

SustainaWeekly

Gas-to-coal switch...bitter but necessary

- ▶ **Economics Theme:** The shift from gas-to-coal to compensate for the lower Russian gas exports towards Europe will come with higher emissions. However, the EU ETS will ensure that the impact on the carbon budget is compensated for in later years, while climate ambitions are also being stepped up. The real emission issue is in emerging markets.
- ▶ **Strategy Theme:** We have updated our analysis on the relevance of ESG risks scores in the pricing of credit spreads on secondary market bonds. Our results show that the Sustainalytics ESG risk score keeps its statistical significance, despite challenging credit conditions caused by the uncertain macroeconomic backdrop.
- ▶ **ESG Bonds:** Dutch TSO Gasunie was the only corporate bond issuer in the ESG market this week with its second SLB. Given tough market conditions, the company had to pay a whopping 25bps of new issuance premium. Gasunie's strong energy transition strategy, as also shown by its improving ESG ratings, should be supportive going forward.
- ▶ **ESG in figures:** In a regular section of our weekly, we present a chart book on some of the key indicators for ESG financing and the energy transition.

In this edition of the SustainaWeekly, we start off by assessing the impact of Europe's steps to compensate for lower Russian gas exports. The shift from gas-to-coal will lead to higher emissions in the near term. However, it is important to note this will be compensated for by the EU ETS mechanism over time, while the energy crisis has also pushed Europe to step up its renewable ambitions. We make the case that the gas-to-coal switch is more of an issue in emerging markets, where the policy frameworks are less favourable. We then go on to present our updated analysis on the relevance of ESG risks scores in the pricing of credit spreads on secondary market bonds. Finally, we review Gasunie's second sustainability-linked bond, which was the only corporate issue in the ESG market this week.

Enjoy the read and, as always, let us know if you have any feedback!

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Gas-to-coal switch...bitter but necessary

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- ▶ **The shift from gas-to-coal to compensate for the lower Russian gas exports towards Europe will come with higher carbon emissions**
- ▶ **These higher emissions and the wake-up call in terms of security of supply more generally are triggering extra policy measures to stay on track to meet the 2030 climate targets**
- ▶ **In addition, the EU ETS will ensure that the impact on the carbon budget is compensated for in later years**
- ▶ **However, there is a crucial difference between policies within the EU and policies within emerging markets, where emissions caps do not exist**
- ▶ **Besides focus on the current energy crisis, it is vital to also keep an eye on the long term policies targeting energy efficiency and investments in renewable energy sources**

Up to now, several countries have announced measures to deal with lower gas imports from Russia. Despite the fact that the demand for gas is traditionally lower in the summer time, the impact of Russia cutting down their gas exports towards Europe is still huge. That is because during the summer months gas inventories are built up in order to help meet the winter demand. But while the gas-to-coal switch is necessary for the security of supply, it does come with negative side effects regarding climate policies.

So far, Russia has fully cut off Poland, Finland, the Netherlands, Bulgaria and Denmark. On top of that, Russian gas exports towards Germany (via Nord Stream 1) have been cut by 60% and towards Italy by 50%. In order to fill gas inventories as soon as possible, European leaders have - amongst other measures - decided to lower gas demand as much as possible. Therefore they appealed to businesses and homeowners to do all they can now to rein in their use of gas to prevent shortages in the winter. Obviously, ideally one would replace the gas used for power generation by renewable energy solutions, such as solar or wind energy. However, this is not a solution for the near term as increasing the capacity would require much more time. Also changing the fuel source in the industry – so on the demand side – is not something that can be changed overnight. Furthermore lowering energy demand is only possible up to a certain level.

Gas-to-Coal switch could provide some relief to the stressed gas market

Another way to lower the gas dependency in a short period of time is by increasing the usage of coal fired power plants. By reducing the demand for gas for power generation by an increased use of coal for power generation, hopes are high that this would allow an acceleration of the building of gas inventories.

In the Netherlands, the Minister for Climate and Energy, Rob Jetten said that he would change laws that require coal-fired plants to operate at a maximum of 35% of the carbon emissions. It would save around 2 billion cubic meter (bcm) of gas during the coming months. Germany's Minister for Economic Affairs and Climate Action, Robert Habeck has announced the "bitter but simply necessary" restart of mothballed coal plants, which would also save between 2 and 3 bcm towards the winter. In Austria, an existing gas fired plant could be outfitted to use coal instead. And also Italy is expected to announce such a restart of coal fired power plants soon. Making use of the existing resources is seen as a relatively easy step to immediately increase security of (gas) supply. However, since the policy shifts may have taken of the entities that manage these coal plants by surprise, it will take some time to get these plants running again.

Still, it is good to keep in mind that energy usage for power generation is roughly 20% of total primary energy demand. This means that if Russia decides to cut the gas exports towards Europe even further, more measures are needed aimed at the other sectors. Therefore, next phases in the Dutch or German energy crisis plans also include for instance a compulsory switch-off of large-scale gas consumers. For instance companies in the greenhouse sector or businesses in the chemical sector.

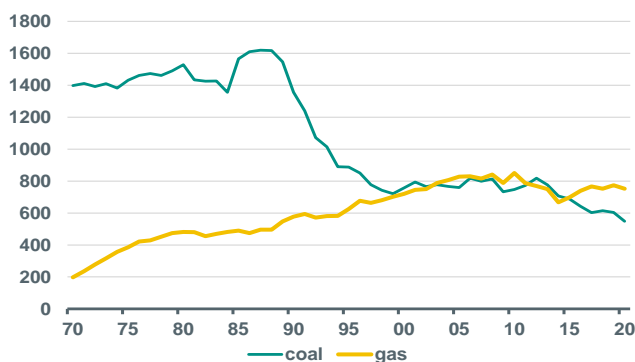
Carbon emissions temporarily to rise due to these measures

In recent years, global carbon emissions from coal usage have dropped. At the same time, the emissions of gas have been rising. As we zoom in, we see mainly a steep decline of coal related carbon emissions in the US and Europe, but this is largely compensated by higher emissions in China and India.

On average, a coal fired power plant emits roughly twice the amount of carbon emissions than a gas plant. However, the total emissions can differ quite a lot per plant. It strongly depends on the efficiency rate of the power plant. It is fair to assume that the relatively new coal plants in the Netherlands are more efficient – and thus come with significant less emissions than the older coal plants in Germany and Italy. The questions are whether this will have a negative effect on climate policy and on the total amount of emissions versus the remaining carbon budget. Looking at the graph below, it seems fair to assume that despite the near term negative impact, the overall trend will not be reversed by this short term measure.

Annual EU27 Carbon emissions by fuel

x million tonnes



Source: Our World in Data

Policy impact

In order to meet the Paris Climate Goals, the European Union has set all kinds of targets in order to support this transition towards a net-zero economy. At first sight it seems as if supporting more coal to replace natural gas in the near term would lead to weakening of these policies and trigger more carbon emissions (compared to the counterfactual). And indeed, in the near term it would lead to more carbon emissions. However, as indicated by Fatih Birol – director of the International Energy Agency – emergency measures are needed and justified to prevent energy shortages during the upcoming winter. But to compensate for the extra emissions, politicians have already advocated the taking of extra measures to still meet the 2030 climate targets.

The German government indicated that it remains committed to its goal of phasing out coal as a power source by 2030. The Dutch government is still planning to close the Groningen gas field in 2023 or 2024. Still, some may have doubts whether these ambitions will actually translate into extra policy measures which would keep the 2030-targets in sights. In this respect it is good to point at the action plans already in place or in progress to speed up the climate policy with the EU-Fit-for-55 targets. This is a proposal by the European Committee to increase the ambition targets for 2030. Currently these plans are discussed and voted upon in the Parliament and the Council. In fact, the European Council just recently gave its approval to the higher ambition targets for renewable energy and higher energy efficiency.

Impact on the EU and global carbon budget

Whether these targets will remain in sight or not, it is important to distinguish between the impact within Europe and outside Europe (mainly focussing on emerging markets). Within Europe, emissions within the utilities sector all fall under the Emission Trading Scheme (EU ETS). This scheme is a cap-and-trade system, which provides a declining number of carbon emission allowances each year. This means that by using more allowances in the near term, it would leave less allowances

for a later stage. As long as the EU ETS is not revised – as in allowing more allowances to be sold/auctioned – the total carbon budget of the EU will not change. So, although one could argue that creating more emissions in the near term is always a bad idea, the total impact of a gas-to-coal switch with regards to European emissions will be zero.

The biggest issue comes from another gas-to-coal switch. Europe has shifted its focus to the import of Liquefied Natural Gas (LNG) now Russia has proved to be a unreliable gas supplier. And despite the high gas prices, Europe is pretty successful in importing LNG. In fact, European LNG imports are roughly 75% higher than two years ago. However, the total supply of LNG has hardly increased in recent years. Therefore, higher European LNG imports coincide with lower LNG imports elsewhere. And this is exactly what we see in emerging markets.

Countries like India, Pakistan and Sri Lanka have seen steep declines of their LNG imports whilst China for instance is reselling its LNG at a higher price towards Europe. In Pakistan, this leads to large power outages whilst in Sri Lanka the situation is even worse. In China and India, these lower gas supplies trigger a higher usage of coal usage for power generation. It is important to note that these countries do not have a cap-and-trade emission scheme as in Europe. As a result, the higher emissions will not automatically be compensated for. China does have a carbon emission scheme, but this scheme comes without a cap and is in its infancy. Therefore, if Chinese consumers need more allowances to compensate for their emissions, there will be more allowances auctioned.

Focus at demand efficiency and investments in renewable energy

In order to reduce the dependency of the Russian oil and gas exports, and to ease the energy crisis which have spilled over to countries all over the globe, it is crucial to focus on two key areas: demand efficiency and the build up of alternative energy sources. The International Energy Agency have stated this already for many years, but the biggest impact on carbon emissions – up to 40% – can be achieved by lower energy demand and therefore the focus on energy efficiency. A trend which has already set in quite some time ago, but which can still be improved much further. Note that any joule of energy which is not consumed, does not have to be generated.

At the same time, we need to seriously step up the investments in renewable energy sources. Although the IEA Investment showed in their recent World Energy Investment 2022 report that we currently have a record spending on renewables, it is still 'far short of the levels that would be sufficient to meet the rising demand for energy services in a sustainable way'. So besides the fact that we need some focus and even investments in fossil fuels to meet current demand and current challenges, the efforts into efficiency and investments in renewables should be seriously stepped up to also meet the challenges of the future.

ESG risk score remain relevant in challenging credit markets

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- ▶ We have updated our analysis on the relevance of ESG risks scores in the pricing of credit spreads on secondary market bonds
- ▶ Our results show that the Sustainalytics ESG risk score keeps its statistical relevance in the EUR corporate bond space, despite challenging credit conditions caused by the uncertain macroeconomic backdrop
- ▶ Looking at a sample of outliers, we see that an issuer's better or worse ESG risk has been priced in, leaving no room for quick profits

We started the Sustainaweekly series earlier this year by providing an analysis on the relevance of ESG risk scores on corporate bond pricing (see [here](#)). At the time we ran a cross-sectional regression on the bond spreads of issuers in the EUR IG corporate bond index and took a variety of independent variables, including the Sustainalytics ESG Risk Score, which was obviously our key point of interest and proved to be of statistical relevance. This implies that issuers with higher ESG risks (and therefore a higher ESG risk score) face a higher credit spread. We re-ran the same regression on today's data to find out if the relevance of ESG Risk Ratings has not faded. One could imagine that with the challenging economic outlook investors would be more concerned about fundamental headwinds and how this might affect an issuer's credit rating. Also, with the ECB no longer conducting net-purchases in the EUR corporate bond market, perhaps the pricing focus could have shifted in how to treat ECB eligible bonds vs in-eligible bonds.

Variable	Estimate	SE	Robust SE (HC3)	t-stat	2-Tailed P-value
Intercept	-82.6	17.30791	11.124774	-4.77328	0.0%
CSPP dummy	-3.5	1.823776	1.98490167	-1.89189	5.9%
ESG Risk Rating Score	1.4	0.141168	0.15992872	9.753108	0.0%
Size issuer benchmark index	-1248.4	243.4882	243.095754	-5.12718	0.0%
EM dummy	38.7	5.558455	17.1051249	6.968805	0.0%
AA1	17.2	22.21367	10.4532301	0.773053	44.0%
AA2	-3.3	18.60771	9.97212006	-0.17522	86.1%
AA3	9.9	17.44914	8.83110223	0.56763	57.0%
A1	20.2	17.27635	8.45427226	1.168864	24.3%
A2	34.4	17.10769	8.32958834	2.009296	4.5%
A3	38.9	17.0742	8.47264417	2.27701	2.3%
BBB1	62.5	17.06738	8.20923592	3.660727	0.0%
BBB2	81.7	17.02815	8.13153542	4.798103	0.0%
BBB3	132.4	17.09378	8.2258325	7.746138	0.0%
Automotive	31.3	4.3484	3.80189322	7.197197	0.0%
Basic Industry	21.9	4.009147	3.73471963	5.450505	0.0%
Capital Goods	13.4	4.206931	3.31571382	3.196951	0.1%
Consumer Goods	21.2	3.671593	3.67328791	5.76707	0.0%
Energy	25.6	4.286979	5.20583684	5.980172	0.0%
Leisure	26.5	14.55205	11.043282	1.818552	6.9%
Media	26.7	6.074882	7.0044005	4.402247	0.0%
Real Estate	117.5	3.881935	5.90523756	30.26855	0.0%
Retail	22.4	5.250859	5.35465506	4.258145	0.0%
Services	12.4	5.611625	5.48996459	2.214712	2.7%
Technology & Electronics	15.2	5.44012	4.67379393	2.788265	0.5%
Telecommunications	-0.6	4.016954	3.64073072	-0.14477	88.5%
Transportation	26.4	4.465039	5.39284072	5.911549	0.0%
Utility	17.0	3.592559	3.13370517	4.736735	0.0%
Effective Duration	7.7	0.228727	0.31946151	33.44653	0.0%
Bid-ask	1.8	0.131517	1.07255353	13.42474	0.0%

Regression Statistics	
No. of obs.	2365
R ²	0.703642625
Dependent variable	Spread over swap rate (ASW)

Source: Sustainalytics, ICEBofAML, Bloomberg, ABN AMRO Group Economics

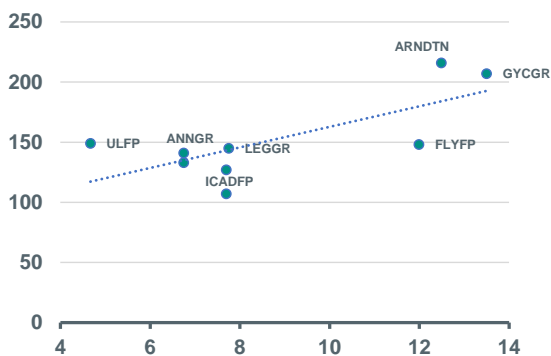
However, none of these factors have reduce the relevance of ESG risk ratings for credit spreads. Indeed, the table above presents are update regressions results and shows that the ESG risk rating variable continues to benefit from high t-scores / low P-values (that is, high statistical significance), based on the latest data.

What the table above suggests is that on the entire sample population a one unit rise in the ESG risk score would command a 1.4bp higher credit spread. That is, if an issuer increases its ESG risk score from 20 to 19, its bonds should also trade with 1.4bp lower credit spreads. Sustainalytics ESG risk scores range from 0-100. The model fit looks decent with an R-square of 70%, while the direction of credit spreads with regards the other independent variables also makes sense. For instance, a higher and more relevant coefficient when the credit rating drops from single A to BBB and the emerging market and cyclical sector dummies, specifically real estate commanding a higher premium. As a sidestep, we note that under the current run, the CSPP eligibility dummy has lost its relevance (was relevant in February) suggesting that the market has made quite some progress in re-pricing the eligibility premium.

Last time around we visualized a large part of the sample to see how ESG risk ratings and credit spreads relate in a scatterplot, but did not correct for maturity, industry or credit rating. This time, to achieve an apples-to-apples comparison, we show how credit spreads sit across various ESG risk ratings, based on single industry with issuers that have the same composite credit rating and we also focus on one maturity bucket. The charts below show these outcomes for real estate and utilities, in the 5-6y maturity bucket. Obviously the sample points are considerably less, but most importantly, we are still seeing an inclining trend line. We have tested for more maturity buckets and found an inclining trend line in every chart plot.

Spread rises with higher ESG risk – Real Estate 5-6y

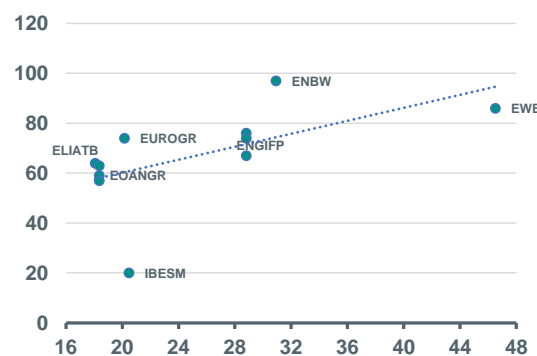
ASW (bp)



Source: Sustainalytics, Bloomberg, ABN AMRO Group Economics, X-axis = issuer ESG risk score, labels = issuer bond ticker

Spread rises with higher ESG risk – Utilities 5-6y

ASW (bp)



Source: Sustainalytics, Bloomberg, ABN AMRO Group Economics, X-axis = issuer ESG risk score, labels = issuer bond ticker

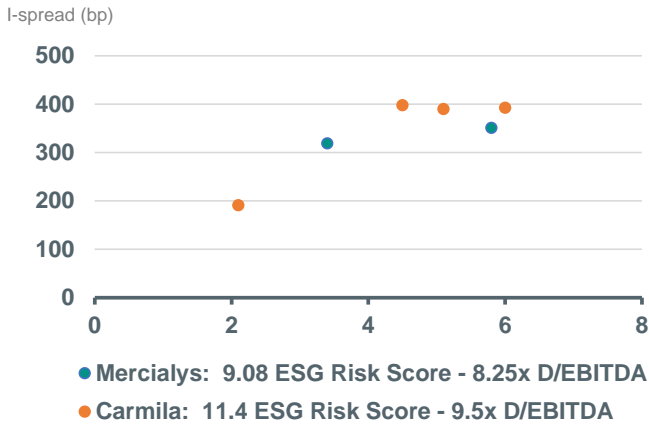
ESG risks seems to be priced into the outliers

Having established that the ESG risk score makes a difference in bond pricing, we were interested to find out whether there are bonds/issuers out there that offer a negligible ESG risk, but pricing suggests that market had not taken that into account. In order to filter purely for ESG risk, we again compare their bonds against similar instruments from issuers in the same industry with the (roughly) same credit rating. This should leave us with ESG risk as a driving factor.

First-up we take a look at two French-based retail real estate operators with a large food-anchored tenant, being **Mercialys** and **Carmila**. Both companies have the same credit rating of BBB by S&P. The difference in the ESG risk rating between the two is small, still we found the comparison relevant as Mercialys qualifies as *Negligible Risk*, while Carmila qualifies as *Low Risk* under the Sustainalytics methodology. The small difference in the actual score of 2.3 units should, according to our regression coefficient of 1.4bps, call for roughly 3bp of difference related to ESG between the pair, i.e. negligible in these markets with low liquidity. The chart in the next page shows that Mercialys and Carmila trade very close in the 2 to 4y maturity range, but in the 6y range, Mercialys trades at over 40bp tighter spread levels. But the tighter spreads in the long-end seem to be right as Mercialys has a better leverage proposition (this is the ND/EBITDA outlook by S&P for 2022 by the

way). In none of the bond points do we find Mercialys spreads trading wider than Carmila, suggesting that Mercialys superior ESG risk score is priced in.

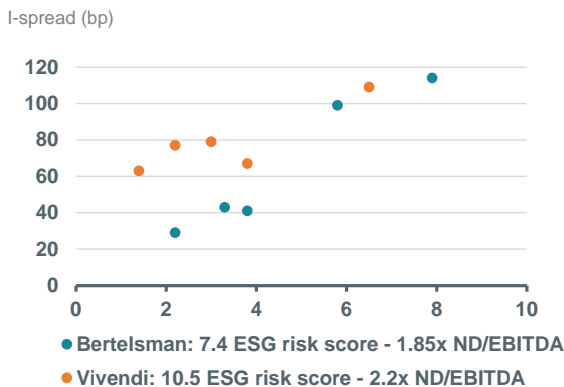
Superior ESG proposition priced in for Mercialys



Source: Sustainalytics, Bloomberg, ABN AMRO Group Economics, X-axis = issuer ESG risk score, ND/EBITDA = 2022 outlook as per latest S&P rating report

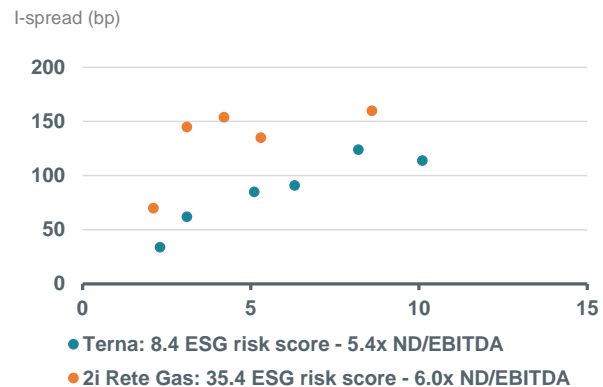
We also completed the above exercise on other pairs such as media companies **Bertelsman** (7.4 negligible risk ESG score) & **Vivendi** (10.5 low risk ESG score) and regulated Italian utilities **Terna** (8.4 negligible risk ESG score) & **2i Rete Gas** (35.4 high risk ESG score). In both cases we see a considerably lower spread on the superior ESG risk score, being it Bertelsman and Terna. The required ESG premium is calculated in the same way as we did under the Mercialys/Carmila pair.

Bertelsman/Vivendi –needs 4bp of ESG premium but considerably more being offered by Vivendi



Source: Sustainalytics, Bloomberg, ABN AMRO Group Economics, X-axis = issuer ESG risk score, ND/EBITDA = 2022 outlook as per latest S&P rating report

Terna/2i Rete Gas – needs 38bp of ESG premium but considerably more being offered by 2i Rete Gas



Source: Sustainalytics, Bloomberg, ABN AMRO Group Economics, X-axis = issuer ESG risk score, ND/EBITDA = 2022 outlook as per latest S&P rating report

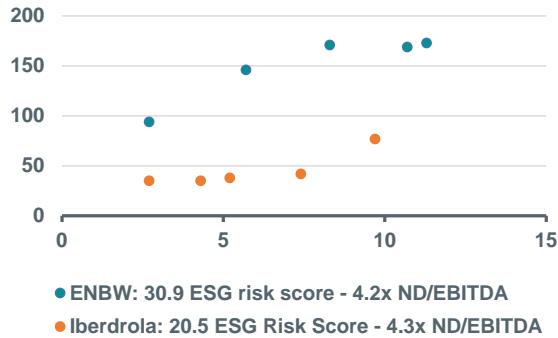
Weakest ESG proposition bonds also trade at loftier spreads

The challenge throughout this exercise was to find decent pairs, but we managed to identify two weak ESG names and a stronger corresponding peer to see how far the market has priced in very weak ESG credentials. First up we take German utility **ENBW** (30.9, high ESG risk score) and Spanish utility **Iberdrola** (20.5 medium ESG risk score). Both have same credit rating, large share of stable revenues and also sit very close to each other in terms of leverage outlook. The only difference is that Iberdrola is more advanced in the roll-out of renewable energy, hence the better ESG risk score, but also better long-term leverage outlook, as ENBW will need to play catch-up and invest/attract debt. The difference in ESG risks score should command at least 15bp of spread premium being offered by ENBW, but we see much higher compensation in the left hand

chart on the next page. This is driven by the fact that ENBW group uses Russian gas to power its fossil fuel plants and would need to resort to expensive market rates if deliveries from Russia are further constrained.

ENBW/Iberdrola –needs 15bp of ESG premium but considerably more being offered by ENBW

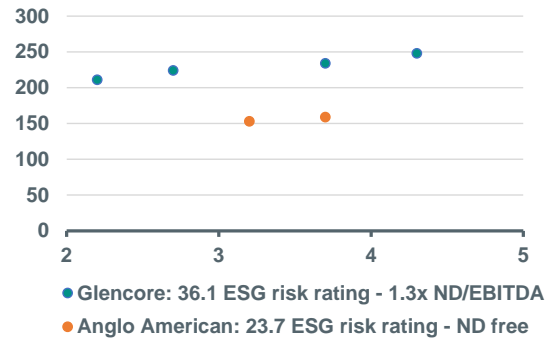
I-spread (bp)



Source: Sustainalytics, Bloomberg, ABN AMRO Group Economics, X-axis = issuer ESG risk score, ND/EBITDA = 2022 outlook as per latest S&P rating report

Glencore/Anglo American – needs 17bp of ESG premium but considerably more being offered by Glencore

I-spread (bp)

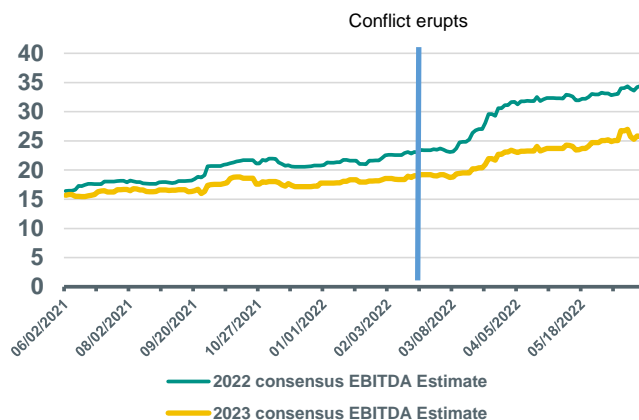


Source: Sustainalytics, Bloomberg, ABN AMRO Group Economics, X-axis = issuer ESG risk score, ND/EBITDA = 2022 outlook as per latest S&P rating report

The second high ESG risk name where we could find a decent peer is metals miner and commodity trader **Glencore**, which we compare against miner **Anglo American**. Admittedly, Anglo American is still rated one notch below Glencore at the rating agencies, but its positive outlook by S&P and upcoming net debt free status make it a solid comparable. The difference in ESG risks scores between the pair should command at least 17bp of spread premium being offered by Glencore. However, again we see much higher compensation being offered by the high risk name in the right hand chart above. This difference is actually above a whopping 70bp in the 3-4y range, suggesting that investors are truly struggling with Glencore. Historically Glencore's opaque trading business was accountable for a high premium, but we also note that trading tends to do well in times of high commodity volatility like we are experiencing today. The chart below shows Glencore's 2022 and 2023 EBITDA consensus expectations, which have risen strongly since conflict between Russia and Ukraine erupted. All-in all, profiting from misalignment between the ESG risk scores and spreads in the outliers does not currently seem possible.

Glencore earnings upgraded after conflict erupted

Bn



Source: Bloomberg, ABN AMRO Group Economics

ESG Bonds: Gasunie issues second SLB

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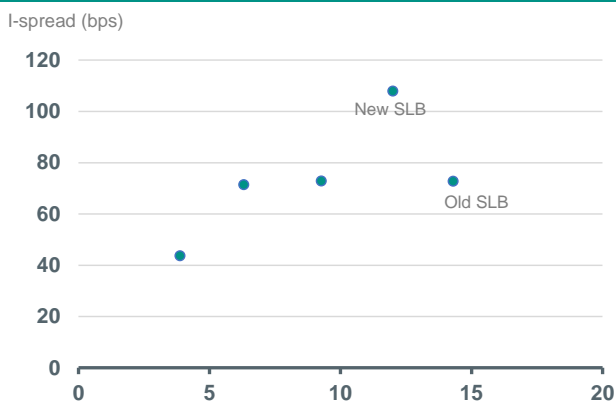
- ▶ **Dutch TSO Gasunie was the only corporate bond issuer in the ESG market this week, issuing its second sustainability-linked bond (SLB)**
- ▶ **Given tough market conditions, the company had to pay a whopping 25bps of new issuance premium, although on the back of a 2.8x oversubscribed book**
- ▶ **At issuance, Gasunie's existing 2036s SLB was trading at tighter spread levels than its regular 2031s, showing that the so-called greenium can also be achieved in the SLB space**
- ▶ **Gasunie's strong energy transition strategy, as also shown by its improving ESG ratings, should add to the investor optimism**

Dutch/German gas transmission company Nederlandse Gasunie NV (Gasunie, rated AA-/A1 rated by S&P and Moody's, respectively) issued its second sustainability-linked bond (SLB) last week, following a debut in October last year (ABN AMRO acted as Sustainability Structuring Advisor on the debut). The company was in the market with a 12yr EUR 500m bond, following a 15yr sub-benchmark structure chosen for the inaugural deal. The company opened books with IPTs at ms+130a, which attracted a solid demand of around EUR 1.4bn (almost 3x oversubscribed), allowing the company to tighten pricing by 22bps and land at ms+108bps. Under that value, we estimate that Gasunie had to pay around 25bps of new issuance premium (NIP). The deal therefore adds to the weak market sentiment seen last week, where issuers are having to pay rising NIPs in order to get deals done before the summer break.

Gasunie's SLB recently trade with a greenium

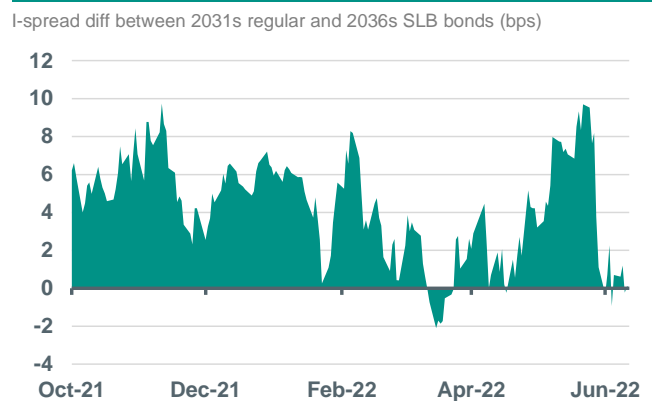
As shown in the charts below, it seems that Gasunie's existing SLB has recently been trading at spread levels that reflect the so-called greenium – that is, inside the spreads on Gasunie's outstanding curve of regular bonds. We do note that overall, the curve in the long-end is extremely flat (although some widening did take place after the deal was announced), but the fact that the Gasunie 2036s SLB traded tighter than the regular Gasunie 2031s shows us that this might also be label-related (the coupon on the SLB is also only marginally higher). More specifically, the tighter spreads on the existing SLB seem to have been taking place since the start of this month.

Gasunie's SLB trades since recently with a greenium (1)



Source: Bloomberg, ABN AMRO Group Economics, x-axis = year to workout

Gasunie's SLB trades since recently with a greenium (2)



Source: Bloomberg, ABN AMRO Group Economics

Therefore, given the SLB structure of the new bond, and Gasunie's relatively flatness at the long-end of the curve, one can expect the new issuance to also potentially tighten closer to the 2036s (SLB) levels. Especially, given the company's energy transition ambitions and consequently improving ESG profile (see more below).

Gasunie updates step-up to reflect higher coupon and lower maturity of new bond

Interestingly, the new SLB had a 25bps coupon step-up in case both pre-defined sustainability targets are missed. For the inaugural SLB, this was 20bps. The higher step-up provision is likely related to (i) the fact that the company anticipated that,

due to the market conditions, the new bond would likely be priced with a higher coupon, and (ii) the shorter maturity of the new SLB when compared to the inaugural one. The latter means that, in a situation where sustainability KPIs are missed, the company would have to pay only two years of coupon step-up, rather than 4, as is with the inaugural one. Hence, the coupon adjustments.

There are however, not many companies which have taken these issues into consideration. Quickly scanning through issuers that had adjusted step-up provisions to reflect higher coupons and/or less payment years with adjusted coupons, we see only integrated oil and gas company Repsol and infrastructure / motorway management company ASTM. Perhaps as we move to an environment of higher rates, coupon step-ups will also start to also adjust accordingly.

Gasunie has an interesting energy transition proposition

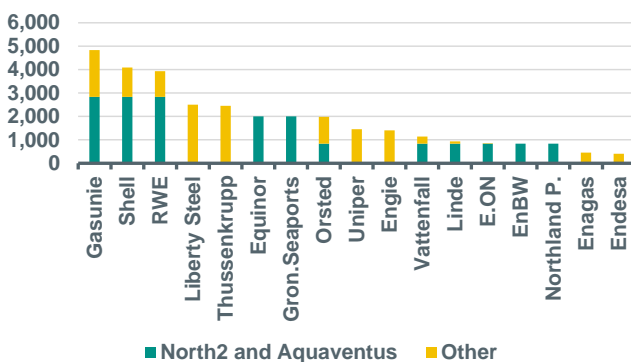
Gasunie aims to transform from a gas transmission into an energy infrastructure company by 2030. With that in mind, the company is increasingly focusing on accelerating the deployment of climate-neutral energy supply and has the ambition to increase transport and storage of hydrogen, green gas, residual heat from industry and CO₂. This is also in line with the Dutch government's ambition to completely phase-out gas by 2050.

In this context, Gasunie is one of the frontrunners – in particular, in the hydrogen space (see chart in the next page). The Dutch government has appointed the company to build the hydrogen backbone in the Netherlands, with total investments of EUR 1.5 billion between 2022 and 2027. The company is also involved in building increasingly large-sized electrolysis plants and is therefore collaborating with others in large-scale projects such as the NorthH2. As regulated TSO, Gasunie does not directly invest in upstream energy transition assets, but nevertheless participates in joint ventures / consortiums to help spur investments there. Gasunie has been also mandated to develop and operate WarmtelinQ, the main transport pipeline in the Netherlands indited to transport residual heat from industries in the form of hot water.

As well as hydrogen and heat projects, the company is also involved in different Carbon Capture and Storage (CCUS) projects in the country, such as Porthos, Athos and Carbon Connect Delta.

Gasunie is a frontrunner in the hydrogen energy transition

Electrolysis planned capacity (MW)



Source: Company's filings, ABN AMRO Group Economics. Note: for consortiums / joint projects, an equal share has been assumed

We have extensively advocated that renewable-focused companies (or in this case, climate-neutral energy) should get more appreciation by bondholders. Not only due to an ESG perspective, but also in terms of fundamentals, as there is upward pressure on fossil fuel-intensive business models to shift focus towards cleaner energy.

A good example as well is Orsted. Those who know the company's history know that it was once a pure oil and gas player. These fossil fuel assets were divested in 2017, leading also to its name change. A 10yr bond issued by Orsted back in 2013-14 would have spreads trading at levels around i+80bps, while the existing 2029 bond was issued at ms+57bps in 2017, and even traded at below 40bps before the outbreak of the Russia-Ukraine war. On the equity side, the story is even more obvious: Orsted's shares appreciated by a whopping 224% since the end of 2016.

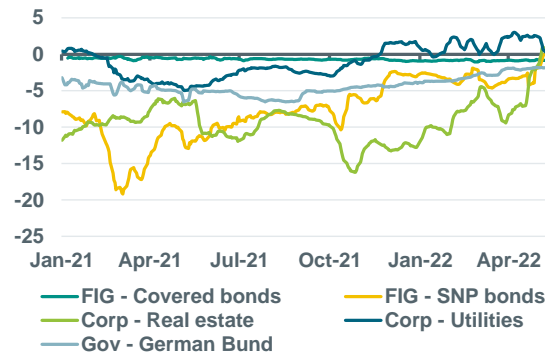
To add to all of this, as we have also shown (see previous note), that credit spreads tend to trade tighter the better an ESG rating of a company. Gasunie has recently managed, on the back of its improving ESG profile, to increase its Sustainalytics ESG rating from 24.4 (medium risk) to 19.3 (low risk).

Hence, as we believe Gasunie has a credible transition storyline, with the SLB Framework also aligned with the ICMA Climate Transition Finance Handbook, we remain overall positive on the name and more specifically, on its SLBs.

ESG in figures

ABN AMRO Secondary Greenium Indicator

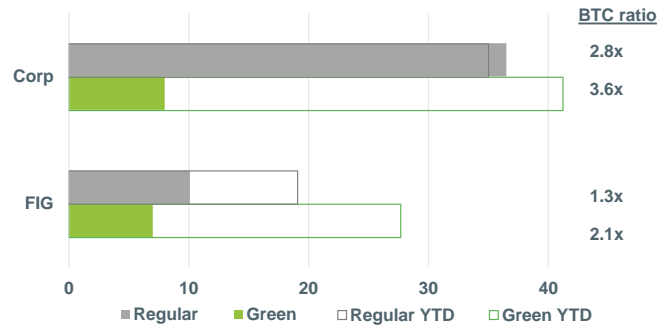
Delta (green I-spread – regular I-spread)



Note: Secondary Greenium indicator for Corp and FIG considers at least five pairs of bonds from the same issuer and same maturity year (except for Corp real estate, where only 3 pairs were identified). German Bund takes into account the 2030s and 2031s green and regular bonds. Delta refers to the 5-day moving average between green and regular I-spread. Source: Bloomberg, ABN AMRO Group Economics

ABN AMRO Weekly Primary Greenium Indicator

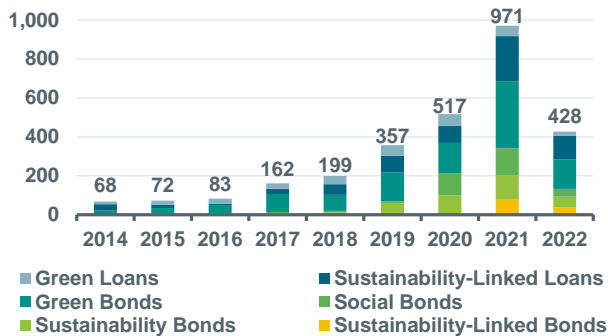
NIP in bps



Note: Data until 30-06-22. BTC = Bid-to-cover orderbook ratio. Source: Bloomberg, ABN AMRO Group Economics.

Sustainable debt market overview

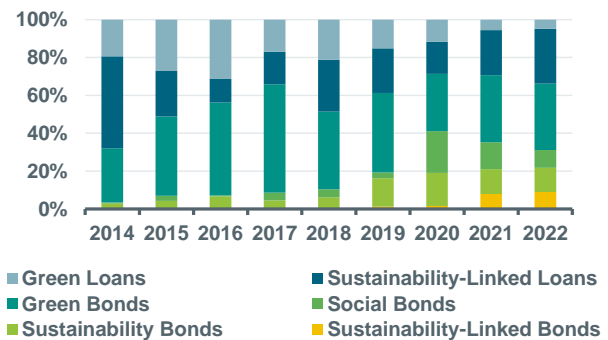
EUR bn



Source: Bloomberg, ABN AMRO Group Economics

Breakdown of sustainable debt by type

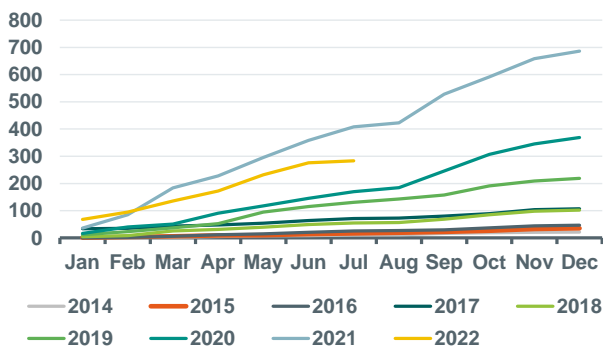
% of total



Source: Bloomberg, ABN AMRO Group Economics

YTD ESG bond issuance

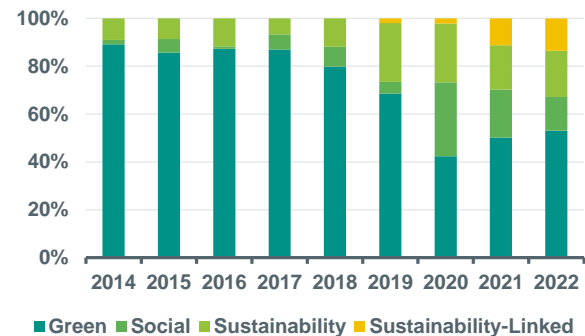
EUR bn



Source: Bloomberg, ABN AMRO Group Economics

Breakdown of ESG bond issuance by type

% of total

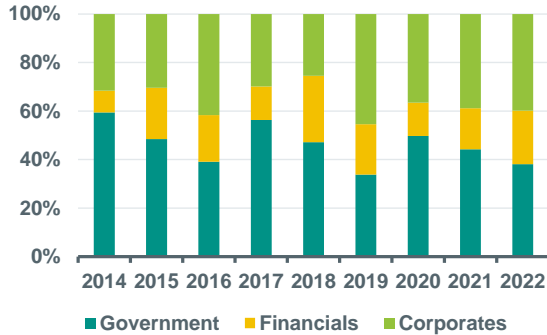


Source: Bloomberg, ABN AMRO Group Economics

Figures hereby presented take into account only issuances larger than EUR 250m and in the following currencies: EUR, USD and GBP.

Breakdown of ESG bond issuance by sector

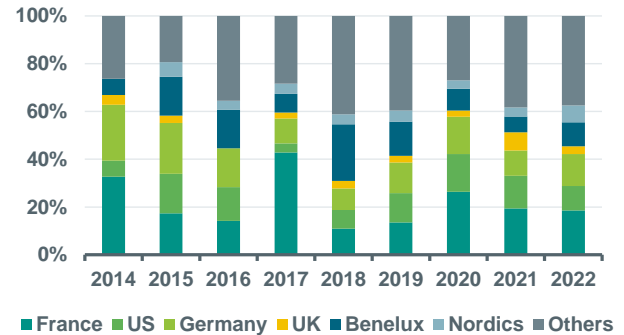
% of total



Source: Bloomberg, ABN AMRO Group Economics

Breakdown of ESG bond issuance by country

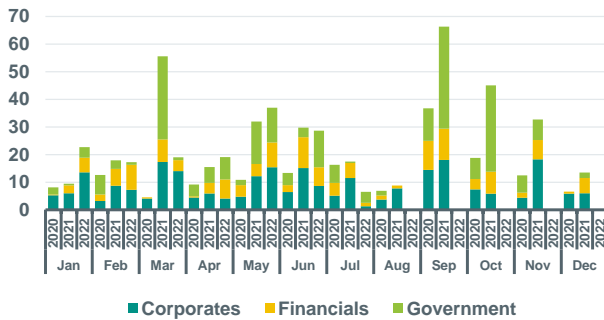
% of total



Source: Bloomberg, ABN AMRO Group Economics

Monthly Green Bonds issuance by sector

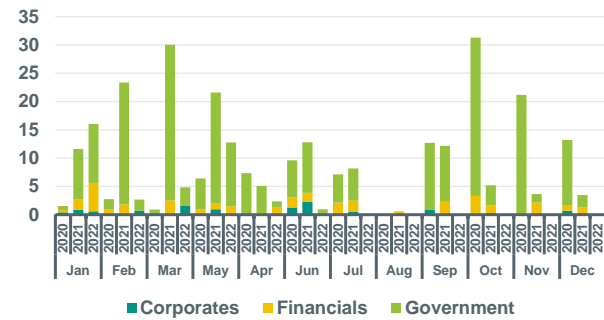
EUR bn



Source: Bloomberg, ABN AMRO Group Economics

Monthly Social Bonds issuance by sector

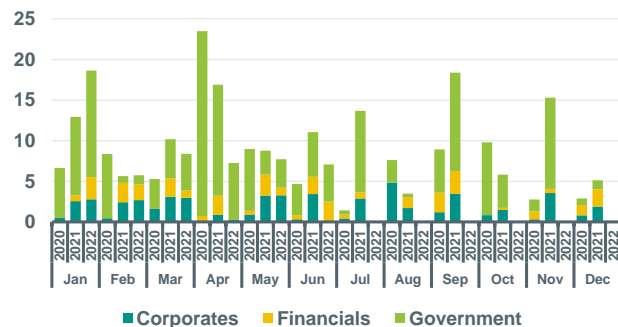
EUR bn



Source: Bloomberg, ABN AMRO Group Economics

Monthly Sustainability Bonds issuance by sector

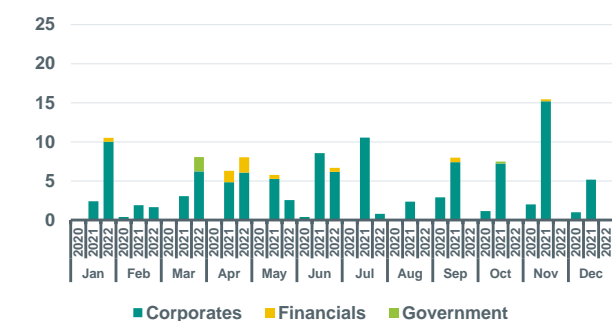
EUR bn



Source: Bloomberg, ABN AMRO Group Economics

Monthly Sust.-Linked Bonds issuance by sector

EUR bn



Source: Bloomberg, ABN AMRO Group Economics

Figures hereby presented take into account only issuances larger than EUR 250m and in the following currencies: EUR, USD and GBP.

Carbon contract current prices (EU Allowance)

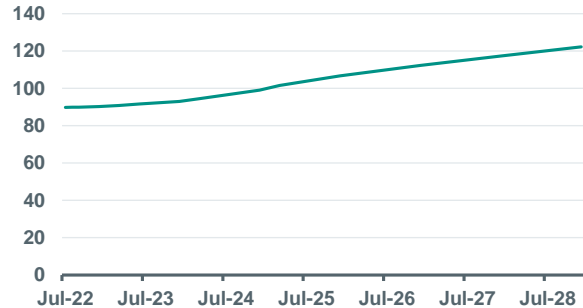
EUR/MT



Source: Bloomberg, ABN AMRO Group Economics

Carbon contract future prices (EU Allowance)

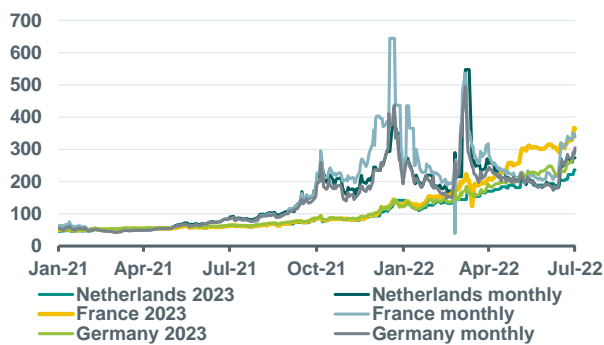
EUR/MT



Source: Bloomberg, ABN AMRO Group Economics

Electricity power prices (monthly & cal+1 contracts)

EUR/MWh

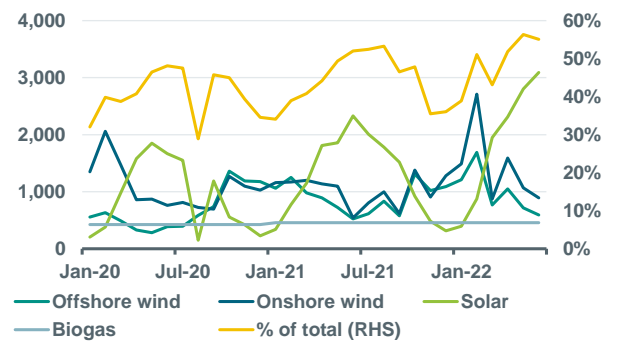


Source: Bloomberg, ABN AMRO Group Economics. Note: 2023 contracts refer to cal+1

Electricity generation from renewable sources (NL)

GW

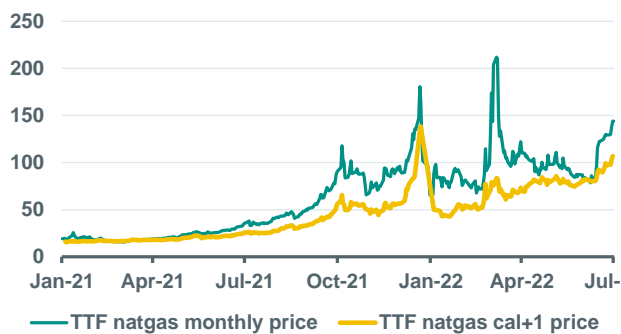
% of total



Source: Energieopwek (Klimaat-akkoord), ABN AMRO Group Economics

TTF Natgas prices

EUR/MWh



Source: Bloomberg, ABN AMRO Group Economics

Transition Commodities Price Index

Index (Jan. 2018=100)



Note: Average price trend of 'transition' commodities, such as: corn, sugar, aluminium, copper, nickel, zinc, cobalt, lead, lithium, manganese, gallium, indium, tellurium, steel, steel scrap, chromium, vanadium, molybdenum, silver and titanium. Source: Refinitiv, ABN AMRO Group Economics

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