over the lack of a domestic renewable energy supply as this affects their competitive positioning with end-customers who have set clear carbon goals. For the SGD corporate bond market which has a high concentration towards property and REIT-related issuers, this means that property portfolios are increasingly turning green due to increased demand by tenants and a strong policy push. All things being equal, we view issuers who are green laggards today as likely to be credit laggards in time to come. This is especially so if existing business models are negatively impacted over the course of a shorter period of time, with less time to adapt.

So…… where does that leave us? There have been a multitude of ESG-related developments, both at the sovereign and corporate level year to date in 2021. Having mentioned interventions at the state level, one may ask, where do Singapore corporates stand in terms of their ESG policies and initiatives as compared to in 2020, or even 2019? This piece will first introduce relevant ESG and green bond terminology. Next, given investor interest regarding the sustainability issuance from Surbana Jurong Group ("Surbana Jurong") in February, the first for the SGD bond market, it is apt to review what made the issuance unique, as well as add some background on the company.

Terminology

Carbon Terminology

- **Scope 1 emissions:** Direct emissions from a company's owned or controlled sources.

- **Scope 2 emissions:** Indirect emissions from the generation of purchased energy i.e., steam, electricity, heating, and cooling.

- **Scope 3 emissions:** Includes all indirect emissions (not included in Scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

Green Bond Terminology

- **Blue Bonds:** Proceeds from these bonds are earmarked for projects deemed ocean friendly. These bonds follow the same quality assurance steps as the International Capital Market Association ("ICMA")'s green or sustainability-linked bonds. In September 2020, the Bank of China priced the first blue bond in the Asiadollar market to fund new and existing marine related green projects with environmental impacts.

- **Green Bonds:** Proceeds from these bonds tend to fund projects eligible for green bond issuance in line with the Green Bond Principles from the ICMA. Some examples of relevant project categories include renewable energy, clean transportation, and green buildings. Green bonds have become increasingly common in the Asiadollar market. The People's Bank of China is collaborating with the European Union to adopt a common green investment standard by end-2021. As of writing, six issues with an amount outstanding of SGD1.9bn in the SGD corporate bond market are green.

- **Social Bonds:** Proceeds from social bond offerings finance or refinance projects or activities that achieve positive social outcomes. The issuance of social bonds is guided by the Social Bond Principles from the ICMA. Examples of eligible project categories include affordable housing, affordable basic infrastructure, food security and sustainable food systems. COVID-19 or pandemic bonds usually fall under this category. Thus far, social bonds are available, although rare in the Asiadollar market. In 2020, the Malaysian government launched MYR500mn of Sukuk Prihatin where proceeds will be used to finance measures announced in the economic stimulus packages and recovery plan to address the COVID-19 crisis (e.g., medical expenditures, financing for micro enterprises and enhance connectivity for rural schools). The Sukuk Prihatin has a two-year tenor with a profit rate of 2.0% p.a and was sold in retail tranches with a minimum amount of MYR500.

- **Sustainability bonds:** Proceeds from funds raised finance or refinance a combination of green and social projects. Similar to green and social bonds, these follow the Sustainability Bond Guidelines from the ICMA. Eligible projects include those in the green and social bonds categories.

- **Sustainability-linked notes ("SLNs") and bonds ("SLBs"):** These forward-looking instruments are linked to the issuer's achievement of climate or broader United Nations Sustainable Development Goals ("SDGs"). For instance, a covenant could state a target of reducing a corporate's emissions intensity by 25% in the next ten years. SLBs predominantly have a coupon rate step-up or a premium payment if stated progress towards the relevant SDGs through Key Performance Indicators ("KPIs") or Sustainability Performance Targets ("SPTs") is not met by a certain time. The key difference with SLBs and green bonds is that proceeds from a SLB issuance does not necessarily fund green or sustainable purposes, and can instead be used for general corporate purposes etc. However, SLBs are linked to the performance of the aforementioned KPIs. SLBs follow the Sustainability-linked Bond Principles from the ICMA.

- **Transition bonds:** These bonds are traditionally issued by corporates in carbon-intensive sectors i.e., oil and gas, and provide fundraising opportunities to reduce the environmental impact of various businesses. Eligible projects include an energy company financing a solar powered power plant or an oil company seeking to invest into renewable energy. SLNs and SLBs are also tools for energy transition with the difference between these and transition bonds being that transition bonds do not contain KPIs to provide more flexibility in enabling corporates to transition.

Case Study: Surbana Jurong's Sustainability-Linked Notes ("SLNs")

Company Background

- Surbana Jurong Pte Ltd ("Surbana Jurong") is a Singapore-based urban, infrastructure and managed services consulting firm with several member companies under its umbrella. Some of these companies include AETOS Holdings Pte Ltd ("AETOS"), Atelier Ten, B+H Architects, among others. The group specializes in being a global engineering and design service provider across the entire value chain of the urbanization and infrastructure sector.

- Surbana Jurong is a Temasek Holdings ("Private") Limited ("Temasek")-backed private group, with over 120 offices in ~40 countries. The Group has a workforce of over 16,000 employees.

- Surbana started as the Building and Development Division of the Housing & Development Board (HDB) to provide solutions regarding affordable and high-quality housing for the exponentially growing population. CapitaLand Limited ("CAPL") acquired a 40% stake in Surbana in 2011, with the remaining stake held by Temasek. In 2015, Surbana Jurong was formed after a merger between Surbana and Jurong International Holdings, with a 51%/49% share split between Temasek and JTC Corporation ("JTC"). Temasek then acquired JTC's share in June 2016.

- The Group CEO is Wong Heang Fine, who joined in 2015. Wong was previously the CEO of CapitaLand Residential Singapore Limited and CapitaLand GCC Holdings, and currently sits on the boards of three of Surbana Jurong's member companies: SMEC Holdings Limited ("SMEC"), AETOS and Sino-Sun Architects & Engineers Co. Ltd.

- The board is chaired by Chaly Mah Chee Kheong, who sits on several other boards such as the Monetary Authority of Singapore and CapitaLand Limited. The board consists of 11 men and one woman.

Key Developments

- **A first for Southeast Asia:** On 3rd February 2021, the Group priced a SGD250mn 10-year sustainability-linked bond at 2.48%. This was the first Singapore dollar-denominated sustainability-linked bond as well as the first public sustainability-linked bond issuance from a Southeast Asian-based company. Additionally, the offering was the first Asian-sustainability-linked bond to feature a step-up structure at maturity. At its peak, the offering was over 6x oversubscribed and drew over SGD1.7bn in orders.

- **Memorandum of Understanding with Singtel:** On 13th April 2021, Singapore Telecommunications Ltd ("Singtel") and Surbana Jurong signed a Memorandum of Understanding ("MOU") to integrate technology and infrastructure to create smart city solutions to accelerate the transformation of key industries. The two firms intend on first focusing on smart and sustainable integrated facilities management by integrating Singtel's 5G Multi-access Edge Compute and Surbana Jurong's P24K suite of facility management systems to build an industry-first 5G-powered data aggregation and management platform. This platform will look to track various operations simultaneously to help facility managers drive greater operational efficiency to achieve their sustainable goals.

Issue Structure

- **Sustainability performance target 1:** The offering features a sustainability performance target such as a 10% reduction in Scope 1 and 2 carbon dioxide equivalent emissions on a net basis (net of carbon offsets) expressed as total amount in tonnes of carbon dioxide equivalent per full-time employee generated by the Surbana Jurong Campus, AETOS and SMEC ANZ Business by the financial year ending 31 December 2029, calculated on a base year of 2022. These assets accounted for more than 60% of revenue contribution for the Group as of 31 December 2019 and is expected to represent over 50% of Scope 1 and Scope 2 carbon dioxide equivalent emissions for the full year ending 31 December 2022.

- **Sustainability performance target 2:** The second target expects net zero carbon emissions at the Surbana Jurong Campus for areas directly under Surbana Jurong's control, by 30 August 2030.

- **Step-up at maturity:** If the targets mentioned above are not met, Surbana Jurong will have to pay investors a step-up premium of 0.75% of the redemption amount at maturity.

- Proceeds from the issuance will be used to repay existing debt, fund potential M&A activity and fund digitalization of the Group including improving the functions of its Treasury unit.

OCBC Credit Research Commentary

- Mainly due to the different use of proceeds (where green bonds cater to specific green projects while SLBs can be applied to a broader range of projects), we view green bonds and SLBs to be two different instruments.
- In our view, it is more important to consider the overall intent of the issuer with regards to its ESG direction. This view is also borne out of necessity with few green projects that SGD corporate bond issuers are able to tap within Singapore.
- We note though that certain specific green funds with stricter mandates have a preference for green bonds as SLBs are seen as an easier way to greenwash (as we cover in "Transition Finance – A bigger hole to fill in the world's transformation," there are multiple initiatives in place to address this concern). As yet, it appears that the SGD corporate bond market does not confer pricing differential between the two.

Treasury Research & Strategy

Macro Research

Selena Ling
Head of Strategy & Research
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Wellian Wiranto
Malaysia & Indonesia
WellianWiranto@ocbc.com

Howie Lee
Thailand, Korea & Commodities
HowieLee@ocbc.com

Carie Li
Hong Kong & Macau
carierli@ocbcwh.com

Herbert Wong
Hong Kong & Macau
herberthtwong@ocbcwh.com

FX/Rates Strategy

Frances Cheung
Rates Strategist
FrancesCheung@ocbc.com

Terence Wu
FX Strategist
TerenceWu@ocbc.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com

Seow Zhi Qi
Credit Research Analyst
ZhiQiSeow@ocbc.com