HSBC Global Research

Free to View
ESG - Asia

By: Lucy Acton

January 2021
www.research.hsbc.com

Future of food

Heating up: Asia's endemic food waste challenge

We explore the Asia consumer sector's exposure to food waste – a topic rising fast up the global sustainability agenda

Shrinking households, internet adoption, new tastes and strict policies are some of the trends forcing companies to adapt

We identify big picture implications, and provide examples of best practice, areas of risk and 15 engagement questions

This is a redacted version of the report published on 12-Jan-21. Please contact your HSBC representative or email AskResearch@hsbc.com for information.

Executive Summary

In 2019, just over a quarter of the global population – two billion people – experienced hunger or did not have regular access to enough nutritious food. Recent estimates suggest that the COVID-19 pandemic will have increased this number by 83-132 million people in 2020 (United Nations). As clarified in a recent report by the UN FAO, the world is far off-track for meeting Sustainable Development Goal targets to end hunger, food insecurity and all forms of malnutrition by 2030.

This is a redacted version of a 36-page report published on 19-Jan-21. The original report is a deep dive by our ESG and Asia Consumer & retails teams into the challenge that food waste presents for Asia. Please contact your HSBC representative or email AskResearch@hsbc.com for information.

Meanwhile, roughly one third of all food produced for human consumption (1.3bn tonnes) is wasted *each year*. And, without any changes to current food waste patterns, the world will need to produce 50% more food by 2050 to meet the demands of a growing population (UN). Under current diet patterns, this would lead to yet more biodiversity loss, rapidly rising greenhouse gas emissions, water use and soil and crop erosion, all of which are outcomes we cannot afford. Minimising food loss and waste, and improving distribution and efficiencies across the entire supply chain is vital if we want to meet rising global food demand. The world has now entered the final decade with which it can hope to meet the UN's Sustainable Development Goals, which include halving food waste per capita and ending hunger, malnutrition and food insecurity, as well as other climate and environmental goals.

Asia faces the extremes of food waste and loss, and food poverty…

This global issue demands a global response, but our report focuses specifically on food waste in Asia. Perhaps no region in the world experiences the contrast of the two extremes of food poverty and food waste quite like Asia does. The highest absolute number of hungry individuals are found in Asia. Meanwhile, food loss rates are greater in Central and Southern Asia than in any other region in the world (Chart 9). We believe Asia is thus at the nexus of efforts to improve food supply chain efficiencies and cut food waste.

…and endemic trends that cannot be ignored

Asia's significant demographic and urbanisation trends cannot be ignored. Shrinking households, rising female participation and the booming internet economy all have dramatic implications for food waste, including via more out of home consumption, altered portion sizing and a growing online grocery economy. An emerging middle class across China, Korea and India are driving trends seen to be consumerist and wasteful: as incomes rise, so too does the propensity to waste. Meanwhile, climate change exacerbated weather events continue to have impacts further up the supply chain: Flooding causing China's 2020 failed rice harvest damaged croplands and infrastructure to the tune of USD21bn. Prudent and sustainability-focused companies operating in the consumer sector must act now to avoid future ESG risks, in our view.

From carrot to stick

If Asia's future shifts aren't reason enough for the sector to act, the emergent policy agenda is sure to be. We believe Korea and China's policies on food waste are some of the most advanced in the region, and perhaps globally. In light of the pandemic, China launched a Clean Plate Campaign in August 2020 to target consumer level food waste. We find evidence to suggest this has changed how some companies operate, including around portion sizing, labelling and marketing. Meanwhile, Korea's extensive food waste data collection programme has recently been extended to businesses, putting pressure on waste reduction higher up the supply chain.

Evidence suggests that food waste is an ESG risk that has gained more attention of late, and will continue to do so as demographic and urbanisation trends continue across Asia. Thus, investors will increasingly have to incorporate these considerations into their investment decisions, in our view. However, this can be challenging. The issue of food waste presents risks across the "E", "S" and "G" of ESG risks, which can demand a response across the entire value chain. Further, as we discuss in this report, data on food waste is hard to find, and often not comparable across companies and countries. This can make quantitative analysis difficult.

Engagement questions for investors

Our report seeks to help investors with this challenge. First, we explore trends that are emerging across Asia, which we expect will shape the way consumers purchase and consume food in future. We break down the supply chain to find examples of best practice and areas of risk among consumer companies. This includes improvements in storage capacity and quality and strengthened supplier relationships and transportation networks at pre retail stages of the supply chain. At the distribution stage, dynamic pricing schemes and the use of data and technology are powerful tools that some consumer goods companies are beginning to adopt to minimise in-store and restaurant waste. We conclude this report with 15 engagement questions that we believe frame our entire analysis, and that investors can use to engage with companies on this important area of sustainability.

We published on ESG risks to the Asian consumer and retail sector as part of our ESG Integrated series in *ESG Integrated: Asia Consumer & Retail*, 10 August 2020. We explored food waste trends in European, CEEMEA and LatAm regions in *Future of food: Retailers tackle waste*, 9 September 2020 and *CEEMEA and LatAm Food Retail*, 24 September 2020.

Areas for investor engagement with companies along the supply chain

Source: HSBC

Engagement questions

Pre retail: sourcing, suppliers, infrastructure and transportation

Storage

- How has the company assisted suppliers with cold chain storage capacity and quality?

Sourcing

- Who are the company's main suppliers and how does the relationship work? (eg information about contingency planning with suppliers in the event of crop failure, supporting local sustainable farmers and their infrastructure/processes)

Transportation

- What materials are used to pack produce as it is transported to distribution sites?
- What is the average journey length/time for your fresh produce?

Data and technology

- What initiatives are in place that assist the company with optimisation of produce demand and supply in order to minimise food waste?
- What level of food waste data is provided and how is it verified? (e.g. is there third party verification, and is the data store level, or inclusive of manufacturing sites?)

Retail stores and restaurants

Dynamic pricing

- How does the company price products that are close to or at expiry (e.g. discount initiatives or dynamic pricing schemes)?
- What authority do store managers have for decisions about discounting products that are close to expiry/what efforts have been made to cut red tape in this area?

Distribution to communities

- What does the company do with in-store food surplus (e.g. donations to the local community via food banks, local charities or hospitality venues)?}

Plastic and packaging

- How is plastic and packaging used to ensure freshness of produce?
- What sustainable alternatives are used in place of plastic?

End of life

- What information can be provided about the end of life of food surplus from hospitality/retailers?
- What information can be provided about the vendors that are used for food waste disposal from retail and hospitality sites?

Households and consumers

Operational

- Can you explain how your operations are designed to help consumers to minimise food waste (e.g. takeaway options and half portions – and equally watch out for operations that encourage waste such as free returns of fresh produce for appearance reasons)

Consumer education

- What changes have been made to produce labelling that relate to food waste (e.g. around best before dates and providing detailed produce information to consumers)

Contents included in the full note

Disclosure appendix

Analyst Certification

The following analyst(s), economist(s), or strategist(s) who is(are) primarily responsible for this report, including any analyst(s) whose name(s) appear(s) as author of an individual section or sections of the report and any analyst(s) named as the covering analyst(s) of a subsidiary company in a sum-of-the-parts valuation certifies(y) that the opinion(s) on the subject security(ies) or issuer(s), any views or forecasts expressed in the section(s) of which such individual(s) is(are) named as author(s), and any other views or forecasts expressed herein, including any views expressed on the back page of the research report, accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Lucy Acton, CFA.

Important disclosures

Equities: Stock ratings and basis for financial analysis

HSBC and its affiliates, including the issuer of this report ("HSBC") believes an investor's decision to buy or sell a stock should depend on individual circumstances such as the investor's existing holdings, risk tolerance and other considerations and that investors utilise various disciplines and investment horizons when making investment decisions. Ratings should not be used or relied on in isolation as investment advice. Different securities firms use a variety of ratings terms as well as different rating systems to describe their recommendations and therefore investors should carefully read the definitions of the ratings used in each research report. Further, investors should carefully read the entire research report and not infer its contents from the rating because research reports contain more complete information concerning the analysts' views and the basis for the rating.

From 23rd March 2015 HSBC has assigned ratings on the following basis:

The target price is based on the analyst's assessment of the stock's actual current value, although we expect it to take six to 12 months for the market price to reflect this. When the target price is more than 20% above the current share price, the stock will be classified as a Buy; when it is between 5% and 20% above the current share price, the stock may be classified as a Buy or a Hold; when it is between 5% below and 5% above the current share price, the stock will be classified as a Hold; when it is between 5% and 20% below the current share price, the stock may be classified as a Hold or a Reduce; and when it is more than 20% below the current share price, the stock will be classified as a Reduce.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation or resumption of coverage, change in target price or estimates).

Upside/Downside is the percentage difference between the target price and the share price.

Prior to this date, HSBC's rating structure was applied on the following basis:

For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The target price for a stock represented the value the analyst expected the stock to reach over our performance horizon. The performance horizon was 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, had to exceed the required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock was expected to underperform its required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands were classified as Neutral.

*A stock was classified as volatile if its historical volatility had exceeded 40%, if the stock had been listed for less than 12 months (unless it was in an industry or sector where volatility is low) or if the analyst expected significant volatility. However, stocks which we did not consider volatile may in fact also have behaved in such a way. Historical volatility was defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility had to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

Rating distribution for long-term investment opportunities

As of 15 January 2021, the distribution of all independent ratings published by HSBC is as follows:

Buy	57%	(32% of these provided with Investment Banking Services)
Hold	34%	(32% of these provided with Investment Banking Services)
Sell	9%	(27% of these provided with Investment Banking Services)

For the purposes of the distribution above the following mapping structure is used during the transition from the previous to current rating models: under our previous model, Overweight = Buy, Neutral = Hold and Underweight = Sell; under our current model Buy = Buy, Hold = Hold and Reduce = Sell. For rating definitions under both models, please see "Stock ratings and basis for financial analysis" above.

For the distribution of non-independent ratings published by HSBC, please see the disclosure page available at http://www.hsbcnet.com/gbm/financial-regulation/investment-recommendations-disclosures.

To view a list of all the independent fundamental ratings disseminated by HSBC during the preceding 12-month period, please use the following links to access the disclosure page:

Clients of Global Research and Global Banking and Markets: www.research.hsbc.com/A/Disclosures

Clients of HSBC Private Banking: www.research.privatebank.hsbc.com/Disclosures

HSBC and its affiliates will from time to time sell to and buy from customers the securities/instruments, both equity and debt (including derivatives) of companies covered in HSBC Research on a principal or agency basis or act as a market maker or liquidity provider in the securities/instruments mentioned in this report.

Analysts, economists, and strategists are paid in part by reference to the profitability of HSBC which includes investment banking, sales & trading, and principal trading revenues.

Whether, or in what time frame, an update of this analysis will be published is not determined in advance.

Non-U.S. analysts may not be associated persons of HSBC Securities (USA) Inc, and therefore may not be subject to FINRA Rule 2241 or FINRA Rule 2242 restrictions on communications with the subject company, public appearances and trading securities held by the analysts.

Economic sanctions imposed by the EU and OFAC prohibit transacting or dealing in new debt or equity of Russian SSI entities. This report does not constitute advice in relation to any securities issued by Russian SSI entities on or after July 16 2014 and as such, this report should not be construed as an inducement to transact in any sanctioned securities.

For disclosures in respect of any company mentioned in this report, please see the most recently published report on that company available at www.hsbcnet.com/research. HSBC Private Banking clients should contact their Relationship Manager for queries regarding other research reports. In order to find out more about the proprietary models used to produce this report, please contact the authoring analyst.

Additional disclosures

1. This report is dated as at 19 January 2021.
2. All market data included in this report are dated as at close 15 January 2021, unless a different date and/or a specific time of day is indicated in the report.
3. HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking, Principal Trading, and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.
4. You are not permitted to use, for reference, any data in this document for the purpose of (i) determining the interest payable, or other sums due, under loan agreements or under other financial contracts or instruments, (ii) determining the price at which a financial instrument may be bought or sold or traded or redeemed, or the value of a financial instrument, and/or (iii) measuring the performance of a financial instrument or of an investment fund.

Disclaimer

Legal entities as at 1 December 2020

'UAE' HSBC Bank Middle East Limited, DIFC; HSBC Bank Middle East Limited, Dubai; 'HK' The Hongkong and Shanghai Banking Corporation Limited, Hong Kong; 'TW' HSBC Securities (Taiwan) Corporation Limited; 'CA' HSBC Securities (Canada) Inc.; 'France' HSBC Continental Europe; 'Spain' HSBC Continental Europe, Sucursal en España; 'Italy' HSBC Continental Europe, Italy; 'Sweden' HSBC Continental Europe Bank, Sweden Filial; 'DE' HSBC Trinkaus & Burkhardt AG, Düsseldorf; 000 HSBC Bank (RR), Moscow; 'IN' HSBC Securities and Capital Markets (India) Private Limited, Mumbai; 'JP' HSBC Securities (Japan) Limited, Tokyo; 'EG' HSBC Securities Egypt SAE, Cairo; 'CN' HSBC Investment Bank Asia Limited, Beijing Representative Office; The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Branch; HSBC Securities (South Africa) (Pty) Ltd, Johannesburg; HSBC Bank plc, London, Tel Aviv; 'US' HSBC Securities (USA) Inc, New York; HSBC Yatirim Menkul Degerler AS, Istanbul; HSBC México, SA, Institución de Banca Múltiple, Grupo Financiero HSBC; HSBC Bank Australia Limited; HSBC Bank Argentina SA; HSBC Saudi Arabia Limited; The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch incorporated in Hong Kong SAR; The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch; PT Bank HSBC Indonesia; HSBC Qianhai Securities Limited; Banco HSBC S.A.

Issuer of report
HSBC Bank plc
8 Canada Square, London
E14 5HQ, United Kingdom
Telephone: +44 20 7991 8888
Fax: +44 20 7992 4880
Website: www.research.hsbc.com

[1162843]