

BayWa

Sustainable solutions for life

BayWa is an international trading company operating in the fields of energy, agriculture and building materials. In this thematic report, which is the first of a sequence of short notes on BayWa, we examine how the group is able to make a major contribution to limiting the effects of climate change by adapting both its strategy and internal operating processes. These adaptations help BayWa, its customers and its suppliers reduce their negative effect on climate change and their exposure to the potential impact of climate change. The group's emphasis on a more sustainable business model is also helping it secure green investment, which is accelerating the growth of BayWa's renewable energy business, creating a virtuous circle.

Sustainability drives the group's strategic direction

While BayWa serves several defensive markets, they are not static. The group has developed new, strategically significant business activities as each of the segments evolves in response to the challenges presented by climate change. The clearest example of this development is the rapid growth of the renewable energy business. Although this business was formed as recently as 2009, it accounted for 37% of group operating EBIT in FY20. The Agriculture and Building Materials segments are also adapting their portfolios of products and services to provide more environmentally friendly options.

Operations adapting to meet climate targets

BayWa has established a group-wide climate strategy with fixed objectives for reducing energy consumption and greenhouse gas emissions, all of which are intended to keep warming below 1.5°C in line with the United Nations' target. The group achieved its first climate target during 2020 by meeting 100% of its electricity needs with energy from renewable sources. This helped it achieve a significantly improved climate rating from the Carbon Disclosure Project in 2021.

Over half of borrowings covered by green financing

Since June 2019 the group has issued a €500m green bond to finance wind and solar parks, sold a 49% equity stake in its renewable energy business for €530m, signed an agreement for an environmental, social and governance (ESG)-linked syndicated credit facility of €1.7bn and placed a €350m bonded loan, also linked to its sustainability rating. More than 50% of BayWa's borrowing portfolio is covered by sustainable and green financing products.

Consumer staples

2 February 2022

Share details

Code	BYW6
Listings	Frankfurt, Munich, Xetra
Market capitalisation	€1.41bn

Company description

BayWa has an international renewable energy business focused on solar and wind farms, and trades oil and lubricants in Germany and Austria. It also trades agricultural produce and equipment within Europe and globally and is a retailer of building materials in Germany.

Analyst

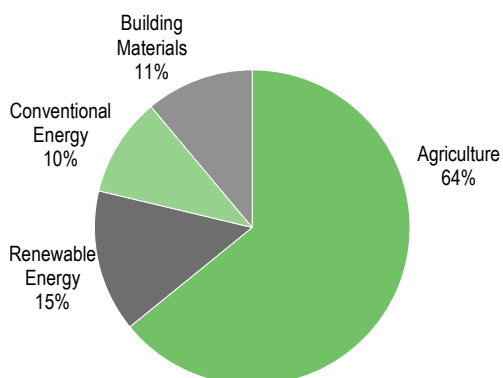
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Group overview

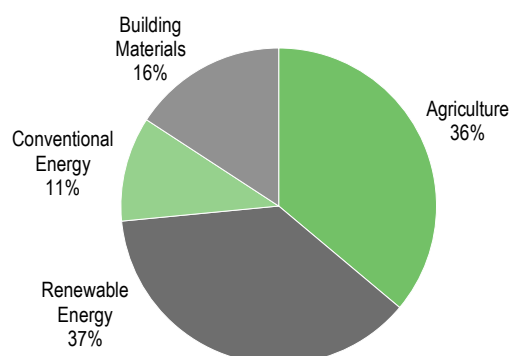
The BayWa group operates through three core segments, Energy, Agriculture and Building Materials, together with a smaller Innovation & Digitalisation segment. The Energy segment has an international renewable energy business, BayWa r.e., which develops and sells solar and wind farms and, according to management estimates, is the largest distributor of photovoltaic (PV) systems in Europe and one of the top three in the United States. The Energy segment also has a conventional energy business, which trades oil and lubricants in Germany and Austria. The Agriculture segment is one of the leading agricultural commodities trading companies in the world with services including international trade and logistics of agricultural commodities and speciality products, international fruit and vegetable trading and the sale of agricultural inputs and feedstuffs and agricultural machinery in Germany and Austria. The Building Materials segment offers an extensive range of building materials products and solutions for commercial and retail customers in southern Germany and Austria. The Innovation & Digitalisation segment markets and develops digital products and services that enhance productivity in agriculture.

Exhibit 1: Segmental revenues FY20*



Source: Baywa data. Note: *Excluding revenues attributable to innovation and digitalisation business unit, which are not material.

Exhibit 2: Segmental EBIT FY20*



Source: BayWa data. Note: *Excluding losses attributable to innovation and digitalisation business unit and 'other activities'.

The group as a whole is one of Europe's largest trading (wholesale and retail) and logistics groups generating over €17bn in annual revenues (see Exhibit 3) from around 3,000 sales locations spread across 47 countries, supported by a global trading, service, distribution and procurement network. It is headquartered in Munich and employs around 21,000 people worldwide.

Exhibit 3: Consensus estimates

Year end	Revenue (€m)	EBIT (€m)	EPS (€)	DPS (€)
12/19	17,059.0	188.4	0.80	0.95
12/20	17,155.4	215.2	0.68	1.00
12/21e	18,433.1	251.9	1.37	1.02
12/22e	18,940.6	253.8	1.37	1.05

Source: BayWa data, Refinitiv

Strategy: Evolving portfolio to meet environmental challenges

BayWa's three core segments fulfil the fundamental human needs of heat, power, food and shelter. Although these are defensive markets, they are not static. BayWa has developed new, strategically significant business activities as each of the segments evolves in response to the challenges presented by climate change.

The most obvious example of this development is the rapid growth of the renewable energy business. Noting the shift from conventional to renewable energy, the group started to acquire companies developing solar parks and wind farms in 2009, an activity grouped together as BayWa r.e. in 2012 to give greater impetus to the development of this segment. This activity has grown very quickly. It accounted for 37% of group EBIT in FY20, when a total of 30 wind farms and solar parks were sold with a collective output of 667.0MW, of which 250MW were located in the United States and 160MW in the Netherlands. The division also had 9.0GW of capacity under management. Sales from the business unit rose by 27% year-on-year in 2020 to a record €2,500.6m and EBIT by 10% to a record €110.9m. Management's target for 2021 was for project sales of 1GW (1,000MW), though some sales may be deferred to early 2022.

Exhibit 4: 11.9MW solar park in Izumi, Japan



Source: BayWa

Similarly, in 2015 BayWa laid the foundation of its Innovation & Digitalisation segment through the acquisition of FarmFacts, an established developer of desktop and cloud-based digital farming solutions encompassing the entire agricultural value chain. The software is suitable for small and mid-sized farms, not just large ones, and currently has around 22,000 users who collectively farm more than 30% of the agricultural land in Germany. The software helps farmers improve their productivity while complying with increasingly stringent legislation on nitrate emissions that limit the amount of fertiliser that farmers can apply. This software will be covered in more detail in a subsequent Edison note on BayWa.

The group is continuously adapting its portfolio to provide more environmentally friendly options. For example, within the Conventional Energy activity BayWa's established fleet filling station card may also be used by drivers of electric vehicles, giving users in Europe access to over 200,000 charging points, a quarter of which are in Germany. The Building Material segment has responded to consumer demand for more environmentally friendly construction by introducing building



materials that minimise the emission of pollutants as well as improving energy efficiency. It currently offers around 9,500 products that meet its low emissions criteria. During 2020 T&G Global, part of the Agriculture segment, started to market the world's first apple that is resistant to climate change. The new variety, HOT84A1, retains its eating qualities even in high temperatures and dry conditions, and the trees require less fertiliser and water. These and other initiatives will be covered in more detail in subsequent Edison notes on BayWa.

Implementing a sustainability agenda

Formulating an ESG strategy

In 2019 BayWa reviewed its sustainability policy. It identified where it could make the most material contribution to achieving the United Nations' Sustainable Development goals. It then assessed the risks, opportunities and potential negative impacts on non-financial aspects associated with any proposed actions in accordance with the framework provided by the German CSR (Corporate Social Responsibility) directive. The results of this materiality analysis subsequently formed the basis of BayWa's group-wide sustainability management programme.

During 2020 BayWa's corporate sustainability activity was focused on establishing a group-wide climate strategy with fixed objectives for reducing energy consumption and greenhouse gas emissions, determining the potential effects of climate change on the Agriculture Segment together with plans for expanding into additional business areas and products. In September 2021 the group established a Corporate Social Compliance department to help all of the business units prepare for the implementation of the Supply Chain Duty of Care Act. This act was passed by the Bundestag in June 2021 and comes into force in January 2023. It requires large companies such as BayWa to fulfil extensive reporting obligations and requirements designed to help identify and remedy human rights abuses both in their own business operations and at direct suppliers.

Setting targets for a climate strategy

Not only are BayWa's activities significantly affected by climate change, but in addition the company is able to make a major contribution to limiting the effects of climate change by adapting both its strategy and internal operating processes. BayWa introduced a group-wide climate strategy four years ago. It encompasses five objectives, including significantly reducing energy consumption and greenhouse gas emissions and achieving climate neutrality by 2030, all of which are intended to keep warming below 1.5°C in line with the United Nation's sustainability goal. Importantly the group achieved its first climate target during 2020 by meeting 100% of its electricity needs with energy from renewable sources. Reaching this goal enabled BayWa to achieve a higher score in the 'direct greenhouse gas emissions' and 'energy consumption' categories in the climate rating carried out by international non-profit organisation Carbon Disclosure Project (CDP) in 2021. CDP awarded BayWa AG a climate rating of B in 2020, compared with a C in 2019, and a score that is above average for Europe and comparable companies.

Exhibit 5: Working towards climate targets

Target	Initiatives	Progress in 2020
Covering 100% of electricity needs with renewable energies by 2020	■ Increased use of green electricity	100%
22% fewer greenhouse gas emissions by 2025*	■ Optimisation and reduction of electricity and fuel use through fleet modernisation and electrification and route optimisation	13.4% reduction
22% lower energy consumption/EBITDA by 2025*	■ Energy-efficiency measures for buildings	33.7% reduction
10GW renewable energy generation capacity by 2025	■ Modernisation of heating, cooling and drying systems	
	■ Construction of onshore wind farms and PV parks	4.9GW
	■ Delivery of solar components and systems to solar installers worldwide	
Climate neutrality by 2030	■ Compensation of remaining emissions through high-quality carbon credits	226,994 tonnes of CO ₂ equivalents offset

Source: BayWa. Note: *Compared with 2017.

Implementing the ESG strategy: Energy usage

BayWa achieved its first climate target of meeting 100% of its own electricity needs with renewable energies by expanding its own renewable generation capacity, switching to green electricity tariffs and purchasing green electricity guarantees of origin for those locations that still use non-green electricity. Switching externally sourced electricity to green electricity tariffs supported a 13% reduction in greenhouse gas emissions during 2020 compared to 2017, which is the base year

used in its climate strategy comparisons. It also supported a 34% reduction in energy consumption per euro of EBITDA. Since BayWa is a trading and services group with worldwide operations, reducing greenhouse gas emissions from its fleet of cars and trucks, the operation of plants, and lighting and heating buildings is also key to achieving its climate related objectives. Initiatives include increasing the number of shipments by rail and inland waterways, equipping trucks with telematics to support improved route planning and company vehicles with cruise control to reduce speed and thus lower fuel consumption, replacing diesel forklifts with electric ones and replacing retired trucks with hybrid or electric ones. BayWa's renewable energy business BayWa r.e. plans to replace all of its company vehicles in Germany with hybrid or electric vehicles by 2022.

Implementing the ESG strategy: Procurement

Since the BayWa group purchases over €26bn of goods and services each year, the group's adoption of ESG-informed procurement policies has the potential to make a meaningful difference. For example, the Cefetra business unit, which is involved in the international trade and logistics of agricultural raw materials, has helped to develop the Certified Responsible Soya Standard. Since its creation in 2008, this standard has become an important certification guideline for the European feedstuff industry and for farmers in South America. It covers human rights as well as sustainable soya cultivation. The global fruit and vegetable trading business unit requires its suppliers to comply with relevant laws and standards as well as quality and safety requirements and an increasing number of its suppliers meet social standards such as those set by the International Labour Organization.

Extending sustainability to financing activities

BayWa issued its first green bond in 2019

The capital invested in BayWa's renewable energy activity averaged €2.1bn during FY20 (€1.5bn in FY19), representing 39% of the group total. Since this activity is central to the group's strategy, yet highly capital intensive, management has secured green financing to support the growth of this activity. The group issued a €500m green bond in June 2019 to refinance solar and wind parks. At the time it was the largest green bond to be issued in Europe to a company without an official credit rating from one of the big rating agencies like S&P, Moody's or Fitch. At the end of April 2021, the bond had partly or fully funded 272MW of solar generating capacity and fully funded 86MW of wind generation capacity, which had collectively generated 463GWh of power attributable to the bond over the preceding 12 months. It had also financed 245MW of solar and 117MW of wind generation capacity under construction, collectively capable of generating 725GWh annually.

EIP investment accelerates renewables growth

Exhibit 6: BayWa r.e.'s 94.6MW Lyngsåsa wind farm in Southern Sweden



Source: BayWa

In December 2020 BayWa announced that funds advised by Energy Infrastructure Partners (EIP, formerly Credit Suisse Energy Infrastructure Partners) would take a 49% stake in BayWa r. e. EIP's equity contribution of €530m implicitly valued the renewables activity at over €1bn. At the time, management noted that the EIP investment will enable BayWa r.e. to scale up the project business to up to 3GW of project sales per year from 2025 onwards, accelerating the exploitation of its global project development pipeline, which totalled 17.6GW in December 2021 (13.6GW in December 2020). The capital is also being used to enable BayWa r.e. to expand both its PV distribution business and its independent power provider (IPP) activity, creating a recurring revenue stream from contracts to supply power from 2022 onwards. Management projections presented in December 2020 showed IPP activity generating 23% of segmental revenues by 2023 and project sales 56%, contributing to segmental EBIT of over €170m. By 2028, management intends to be selling around 3GW of electricity per year from its own power generation assets.

ESG-linked financing

In September 2021, BayWa signed an agreement for a syndicated credit facility of €1.7bn. This is the first credit facility that BayWa has secured where the terms and conditions of the agreement are linked to the ESG rating issued by international ratings agency MSCI ESG Research, which has awarded the BayWa Group an 'AA' rating. In effect, the more successful BayWa is with regards to sustainability, the more it will benefit from better financing terms. In December 2021 BayWa placed a €350m bonded loan, also linked to the MSCI sustainability rating. The proceeds from the bonded loan, which was oversubscribed multiple times, are mainly being used to refinance bonded loans due in 2021 and 2022, meaning that more than 50% of BayWa's borrowing portfolio will be covered by sustainable and green financing products.

Upcoming notes and interviews in this series

Investment from Energy Infrastructure Partners accelerates the growth of the renewable energy segment: an interview with CFO Andreas Helber on the group's strategy and how green financing is helping BayWa achieve its targets for 2025.

The energy segment is evolving in response to the transition away from fossil fuels: a review of environmental initiatives in BayWa's conventional energy business plus a discussion on how green investment is accelerating growth in the renewable energy segment.

Adapting agricultural techniques in response to climate change: a review of some of BayWa's developments that help farmers mitigate the effect of climate change plus a discussion of how BayWa's FarmFacts software supports farmers as they move to more sustainable production methodologies.

Embracing more environmentally sustainable construction practices: an exploration of environmentally linked activities in BayWa's Building Materials segment.

Strong financial foundation: an analysis of FY21 financial results.

Applying ESG principles delivers strong operational performance: an interview with CEO professor Klaus Josef Lutz explaining how the group's environmental strategy underpins its FY21 operational performance plus a discussion of how he sees this commitment to the environment helping the group continue to grow and evolve in future.

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