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DBS’s Decarbonisation Targets to Drive Better Emission Data Disclosure

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Fitch Ratings-Singapore/Hong Kong-16 September 2022: DBS Group Holdings’ latest decarbonisation targets are likely to drive an improvement in the quantity and quality of data disclosures on greenhouse gas (GHG) emissions by south-east Asian companies, says Fitch Ratings. The initiative is also likely to support the development of Singapore’s transition financing sector.

DBS Group and its operating bank DBS Bank (together, DBS) on 13 September published emission reduction targets for seven sectors and GHG data coverage targets for two sectors. The publication shows the bank’s proactive management of climate risk in its corporate portfolio, a considerable portion of which are south-east Asian entities. We believe setting sectoral goals and interim targets for 2030 and 2040 is a requisite for DBS to achieve net zero emissions in its lending and investment portfolios by 2050.

The plan showcases the bank’s consistent approach to managing its strategic objectives and could help to maintain its leading domestic franchise as the operating environment moves towards a low-carbon future. Still, we do not expect the plan to have a near-term impact on its ratings, given that the Viability Ratings on DBS Group and DBS Bank of 'aa-' are near the top for Fitch’s rated universe of global banks.

DBS's strategy will increase climate data from unlisted companies in the region that are now not subject to mandatory disclosure by the Singapore Exchange Limited or other stock exchanges. While disclosures from these companies will remain voluntary, we expect DBS's engagement with its clients to incentivise greater emission accounting, reduction and public reporting.

The seven sectors that the bank has set emission reduction targets for are: power, oil & gas, automotive, aviation, shipping, steel, and real estate; while it has set GHG disclosure targets for food & agribusiness, and chemicals. These nine sectors represent 31% of the bank's outstanding loans, but the majority of the financed emissions from its institutional banking group. The inclusion of these carbon-intensive sectors indicates DBS's goal to support companies in reducing emissions rather than exiting those client relationships.

Such banking services could help catalyse the development of Singapore's sustainable and transition finance sector, in particular sustainability-linked bonds and loans. Transition financing raises funding for borrowers in "hard-to-abate" sectors to reduce their emissions. Traditional sustainable finance may not be available to them due to their carbon intensity and challenges to decarbonise. Given the size of the heavy industries in Asia, policymakers in some countries, including China, Japan and Singapore, aim to develop their transition finance market to achieve their carbon neutrality goals.

Real estate stands out among the sectors included in DBS's plan, given that it constitutes more than 40% of the bank's loans as of end-June 2022. It comes when governments in certain APAC countries are tightening energy efficiency rules for buildings, which we expect to intensify in the coming decade. Achieving these targets will require significant investments in building retrofit in Singapore and the other major markets in which the bank's clients operate.

Food and agribusiness is one of the two sectors that DBS has set data coverage targets for. This shows the complexity of measuring emissions due to the lack of data disclosures in the sector. However, DBS's targets are likely to influence the sector by encouraging its clients to improve emissions reporting, which will pave the way for setting emission reduction goals. This also aligns with our view that food and agribusiness has been largely excluded from climate policies because of the difficulty in monitoring emissions and policymakers' concerns about food security and inflationary pressure, among others. This leaves some subsectors vulnerable to a likely accelerated push to emission reduction in agriculture in the coming years, particularly livestock.

Global Corporate Climate Vulnerability Score by Sector

Climate vulnerability scores measure the relative vulnerability of sectors to long-term climate-related changes under a scenario that incorporates a global transition to a climate limited to 2°C above pre-industrial levels by 2050. The higher the score at a particular point in time, the greater the vulnerability under the scenario.
Source: Fitch Ratings

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