

Palm oil companies with high ESG transparency are poorly valued: NUS study

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EXCELLING in terms of environmental, social and corporate governance (ESG) reporting does not necessarily translate to higher valuations for companies within the palm oil sector.

A recent study conducted by the National University of Singapore (NUS) Business School's Centre for Governance and Sustainability (CGS) found palm oil companies that performed well in terms of ESG were discounted relative to their peers.

This trend appeared to be unique to the palm oil industry as

companies face the challenge of shareholder demands and prioritising valuations over ESG, observed NUS in a press statement on Thursday (Jun 6).

It is in contrast to other sectors where detailed sustainability reporting would usually result in higher valuations by investors and stakeholders, noted the university.

Titled *Innovating ESG Integration as Sustainable Strategy: ESG Transparency and Firm Valuation in the Palm Oil Sector*, the study was published in issue 22, volume 15 of *Sustainability*, an open-access journal under publisher MDPI.

It analysed financial data from 36 publicly listed palm oil companies against the Sustainability Policy Transparency Toolkit which includes 182 indicators across 10 categories.

Scores were assigned based on the transparency of the companies' ESG disclosures.

Results of the study pointed to a

direct negative relationship between price-to-earnings valuations and ESG scores in the palm oil sector, highlighting that companies with high ESG transparency were discounted relative to poor performers within the sector.

This could be due to the sector's close association with high ESG risks which in turn eroded investor confidence and raised perceived financial risks, surmised its authors.

Collaborative efforts needed

"We must do more to show that sustainability and profitability are not mutually exclusive. This requires collaborative efforts from the governments, palm oil companies and especially the investors who are integral in driving change towards more sustainability practices," said Professor Lawrence Loh, director of CGS.

"To encourage the adoption of 'ESG' as a metric, companies can make greater efforts to communi-

cate and educate stakeholders on their ESG efforts and address concerns raised. By doing so, they can show their commitment to sustainability, improve the sector's reputation, and restore investor confidence," he added.

For instance, governments from palm oil producing and importing countries could strengthen their legislation and policies to incentivise companies to innovate and employ sustainability practices.

NUS noted that most (31 of 36) listed palm oil companies involved in the study had operations in Malaysia and Indonesia, the major markets for palm oil production.

Investing in technologies to help companies improve ESG reporting – particularly smaller firms that lack resources to do so – may also encourage positive investor perceptions of sustainability initiatives in the sector, added the university.