

# THE SIG DIGEST

## FOREWORD



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Bittersweet; deafening silence; open secret; humane slaughter.

Is “green finance” also an oxymoron? After all, the term “finance” often evokes an image of the callous, calculating banker, a jarring contrast to the passionate, empathetic environmentalist associated with the term “green”. Indeed, protecting the environment, a global public good, is a costly activity that seems to be at odds with value maximization for an individual business.

Yet, firms are becoming cognizant that environmental sustainability is increasingly intertwined with business sustainability. For some, it will be an existential concern in the near future. An unsustainable business cannot continue to create value. As policymakers realize that finance is a powerful force that can be leveraged in fighting climate change and put money where the mouth is, businesses will better appreciate the alignment between environmental sustainability and value maximization.

Rare is the breed of students who care about environmental sustainability. Even rarer is the breed of finance students who do. As a step in this direction, the SUSS Investment Group (SIG) has chosen to dedicate the inaugural issue of its newsletter to covering companies that are making an environmental impact.

The SIG was formed in 2017 by a few passionate individuals and has grown to a 21-strong group. The group has assisted in organizing the My Money @ Campus talk and the CFA Research Challenge internal selection. Its members have represented the university for the CFA Ethics Challenge, CFA Research Challenge, Eurasia Asset Management Challenge, GIC Stock Pitch Challenge, and the McGill International Portfolio Challenge.

This newsletter is the SIG’s latest initiative. I hope you will enjoy reading it and look forward to more exciting initiatives from the group.

## GREEN FINANCE



Green finance is defined as the use of financial products to achieve both financial returns and sustainable outcomes. The term has exploded in popularity in recent years. From “green bonds” that finance climate and environmental projects to the stocks of socially responsible companies to Environmental, Social and Governance (ESG) Exchange Traded Funds, the number of avenues available for green investors has skyrocketed, with the trend showing no signs of slowing.

Traditional energy companies are facing mounting pressure to transition away from fossil fuel production amidst investor activism and rising competition from renewable energy companies. Some companies such as Shell and BP have proactively made concrete steps toward a greener future, while others such as ExxonMobil and Chevron have lagged behind. In this inaugural issue of the SIG Digest, we explore what the future holds for green finance.

In our Equity Research column, we analyse Bonheur ASA, a Norway-based holding company specialising in the marine and renewable energy sector. We examine past and upcoming events that influence Bonheur’s profitability and market valuation.

In our Global Macro Research column, we discuss renewable energy trends and the prospects of green investing. We also explore a case study of the transition of a traditional Oil & Gas company, British Petroleum, towards clean energy.

*Disclaimer: Information in this newsletter is for educational purposes only and do not constitute investment advice.*

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## Bonheur ASA (OB: BON) | Industry: Industrial Conglomerates

**A rising star in global energy transformation:** SIG initiates coverage with a Buy recommendation on Bonheur ASA, with a target price of NOK 287.89, representing an upside of 26.0%.

### Business Summary

Headquartered in Oslo, Bonheur ASA is listed on the Oslo Stock Exchange and has long-term investments in three main industries – shipping, energy, and leisure. The group's key business activities, wind energy generation, wind turbine installations, and cruise are carried out by **Fred. Olsen Renewables (FORAS)**, **Fred. Olsen Ocean (FOO)**, and **First Olsen Holding AS**. Bonheur's wind energy business has entered its growth stage with new technology and business opportunities in North America and Asia. With a premium branding, FOCL is approaching maturity. In 1Q20, the group's four business segments generated NOK 492 million in revenue. Offshore wind installation contributed the most to the group's revenue (32%), followed by Renewable energy (29%), Cruise line (25%), and other investments (14%).

### Highlights of the year:

#### FOWIC clinched another Taiwanese offshore wind project in March 2020.

The group is commissioned to transport and install wind turbines for the 600MW Changfang and Xidao offshore wind complex.

#### Dividend payout in 2019 increased from NOK 2 per share to NOK 4 per share, a 100% jump.

For several years, Bonheur ASA's annual dividend has remained stagnant at NOK 2 per share. A NOK 4 per share dividend payout last year reflects outstanding management, while the declared forward dividend of NOK 4.30 per share is a sign of the group's confidence for growth.

### Our take on Bonheur:

#### Bonheur can anticipate revenue growth alongside the burgeoning renewable energy sector.

According to our research, renewable energy generation and consumption is looking positive in regions that renewable energy and offshore wind installations have set foot in – Europe, North America and Asia. We see that the renewable energy industry has a very positive outlook with renewable energy generation forecasted to double in the current decade.

#### Strong customer loyalty and innovative programs can bring further growth to the Cruise Business.

Cruise line remains competitive with its longstanding customer loyalty. The cruise line found opportunities amidst COVID-19 with its innovative virtual cruising programs that makes its name unforgettable.

**Valuation.** We derived a 12M target price of NOK 289.89 through blended DCF valuation and SotP relative valuation.

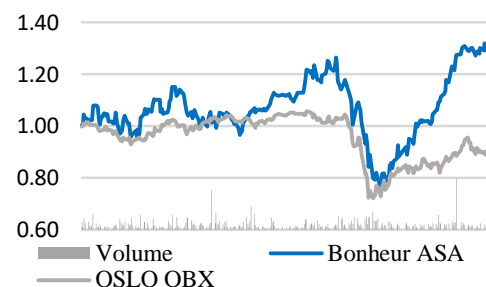
### Financial Valuation and Key Metrics:

Year	FY19A	FY20E	FY21E	FY22E	FY23E	FY24E
Revenue (mm)	7,834.7	6,314.7	8,921.7	9,822.1	10,866.1	12,027.5
Rev. Growth	15.5%	-19.4%	41.3%	10.1%	10.6%	10.7%
Net income (mm)	(343.1)	(40.4)	(319.8)	(315.9)	(11.7)	19.4
ROA (%)	-174.7%	-20.6%	-162.8%	-160.8%	-6.0%	9.9%
ROE (%)	-2.9%	-0.3%	-2.8%	-2.9%	-0.1%	0.2%
EV/EBITDA	11.8x	11.1x	4.2x	4.6x	3.8x	3.4x
EV/REVENUE	1.6x	2.3x	0.6x	0.7x	0.7x	0.6x
Dividend Yield	12.6%	11.8%	12.7%	13.7%	14.7%	15.8%

### Basic Information

Recommendation	<b>BUY</b>
Current Price	NOK 228.00
12 Mth Target Price	NOK 287.89
Upside	<b>26.0%</b>

### 1 Year Price vs OSLO OBX (Rebased)



Source: Yahoo Finance, Team

### Key Financials

Market Cap (NOK, mm)	9612.2
Shares Out. (mm)	42.5
Avg 3M Daily Vlm	0.07
Float %	46.7%
Enterprise Value	14,137.6
P/E Ratio	-
Dividend Yield %	1.9%
52 Wk High/Low	232/134

### Major Shareholders

INVENTO AS	28.99%
QUANTRO A/S	20.54%
FOLKETRYGDFONDET	4.31%
Other shareholders	46.16%

Full report: [bit.ly/34aF3ek](https://bit.ly/34aF3ek)

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## Market Outlook: The Green Recovery

### Summary

As a vital resource in our lives, energy has spurred many modern advancements. Still, with rising concerns about global warming and sustainability, traditional energy companies are pressured to find alternative energy sources to avoid obsolescence. In this article, we analyse renewable energy trends and a case study of the transition towards renewable energy in a traditional oil & gas (O&G) company, British Petroleum. We also examine the benefits and drawbacks from the adoption of clean energy.

### Background Information

A survey conducted by the Pew Research Center in November 2019 revealed that 77% of Americans believe that developing “alternative energy” is of utmost importance. A separate survey by BloombergNEF observed an exponential trend in clean energy over the past 10 years, where a cumulative 59.5 GW have been purchased representing a CAGR of 51.8%. Interestingly, the major players are tech companies such as Facebook, Google and Amazon, followed by traditional O&G companies. We believe that large tech companies are aggressively pursuing renewable energy agreements due to investors’ rising ESG concerns. Traditional O&G companies are also shifting towards cleaner energy by utilising solar/wind energy to power oil mining operations with investor sentiment in mind and to diversify their individual exposure from unsystematic energy disasters. Overall, from 2006-2019, new clean energy investments across the globe are experiencing a steady upward trend, with no signs of slowing down in the coming years [Figure 2].

### Clean Investments Trends by Region

APAC has outpaced the world in renewable energy dollar investments, with a CAGR of 10.7% from 2009-2019 compared to 0.46% and 7.8% in EMEA and America respectively [Figure 3]. To illustrate its magnitude, BlackRock’s global Head of Renewable Power David Giordano highlighted that for every \$10 spent globally on new renewables capacity, \$4 goes towards APAC. Contributing to APAC’s popularity among green investors are the attractive 20 year feed-in-tariffs – payments to consumers for supplying excess clean energy to the grid – for the wind and solar markets in Taiwan, South Korea and Japan. Countries with high renewable energy subsidies would likewise have high feed-in-tariffs and the opposite holds true as well.

In other regions, the US and Europe appear to diverge on clean energy investments [Figure 4 & Figure 5]. The US exhibits a positive trend over the past 10 years, indicating increasing clean energy investments. Investments in wind have eclipsed investments in solar since 2014, a likely result of wind turbines being generally more efficient – a single wind turbine can generate the same amount of kWh as a thousand solar panels.

In contrast, Europe’s clean energy investments peaked in 2011 [Figure 5], with no signs of growth for 8 years. In Europe, Wind energy is sub categorised into onshore, with wind turbines installed on land, and offshore, with wind turbines situated in water bodies. The popularity of offshore wind has skyrocketed in recent years with technological advancements as offshore wind speeds are known to be higher and more consistent. By harnessing the 3 sea basins surrounding Europe (the Baltic, the North Sea and part of the Atlantic), Europe is poised to increase its clean energy investments through offshore wind. Data from the IEA indicates that the increasingly competitive offshore wind projects are on course to attract trillions of dollars in investments till 2040.

With the COVID-19 pandemic devastating the global economy, governments have passed massive bills and stimulus packages, rivalling those seen in the Global Financial Crisis (GFC) of 2008. The ongoing crisis presents an opportune moment for a strategic ‘Green Recovery’. Back in 2008 after the GFC, 16% of global stimulus was spent on green recovery with governments giving subsidies for renewable energy and funding for R&D of clean tech (e.g. electric vehicles). Although renewable electricity capacity is forecasted by the IEA to decline by 13% in 2020 [Figure 6], we attribute the decline to systematic factors such as policy uncertainty and market developments.

Many countries still relate falling emissions with a faltering economy, although it has been proven to not be the case. Work is still needed to educate and ensure that people see a clear path to high quality alternatives so as to achieve a sustainable future.

*\*Refer to Appendix for figures*

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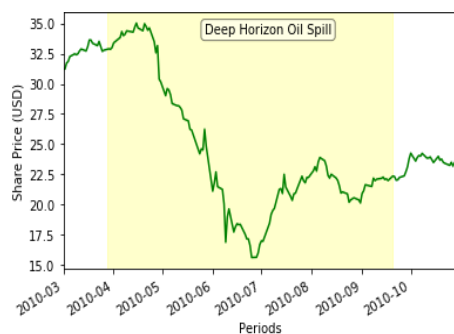


## A Case Study: British Petroleum (BP)

In this case study, we analyse British Petroleum (BP), best chronicled as one of the largest publicly traded oil companies in the world and a pioneer among titans, first adopting clean energy into renewable energy sources as early as 1995 [Figure 1]. This acceleration towards clean energy generation is largely due to immense public pressure and scrutiny.

For example, in 2010, BP experienced the Deepwater Horizon oil spill. The oil spill covered more than 112,000km<sup>2</sup> of the ocean's surface with currents spreading the spillage across 2,100km. This resulted in catastrophic effects on the environment with the deaths of countless wildlife.

Figure 2: BP Share Price in 2010



The financial consequences were tremendous to BP. With 130 lawsuits filed against them, BP's share price plummeted [Figure 2]. Reportedly, US\$11.6 billion was paid out in reparations to coastal states with projected losses estimated at US\$22.7 billion. In addition, BP had to set up a US\$2.3 billion fund for seafood & fishery business for the job losses incurred by oil spill.

The Deepwater oil spill served as an expensive catalyst for BP to review their energy sources and diversify their energy provisions. 10 years after the worst oil spill in human history, it has taught large oil companies that ESG investing is not just a public relations move, but also a growing market [Figure 3].

More recently, BP plans on cutting up to \$17.5 billion from the value of their oil and gas assets after their in-house research predicted that the pandemic may affect the global oil demand for the next 30 years. This big move had to be executed to illustrate the impact of the COVID-19 outbreak on the global economy as well as the increased effort to build a better environment to be in line with the goals of the Paris Agreement, as said by the CEO of BP, Bernard Looney.

Such traditional energy companies are constantly pressured by shareholders who want to see ESG compliance and the practicing of responsible and sustainable operations. The growing importance is also seen when Bloomberg announced the launch of the US equity benchmark capabilities which aims to act as a basis for the Bloomberg SASB ESG Index family. This product would also focus on realising the SASB's vision of "materiality-based ESG". This materiality-based ESG by SASB aims to identify financially material issues – issues which are more likely to make an impact on the financial condition or operating performance of a company.

With renewables being the fastest-growing energy sector, BP has established a portfolio of renewable fuels, power and products. Currently, they are also developing new business models in sectors such as the low carbon power and digital energy. These are strategic efforts made by BP as it aims for net zero emissions by 2050 or earlier:

- Partnerships to maintain adherence to ESG criteria and permit use of alternative sources of energy.
- Invested in joint venture with DuPont (Apr 2017) producing alternative fuel sources (bio-isobutanol) from corn.
- Increased stake in Lightsource BP, which aims to develop 10GW of solar projects by 2023.
- Led Series A funding in Grid Edge (Oct 2019), whose software predicts, controls and optimises a building's energy profile reducing carbon emissions by 10-15% on average.
- Invested in joint venture with Bunge (Dec 2019) that produces renewable energy from its biofuels manufacturing sites. Venture is now 2<sup>nd</sup> largest operator by effective crushing capacity in Brazil's bioethanol market.

With the diversified portfolio illustrated above, BP aims to become an industry leader in clean energy. By bringing together the expertise and assets of the partnerships and ventures, BP has a clear direction to improve and innovate more options for a better environment, and also to prevent future energy disasters from crippling their operations. Overall, BP has a promising macro outlook in terms of contributing towards the green recovery and providing a more sustainable future.

Figure 1: Renewables share of power generation by BP

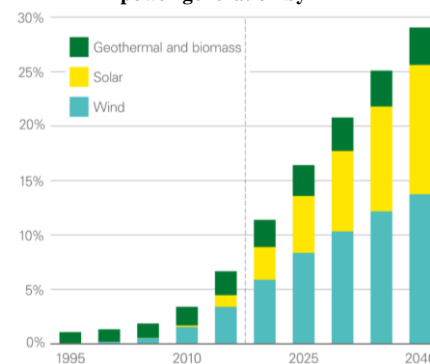
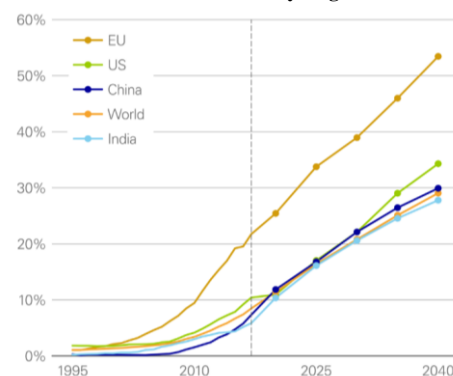
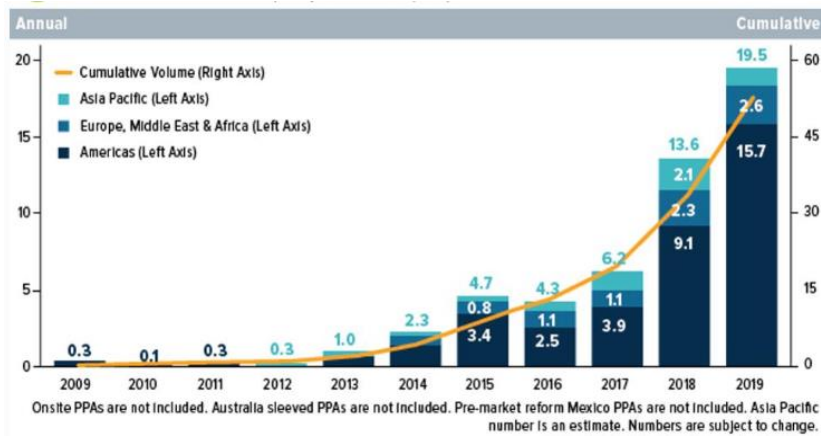


Figure 3: BP's Renewable Share of Power Generation by Region

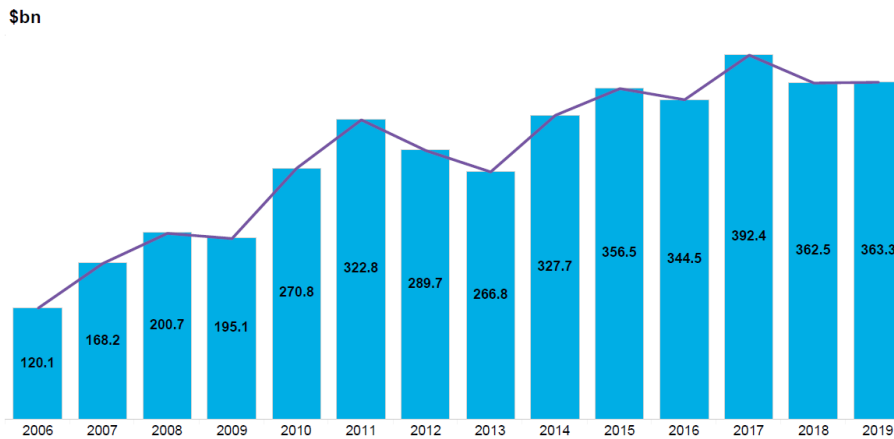


**Figure 1: Global Corporate Buying Clean Energy Power Purchase Agreements (PPA)**



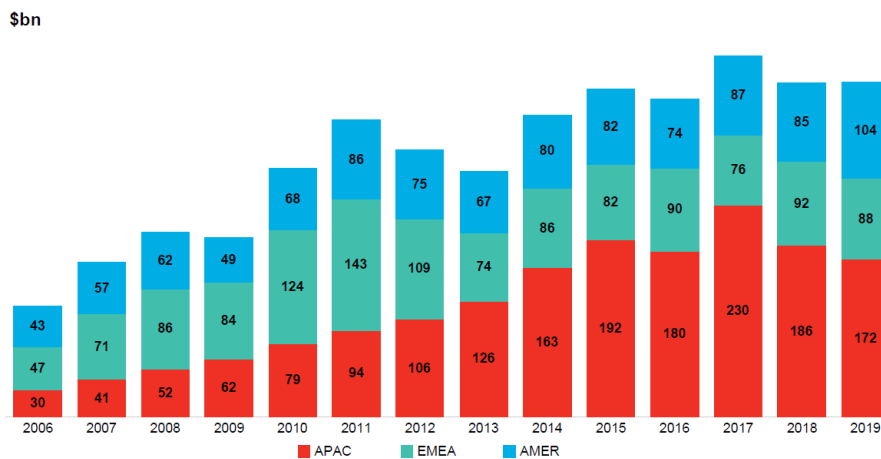
Source: BloombergNEF, U.S. Global Investors

**Figure 2: Global New Investment in Clean Energy (2006-2019)**



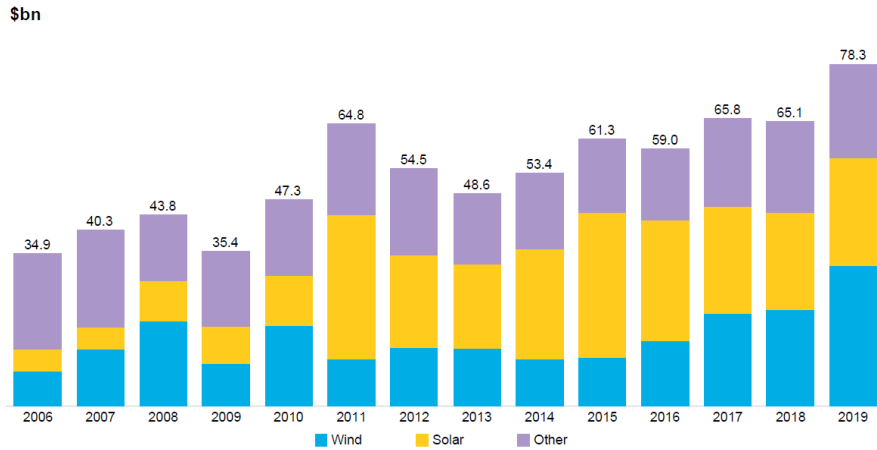
Source: BloombergNEF

**Figure 3: Global New Investment in Clean Energy by Region (2006-2019)**



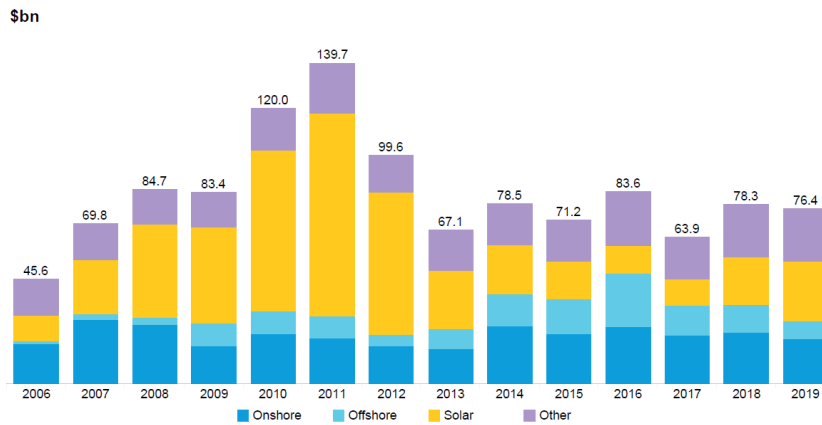
Source: BloombergNEF

**Figure 4: United States New Investment in Clean Energy by Sector (2006-2019)**



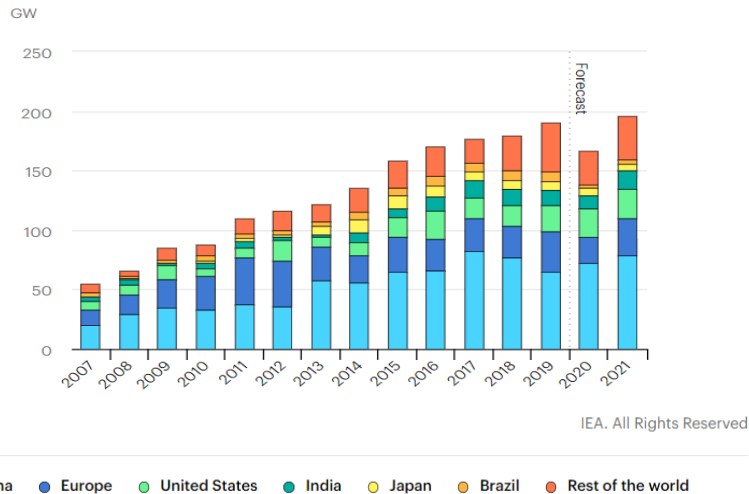
Source: BloombergNEF

**Figure 5: Europe New Investment in Clean Energy by Sector (2006-2019)**



Source: BloombergNEF

**Figure 6: Renewable Electricity Capacity Additions, 2007-2021, Updated IEA Forecast**



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Source: International Energy Agency, 2020