White Paper
Fundamental Growth and Core Equity

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Three Climate-Transition Stock Stories

Air Products, Saint Gobain, and Standard Chartered are all well-positioned to benefit from the climate-transition actions that companies and countries around the world are taking.

The Fundamental Growth and Core Equity (FGC) team's research process focuses on the attributes of a company that are likely to lead to sustainable growth. These attributes are qualitative and forward-looking; our assessment is based on the expertise and judgment of our analysts and is therefore unique to the FGC team.

Our fundamental research process specifically incorporates a comprehensive analysis of companies' ESG and climate-transition credentials. We use this analysis to identify high-quality companies that will benefit from the global climate transition and will be well positioned to act as enablers of other firms' transitions, realizing opportunities in areas such as carbon emission reduction, green finance, and green energy. In this white paper we profile three such firms.

Air Products

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Supported by its competitive position and by strong demand for its products across the consumer, medical, and industrial sectors, Air Products & Chemicals, Inc., is using innovative techniques to reduce carbon emissions; the firm is also a leading producer of hydrogen in the commercial market.

The market for industrial gases like nitrogen, oxygen, and hydrogen is dominated by a handful of key players, one which is US-based Air Products. The commercial industrial gas industry has $90 billion in annual revenues and is expected to expand at an annual growth rate of 6.0% from 2021 to 2028.[1]

Common applications for industrial gases include carbon-infused beverages or the helium used in party balloons. Less-well-known uses of industrial gases include refining (CO_2 or nitrogen for enhanced oil recovery), healthcare (medical oxygen or helium used in MRIs), electronics (nitrogen used in manufacturing of semiconductors and flat-screen TVs), and metals (oxygen used in steel furnaces).

Challenges and Opportunities

The key energy transition challenge for Air Products is carbon-intensity. Whether on an absolute level, or relative to total revenue, industrial gas companies have a high carbon profile across sectors. This is because they use natural gas to make hydrogen (which drives up Scope 1 emissions) or use electricity in the process (which drives up Scope 2 emissions).

Being an "enabler of energy transition" is key to Air Products' sustainable growth strategy, so the firm has aggressively committed to sustainability goals and better-than-average disclosures. Air Products views sustainability as a tailwind for its business, and three of the firm's stated growth platforms align well with energy transition strategies:

Carbon Capture The International Energy Agency (IEA) expects carbon capture to grow to 190X its current level[2] in its net zero scenario.[3] Working with Air Products, the Valero refinery in Port Arthur, Texas, has been capturing approximately 1 million tons of carbon dioxide annually since 2014.[4] The rising price of carbon will enhance the economic case for this growth platform.

Hydrogen Generation A need to decarbonize hard-to-electrify end markets such as steel and cement, as well as the heavy-duty vehicle market, is leading to renewed enthusiasm around hydrogen. Air Products is one of the largest producers of hydrogen in the commercial market. The firm's NEOM project in Saudi Arabia, which will produce 650 tons per day of green hydrogen, will be the world's largest production facility, eliminating equivalent emissions of 3 million tons of CO_2 annually.[5]

Gasification In coal gasification plants, coal is reacted with oxygen and steam at high temperatures and pressure (rather than being combusted). The process is much more efficient, enables use of carbon capture, and results in lower sulfur oxide and nitrogen oxide emissions. In 2020, when spot methanol prices were low, Air Products embarked on a coal-to-methanol project in Indonesia. The facility will offer a better and cleaner use for coal, and the methanol produced will be capable of being converted into higher-value "green" products like biofuels.

Quality Assessment

Air Products stands out relative to the broader chemical industry because of its management team's forward-thinking approach — which supports the FGC team's belief that management can continue to create long-term shareholder value. Air Products scores well in the FGC team's proprietary Confidence Quotient (CQ) framework as well. We particularly like the market position of the company, operating in an oligopolistic market with technology leadership in its three growth platforms. Furthermore, Air Products' financial condition gives it the flexibility to invest in transformational projects.

In sum, while the energy transition trend is going to be disruptive to the chemicals sector, in our view Air Products' core strength of enabling efficient use of natural resources, along with leadership in newer technologies like carbon capture and hydrogen, should lead to long-term success.

Saint Gobain

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The building construction industry is undergoing significant change in Europe. Updating the aging building stock in Europe is an important component of the EU's plan to cut net carbon emissions by 2030. As a leading supplier of building materials and solutions, Saint Gobain is well placed to benefit from the renovation wave sweeping across Europe.

Saint Gobain is a manufacturer and distributor of building materials used in residential and commercial construction in over 70 countries. The firm has more than 166,000 employees and annual sales of €44.2 billion;[6] it offers a wide range of building products that includes flat glass, insulation systems, interior systems, flooring and roofing solutions, and ceramics. Its renovation solutions can typically decarbonize two-thirds of building-related emissions, and in fact sustainable solutions represent 72% of the firm's sales. Saint Gobain's business exposure is 35% new construction, 52% renovation, and 13% industrial high-performing solutions.[7]

Challenges and Opportunities

Europe's building stock is old, and buildings in Europe account for 40% of total energy consumption and 36% of greenhouse gas emissions from energy.[8] Renovation is the key to reducing the energy consumption of buildings, which in turn brings down emissions and reduces energy bills. The European Commission proposed in the Climate Target Plan 2030 that it would cut net greenhouse gas emissions in the EU by at least 55% by 2030 (compared to 1990). Multiple EU and country-level stimulus plans and regulations have been created to help achieve this target, and these clearly represent tailwinds for the building renovation industry over the medium to long term. Such stimulus plans reduce the payback period of renovation investment, and regulations also encourage renovation activity by improving real estate values.

Solutions sold by Saint Gobain in 2020 avoided 1,300 million tons of emissions for customers, which is equivalent to 40 times the firm's carbon footprint.[9] Saint Gobain was also the first Environmental Product Declaration (EPD) issuer in the industry, issuing about 1,500 of these impact assessments in 2020.[10] With regard to minimizing its own carbon footprint, Saint Gobain is aiming to reduce Scope 1 (direct) and 2 (indirect) emissions by 33% in 2030 versus 2017, and is committed to achieving carbon neutrality by 2050.[11]

Saint Gobain is a key beneficiary of the EU's renovation wave related to the energy transition, and about two-thirds of its European sales come from the renovation market. In response to renovation-led demand — especially from France, Spain, and Italy — Saint Gobain has created a one-stop-solution renovation platform, "La Maison Saint-Gobain," where customers can get all the information they require on renovation-related questions from qualified professionals.

Quality Assessment

Saint Gobain's considerable footprint, strong brand, and the renovation trend in European provide support for the firm's prospects — the company expects sales volumes to grow by 4–5% annually over the near term.[12] The firm scores well in the FGC team's proprietary Confidence Quotient (CQ) framework as well. We are confident that Saint Gobain can capture sustainable growth opportunities in the European building renovation market, and we believe that both operational enhancements and the rationalization of lower-margin distribution businesses will drive strong margin improvement as well.

These management actions drove strong CQ scoring in the areas of management, financial condition, and market position CQ scoring, positioning the firm as a leading player in the European building products market with strong pricing ability in an inflationary environment. Saint Gobain clearly wants to maximize the positive effect of ESG factors for its customers through the solutions it offers, while also seeking to minimize its own carbon footprint.

Standard Chartered

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Standard Chartered Group is committed to playing a major role in funding the climate transition and generating related investment opportunities. The Group plans to devote $300 billion of its assets to green and sustainable finance by 2030.

A leading bank in Asia, Standard Chartered has taken a clear position on preparing for and addressing the risks of climate transition. The Group has publicly committed to specific climate-related targets,[13] aligning itself with the International Energy Agency's net zero 2050 climate scenario in 2021 and adapting that organization's emissions trajectory for its footprint markets.[14]

Standard Chartered has also set clear green financing targets, specifically for renewable energy and energy efficiency technologies, pollution prevention and control, water management, sustainable infrastructure, sustainable agriculture, the circular economy, and climate change adaptation.[15] The Group, which follows TCFD[16] principles and has published 2050 net zero commitments, links executive compensation to climate-transition performance.[17] Group management has also established a Sustainability Finance team to support strategic ESG and climate initiatives.[18]

Challenges and Opportunities

While climate change presents both physical and transition risks to Standard Chartered, the net zero pathways represent a growth opportunity for the Group, e.g., as an enabler of financial solutions that clients can use to support their own transition plans. The Group has a geographic footprint where green financing will be needed; it has set ambitious targets to capture opportunities that the climate transition will bring; and it is developing an organizational structure and products to deliver against those targets.

Financing Standard Chartered has committed to financing in the amount of $300 billion aligned to the Green and Sustainable Product Framework and the Transition Finance Framework by 2030. This amount is equal to current total Group loans and includes project financing services for $40 billion of infrastructure projects that promote sustainable development by December 2024. The Group has launched "green" mortgages in Hong Kong, Singapore, and Taiwan and will roll them out in all of its key markets by December 2023.

Advisory In 2021, the bank's Sustainable Finance Solutions teams expanded to include a new ESG Advisory service to support clients in ESG strategy implementation, ESG reporting and disclosures, and ESG ratings. This team works closely with the Transition Finance team and Carbon Markets trading team to create bespoke product solutions.

Invested Assets Standard Chartered has committed to doubling its share of sustainable-investing assets under management by 2025 and integrating ESG considerations into the advisory activities in its wealth management business.

Regulation and Engagement In 2021, Standard Chartered participated in a number of climate risk stress tests, including those carried out by the Hong Kong Monetary Authority and the Bank of England's 2021 Climate Biennial Exploratory Scenario (CBES). The stress tests involved significant engagement with clients and allowed the Group to grow and deepen its understanding and management of climate risk.

Quality Assessment

Standard Chartered is a leader in climate reporting, having published its fourth TCFD report in 2021 and its Net Zero Approach Methodology in 2022. By looking to provide clear and comprehensive disclosure, Standard Chartered is better able to engage with key stakeholders. This is crucial because investor support is needed in order for Group management to execute on its sustainability aspirations.

Standard Chartered has already started to deliver against its financing goals. In 2021, the Group allocated $9.6 billion toward sustainable infrastructure and $22 billion toward renewable energy services.[19] Sustainable Finance income was up 92% YOY and assets were up 66% YOY in the first two months of 2022.

Banks will continue to play a major role in the allocation of capital to fund the climate transition, but at the same time they must address the physical and credit risks (and the implications for creditworthiness) of their clients in this new setting. Standard Chartered is a market leader in assuming this challenge.

This information should not be considered a recommendation to invest in a particular security or to buy or sell any security shown. It is not known whether the securities shown will be profitable in the future.

Endnotes

1 Grand View Research, "Industrial Gases Market," 2022.

2 From 40 metric tons today to over 7,600 metric tons by 2050.

3 Source: International Energy Agency Technology Report, April 2021.

4 Source: Air Products 2021 Sustainability Report.

5 Source: Air Products 2021 Sustainability Report.

6 Saint Gobain 2021 annual results.

7 Saint Gobain 2021 annual presentation.

8 Communication from the commission to the European Parliament, the council, the European Economic and Social Committee, and the committee of the regions dated 14.10.2020, COM(2020) 662 final.

9 Saint Gobain 2021 annual results.

10 Saint Gobain capital markets day 2021. An EPD tells the life cycle story of a product in a single, comprehensive report. The EPD provides information about a product's impact upon the environment, such as global warming potential, smog creation, ozone depletion and water pollution.

11 Saint Gobain 2021 annual results. 2030 environmental objectives are validated by SBTi.

12 Saint Gobain capital markets day 2021.

13 The bank set 2030 targets for the most carbon-intensive sectors, namely oil and gas, metals and mining, and power, which together represent approximately 62.5% of the bank's overall absolute financed emissions baseline. This was further enhanced in March 2022 by naming eight new sectors for target setting with eventual coverage of 73%. In March 2022, they also set a target to end legacy direct coal financing by 2032 globally. They plan to provide an absolute emissions target for oil and gas and communicate it by their AGM in 2023.

14 Standard Chartered 2022 "Net Zero Approach Methodological White Paper."

15 Standard Chartered is in the process of getting SBTi accreditation of its targets and plans to have this achieved by the end of 2022. The Standard Chartered Bank Green and Sustainable Product Framework 2021 has been developed by the Group with the support of Sustainalytics that sets out underlying eligible qualifying themes and activities for green finance.

16 Task Force on Climate-related Financial Disclosures.

17 Standard Chartered Q1 2022 Results Presentation.

18 Standard Chartered TCFD Report 2021.

19 Standard Chartered Q1 2022 Results Presentation.

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* Pensions & Investments Research Center, as of December 31, 2020.
† This figure is presented as of March 31, 2022 and includes approximately $73.35 billion USD of assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated.

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