CDP Investor Research

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Building pressure

Which cement companies will be left behind in the low-carbon transition?

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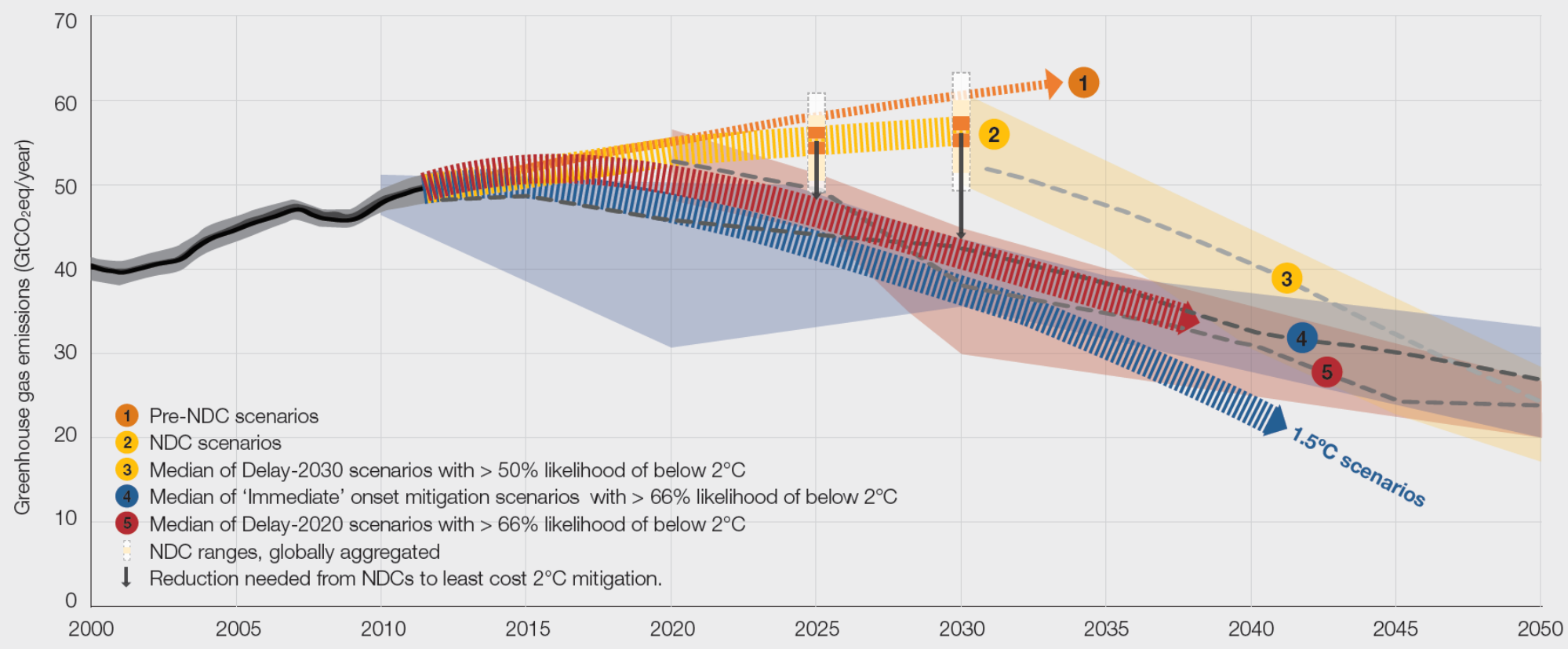
CDP
DISCLOSURE INSIGHT ACTION

Paris Agreement for country level commitments requires economies and corporates to respond to move from business as usual trajectories

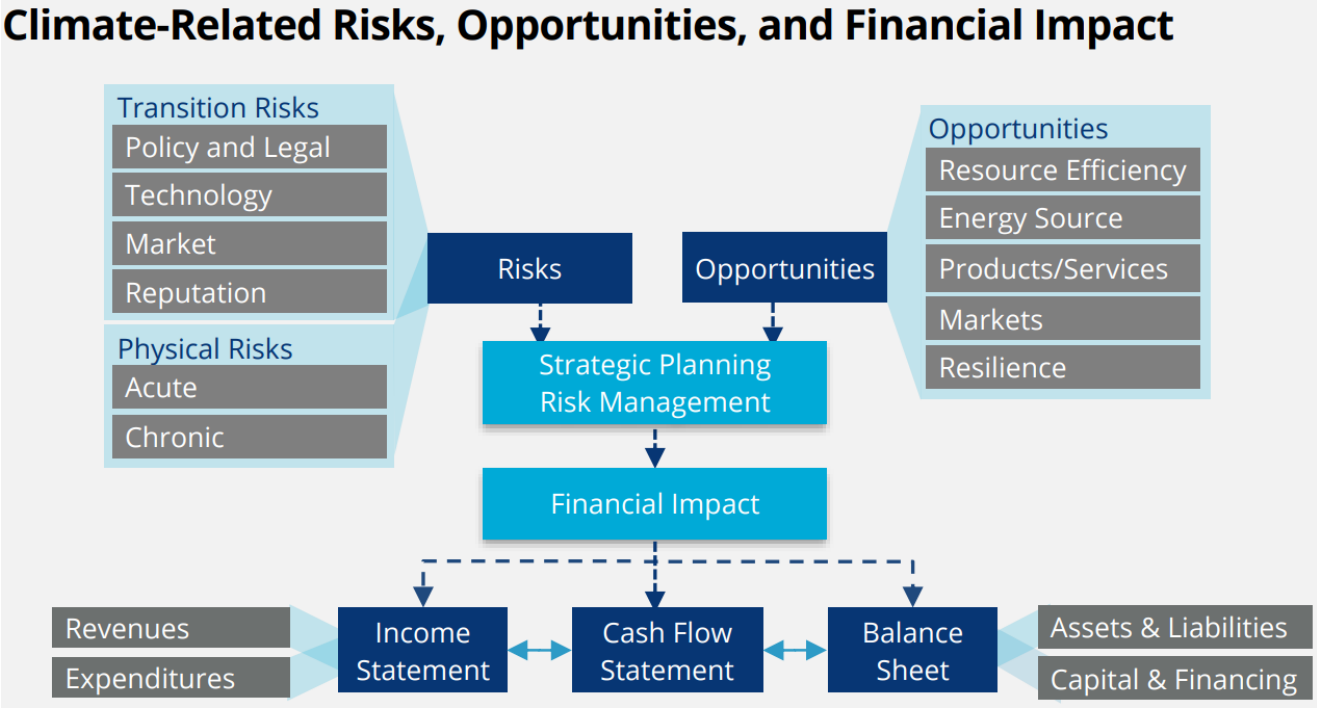


Source: UNFCCC synthesis of INDCs, IPCC AR5 scenario database

CDP
DRIVING SUSTAINABLE ECONOMIES

Task Force on Climate-related Financial Disclosures

- TCFD recommendations ask for disclosure of clear, comparable and consistent information on **risks and opportunities** presented by climate change.
- Currently voluntary disclosure being asked from corporates but also banks and asset managers.
- Framework is attracting greater interest as offers a framework to incorporate climate and financial analysis.
- Push to become mandatory with impacts of climate change routinely considered in investment and business decisions.

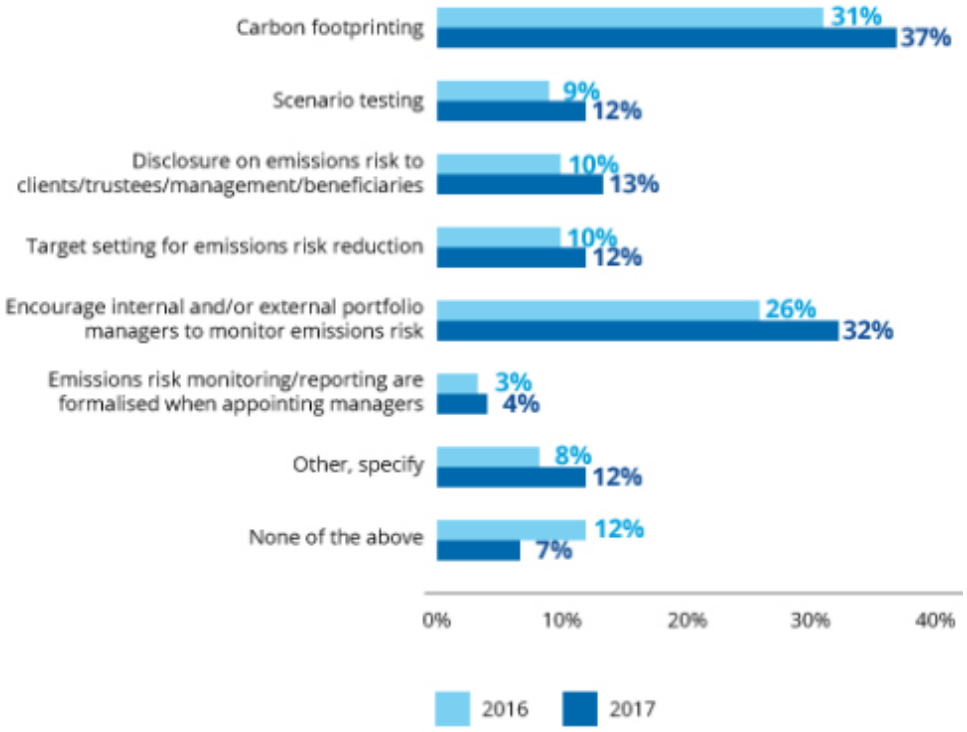


Source: Task Force on Climate-related Financial Disclosures

(i) CDP has developed sector-specific questionnaires for the 2018 reporting period, integrating the recommendations by the TCFD.

TCFD has acted as a catalyst for portfolio decarbonisation but more regulation is coming

- TCFD recommendations
- Upcoming financial regulations, e.g.:
- EU Action Plan on Sustainable Finance:
  - Classification of sustainability of economic activities
  - Investors duties and disclosure: ESG integration
  - Low-carbon benchmarks
  - Advice clients on sustainability
- UNEPFI Banking Principle group
- Increased scrutiny



DRIVING SUSTAINABLE ECONOMIES

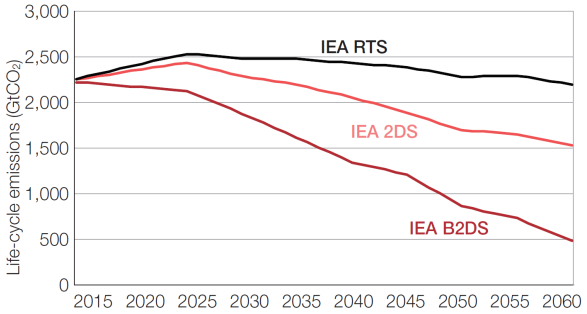
Summary of key metrics

Key area in League Table	Financial Impact	Metrics	Metrics weighting	Key area weighting
Transition risks	• Emissions and energy intensities directly impact operating costs. • Tightening emission regulation could translate into increasing compliance costs for high emitters.	• Emissions intensity • Thermal energy intensity • Clinker ratio • Financial flexibility • Downstream regulation	45% 25% 15% 10% 5%	35%
Physical risks	• Risk to production and asset base from from storms, floods and droughts. • Increasing water scarcity can potentially disrupt operations and create risks to product markets.	• Acute physical risks • Water stress risk • Water usage & management	50% 40% 10%	10%
Transition opportunities	• Opportunities exist to abate costs from upgrading obsolete technologies and processes. • Opportunity for new revenue streams from low-carbon products and supply of low-carbon technologies.	• Alternative materials • Alternative fuel • Financial scope • Innovation scorecard	40% 20% 20% 20%	25%
Climate governance & strategy	• Ambition level of target setting provides insight on companies' strategies to avoid future climate-related financial costs. • Operating with an internal carbon price indicates preparedness for tightening emission regulations.	• Emissions reduction targets • IEA gap analysis • Emissions data verification • Climate-related remuneration • Board level climate management • Internal carbon price • CDP score	25% 25% 5% 15% 10% 15% 5%	30%

Risks & opportunities for the cement sector

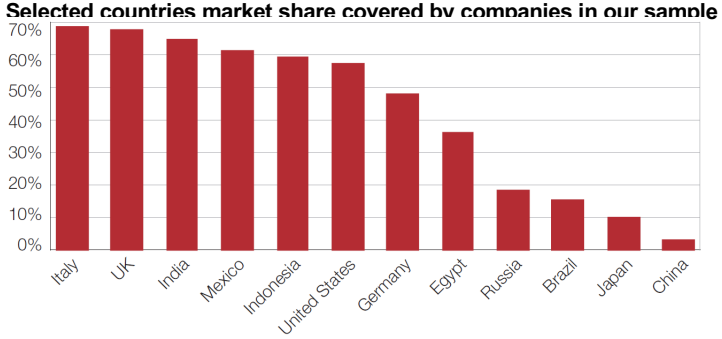
- Cement industry accounts for >6% of CO_2 emissions.
- The 13 companies in our sample have on average reduced their emissions intensity by 1% p.a. in 2012/16 – this needs to more than double to meet a 2-degree target.
- Limited incentives for the industry to decarbonize: regulation is key – increasing ambitions from low carbon cities could drive change in the sector.
- Innovation is limited: low-carbon cements and technologies are both at very early stage.
- Strong regional trends are found with Indian companies outperforming international peers.

IEA 2017 cement sector emission scenarios



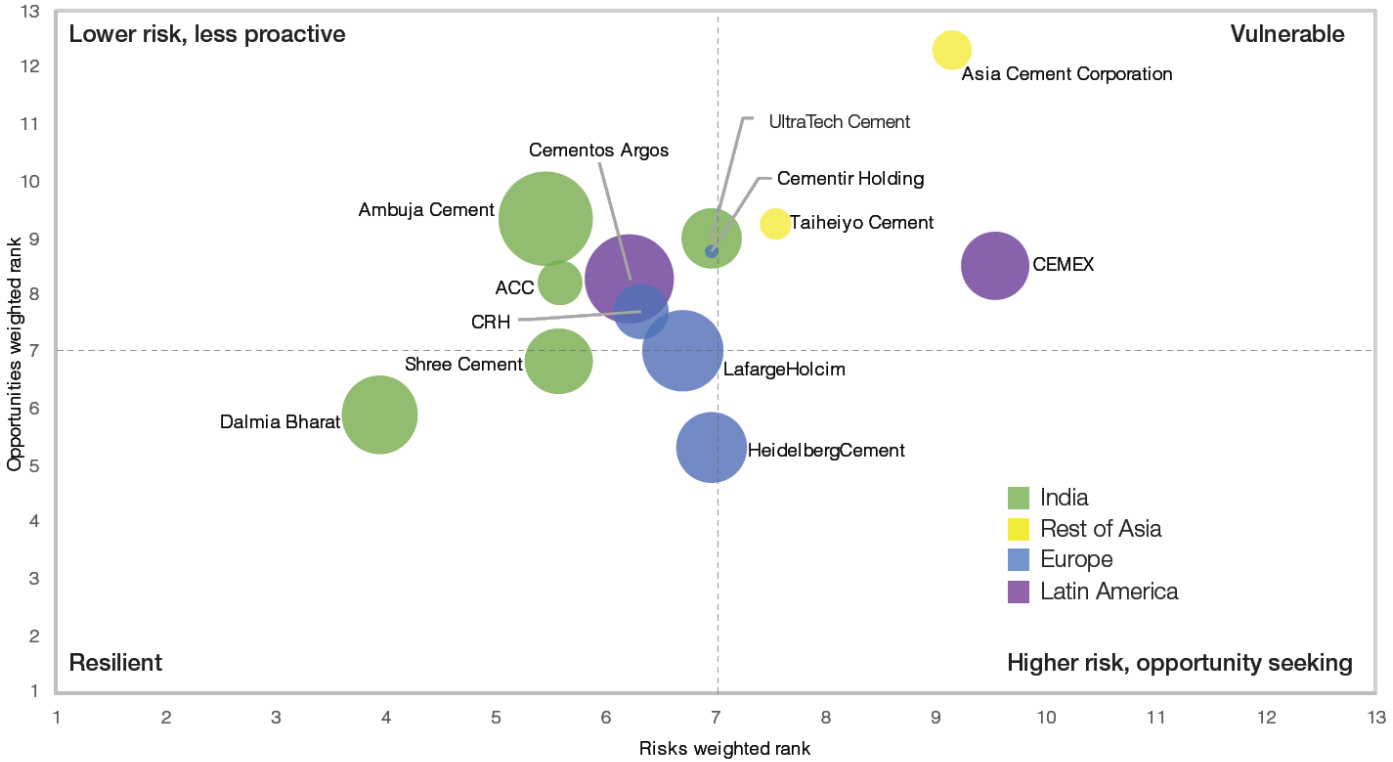
Source: IEA, 2017, ETP

Selected countries market share covered by companies in our sample



Source: Global Cement Directory, Cemnet, CDP

Opportunity vs. risk for a low carbon transition



Bubble size: Larger bubble = stronger performance on climate governance & strategy

Companies represent

US$150bn

in market capitalization

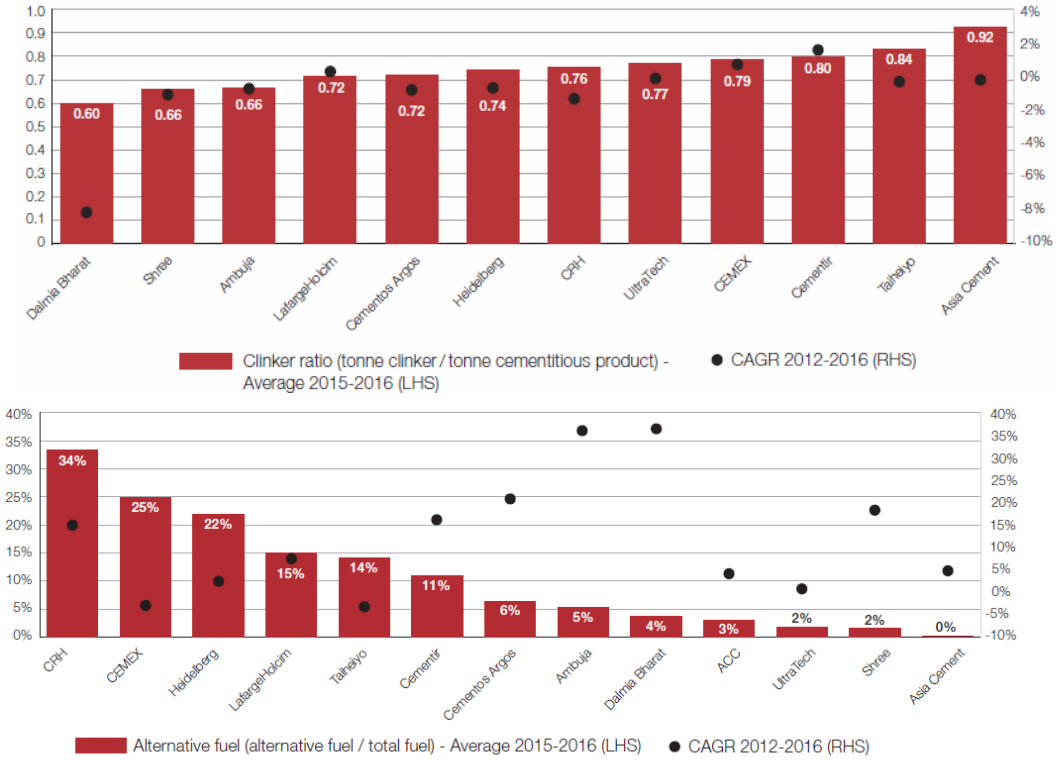
15%

of global cement production

League table

League Table rank	2016 League Table rank	Company	Ticker	Stock exchange listing	Average market cap 2017 (US$bn)[iv]	2016 cement production (million tonnes)[v]	League Table weighted rank	Transition risks rank	Physical risks rank	Transition opportunities rank	Climate governance & strategy rank
1	n/a	Dalmia Bharat	DBEL IN	NSE India	3.4	15	4.64	1	9	2	4
2	n/a	Ambuja Cement[ii]	ACEM IN	NSE India	7.7	21	5.62	3	11	12	1
3	5	Cementos Argos	CEMARGOS CB	Colombia SE	5.3	14	5.90	7	2	7	2
4	2	Shree Cement	SRCM IN	NSE India	9.4	20	5.91	2	13	3	7
5	1	LafargeHolcim[ii]	LHN SW	SIX Swiss SE	34.8	233	6.03	8	6	4	3
6	6	HeidelbergCement	HEI GR	Deutsche Borse	19.3	125	6.08	9	7	1	5
7	4	CRH	CRH ID	Irish SE	29.7	34	6.85	6	4	5	9
8	n/a	ACC[ii]	ACC IN	NSE India	4.7	23	7.02	4	10	6	10
9	8	UltraTech Cement	UTCEM IN	NSE India	17.0	48	7.32	5	12	10	8
10	7	CEMEX	CEMEXCPO MM	Mexico SE	12.6	67	8.04	12	8	8	6
11	10	Taiheiyo Cement	5233 JP	Tokyo SE	4.7	32	8.58	11	1	11	12
12	11	Cementir Holding	CEM IM	Borsa Italiana	1.1	10	9.00	10	5	9	13
13	n/a	Asia Cement Corporation[iii]	1102 TT	Taiwan SE	3.1	34	9.80	13	3	13	11
Weighting								**35%**	**10%**	**25%**	**30%**

Clinker ratio and alternative fuels



Source: CDP, company reporting

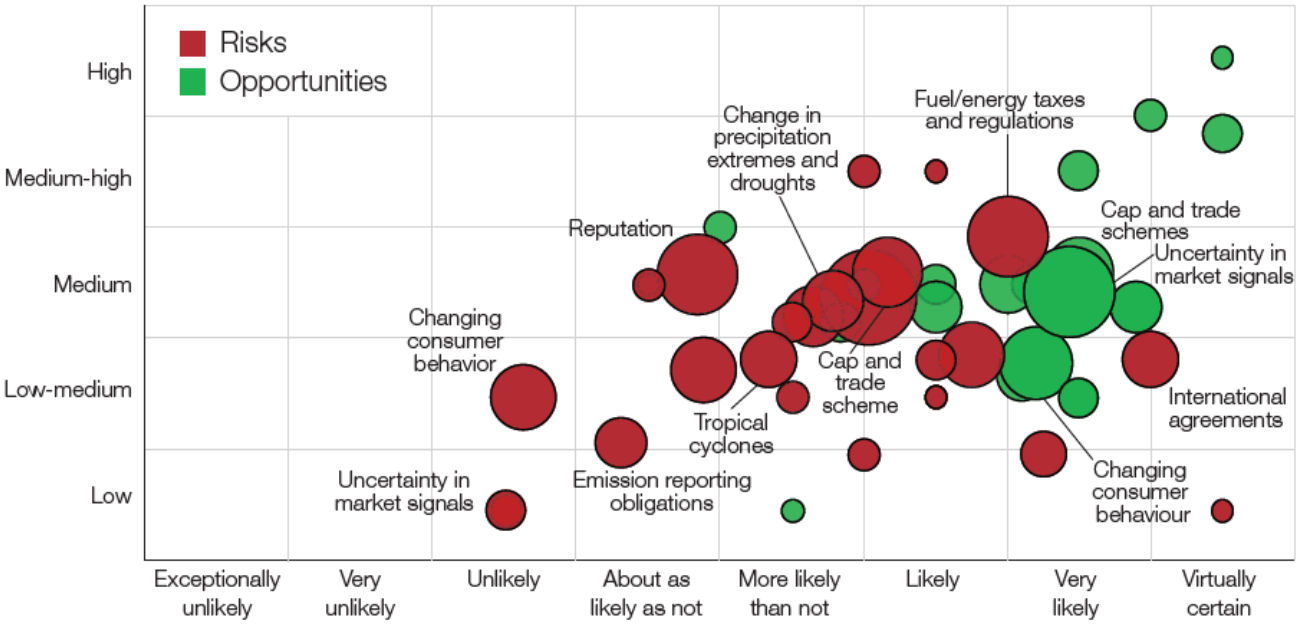
- Indian companies performed best in Scope 1 intensity (clinker ratio and energy efficiency)
- Availability of alternatives and customers education are key
- Significant differences in alternative fuels usage – waste management infrastructure the main differentiator
- Minimal investment in low-carbon tech/products

Climate governance & strategy

	Ambuja	Cem Argos	LafargeH	Dalmia B	Heidelberg	CEMEX	Shree	Ultratech	CRH	ACC	Asia Cement	Taiheiyo	Cementir
Climate governance & strategy rank	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**
Emission reduction targets	4	1	3	2	7	11	6	8	10	12	5	9	12
2-degree gap analysis	2	8	3	1	9	10	4	5	6	7	13	12	11
Emissions data verification	3	9	10	5	11	12	7	8	1	2	6	4	13
Climate-related remuneration	2	1	10	9	6	5	11	3	4	7	8	11	11
Board-level climate management	4	1	7	9	8	6	2	5	10	3	10	10	13
Internal carbon price	3	6	1	5	4	2	7	10	9	8	10	10	10
CDP Score	7	5	2	9	1	3	6	11	10	8	4	12	13

- If all companies met their CO2 reduction targets, only 3 would meet or exceed a 2-degree budget
- Only 1 company includes in the long-term management incentives a climate-related element
- 5 companies don't use any internal carbon pricing

Companies perception of climate-related opportunities vs. risks



- There is a wide disparity in companies' perception of climate-related risks/opportunities.
- Risks tend to be seen as lower-impact, less likely and further out in time.
- Opportunities tend to be seen as higher-impact, more likely and closer in time.
- This perceived skew could delay investments in solutions to decarbonization.

Thanks