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Climate change, the Green New Deal, CO_2 commitments - will the recession sweep ESG themes aside?

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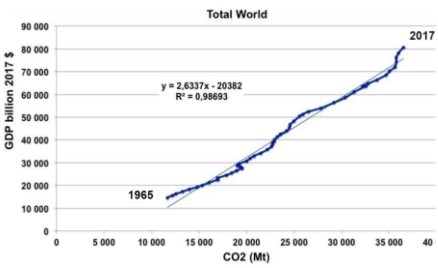
The health crisis and prospect of a recession are pushing ESG themes to the sidelines, for both companies and the public authorities. Yet they might come roaring back in an environment transformed by the experience of falling growth. For companies with exposure to energy- and climate-related issues, their decisions whether or not to maintain their decarbonisation budgets will be a sign of how serious their commitments are. In these straitened times, the choice to persevere might pay off for leaders in the sector.

Greenwashing revealed by CO_2 commitments in a time of crisis

In a time of crisis, CSR is not just about solidarity initiatives or scrapping dividends. Companies in sectors with high exposure to energy- and climate-related issues must decide whether to maintain their investment and R&D budgets dedicated to lowering the carbon footprint of their production systems and finding low-carbon solutions. How they choose will be a sign of how serious their intentions were prior to the crisis. For the moment, companies in the oil sector have maintained their capex for diversifying into renewable energies. There are, however, doubts about whether companies in the steel, cement or airline sector will maintain their CO_2 commitments since they have been so badly hit by the crisis and are in need of cash. In Europe, the trajectory taken by the automotive industry or energy companies will depend greatly on whether the CO_2 price mechanisms are maintained in Europe. The leaders of the various sectors (IAG, PSA, Iberdrola, etc. - see benchmark below) have everything to gain from sticking with their strategies despite today's headwinds.

Correlation between greenhouse gas emissions and global GDP



Source: Shift project

Stimulus plans: jobs before climate

The crisis is undermining Europe's ambitious Green New Deal. The European Commission was trying to bring eastern European countries on-board with its strategy of achieving carbon neutrality with the promise of a fair transition fund to ease the shift away from coal. All over the world, stimulus plans might drive CO_2 emissions back up after a brief respite. China is preparing a stimulus plan as part of its strategy based on the new silk routes, boosted by the construction of over 200 coal-fired power stations. In both France and Germany, a commitment to maintaining jobs rather than re-directing growth models is likely to be the condition attached to rescue plans for companies with exposure to fossil fuels. At the same time, the return of state intervention will be a unique opportunity for governments to invest in the energy transition, particularly in technologies suffering from chronic under-investment from the private sector (energy storage, hydrogen, CO_2 capture, etc.). It is just good sense to focus first on jobs and then the climate, but the decisions taken by public authorities and companies over the next few weeks could well shape the industrial and economic landscape for several years.

ESG - more than a luxury of bull markets

The crisis might divert investors' attention away from the SRI questions which were taking on ever-increasing importance during the market's ascent. But the current shock supports the use of extra-financial criteria to capture and manage financial risks: MSCI ESG indices for Europe, the US and Japan have outperformed since the start of the year. The health crisis is a reminder of the potential consequences of deforestation and unfettered climate change. Many companies have underestimated the risks raised by overly long and complex supply chains. Above all, the themes of relocating jobs, short circuits, low-carbon mobility or sustainable tourism might take centre stage again soon in a world transformed by the unprecedented experience of a fall in growth.

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ESG - a luxury of bull markets?

Since 9 March, the stock-markets have experienced an unprecedented fall with three major crashes putting an end to a very long upward cycle, particularly in the US (more than 10 years). During this period, SRI had also experienced a continuous ascent. Today, almost 30% of assets under management reportedly factor in ESG criteria.[1] Will today's market prompt investors to neglect ESG criteria and focus solely on yields?

It is too early to see whether SRI funds will experience outflows. This first major financial crisis since the emergence of SRI nevertheless provides some perspective on past analyses. According to the Financial Times, the MSCI ESG indices for Europe, the US and Japan have been outperforming their benchmarks since the start of the year, which might support the **use of ESG criteria as a means of capturing and managing financial risks**.

Above all, the public-health crisis serves as a reminder of the potential consequences of deforestation or the unfettered deregulation of the climate. It has been established that **deforestation contributes to the transmission of viruses** from animals to humans. According to a recent study, deforestation is linked to 31% of the epidemics seen since 1980 (including Ebola and Zika). In addition, the work of the IPCC has shown that the thawing of permafrost, as a direct consequence of global warming, increases the risk of epidemics significantly.

Taking due account of the risks posed by **overly complex and opaque supply chains** is a pillar of ESG analysis. The head of purchasing at Avril group thinks that this crisis should put an end to the "low cost country sourcing strategy". A report of February 2020 showed that 938 of the world's 1000 largest companies had a tier-one or - two supplier that was hit by the coronavirus, mainly in Asia. The crisis has revealed the fragility of the pharma industry's model: 80% of the main assets consumed in Europe are produced in Asia.

More generally; the current crisis supports the approach adopted in ESG analysis: the importance of scenario-based risk analysis taking due account of extra-financial criteria and a focus on the medium-term view rather than short-range financial targets, etc.

Finally, the exceptional disruption caused by the pandemic and the political management of its impact on the economy might cast the spotlight back on key ESG themes (see our report of 23 March: **"What investment leads to follow if we imagine the world post coronavirus")**. These include short channels, the relocation of jobs (some of which will be automated), low-carbon mobility, sustainable tourism, the organisation of work, etc.

The recession - good news for the climate?

Pollution and CO2: the respite is probably just temporary

The drop in road and air transport and the halt called to production due to the lockdown in many of the world's regions have triggered a **sharp decline in the emission of pollutants**. The fall in air traffic (-50%) and road traffic (-70%) in the Paris region have contributed to an overall improvement of around 20-30% in air quality, with, in particular, a decrease in nitrogen oxide emissions (-40-60%). France is now in line with the European regulation on air quality which it systematically exceeds under normal circumstances.

[1] *Principles for Responsible Investors*

In China, particulate emissions dropped in February by 20-30% and nitrogen oxide fell by 10-30%, according to the NASA Earth Observatory. According to the WTO**, air pollution is responsible for around 1.1 million deaths in China each year**. The drop in pollution in China might prevent the deaths of over 50,000 people there[2], more than 10 times the number of deaths caused by the coronavirus at 26 March 2020.

The impact - albeit imperceptible – is also significant on **CO2 emissions.** Emissions dropped by 25% in February 2020 in China (200 Mt of CO2 prevented). German emissions might drop in the space of one year by 40-120 Mt of CO2 and allow the country to meet its target for a -45% reduction on 1990 levels[3].

Will the virus prove more effective than the 25 COP events? **Greenhouse gas emissions should, logically, return to an uptrend with the economic recovery** hoped for in H2, with the correlation between GDP growth and greenhouse gas emissions being traditionally strong (see chart on front page).

Efforts of another magnitude than a spectacular drop in emissions caused by transport will probably be necessary for the climate. Assuming that oil consumption drops by 5% for 2020, the impact on CO2 would be around 1.5 points. However, **given how much we have fallen behind schedule since 2015, emissions must drop by 7-8% between 2020 and 2030 to achieve compliance with the Paris agreement** (greenhouse gas emissions cut by 45% between 2015 and 20230). This cannot be achieved without a **coordinated effort on the emissions produced by farming, electricity, buildings, etc.**

Climate agenda upset by the public health crisis

The **COP 26** is supposed to take place in Glasgow in November 2020, but might be postponed to 2021 depending on how the crisis unfolds because the preparatory work for the conference is so intensive. The conference bodes to be the most important since Paris:

- **An international carbon credit mechanism** is to be negotiated to succeed the Kyoto protocol (1997), due to expire at the end of the year. Certain parties were hoping for the emergence of a CO2 price that is consistent on a global scale.
- As per the Paris agreement, signatory countries are supposed to raise their national targets for emission reductions every five years. These national contributions (NDC) were to be presented at the COP.

In particular, the **European Commission was hoping for an agreement on the EU's target for carbon neutrality in 2050** and a stricter emission reduction target for 2030 (from -40% to -55% vs 1990), so that it comes to the COP's negotiating table from a position of strength.

With the crisis, other important meetings have been postponed and might take a backseat in the international diplomatic agenda:

- The COP on Biodiversity (COP 15), to be held in Kunming, China at the end of October.
- The UN conference on the oceans, to be held in Lisbon in June.
- An EU-China summit scheduled for March. It was supposed to focus on climate change...

[2] *Calculations of Marshall Burke, researcher at Stanford*

[3] *Calculations of the thinktank Agora Energiewende*

Management of the public-health crisis: lessons for climate change

The management of the public-health crisis and the initial political responses might **create precedents**: the place of **science** in informing political decisions, the radical transformation of the role of the state in **situations of *force majeure***, the possibilities for central banks to **provide near-unlimited financial resources**, and the capacity of the general public **to give up certain personal liberties for the sake of a higher cause**. All of this provides food for thought when it comes to considering what coordinated action can be taken to support the climate.

Nevertheless, the current situation is generally accepted because it is presented as temporary. Resolving the climate crisis will demand efforts, and probably some sacrifices which will be more than just temporary. In addition, the daily death toll is causing governments to take immediate action whereas **the scale of the climate crisis is more diffuse and seems to go beyond governments' time-specific mandates.**

Public policy: the recovery before the Green Deal?

The European Green New Deal in danger

Before the crisis, Poland was the only member state still strongly opposed to the Von Der Leyen Commission's programme (see our article "European Commission: a new team with the wherewithal to deliver Green New Deal ambitions). The Commission and member states negotiated a € 7.5bn fair transition fund to help the countries with the most to lose make the transition. These included Poland where 237,000 people work in the coal industry. Unsurprisingly**, Poland stated that the goal of carbon neutrality was at odds with the new economic environment** and called for the European CO2 market to be suspended. The Czech Republic followed suit and demanded that the Green New Deal be shelved.

The stakes are more than financial: the promised investment of € 1,000bn over 10 years should be considered alongside the € 5,000bn injected by G20 members in the space of a few days to shore up their economies. The danger stems more from the **regulatory tools** available to the Commission whose green reforms were the subject of tough negotiations: the EU ETS market, the next CAP or the future energy directive.

For the **European carbon market**, most of the reform for the 2021-2030 period has been decided. **As part of the New Deal, negotiations were held to supplement it**, reducing the allocation of free quotas to the airline sector and including sea transport in the mechanism. Since 2018, prices had stabilised at a welcome level (above 25 euros per tonne) and the market even enjoyed guidance: the Commission had set a price mechanism and a price of 30 euros in 2030. **The Commission nevertheless wanted to introduce a floor price. With activity brought to a sudden standstill in Europe, prices have dropped to around 15 euros since the start of the crisis**. These prices make **coal-fired power stations more competitive than combined-cycle gas plants, yet they emit more than twice the amount of CO2 per KWh**. In addition, the industrial groups placed under pressure by the rise in the price of CO2 over the past two years (in the steel, cement and air travel sectors) are likely to lobby again in a bid to weaken this mechanism, with the support of certain countries from eastern Europe wishing to keep energy prices low.

The implementation of the **CAP** has also been pushed back from January 2020 to January 2021. The European Court of Auditors has called for **this delay to be used to increase its climate-related dimension**, by stepping up the reporting on the ecological impact of how the funds are used. The urgent need to provide direct European farmers with direct financial support might nevertheless sweep this goal aside. Note that farming accounts for 20% of global greenhouse gas emissions, primarily due to the methane emitted by cattle.

Finally, the European Commission's Technical Expert Group (TEG) on sustainable financing has just issued its final report aimed at establishing a European framework for the notion of **green assets** on a sector-by-sector basis after lengthy discussions and some political interference. This **classification** might be key since investors and companies will have to specify in their annual reports the percentage of revenues, investment and opex that is compatible with it. The TEG's report now needs to be translated into actions delegated by the European Commission on a sector-by-sector basis so that the European fiscal year 2021 is covered. Whether or not the timetable is maintained **will reveal the extent to which European member states wish to pursue environmental goals despite the public-health and economic crisis**.

In the stimulus plans: jobs before climate

The prospect of a recession has prompted member states and central banks to take action on a massive scale to shore up the economy. Europe is under fire and not many of its actions stem from ecological considerations. **The ECB has announced asset purchases of € 750bn, applied indiscriminately to the various sectors of the economy. The ECB will therefore come to the rescue of sectors with high carbon footprints**, such as fossil fuels, even though Christine Lagarde had made greener monetary policies a priority of her tenure.
In the talks about how to support beleaguered sectors, governments are prioritising jobs over climate change. The Democrat-controlled House of Representatives tried to set conditions for the massive bailout package for airlines (over $ 50bn) with a view to complying with the trajectory of CO2 emissions out to 2050 set by the ICAO itself. Trump strongly opposed this.

China might soon announce a postponement of the China 6a vehicle emissions standards (equivalent to the Euro 6) which should take effect on 1 July 2020. At this same time, it is preparing a huge **stimulus plan**. It will be based on the new silk road project which is well under way, involving **22,000 infrastructure projects all over the world**: 5G networks, railway, electrical cables and... coal-fired power stations. **Over 200 power station projects have already been approved, representing capacity of over 200 GW**. The coal-fired power stations under construction could produce **23 Gt of CO2 over their entire life cycles**[4], which is almost half of the global total for 2019. In 2021, the 16th five-year plan is theoretically supposed to **provide a strategy for stabilising China's emissions in 2030.**

In France, the government is a shareholder of a number of companies with high exposure to fossil fuels: Air France KLM, Renault, Safran, TechnipFMC, CGC, and Vallourec - **the terms for supporting these struggling companies concern the protection of jobs and wages**. Might the government take a stake in oil services companies (French public investment bank BPI already owns 15.5% of Vallourec and 5.5% of FCM) even though climate change is one of its political priorities?

In Germany, no environmental conditions have as yet been attached to the announced government bailout measures for Lufthansa, Heidelberg or TUI. But we must not overlook the series of increasingly alarmist studies about the social impact of the health crisis on this export-led economy with hundreds of thousands of jobs under threat.

There is hope from **South Korea**: the government, held up as an example for its management of the health crisis, announced mid-March the upcoming rollout of a **strategy to achieve carbon neutrality by 2050**, a major challenge for the world's 7th largest emitter with a highly coal-dependent economy.

[4] *According to Carbon Tracker calculations*

The return of state intervention - an opportunity for the energy transition

When asked about climate change, political leaders are retorting that they cannot do everything at once – they are trying to save jobs first and the climate later.

Yet as the IEA noted, the return of state intervention should be used as a means of placing energy and climate-change issues at the heart of the economy's reconstruction: **The inflow of public money should be invested in low-carbon technologies labouring with chronic levels of private under-investment: CO2 capture and storage, hydrogen as a fuel, electricity storage, recharging stations, etc**. (Governments are handling 70% of energy investments). At the same time, **the drop in the price of oil and coal is an opportunity to cut public subsidies of fossil fuels,** currently estimated at $ 400bn worldwide.

CSR and CO_2 commitments: what is their place in times of crisis?

CSR in times of crisis: a question of PR or ethics?

For companies, **CSR does not seem a priority in the public-health and market crisis**. Yet many companies are focusing on social responsibility in their crisis communication. **Solidarity initiatives** have flourished over the past fortnight: L'Oréal is producing hand sanitiser, Pernod Ricard is donating pure alcohol, Air Liquide is manufacturing ventilators, Air France is flying people home, etc.

These are useful actions that are good for company reputations. But they are not transformative from a CSR vantage point. The pharma industry is different because it is geared towards resolving the health crisis by its very nature. Roche, bioMérieux or Sanofi are in a race to produce a vaccine for COVID-19 with strong value creation from both ESG and financial perspectives. AstraZeneca recently spoke to investors about its solutions for chronic conditions and its equipment donations while Sanofi, Bayer and Novartis have donated chloroquine.

For companies wishing to seem responsible, **one area with more impact is maintaining reasonable payment timeframes with their suppliers**. Last week, the France Digitale body expressed concern that many major French companies are putting a freeze on paying their software bills to protect their cash. **Unilever's initiative** of committing to paying its suppliers during the crisis should be praised.

In food retail, Carrefour, Auchan or Casino have announced bonuses for their employees who need to continue coming to work. As is often the case, **Danone wanted to set an example in terms of social responsibility** with a commitment to maintaining all jobs within the group for a period of three months**. Within the European banking sector, the multiple plans for cutting headcount should be put on hold, except for at Unicredit.**

In times of recession, shareholder remuneration policies will be closely watched. The ECB has asked banks to suspend dividend payments until at least 1 October 2020. In France, the finance ministry has already told companies that the arrangements allowing social security contributions and tax payments to be postponed would be incompatible with the payment of a dividend. Germany has taken similar steps. The companies concerned are likely to comply: they will be able to **preserve their reputation** (and cash) while telling shareholders that it is the fault of the authorities. A growing number of companies, including those who will not receive aid, might cancel or reduce their dividends to **protect their reputation** (and their cash), while, vis-à-vis their shareholders, they could lay the blame at the public authorities' door. Companies in the **oil sector** (Total, Shell, Repsol, BP and Eni) are exceptions at present: they have decided to sacrifice their capex to continue serving their shareholders

The future of share buyback programmes will also be closely watched. In the US, the Democrats have contested the taxpayer-funded airline bail-outs, pointing out that the airlines have distributed cash to their shareholders on a massive scale. The different stakeholders will pay close attention to the **excessive pay** awarded to senior executives. With the controversies from previous crises still fresh in their minds, no companies have erred yet.

The question of ethics aside, **the amounts allocated to shareholders will be compared with capex and R&D budgets, to gauge companies' ability to continue to invest in the post-coronavirus world.**

Oil industry, energy, air transport, automotive, cement, steel… CO2 commitments put on hold?

Just a few weeks ago, climate impacts and emission reduction targets were among the most commonly discussed subjects in a number of sectors. For these companies, the end to the crisis could reveal just how serious they were in the initiatives they have undertaken. Will the primary goal of preserving cash outweigh the declared ambitions, via downward revisions to the capex and R&D budgets allocated to decarbonisation?

Decarbonisation challenges for sectors strongly exposed to CO2 themes before the crisis

Sector	Main decarbonisation levers	Expected effects of the recession on CO2 commitments	Regulations and trends to follow	ESG sector Top Pick	Stocks at ESG risk
Aerospace	Energy efficiency, alternative fuels, electrification, hydrogen	Reduction in investment by aircraft manufacturers Reduction in emissions via the fall in traffic	CORSIA (ICAO) CO2 market reform (EU ETS) Chicago Convention (jet fuel taxation) Flygskam	IAG	easyJet, Lufthansa
Automotive	Electric vehicles, hybrid engines, hydrogen	Reduction in investment by carmakers	CO2 regulations (95gCO2/km) Subsidies for electric vehicles (national plans) Take-off in demand	VW, PSA	Renault, Daimler
Cement	Alternative fuels, substitute materials, low-carbon innovation	Reduction in R&D spending Relaxation of regulations	CO2 prices (EU ETS) European green border Sustainable construction theme	Hoffmann Green Cement	CRH
Steelmakers	Hydrogen fuel, CCUS	Reduction in capex and R&D Relaxation of regulations	CO2 prices (EU ETS) European green border Sustainable construction theme	SSAB	ArcelorMittal Salzgitter
Oil	Renewable energy diversification, detection of upstream methane leaks	Reduction in capex and R&D in fossil fuel production-exploitation Amplification of diversification into renewable energies	Oil prices Electrification of the transport industry Peak demand	Total	ENI
Oil services	Renewable energy diversification (reduction in scope 3 emissions)	Fall in oil activities, shift in the business model	Oil prices Offshore wind power	Subsea 7	TechnipFMC
Electricity sector	Exit from coal and gas Investment in low carbon sources	Increased competitiveness for coal and gas Reduction in investment in renewable energies	Political decisions about energy Financial health of renewable energy players Stimulus via investment in Low-carbon technologies	Iberdrola Voltalia	NEOEN Enel

Sources: company data, ODDO BHF Securities

Air transport sector

In the air transport sector, the CO2 theme, which had recently taken on another dimension (see our report "**Air transport: CO2 – a threat to the industry's licence to grow"** published on 06/01/2020), now seems a minor concern in view of the current fall in air traffic, which is unprecedented in the history of the young industry.

In the US, the airline bail-out has already gone through (see above). In Europe, whether it makes sense to bail out a sector that represents **1% of value added but nearly 10% of global oil consumption** is the subject of debate. Does air transport really present a systemic risk, like the banks in rescued in 2008? Italy, Norway and Croatia have for now chosen to support their national airlines in different ways (loan guarantees, loans, short-time working), **without asking for anything in return environment-wise**. **France and Germany are likely to follow suit. A reduction in the industry's carbon footprint could, however, come via the inevitable sector consolidation in Europe**, which has nearly 240 airlines (Flybe being the first victim of the crisis).

On 6 March, before the crisis hit Europe, Poland added its support to the European Commission's plan to reduce the free quotas allocated to airlines in the EU ETS, as part of the Green Deal. This plan will be delayed at least, due to the difficulties encountered by the EU ETS market (see above) and the crisis in the air transport sector. Similarly, the plan for a jet fuel tax (33 centimes per litre?), which the European Commission has been preparing for several years, could be shelved, particularly if the coalition of countries pushing for it (Netherlands, Belgium, France, Germany, etc.) dial down the pressure.

Moreover, after months of divisions, on 16 March ICAO members reached **an agreement on international carbon credits that will be eligible for the industry's decarbonisation mechanism, CORSIA**. The carbon credits will concern projects developed after 2016: emerging countries have therefore made a major concession, as they were the ones that were defending the sustainability of vintage credits. In practice, the CO2 price in the mechanism is likely to reach a higher-than-expected level, **The adoption of this decision in the midst of a pandemic is a positive signal on the industry's ability to come together to find a common response to the CO2 challenge.**

Social issues are likely to be the focus of management attention in the sector in the coming months. The continuation of the sector leaders' CO2 commitments (see our report) will depend on the attitude of consumers when traffic resumes: **The crisis could overshadow the flygskam movement.**

Automotive sector

European CO_2 regulations entered force on 1 January 2020, with fines potentially running into billions of euros for carmakers that fail to comply with the much talked-of 95 gCO2/km rule. Could the crisis facing the sector, described as historic, justify a postponement of the regulation? There seems to be no consensus amongst carmakers in favour of a postponement, given the major investments made and the vehicles that are already available or ready for launch at a number of them (see our table on the CO2 performances of European carmakers' fleets). The VDA – German automotive industry association – has adopted a neutral stance and said that it does not plan to argue for a delay. The scenario of an outright cancellation has been ruled out for the time being.

Moreover, the sector stimulus package could favour electric vehicles (hybrids and 100% electric) in contrast to the vehicle scrappage schemes introduced in 2009, which heavily favoured diesel vehicles by focusing solely on the CO2 theme. The government could also theoretically massively fund electrical infrastructure and charging points, based on a Keynesian approach (if its finances are not overly depleted), but the effects would be more long term.

There is general agreement that **consumer demand will have to be strongly stimulated** (notably demand from fleets, which are currently key to achieving 2020-2021 targets), as purchasing power could fall after the crisis. If subsidies are not sufficient, the only path that would seem possible as a last resort to avoid further weakening an **industry that is strategic in terms of employment**, would be to suspend the payment of any fines in 2020 (but this would only be announced at a later date in order to avoid bias at the different players).

Cement and steel industries

For the cement industry, the economic difficulties in Europe come on top of stricter environmental regulations (**see our report on the industry's decarbonisation levers "Cement industry facing the decarbonisation challenge in the 2° scenario" published on 26/06/2019**). As we showed, **the switch to alternative fuels, low-carbon technologies and depollution solutions require significant investments in capex and R&D.** European cement makers, many of which are highly leveraged, have announced cuts to capex in response to the crisis. As for R&D, which is already low (less than 1% of cement manufacturers' outlays), it could become derisory. The fall in CO2 prices in Europe (see above), which were beginning to factor into sector players' industrial decisions, could accentuate this negative dynamic.
Steelmakers also emit large amounts of CO2, with emissions from processes and fuels (linked in particular to coking coal for carbon steel producers). **Strong investments are needed in blast furnaces (decarbonated hydrogen, carbon capture) to bring them into line with a 2°C trajectory.** The current crisis is a heavy blow to a sector that is already facing structural challenges in Europe. Production and employment issues could come to the fore.

Cement and steel industrial groups are, however, unlikely to overly neglect the environmental theme, given the underlying trend towards stricter CO2 regulations (RE 2020 building regulations in France) and tender specifications (2020 Olympics). **The Commission also undertook to supplement the CO2 market with a green border to protect cement and steel groups from environmental dumping by foreign countries: this project, which requires renegotiating a large number of trade treaties, could become bogged down given the emergency situation caused by the crisis.**

Oil and oil services sector

In the last few months, oil companies have increased their commitments in terms of reducing their carbon footprint and beefed up their investments in renewable energies (see our note on the CO2 commitments of oil companies). **The sudden fall in oil prices will disrupt the industry for the next few years. The big majors very quickly announced cuts to capex**: 20% for Total, Shell, Equinor and Chevron, 25% for ENI and Repsol, etc. **The majors have made protecting their dividends the priority for the coming months.**

Note, however, that **the cuts have spared investments in renewable energies for the time being, in particular at the sector leaders.** Total thus confirmed that it plans to invest 1.5 to 2 billion euros per year in low carbon technologies, while moreover postponing more than 2 billion euros of investment in exploration & production. **The determination of governments to reassert control over the oil market, the strong volatility in prices, and even the advent of peak demand with the recession, may bolster the determination of sector players to carry on with their diversification into electrical energy.**

For oil services companies, the current crisis represents an existential threat, with more than 1 million jobs in danger according to Rystad Energy, i.e. 20% of jobs worldwide. For Saipem, TechnipFMC, SBM Offshore and Subsea7, reconstruction could also involve a **diversification into renewable energies, such as offshore wind power where there are many synergies with offshore oil activities**.

Electricity producers

The sharp drops in the price of coal and gas since the start of the health crisis have not yet had a significant influence on production mixes at utility companies. However, the total cost of electricity production is falling, which significantly erodes the margins of power stations that do not emit CO2 (nuclear and hydropower). The crisis could also derail national strategies for decarbonising electricity mixes, potentially for several years. And there is a question as to whether **the economic crisis might call into question RWE's programme for exiting coal?**

For pure players in renewable energies, the risk is about avoiding a break in the supply chain (wind turbines and solar panels), continuing to enjoy **access to financing for new projects** and being able to pursue **asset rotation policies** with a view to financing new projects... A long-term drop in electricity prices, as currently seen, might exert a drag on new renewable energy projects and weigh on merchant players. Nevertheless, for the vast majority of companies, revenues are secured by long-term contracts obtained via guaranteed prices and, more generally, auction mechanisms.

Conclusion

The crisis could purge greenwashing, by definitively turning away from energy-climate challenges companies that had only taken them up because others had done so. For this to happen, the leaders in the different sectors mentioned here, as well as the other best-in-class (Schneider Electric, Danone, Plastic Omnium, Michelin, Saint-Gobain, etc.) would have to press on with their strategies despite the headwinds. The decisions taken over the next few weeks regarding industrial choices will come under close scrutiny since they might well set the tone for the years to come.

- **Valuation method**

Our target prices are established on a 12-month timeframe and we use three valuation methods to determine them. First, the discounting of available cash flows using the discounting parameters set by the Group and indicated on ODDO BHF' website. Second, the sum-of-the-parts method based on the most pertinent financial aggregate depending on the sector of activity. Third, we also use the peer comparison method which facilitates an evaluation of the company relative to similar businesses, either because they operate in identical sectors (and are therefore in competition with one another) or because they benefit from comparable financial dynamics. A mixture of these valuation methods may be used in specific instances to more accurately reflect the specific characteristics of each company covered, thereby fine-tuning its evaluation.

- **Sensitivity of the result of the analysis/ risk classification:**

The opinions expressed in the financial analysis are opinions as per a particular date, i.e. the date indicated in the financial analysis. The recommendation (cf. explanation of the recommendation systematic) can change owing to unforeseeable events which may, for instance, have repercussions on both the company and on the whole industry.

- **Our stock market recommendations**

Our stock market recommendations reflect the RELATIVE performance expected for each stock on a 12-month timeframe.
Buy: performance expected to exceed that of the benchmark index, sectoral (large caps) or other (small and mid caps).
Neutral: performance expected to be comparable to that of the benchmark index, sectoral (large caps) or other (small and mid caps).
Reduce: performance expected to fall short of that of the benchmark index, sectoral (large caps) or other (small and mid caps).

- **The prices of the financial instruments used and mentioned in this document are the closing prices.**
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Recommendation split		**Buy**	**Neutral**	**Reduce**
Our whole coverage	(431)	45%	42%	14%
Liquidity providers coverage	(86)	56%	41%	3%
Research service coverage	(31)	58%	35%	6%
Investment banking services	(21)	76%	24%	0%

Risk of conflict of interest:

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