

# ESG STRATEGY

ESG investing: A multi-trillion dollar industry

**1,643**

End-2021 FBM KLCI target (pts)  
(Maintained)

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**Rationale for report: ESG Update**

## Highlights

### ESG investment is a multi-trillion dollar industry

- According to the Global Sustainable Investment Alliance (GSIA), total global sustainable investing assets under management (AUM) have grown by 15% in the past 2 years from 2018 to 2020 to US\$35.3 trillion. This represents 35.9% of total AUM tracked by the GSIA. This shows that environmental, social and governance investing has become more prominent among investors. Note that the GSIA is an international collaboration of membership-based sustainable investment organizations. To put things into perspective, the total sustainable investing AUM globally is 80 times of the total market cap of Malaysian stocks at around US\$439 billion (or RM1.82 trillion) (Exhibit 6).
- In this report, we have also included key takeaways from a recent event themed "Impact Investing" jointly organized by the World Bank Group and CFA Society Malaysia (Pages 6 and 7).

### Data consistency remains a key challenge

- Globally, there is currently no consistency on how to assess a company on each of its environment, social and governance criterion. However, we noticed that there are two widely-referenced organizations – Principles For Responsible Investment (PRI) and FTSE Russell. Note that PRI is an investor initiative in partnership with the United Nations Environment Programme Finance Initiative and United Nations Global Compact (Exhibits 4 and 5).

### Our approach on integrating ESG into equity valuation

- We assess each company under our coverage using up to 10 criteria. Based on the average rating of those criteria, we will rate a company from 1 to 5 stars. Companies with 3 stars are deemed an average performer hence no discount or premium to our fair value. As for companies that have demonstrated a good track record, our overall rating will either be 4 stars or 5 stars. For 4-star/5-star ESG-rated companies, we include a 3%/6% premium to our fair value. As for 1-star/2-star ESG-rated company, we include a 3%/6% discount to our fair value to reflect its below average performance in our ESG assessment.

### Top 5 ESG picks: Maybank, Hong Leong Bank, Westports Sunway and Legenda Properties

- Our ESG picks may be different from our top 10 fundamental pick. Companies which outperformed in ESG tend to have a long-term focus hence their near-term earnings growth may not be at the highest quartile. We select our 5 ESG picks (Exhibit 1) based on their above-average ESG rating with BUY calls. Beside the top 5 ESG picks, investors who have a preference for certain sectors may refer to our best-in-class ESG investing table (Exhibits 2 and 3). This is our selection of the top three ESG performing company with a 4-star rating within a specific sector. For our best-in-class strategy, the stocks selected are a combination of BUY and HOLD calls as some sector fundamental factors are not as exciting in the near term.

#### EXHIBIT 1: TOP 5 ESG PICKS

	Recomm.	Price	FV	Upside	Mkt Cap (RMmil)	FYE	EPS growth (%)		P/E (x)		P/B*	DY*
		(RM)	(RM)	(%)			FY21F	FY22F	FY21F	FY22F		
Malayan Banking	BUY	8.13	9.90	21.8	96,885.0	Dec	15.4	8.9	11.9	10.9	1.1	7.1
Hong Leong Bank	BUY	18.86	21.10	11.9	40,927.0	Jun	8.5	15.7	13.5	11.7	1.2	3.1
Westports Holdings	BUY	4.55	5.07	11.5	15,481.0	Dec	8.9	0.2	21.3	21.2	5.5	3.5
Sunway	BUY	1.77	2.19	23.7	8,703.0	Dec	13.4	37.8	22.8	16.5	0.9	1.7
Legenda Properties	BUY	1.60	1.94	21.5	1,301.1	Dec	62.2	25.0	8.0	6.4	0.9	4.7

\*FY22

Source: AmInvestment Bank

## EXHIBIT 2: BEST-IN-CLASS ESG PICKS

Sector	Company	Recc	FV (RM)	Reason for above average evaluation
Banking	Maybank	BUY	9.90	<p>We rate the group 4 stars for corporate social responsibility and balance sheet strength.</p> <p>The group has low exposure to ESG vulnerable sectors.</p> <p>It has a strong commitment to a no deforestation, no peat and no exploitation (NDPE) stance on loans and financing.</p> <p>Additionally, it will not be financing blacklisted and new coal activities.</p> <p>To embed ESG rating into business practices, Maybank has rolled out its framework for sustainability, the relevant risk acceptance criteria for industries and customers. Also, sustainable product frameworks will gradually be introduced.</p> <p>We rate the group 4 stars for corporate social responsibility, earnings quality and balance sheet strength.</p>
Banking	Hong Leong Bank	BUY	21.10	<p>Overall, the adoption of sustainable practices in onboarding of new customers provides stability in asset quality as well as the potential benefit of lowering funding cost in the near future.</p> <p>A significant portion of the group's loans to the business and corporate banking segment (BCB) are in the low-to-medium ESG risk categories.</p> <p>Strong focus of digital initiatives which will contribute to sustainable earnings ahead.</p> <p>Overall 4 stars.</p> <p>We accord 4 stars for the company's corporate social responsible (CSR).</p>
Construction	Sunway Construction	HOLD	1.69	<p>According to its website, Sunway Construction is fully committed to the United Nations Sustainable Development Goals (UNSDGs) and Malaysia's Shared Prosperity Vision 2030 (SPV2030).</p> <p>For pollution control, the company has a quality, environmental, safety and health (QESH) policy in place to ensure strict regulatory compliance. Lastly for accessibility &amp; transparency, the company holds regular meetings with the investment community.</p> <p>Hartalega's overall ESG score is 4 stars as it outperforms in the areas of occupational safety + health, employee training + wellbeing, volunteering + charitable giving and accessibility &amp; transparency.</p> <p>For occupational safety + health, we assign 5 stars for Hartalega due to its social compliance policy which encompasses socioeconomic areas such as human rights, ethical business conduct, workplace discrimination and ethical labour practices.</p>
Gloves	Hartalega	HOLD	6.87	<p>As for employee training + wellbeing, we assign 5 stars as Hartalega has an in-house training department which conducts all internal training programmes. External training sessions are also provided for specific skills.</p> <p>As for volunteering + charitable giving, we gather that Hartalega has donated RM90mil to the government's Covid-19 fund in 2020. The company has also donated hand sanitisers and sanitising equipment, helping 9,000 students across 18 schools.</p> <p>Lastly, for accessibility &amp; transparency, we assign 4 stars as the company holds regular meetings with the investment community.</p>
Healthcare	IHH Healthcare	HOLD	6.29	<p>IHH Healthcare's overall ESG score is 4 stars as it outperforms in the areas of occupational safety + health, employee training + wellbeing, patient safety + welfare and communal efforts.</p> <p>For occupational safety + health, we assign 4 stars. The company's system comply with occupational safety and health (OSH) legislation and standards. We understand that there is thorough procedures such as hazard assessments and controls and incident reporting in place. The outcomes of these assessments are reported and discussed regularly at weekly and monthly meetings.</p> <p>As for employee training + wellbeing, we accord it 4 stars. The company ensures that all its frontline staff are equipped with appropriate and sufficient personal protective equipment (PPE). On top of this, frontliners are given hand sanitisers and Vitamin C supplements to protect themselves from Covid-19. To boost staff morale, the company also distributes tokens of appreciation such as ice cream and self-care products.</p> <p>As for patient safety + welfare, we assign 4 stars as this is embedded in IHH 5 Core Values: Putting Patients First, Integrity, Empathy, Teamwork and Excellence.</p> <p>Lastly for communal efforts, we assign 5 stars. The company strives to promote the health and well-being of the communities that it is operating in. By providing basic healthcare and health education programmes, it hopes to promote good public health practices within each community.</p>
Insurance	None	NA	NA	None

Source: AmInvestment Bank

## EXHIBIT 3: BEST-IN-CLASS ESG PICKS

				Overall 4 stars.
Oil and Gas	Hibiscus Petroleum	BUY	1.16	<p>We accord 5 stars for zero-carbon initiatives and pollution control measure given its strict compliance to emissions regulations in its 50% -owned Anasuria concession at the UK's North Sea where gas production is used as fuel for machinery supporting and lift operations. In Malaysia, most of the gas production from the North Sabah fields are re-injected into reservoirs to maintain pressure or gas lift operations, so it is engaged in minimal carbon-emitting flaring activities.</p> <p>The group has also installed solar PV panels on all North Sabah remote jacket platforms. The group's health &amp; safety rating is also given 5 stars for the observance of the industry's strict standards, experiencing zero work injury loss time over the past 5 years.</p> <p>For supply chain auditing, accessibility and transparency, we rate 4 stars as Hibiscus is ranked among the top 5% of public listed companies for overall corporate governance and performance in 2019 by the MSWG.</p>
Oil and Gas	Yinson Holdings	BUY	7.20	<p>Overall 4 stars as the first O&amp;G player to invest into renewable energy in India and currently exploring other projects in Europe, Vietnam, Latin America, Australia and New Zealand.</p> <p>5 stars for work site safety record and 4 stars for zero-carbon initiatives, pollution control, corporate social responsibility and accessibility &amp; transparency with the group securing the 2019 Asean Corporate Governance Scorecard Award.</p>
Plantation	None	NA	NA	None
Power	None	NA	NA	None
Property	Sunway	BUY	2.19	<p>We accord 5 stars for the company's corporate social responsible (CSR).</p> <p>Its contribution-to-revenue ratio stood at 3.9x in FY20, which is the one of the highest based on our research.</p>
Property	Sime Darby Property	HOLD	0.67	<p>We also assign 4 stars for eco-landscaping, progress of digitalisation, employee welfare, strategic direction, gender diversity and earnings sustainability</p> <p>Overall 4 stars. We accord 5 stars for the company's accessibility &amp; transparency. We like its prompt replies, timely updates and regular engagement with the investment community. 4 stars for progress of digitalisation, employee welfare and strategic direction</p>
Property	Lagenda	BUY	1.94	<p>Lagenda's overall ESG score is 4 stars as it outperforms in the areas of worksite safety, worker welfare, supply chain auditing, accessibility and transparency.</p> <p>For worksite safety, the company mitigates the risk by regular site checking and compliance to prescribed rules for operations by the government.</p> <p>For worker welfare, we gather that Lagenda provides kindergarten and childcare services at a subsidised monthly fee, coupled with the supply of fresh vegetables to their employees during the MCO period.</p> <p>For supply chain auditing, Lagenda has established standard operating procedures (SOPs) for evaluating and grading supplier performance which include price, payment terms and availability of material goods.</p> <p>For accessibility and transparency, the company organises regular meetings and provides timely updates with the investment community.</p>
Transport	Westports	BUY	5.07	<p>Overall 4 stars for ESG given the company's strong performances in sustainable industrialization, diversity inclusion, employee welfare, accessibility and transparency.</p> <p>An environmental impact assessment (EIA) was conducted for Westports 2 expansion to ensure environmental sustainability of the project.</p> <p>Westports promotes inclusivity and diversity by using inclusive language, provides modified facilities for the disabled, parental leave/flexible working arrangement policies, employees trainings and implements an open door policy</p> <p>Westports has a transparent reporting system and disclosures, with quarterly publications of operational statistics.</p>
Transport	Malaysia Airports	HOLD	6.57	<p>Overall 4 stars for its strong commitment to its sustainable values, including pollution control, sustainable industrialization, diversity and inclusion, employees welfare, corporate social responsibilities, accessibility and transparency.</p> <p>In 2020, Malaysia Airport embarked on its energy optimisation initiatives which will bring about sustainable energy cost savings of over RM50mill annually, as well as installation of solar PV equipment at some of its airports to harness the use of solar power for its operations.</p> <p>Malaysia Airport has a remuneration ratio of 1:1 between female and male, with a high retention employee rate of 91.3% in 2020 despite the pandemic.</p> <p>In terms of CSR, Malaysia Airports has assisted 32 schools nationwide, indirectly impacting 30,000 people through its flagship Education and Youth Leadership programme. In addition, over 10,500 individuals have benefited from its community enrichment activities, while 14 projects have been completed for Malaysia Branding, a collaboration between Malaysia Airport and state tourism organisations to promote Malaysian culture, heritage and unique local brands.</p> <p>Furthermore, it has a transparent reporting system and disclosures, with airports statistics being released every month.</p>

Source: AmInvestment Bank

## ESG is mainstream now

- Historically, ESG factors were not a major consideration in an investing decision. However, we believe that the current investment environment reflects the conclusion that this is no longer applicable nor acceptable. The biggest asset management company in the world BlackRock has established its ESG Integration Statement since 27 July 2018. In his latest annual letter to fellow CEOs, BlackRock chairman and CEO Larry Fink stated that the company has seen how purposeful companies, with better environmental, social, and governance (ESG) profiles, have outperformed their peers.
- With the 2030 Agenda for Sustainable Development being the key topic of discussion in the public as well as investment community, a huge amount of investment is needed to achieve the goal by 2030. We gather from the United Nations Conference on Trade and Development (UNCTAD) that an estimated US\$5–7 trillion per year is needed to achieve the goal. Out of these, the range for developing countries is from US\$3.3 trillion to US\$4.5 trillion per year. These are mainly for basic infrastructure, food security, climate change mitigation and adaptation, health and education.

## ESG adoption in Malaysia

- ESG adoption in Malaysia's public-listed companies has been ongoing with Bursa Malaysia, the Securities Commission and Bank Negara playing key roles. Bursa Malaysia released its 2nd edition of Sustainability Reporting Guide on 28 Dec-2018 and the 3rd edition of Corporate Governance Guide on 17 Aug 2019. As for the Securities Commission, it has published the latest shariah-compliant securities on 28 May 2021 and the Malaysian Code on Corporate Governance (MCCG) on 28 Apr 2021. Meanwhile, Bank Negara issued the Climate Change and Principle-Based Taxonomy which comes into effect on 30 Apr 2021.

## ESG-related news flow in Corporate Malaysia in the past three months

- ESG considerations are now a norm among public-listed companies in Malaysia. The good news is that overall, there are more positive news flow than negative ones in the past three months. Here are those related to the sector that we cover:

- **Gloves**

The positives. We believe that the best approach to resolve ESG issue is through engagement with all stakeholders. One of the latest improvements in this area is Top Glove which has managed to boost its social aspect of its ESG rating. This has resulted in the US Customs and Border Protection (CBP) to revise its forced labour finding on the company, thus allowing Top Glove Malaysia to export its disposable gloves to the US after an almost 14-month ban from 15 Jul 2020 to 10 Sep 2021.

The negatives. On 21 October, the US CBP banned Supermax products. According to the US CBP website, it will detain disposable gloves produced by Supermax Corporation Bhd's wholly-owned subsidiaries, Maxter Glove Manufacturing Sdn. Bhd., Maxwell Glove Manufacturing Bhd, and Supermax Glove Manufacturing. We gather that the US CBP has identified 10 out of 11 forced labor indicators while it was investigating the company. As a result, the US CBP concluded that it has ample evidence to believe that Supermax Corporation Bhd and its subsidiaries produce gloves in violation of US trade laws.

- **Oil and gas**

The positives. On 26 October, Yinson has further invested into fresh green technology developments. The group's 100%-owned Yinson Green Technologies (M) S/B (YGT) has signed a term sheet involving a joint venture to provide electric vehicle (EV) charging stations with GreenTech Malaysia Alliances (GTMA) which is wholly owned by the government's Malaysian Green Technology and Climate Change Corporation. The term sheet covers YGT initially owning a 70% equity stake in the JV, which will be injected with GTMA's wholly-owned ChargeEV, currently owning over 400 charging stations nationwide and dominates this segment as other operators ParkEasy, JomCharge and ChargeN' Go have deployed only 60 at this stage.

- **Utilities**

The positives. On 28-Sep-2021, YTL Power's (YTLP) 70%-owned subsidiary SIPP Power Sdn Bhd has proposed to acquire 664ha of oil palm estates for RM428.8mil from Boustead Plantations. YTLP intends to develop the land into a large-scale solar power plant with a generation capacity of up to 500MW. The land is located in Kulai, Johor. It is situated about 43km away from Johor Bahru city centre via the Johor Bahru-Kulai-Air Hitam main road or the North South Highway via the Kulai Interchange.

**EXHIBIT 4: EXAMPLES OF ESG ISSUES**



Source: Principles for Responsible Investment, PRI

**EXHIBIT 5: EXAMPLES OF ESG ISSUES**



Source: FTSE Russell

**EXHIBIT 6: RESPONSIBLE INVESTMENT ASSET BY REGION**

REGION	2016	2018	2020
Europe	12,040	14,075	12,017
United States	8,723	11,995	17,081
Canada	1,086	1,699	2,423
Australasia	516	734	906
Japan	474	2,180	2,874
<b>Total (\$ billions)</b>	<b>22,839</b>	<b>30,683</b>	<b>35,301</b>

REGION	2016	2018	2020
Total AUM of regions	81,948	91,828	98,416
Total sustainable investments by AUM	22,872	30,683	35,301
% sustainable investments	27.9%	33.4%	35.9%
Increase of % sustainable investments (compared to prior period)		5.5%	2.5%

Source: Global Sustainable Investment Alliance (GSIA)

### Key takeaways from Sustainable and Responsible Investing Series 2021 event

We attended the “Sustainable And Responsible Investing Series 2021” with the theme of “Impact Investing”. The event was organized virtually and it is a collaboration between the World Bank Group and CFA Society Malaysia. It was well attended by 225 participants from various backgrounds which include financial institutions, non-governmental organizations (NGO) and CFA society representatives. There are four speakers covering various issues. Below are our key takeaways:

#### Samantha Power – Sustainable Finance Specialist, World Bank Group

1. The World Bank Group has published the report *Mobilizing Private Finance For Nature* which is a paper on private finance for biodiversity and ecosystem services.
2. The report was launched in September 2020 and it is the result of a collaborative effort across two World Bank Group global practices – the Environment, Natural Resources and Blue Economy Global Practice and the Finance, Competitiveness and Innovation Global Practice and the International Finance Corporation.
3. Dutch financial institutions at the global scale have a €510bil exposure to companies with high or very high dependency on one or more ecosystem services.
4. It is estimated that there is an estimated US\$700bil funding gap for nature.
5. Some of the barriers to mobilizing private finance for nature are:
  - a. Perverse incentives
  - b. Lack of measurement, data and standards
  - c. Scale and localized nature of projects.

#### Brian Sng – Head of APAC Business Development, BlueOrchard.

1. According to its website, BlueOrchard was founded in 2001 on a UN initiative as the first commercial manager of microfinance debt investments worldwide.
2. To date, BlueOrchard has invested US\$8 billion across 90 countries in the world.
3. Impact investing is gaining traction and it is expanding to multiple asset classes across different countries in the world.
4. Sng believes that impact investing is aimed at creating measurable impact and provide financial return at the same time.
5. He reiterated the UNSDG statement that in order to achieve 2030 Agenda for Sustainable Development, between US\$5 trillion and US\$7 trillion per year need to be mobilized. It was also stated at the UNSDG website that “at today’s level of both public and private investment in SDG-related sectors, developing countries face an average annual funding gap of US\$ 2.5 trillion”.

### EXHIBIT 7: BLUEORCHARD INVESTMENT UNIVERSE



Source: BlueOrchard website

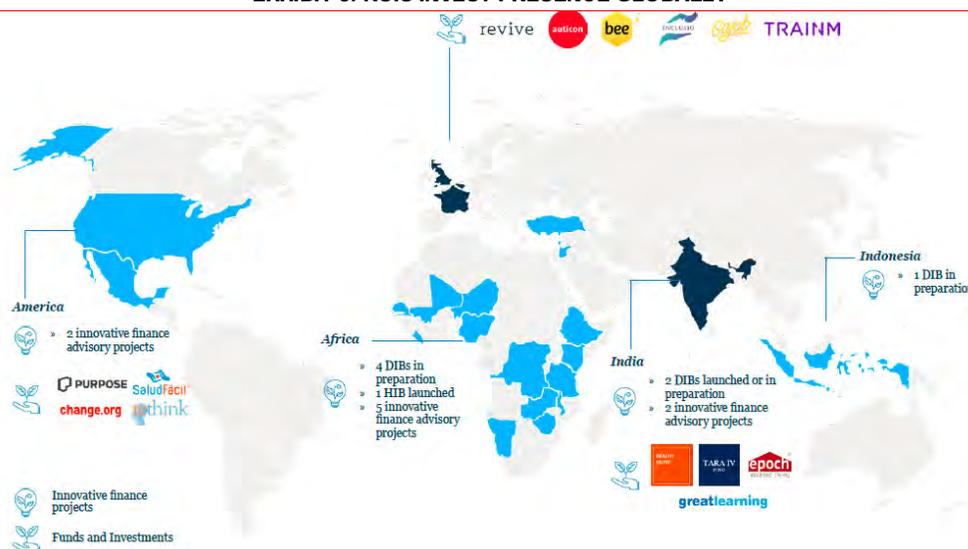
### Najmuddin Mohd Lufti – CEO, BIMB Investment

1. BIMB defines sustainability as “a system of corporate strategy, business model, and operations that integrate ESG factors to create long-term economic and social value”. By integrating ESG, it enables the company to make better informed financial decisions.
2. More importantly, it will consider shariah compliance besides ESG as part of its daily business decision. It believes that ESG and shariah complement each other and will be the consideration for its future decision making.
3. Data for ESG is important and data such as ESG score and temperature score are considered important.
4. There is a role for Islamic social finance in achieving the United Nation Sustainable Development Goals (SDGs). BIMB said that it is the first bank in Malaysia to launch financial instruments which are related to zakat and wqaf.

### Aadit Devanand – Principal, Kois Invest

1. Kois Invest defines itself as an impact finance firm.
2. According to its website, Kois Invest aims to “turn projects with high societal & environmental impact into tangible investment propositions for public & private sector clients”.
3. Some of the sectors and areas of focus that Kois Invest are involved in include:
  - a. Education and Employment
  - b. Environment
  - c. Health
4. Kois Invest has projects mainly in Europe and India. However, it also has a presence on America, Africa and Indonesia.
5. Kois Invest has developed the first Social Impact Bond in continental Europe in 2014. Three years later in 2017, Kois Invest pioneered the development of the first-ever Humanitarian Impact Bond with the International Committee of The Red Cross.

### EXHIBIT 8: KOIS INVEST PRESENCE GLOBALLY



Source: Kois Invest website

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