

Sustainable financing and investing survey 2021

ASEAN report

ASEAN companies to undergo extensive
business model and capital allocation transformation



HSBC

Opening up a world of opportunity

Introduction

ASEAN issuers anticipate business model and capital allocation transformation

While green and sustainable finance in Southeast Asia is developing, the region's economic recovery from the pandemic will likely strengthen the growth and development of the market and the embrace of environmental and social issues among ASEAN companies and investors.

For issuers in the region – we surveyed issuers and investors in Singapore, Malaysia, Indonesia and Thailand – their commitment to and engagement with these issues is already strong,

Some 58% of them – the highest percentage regionally – say environmental and social issues are very important to their organisation. What's more, almost all (96%) of issuers say that they have increased their focus and attention on these issues in the past 12 months.

Some 56% of ASEAN issuers (just above the global average of 51% and rising to 68% for Singaporean issuers) say that climate change is already affecting their activities. In addition, they are also expecting significant change to their business models and capital allocation over the coming years, and not only away from activities challenged by environmental and social issues, but toward activities that promote positive environmental and social outcomes.

In fact, ASEAN issuers seem to anticipate greater change in these areas than their peers in any other region. On activities challenged by these issues and those promoting positive outcomes, for instance, over three quarters of issuers in the region say they expect noticeable or substantial change to their business models and capital allocation during the next two and five years. (Fig 1).

In contrast, less than a third of Americas issuers expect change – both away from challenged activities and toward activities promoting positive outcomes – to the same extent over these timeframes. For European issuers, they do expect greater change than their Americas peers, but again not to the same extent that ASEAN issuers are anticipating over the next two to five years.

For their part, ASEAN investors are also engaged and committed to these issues; some two-thirds believe they are very or somewhat important to their organisation, and 67% say they have increased their focus and attention on them in the past 12 months. In addition, some 44% say they have a firm-wide policy on responsible investing or ESG issues, and 34% say they intend developing one.

These percentages are lower than those in Europe and the Americas, but they do indicate a firm commitment to ESG investing and plenty of scope for this approach to continue to grow.

What's particularly interesting is the alignment between issuers and investors around the reasons why they care about these issues. About half of ASEAN issuers and investors, for instance, say the pressure from their employees (and customers for issuers) is the main reason why they care – the only region where this stakeholder group is given by respondents as the leading reason.

Employees have a powerful voice in any organisation, but clearly their voice is being heard more clearly by issuers and investors across ASEAN.

Together with this, issuers and investors in the region give regulatory requirements as the second most popular choice, reflecting the increasing demands being placed on the private sector by regulators in ASEAN and indeed throughout much of the world.

Importantly, ASEAN issuers and investors are also aligned at a more fundamental level. Not only are more than 60% of them much more aware of the urgency of climate change and other environmental problems, but over half of believe their view of their responsibility has changed.

Such a reassessment is powerful and will support future growth and development of sustainable finance and investment in the region.

Figure 1: ASEAN issuers expecting big transformation over the next few years

Do you expect your organisation to change its business model and allocation of capital away from activities challenged by environmental and social issues?

IN THE NEXT TWO YEARS



IN THE NEXT FIVE YEARS



0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

Do you expect your organisation to change its business model and allocation of capital towards activities that promote positive environmental or social outcomes?

IN THE NEXT TWO YEARS



0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

■ Not at all ■ Slightly ■ To a noticeable extent ■ Substantially

2021 Key Findings:

♦ **Strategic importance** – 58% of ASEAN issuers say environmental and social issues are very important to their organisation, one of the highest percentages among issuers globally.

♦ **Reasons to care** – Three clear factors are underpinning why ASEAN issuers care about environmental and social issues: Pressure from employees (49%); pressure from customers (49%); and regulatory requirement (43%).

♦ **Reasons to care** – Three clear factors underpin why ASEAN investors care about these issues: Pressure from employees (50%); regulatory requirement (46%); recognition that paying attention to these issues can improve returns or reduce risk (40%).

♦ **Net zero opportunity** – ASEAN issuers and investors are making progress on setting carbon neutral or 'net zero' commitments but trail other regions; only 7% of issuers and 5% investors have already made a commitment, which are among the lowest percentages globally.

♦ **ESG investing progress** – Some 44% of ASEAN investors say they have a firm-wide policy on responsible investing or ESG issues, and 34% say they intend on developing one.

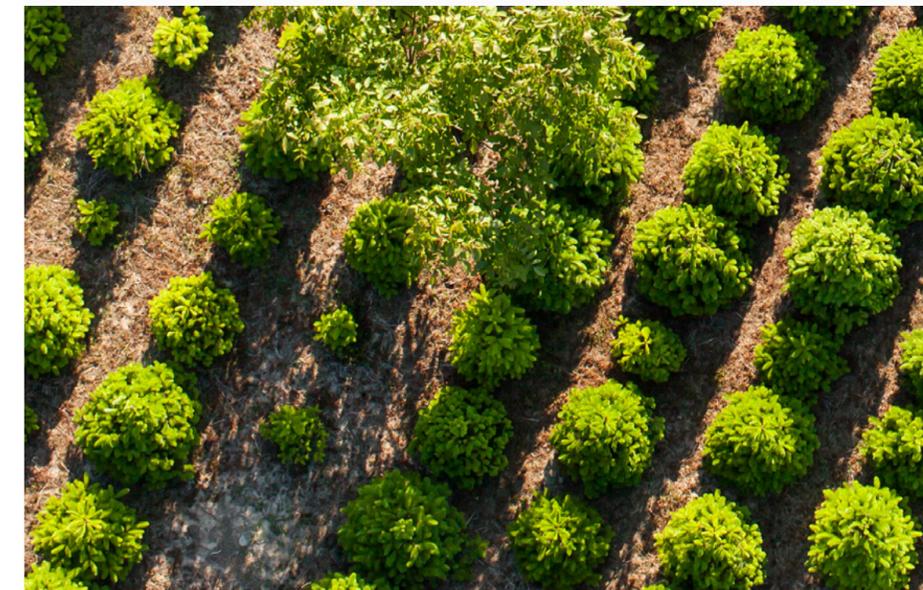
♦ **ESG skills gap** – Of those ASEAN investors who say they are being held back from pursuing ESG investing more fully and broadly, most (38%) say the main reason is a shortage of expertise or qualified staff, the second highest percentage globally

♦ **Disclosure drive** – Some 57% of ASEAN issuers say the level of disclosure they currently make on environmental and social issues is about right, with 37% saying they expect it to increase and that is a good thing – the highest percentage of any region and notably higher than the global average of 25%.

♦ **Issuers examined** – 49% of ASEAN investors say the information disclosed by companies on their environmental performance is inadequate – the highest percentage globally. Some 36% say it is adequate, and 15% excellent.

♦ **Issuers examined** – 43% of ASEAN investors say the information disclosed by companies on their social performance is inadequate – the highest percentage globally. Some 37% say it is adequate, and 19% excellent.

♦ **Green and sustainable finance** – Some 65% of ASEAN issuers say they expect their company to actively seek advice on green, social or sustainability issues in relation to capital markets transactions in the next 12 months.



Climate change

ASEAN issuers look to capitalise on opportunities from climate change impact

Given the vulnerability of Southeast Asia to climate change impacts from rising sea levels and floods, to typhoons and heat waves, it is critically important for ASEAN nations and their private sectors to take mitigating actions.

Our survey indicates that this is happening, and particularly among issuers.

Interestingly, only a quarter of issuers in the region say they are considering reducing or getting out of some business activities which could be vulnerable to climate change – the second lowest proportion among issuers regionally after MENAT. Instead, some 77% of those we surveyed – higher than the global average of 71% – say they are considering increasing some business activities or starting new ones to prepare for or lessen the impact of climate change. (Fig 2).

It is a challenge ASEAN issuers are acutely aware of – 56% of them (just above the global average of 51%) say climate change is already affecting their activities – and need some help on.

Some 66% of ASEAN issuers say they need a lot of advice and information from others on how to formulate and execute strategy for climate change and sustainability – the highest percentage of any region. In particular, they say they need help from investment and commercial banks, but also their national governments, international bodies and academic institutions.

One important area they could benefit from some guidance on is in setting net zero targets. Only 7% and 5% of ASEAN issuers and investors, respectively, have already made a commitment, which are among the lowest percentages globally.

However, 81% of issuers say they are working towards making a commitment – the highest percentage regionally – and 25% of investors say the same.

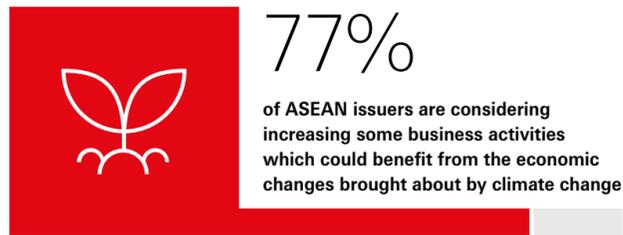
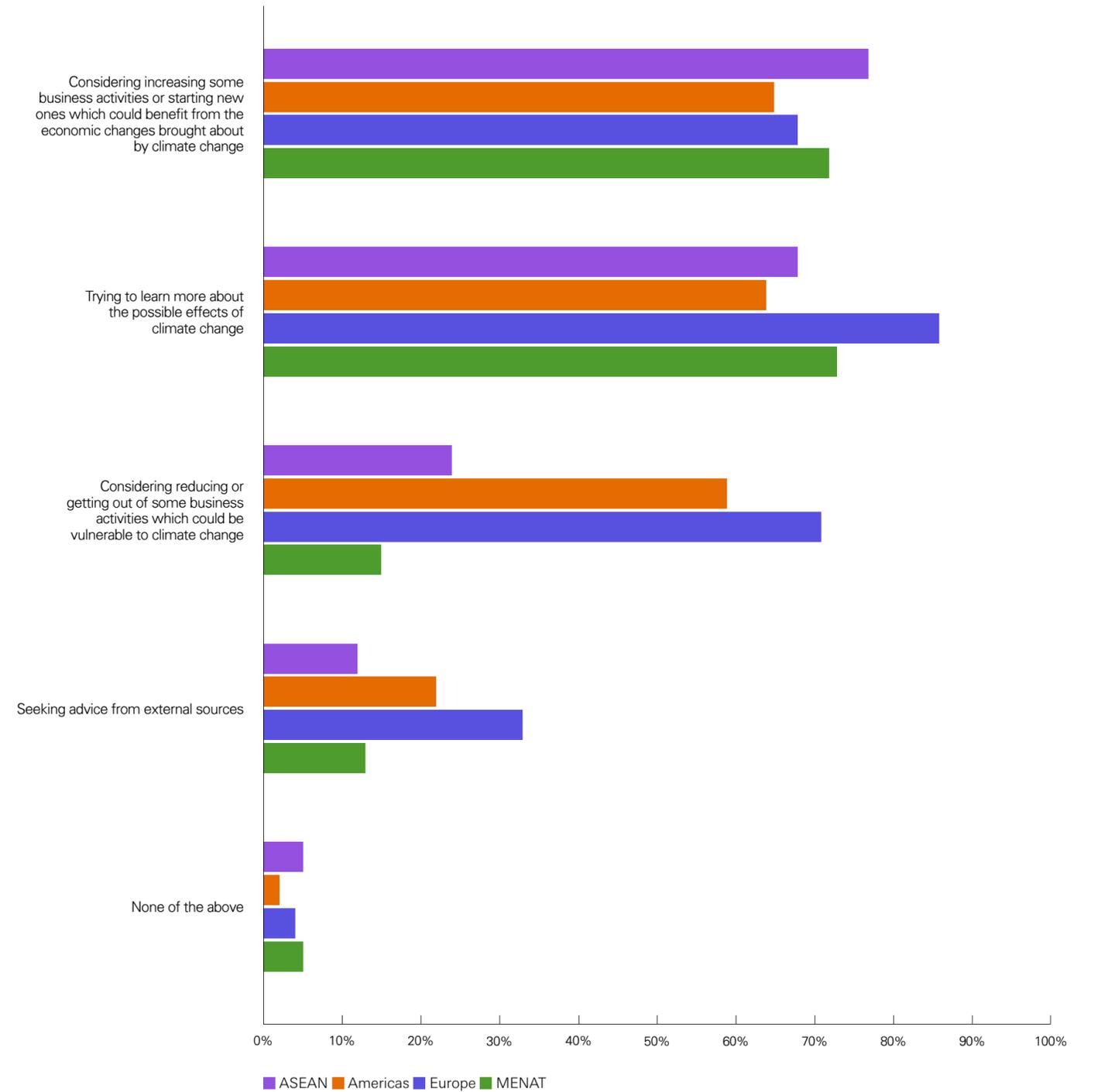


Figure 2: ASEAN issuers pursue climate change related opportunity
What actions is your organisation taking to prepare for or lessen the impact?

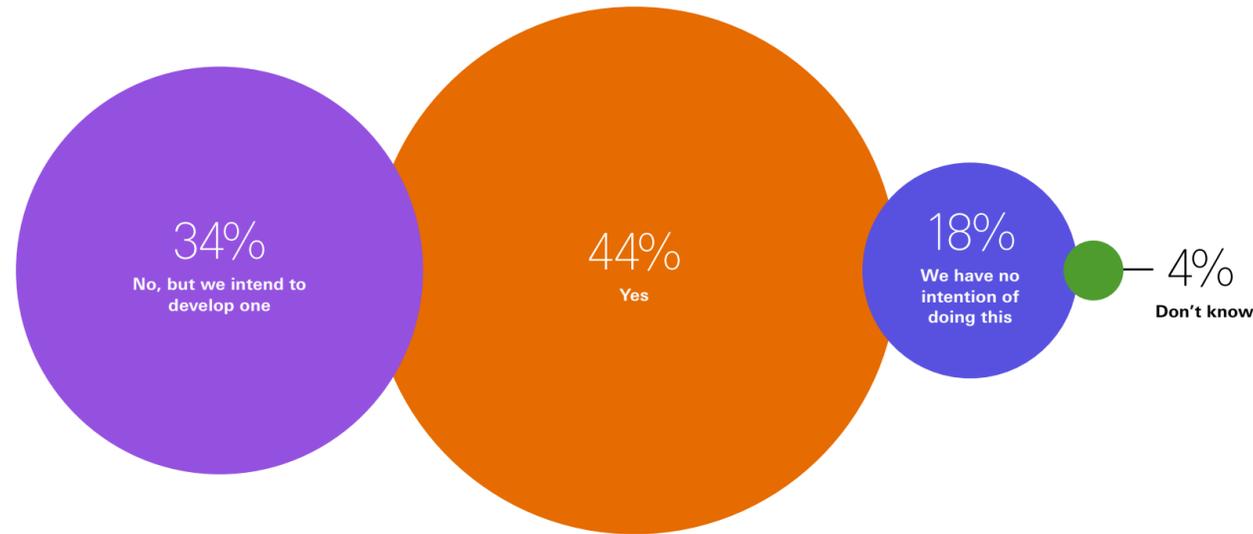


ESG investment

ASEAN investors begin to transition ESG investing from the periphery to core

Figure 3: ESG investing becoming more widespread among ASEAN investors

Does your organisation have a firm-wide policy on responsible investing or environmental, social and governance (ESG) issues?



ESG investing across ASEAN is growing and developing fast, but there is still some way to go before it can be considered core to investment decision making.

This is evidenced in our survey in a couple of key areas. First, some 44% of ASEAN investors say they have a firm-wide policy on responsible investing or ESG issues – higher than among their peers in the MENAT (19%) but notably lower than investors in Europe (91%) and the Americas (72%).

Secondly, only 14% – the lowest of all the regions – of ASEAN investors say they always take into account the issuer’s ESG credentials and performance when making an investment.

These percentages should rise – 34% say they intend to develop a policy in the future – as this approach to investing becomes more accepted and widespread in the region. But there may be some limitations on growth; some 18% of ASEAN investors say they have no intention of having a firm-wide ESG investment policy, which is the second highest percentage regionally after MENAT (31%). (Fig 3).

ESG investing may not be for every investor. But it is becoming increasingly institutionalised, and those investors who choose to not pursue it may be putting their institution at a disadvantage.

Challenges to embracing ESG investing more fully and broadly do remain. And for the 57% of investors in ASEAN that say certain issues are holding them back, one of the main issues – and apparent across Asia more broadly – is a shortage of expertise and qualified staff (38%). (Fig 4).

In general, this shortage is a global and cross-industry issue as soaring demand for ESG talent has outstripped supply. But clearly some regions, especially ASEAN and MENAT, are more adversely impacted than others such as Europe and the Americas, according to our survey.

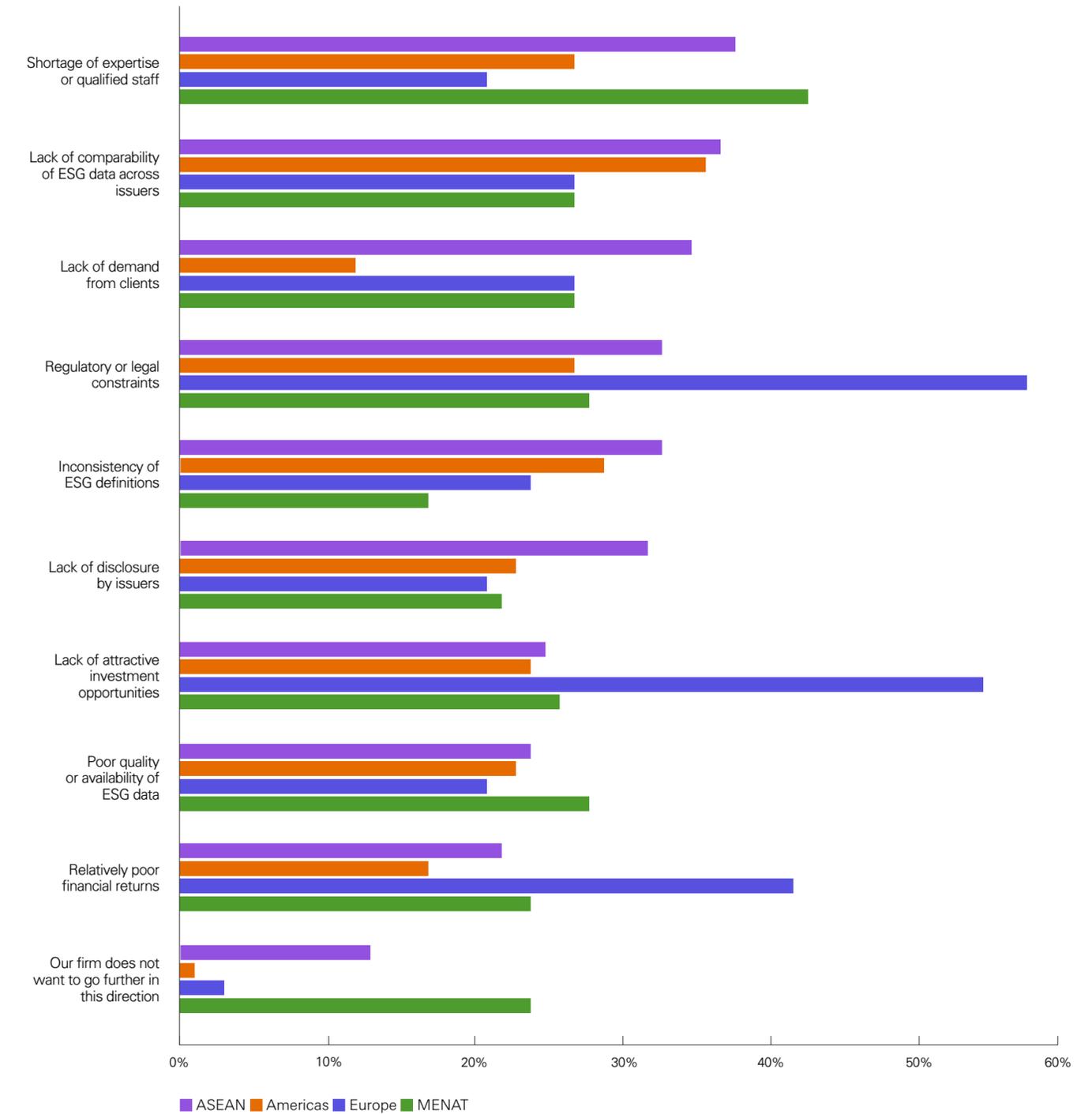
It is difficult to pinpoint exactly why this is. It could be that European and Americas investors are simply winning the global search for ESG talent.

Other key issues holding ASEAN investors back are a lack of comparability of ESG data across issuers (37%), poor demand from clients (35%), regulatory or legal constraints (33%), inconsistent ESG definitions (33%), and a lack of disclosure by issuers (32%).

Such issues may have been identified by ASEAN investors, but they are issues investors elsewhere would easily recognise.

Figure 4: Shortage of ESG skills hindering ASEAN investors

What is holding back your organisation from pursuing ESG investing more fully and broadly?



Note: The sample size for each of the regions on this question was as follows: ASEAN - 63; Americas - 75; Europe - 33; MENAT - 92.

Disclosure

Environmental and social disclosures in focus

The strong interest and pragmatism ASEAN issuers are showing in embracing sustainability extends to disclosure on environmental and social issues, where more of them than in any other region expect disclosure levels to increase and that is something they want to see.

Even though most issuers (57%) believe levels of disclosure are about right and they feel no pressure increase them, some 37% say they expect levels to increase and that that is a good thing – the highest percentage of any region and notably higher than the global average of 25%. (Fig 5).

Part of this obviously reflects a view among these issuers that they are not disclosing enough information, whether voluntarily or under legal requirement. Interestingly, for most of them, they could disclose more if they wanted to – 75% said nothing is holding them back from doing so.

For ASEAN investors, greater voluntary disclosure would be beneficial, and is one of the main factors they feel would help them the most in trying to invest sustainably. Also important are having more consistent ESG ratings and an official taxonomy or guide to which activities are sustainable.

Investors in other regions share some of the same needs. One of the greatest, especially in ASEAN, is for issuers to improve the quality of information they currently provide.

Indeed, some 49% of ASEAN investors say the environmental disclosures of companies they invest in are inadequate, and 43% of them say the same for the social disclosures – the joint highest percentages regionally with investors in MENAT and notably higher than a fifth of investors in the Americas who say the same. (Fig 6).

Clearly a significant proportion of ASEAN issuers need to make improvements to the information they disclose on these issues. Some are also doing a better job and getting it right, though. According to the survey, some 36% of investors believe companies' environmental disclosures are adequate and 15% say they are excellent. ASEAN companies receive marginally better marks on the social side – some 37% of investors say the disclosures are adequate, and 19% say they are excellent.

There is a degree of subjectivity to these judgements – what is excellent to one investor might be only adequate, or even inadequate, to another. But this basic assessment does give a credible snapshot of opinion. Based on this, ASEAN companies do have more work to do on improving their disclosures than their peers in Europe and the Americas.

Figure 5: ASEAN issuers feel disclosure levels are about right
How would you describe the level of disclosure you make now on environmental and social issues?

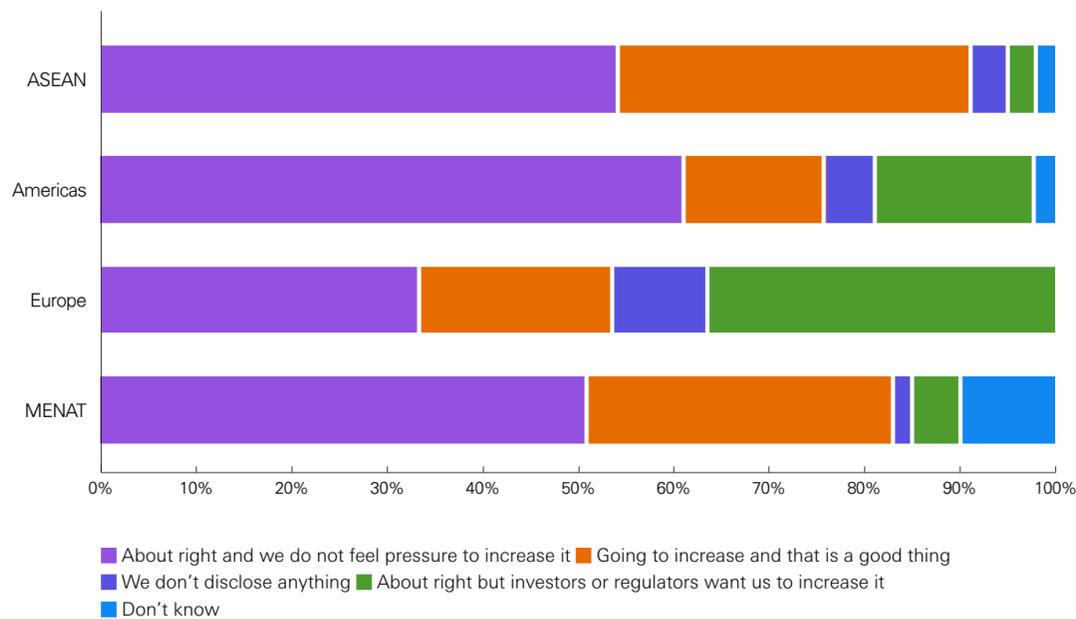
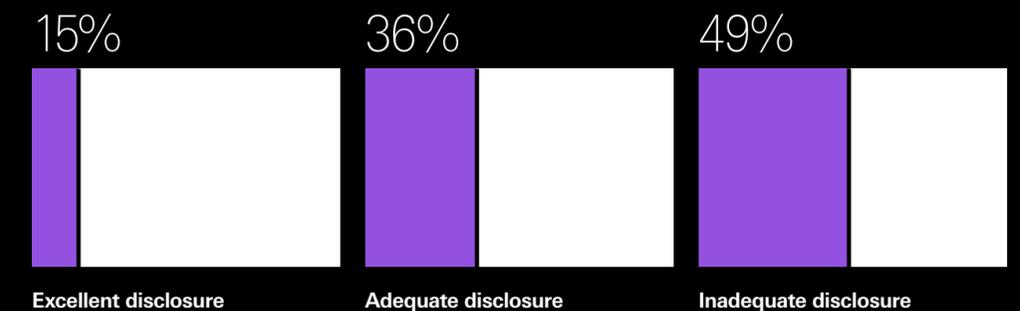
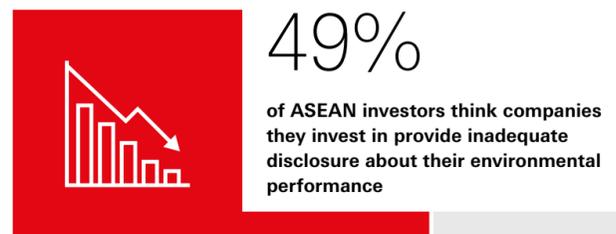
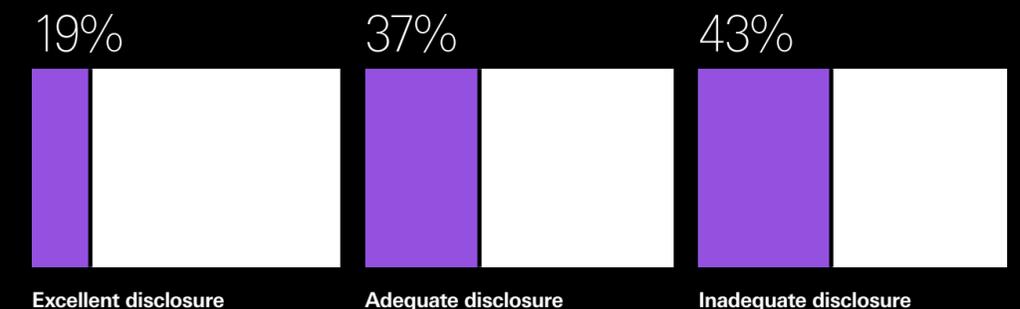


Figure 6: ASEAN investors judge environmental disclosure
How good is the information companies you invest in disclose about their environmental performance?



How good is the information companies you invest in disclose about their social performance?



“For ASEAN investors, greater voluntary disclosure would be beneficial, and is one of the main factors they feel would help them the most in trying to invest sustainably.”

Sustainable finance

ASEAN appetite grows from strength to strength

Green and sustainable finance in ASEAN is still at an early stage of development, but the market is growing at a record pace, supported by strong interest from issuers keen to diversify their funding and demonstrate their commitment to sustainability.

Indeed, 2021 could be another record year for issuance of green, social and sustainable bonds from the region, potentially surpassing the record \$12bn raised last year, which brought the cumulative issuance total from ASEAN to \$30bn since 2016.

Our survey indicates that this healthy growth is likely to continue; some 65% of ASEAN issuers said they will actively seek advice on green, social or sustainability issues in relation to capital markets transactions in the next 12 months – one of the highest percentages regionally.

Some of this interest is likely to convert into new sustainable financing, and business for financial and legal advisers as a result. However, investment banks and law firms need to be aligned with ASEAN issuers on sustainability; 84% of them say that it is critically important or very important – influencing their decision making – for advisers to show their commitment to this issue.

This is one of the highest percentages of any region, and significantly higher than the response from issuers in the Americas (31%), for example. On the investor side, interest in sustainability extends to sustainable infrastructure projects, in which 63% of ASEAN investors say they are interested in

investing in, with 20% already doing so, which is lower than investors in Europe (33%) and the Americas (25%). (Fig 7).

Among multiple investment opportunities that ASEAN investors see in this area, the top five most interesting projects for them to invest in are: Water and wastewater infrastructure (42%); solar power (32%); wind power (18%); electric vehicles and transport (17%); and tidal and hydroelectric power (16%). (Fig 8).

Clearly, water and wastewater infrastructure investment – which is the second most popular opportunity for investors globally after solar power – is of interest to many more ASEAN investors than the other opportunities. There are number reasons why this might be. This could include the region’s high rates of economic growth, and accelerating industrialization, as well as rapid population expansion, urbanization, and the expectation that climate change will worsen hydro-meteorological disasters, such as floods and cyclones. All this places great stress on water and wastewater infrastructure, which across ASEAN requires major investment over the coming years. Importantly, sustainable finance and investment should and will play an ever greater role in supporting this need.

Increasingly, ASEAN companies and investors are seeing and embracing the opportunity to access and invest in sustainable finance. What seems clear is that they are aware of the broader global need and are making efforts to position environmental and social issues at the core of their corporate and investment strategies.

Figure 7: Strong demand for sustainable finance among ASEAN issuers

In the next 12 months, do you expect that your company will actively seek advice on green, social or sustainability issues in relation to capital markets transactions?

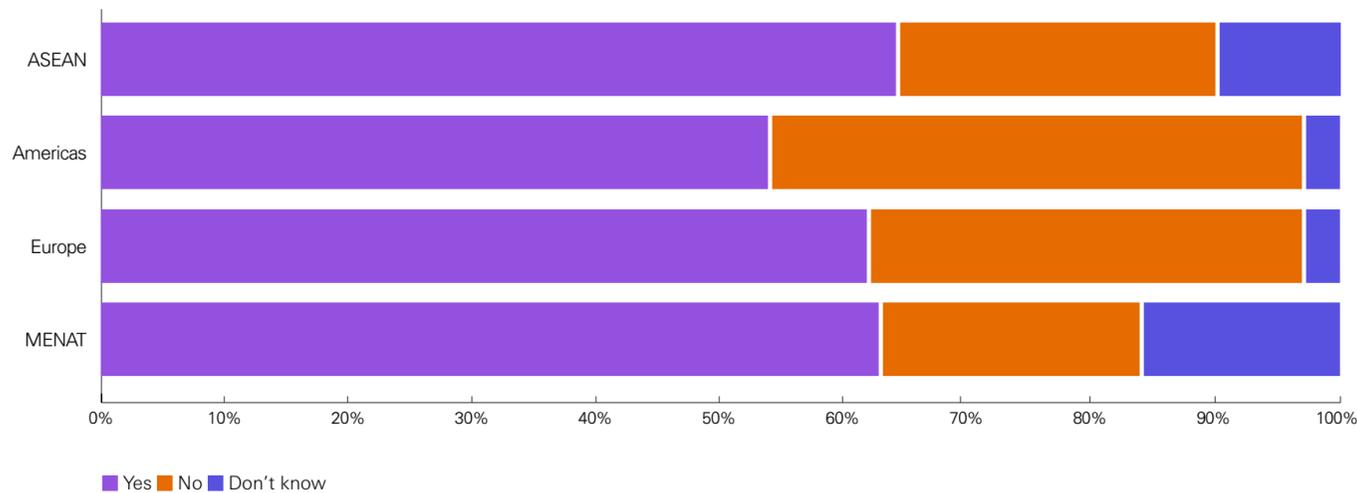
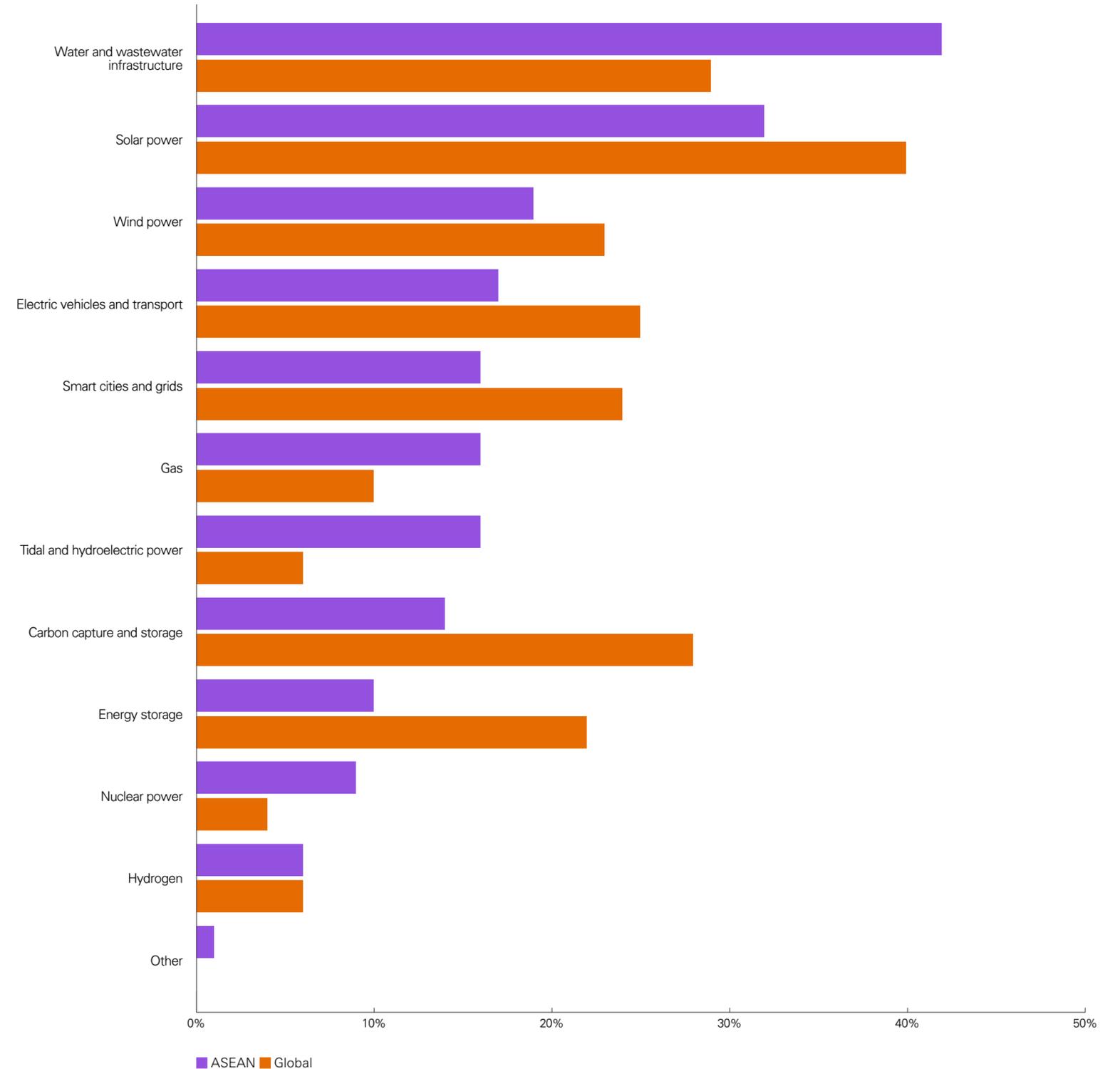


Figure 8: Water and wastewater infrastructure of most interest to ASEAN investors

Which of the following types of sustainable infrastructure projects would you be most interested in?

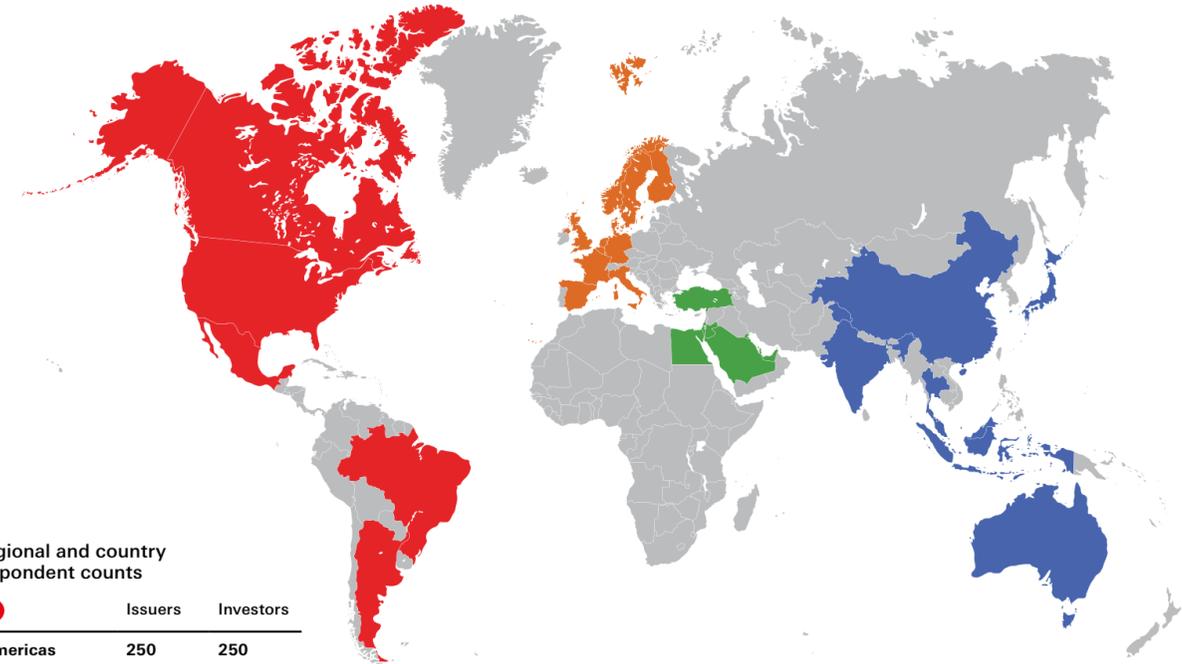


Methodology

The HSBC Sustainable Financing and Investing Survey 2021 is an annual global survey of 2,000 capital market issuers and institutional investors. The survey was run during May and June and was designed and executed by Euromoney Institutional Investor PLC.

Respondents were split evenly between 1,000 issuers, from across 19 industries, and 1,000 institutional investors, including asset allocators and asset owners. In total, respondents were based in 34 territories across the regions of Americas, Europe, MENAT and Asia.

Issuer respondents held senior positions in the CFO office, and in finance, treasury, risk and investments. Investor respondents held senior positions in the CIO and CFO office, in portfolio and fund management and investment.



Regional and country respondent counts

	Issuers	Investors
Americas	250	250
US	126	126
Canada	50	50
Argentina	21	23
Brazil	30	30
Mexico	23	21
MENAT	150	150
Saudi Arabia	50	50
United Arab Emirates	50	50
Bahrain	5	12
Egypt	15	11
Kuwait	12	11
Qatar	10	11
Turkey	8	5

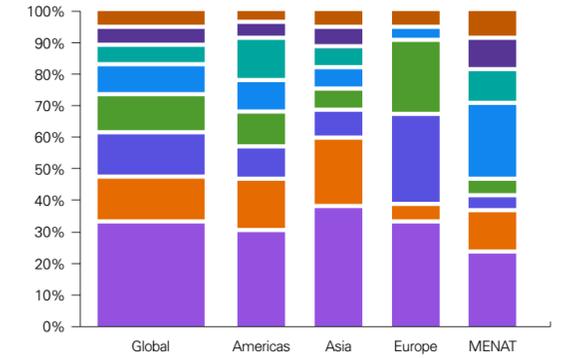
	Issuers	Investors
Europe	276	276
United Kingdom	76	76
France	50	50
Germany	50	50
Italy	20	19
Spain	24	26
Denmark, Sweden, Norway, Finland	27	30
Belgium, Netherlands, Luxembourg	29	25

	Issuers	Investors
Asia	324	324
Mainland China	100	100
Hong Kong SAR	50	50
Singapore	50	50
Malaysia	22	21
India	20	21
Indonesia	20	22
Thailand	21	17
Japan	22	20
Australia	19	23
TOTAL	1,000	1,000

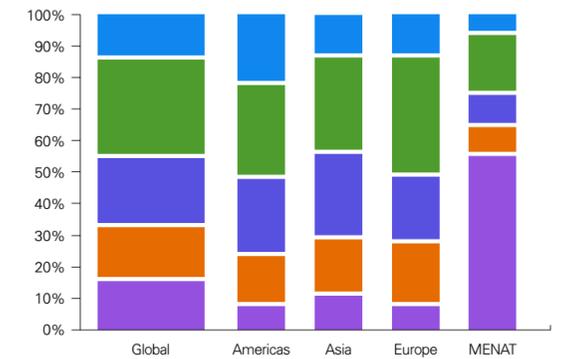
Issuers by industry/sector

Banking	90	Transport	60	Metals and mining	40
Retail and consumer services	90	Consumer goods	60	Building materials	30
Real estate	80	Industrial goods	50	Electricity and water	30
Information technology	80	Agriculture, food, beverages, tobacco	50	Local government	10
Healthcare	70	Insurance	50	Supranational organisation	0
Telecoms	70	Other	40	Central government	0
Oil, gas, coal and chemicals	60	Business services	40		

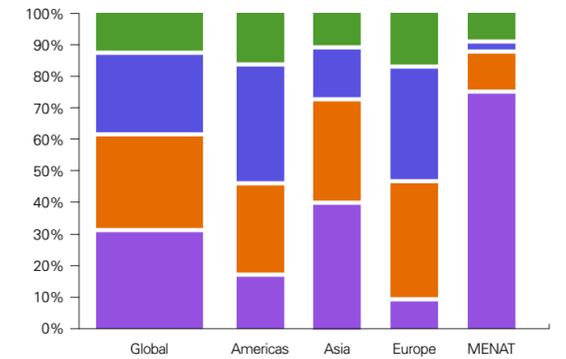
Investors by institution type



Issuers by annual revenue



Investors by AUM



Published: September 2021.
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