

## Equity valuation, revenue-at-risk, and divestment tools

The risk of losing buyers is changing companies' behaviour. As supply chains move towards zero deforestation, certification may provide assurance. In the oil palm sector, many companies have committed to "no deforestation, no peat, no exploitation" (NDPE)



policies. Certified sustainable palm oil often receives procurement preference. Certification can mitigate financial risks linked to deforestation and human rights abuses. Chain Reaction Research analyzes financial risks related to the impacts of corporate deforestation commitments and to noncompliance with emerging environmental and social responsibility standards. Here are some examples.

**Equity-valuation tools** – In February 2016, Chain Reaction Research reported alleged violations of RSPO policies by Malaysia's IOI Corporation. In March 2016,

after RSPO suspended the corporation due to reported forest clearance in violation of RSPO policy, IOI's stock price fell 18%, from MYR5.00 to 4.12. Rather than making positive changes, the corporation decided to sue RSPO, resulting in a US\$ 800 million loss in its equity valuation; in addition, 27 corporate buyers, including Bunge, Cargill and Unilever, suspended palm oil purchases from IOI. The corporation's Q2 2016 results showed a US\$ 14.8 million net loss, compared to a US\$ 30 million profit in the same quarter the previous year. IOI then changed its approach. It withdrew its lawsuit against RSPO in June and announced it would improve its sustainability profile to meet buyers' NDPE procurement policies. IOI's share price increased to MYR4.31, then to MYR4.45 in August 2016, when RSPO lifted its IOI suspension, although it did not return to its 2016 high.

**Revenue-at-risk tools** – Chain Reaction Research reported that it is possible to forecast palm oil revenue at risk from corporations' failure to meet buyers' NDPE policies. Modelling three Indonesian companies' historical financial results and forecasting them into the future showed that when growers choose not to meet buyers' NDPE policies, they exhibit revenue at risk.

**Fund divestment tools** – The Government Pension Fund of Norway, with US\$ 850 billion assets under management, divested from 11 companies based on their involvement in rainforest destruction, including First Pacific and Indofood Agri Resources. The American investment firm Dimensional Fund Advisors, with US\$ 445 billion assets under management, recently divested palm oil companies from two of its portfolios.

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