SUEK Scored 44 On ESG Evaluation; Preparedness Emerging

MOSCOW, Feb. 1, 2021 /PRNewswire/ -- S&P Global Ratings said today that Siberian Coal Energy Co. (SUEK) scored 44 in its ESG Evaluation. On our scale of 0 to 100, a higher ESG Evaluation indicates a stronger sustainability assessment. The company's ESG Evaluation of 44 is the result of an ESG profile of 51, combined with emerging preparedness.

ESG Evaluation: Siberian Coal Energy Co.

SUEK is Russia-based company that operates in the coal energy business. The company recently expanded beyond coal mining (70% of assets) by purchasing coal power generation assets (20%), and is expanding its logistic assets (10%), which include railcars and ports. All its assets are in Russia, and the company is a major coal exporter, with revenue exposure toAsia, and Europe to a lesser extent. Its logistic assets are primarily used to export coal and other mining goods, although these assets are equipped to expand into other goods.

Our ESG Evaluation of 44 incorporates the company's current position as a coal energy company as well as potential from its expanding logistics business. While the coal sector faces increasingly immediate environmental and social risks, SUEK's mining segment outperforms peers on greenhouse gas (GHG) emissions. We believe this demonstrates that SUEK is more focused on improving energy use than decarbonization. At present, the company's power generation lags the rest of the sector on emissions, and lags overall on other pollution indicators. The company is generally in line with peers for its most material factors of safety and communities, but we note strong performance in workforce and diversity. Its governance structure compares positively to local standards and well with international standards.

Preparedness Opinion
"We assess the company's preparedness as emerging, since we believe that coal will likely be gradually phased out and replaced by gas and renewable sources and SUEK does not have an action plan to transition from coal or rapidly decarbonize," said Alexander Griaznov, the analytical contact for the evaluation. This lowers our final ESG Evaluation score to 44 from an ESG Profile score of 51.

That said, the pace of energy transition could vary, and we believe SUEK's strategy to increase coal exports does not pose near-term financial risk, since we expect demand in Asia will remain strong in the next years and decline at a slower pace than in Europe or the U.S. "We note the company has taken some steps to reduce exposure to coal prices and invested in logistics, but its near-term focus is still expanding coal production. The board and executive management are aware of the challenges of implementing an adaptive and sustainability-focused culture into its workforce, which we view currently as developing."

ESP Profile
Our ESG Evaluations analysis starts with an ESG Profile, which measure a company's exposure to and mitigation of the most material environmental (E), social (S) and governance (G) risks. Each of the E, S and G profiles starts with a sector and regional macroanalysis that captures the relative exposure of sectors and regions to significant ESG risks and opportunities.

From this macroanalysis, we derive a blended sector/region score, weighted by the entity's sector and regional business mix (E and S Profiles). For the G Profile, the sector/region score is derived from an entity's country of incorporation, and can be adjusted for other considerations, including operation mix or assets locations. These sector/region scores form the anchor in our ESG profile assessment, and reflect the risk exposure the company faces before any mitigating actions are considered. We incorporate the company's performance and mitigating actions in the ESG Profile via E, S, and G entity-specific scores.

SECTOR/REGION SCORES
We assess SUEK as operating in the coal mining (70% of assets), coal power generation (20% of assets), and logistics (10% of assets, primarily ports) sectors, with all its assets located in Russia. Therefore, these sectors and the company's location underpin SUEK's E, S and G exposure, which we capture in a sector-region score.

SUEK's exposure to environmental risks (reflected in a sector/region score of 12 out of 50) primarily reflects our view that coal mining and coal generation have a considerable negative impact on the environment. Coal extraction and combustion result in high levels of downstream GHG emissions and air pollution, and more directly can cause water contamination, while land destruction can threaten local biodiversity.

SUEK's exposure to social risks (reflected in a sector/region score of 14 out of 50) also comes primarily from coal mining and coal generation activities, in our view. Power generation and coal mining sector specifically have exposure to safety risks both for employees and communities. In addition, local communities may also face adverse economic consequences when mines close. Finally, we also incorporate our view of the social standards in Russia, which we assess as somewhat lower than in other

countries.

SUEK's exposure to governance risk (reflected in a sector/region score of 18 out of 35) primarily reflects our view of governance standards in Russia as relatively low. That said, we acknowledge that corporate governance practices vary significantly between companies. We weight the entity-specific analysis in the G Profile more than for the E and S Profiles. This is because in our view entities with strong governance standards can more than offset any potential weakness in a country or region.

ENTITY-SPECIFIC SCORES
SUEK's entity-specific score for environmental profile is 28 out of 50. If we compare SUEK with Asian coal companies, SUEK stands out as one of the better performers, because of the high quality of its coal. The company produces high calorific coal, which is more energy efficient and therefore supports lower emissions than traditional coal. The company also invested significantly into coal washing, a process aimed at reducing coal ash, which we view positively. However, SUEK lags industry peers in water use due to the location of its assets in water-stressed areas. It is difficult to compare SUEK with European and U.S. coal producers as most of them are now part of bigger and more diversified energy companies, which do not provide comprehensive reporting on coal assets.

SUEK's entity-specific score for social profile is 32 out of 50. The company performs in line with the industry for the material factors, and has a strong performance in managing its workforce.

SUEK's entity-specific score for governance profile is 46 out of 65. This is because we view SUEK as one of the strongest Russian companies in terms of governance. Despite its majority ownership by one individual, the company has a more than 10-year track record of having an independent board, which is a global best practice for privately owned companies. SUEK has also approved all the necessary policies and procedures, in line with international practices. The company's general reporting compares well with Russian peers, and SUEK is gradually improving its sustainability reporting.

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