



Samsung Electronics:

driving the sustainability agenda
in emerging markets

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Global Equities

**Federated
Hermes** 
International

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CASE STUDY: Samsung Electronics

Samsung Electronics is a leading provider of consumer and industrial electronic equipment

Employs approximately
309,630
people



Operates a network of **216**
global bases across
74 countries



Our Global Equity ESG strategy aims to invest in companies with a combination of time-tested fundamental and environmental, social and governance (ESG) characteristics that are attractively priced. We believe that companies with a competitive advantage and sustainable business models are likely to offer visibility of earnings growth. This can be demonstrated through our exposure to South Korean consumer and industrial electronic equipment company, Samsung Electronics.

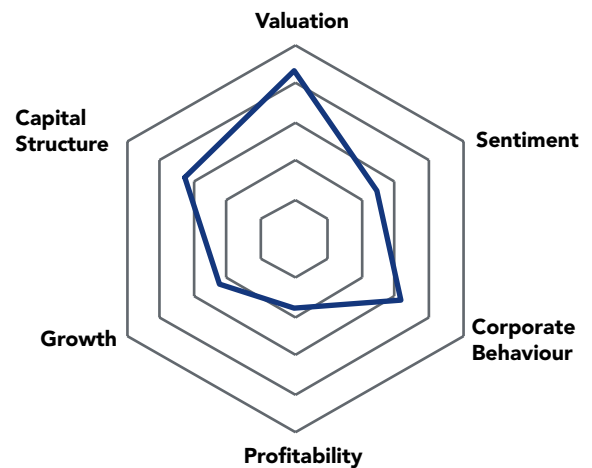
Assessing Samsung Electronics' long-term prospects

We use the Alpha Model, our proprietary system, to assess the attractiveness of a company across a number of factors – profitability, growth, sentiment, valuation, corporate behaviour, capital structure – over the long term. This combination of proven fundamental characteristics is crucial to our investment approach.

Our assessment of Samsung Electronics using the Alpha Model shows that it is attractively valued for the majority of metrics relative to its peers (see figure 1). The company has a strong balance sheet, positive expected earnings and it has a good and improving QESG score, our proprietary assessment of a company's ESG characteristics.

In Q1 2020, Samsung Electronics reported a 5.6% increase in sales year-on-year and net profit declined by 3.2% to \$4bn¹. At the time, the company also forecast a decline in earnings quarter-on-quarter in Q2 amid expectations that the coronavirus pandemic will adversely impact demand for its core products. Nevertheless, it expects that demand for its memory chip business will remain solid as people continue to work from home. In addition, in May, the company announced plans to press ahead with investments in computer chip production – including the construction of an \$8bn production line in South Korea and the continued expansion of a memory-chip factory in China – despite the uncertain backdrop².

Figure 1. The Alpha Model's assessment of Samsung



Source: Federated Hermes, as at June 2020.

Figure 2. Since 2014, Samsung Electronics' share price has more than doubled



Source: Factset, as at June 2020.

¹ "Samsung warns earnings to weaken further due to coronavirus crisis," published by the Financial Times in April 2020.

² "Samsung defies pandemic and trade threats with chip expansion," published in the Financial Times in May 2020.



Contributing to a better society for all

As an emerging-market company, Samsung Electronics seeks to meet global standards, such as those set out by the Global Reporting Initiative (GRI), the Taskforce for Climate-related Financial Disclosures and CDP³, thereby helping it lead the way in sustainability in the region. For example, the company's annual Sustainability Report is assured by an independent and objective organisation in accordance with the GRI standards. Meanwhile, it has also embedded its environment, health and safety management system into its business strategy to create a safety culture in line with global standards⁴.

For Samsung Electronics, having designated economic, environmental and social responsibilities are key elements of its sustainable management – and we believe an improving ESG profile can unlock value. It aims to enhance product stewardship to minimise its environmental impact through its product lifecycle, improving energy efficiency and reducing waste. For example, since 2009, Samsung Electronics has reduced greenhouse gas emissions in the product use phase by 243.1m, while it has used 220,000 tons of recycled plastic over the same period⁵.

Meanwhile, the company's exposure to a number of the Sustainable Development Goals (SDGs) alongside its Global Goals app help to promote the SDGs and, at the same time, educate consumers. Samsung Electronics' business activities are aligned to the following SDGs:



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Engaging to generate ESG outcomes

Alongside our colleagues at EOS at Federated Hermes ('EOS'), we have successfully engaged the company since 2013 on a myriad of issues including capital allocation, board structure and gender diversity, workers' safety, product safety and supply chain management for cobalt. Indeed, the company has demonstrated a positive approach toward participating in the circular economy, CO2 emissions and remuneration matters.

One engagement objective that has recently been completed focused on the issue of child labour in the supply chain. We wanted the company to improve its due diligence process of first-tier suppliers to minimise child labour and conflict minerals risk. From raising the issue to closing it, here we document our engagements with the company:

Q2
2016

We formally ask the company to deliver a comprehensive plan for managing child labour in the cobalt supply chain. The company acknowledges that the issues raised are viewed as significant by management.

Q3
2016

The company's latest sustainability report shows a notable improvement in acknowledging the importance of addressing child labour and conflict minerals and provides more context on single and collaborative efforts to combat these issues. It also establishes a responsible supply chain management system and encourages its suppliers to participate.

Q4
2016

The company establishes a risk management council to address practical issues related to human rights in the supply chain, bringing board members closer to material ESG issues. A first-tier supplier of the company becomes the first company to make available a dedicated progress report on the cobalt supply chain.

Q1
2017

The company's President of Corporate Affairs Europe joins the Business Human Rights Advisory Board of the International Bar Association, where EOS also acts as an advisory board member.

Q2
2017

Samsung SDI publishes a **supply chain management strategy**, which adheres to the OECD guidance on responsible supply chain management. It also publishes a dedicated progress report on cobalt. We urge Samsung Electronics to cover the remaining 50% of its supply chain. It plans to expand its current conflict management programme to include cobalt.

Q4
2019

The company now integrates the industry standards set out by the **Responsible Minerals Initiative (RMI)** and follows the OECD's responsible minerals due diligence process. It has completed the mapping of its smelters – one has been certified by RMI and the others are going through this process. It also launched a joint venture with BMW and the German State Development Agency to educate local communities in the Democratic Republic of Congo on health and safety. It provides information to children on other, non-mining, opportunities including simple accounting skills.

The value of investments and income from them may go down as well as up, and you may not get back the original amount invested. Any investments overseas may be affected by currency exchange rates. Past performance is not a reliable indicator of future results and targets are not guaranteed.

³ CDP is an organisation which supports companies and cities to disclose the environmental impact of major corporations

⁴ "Samsung Electronics: 2019 Sustainability Report," published by Samsung Electronics in June 2019.

⁵ "Samsung Electronics: 2019 Sustainability Report," published by Samsung Electronics in June 2019.

Federated Hermes

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Guided by our conviction that responsible investing is the best way to create long-term wealth, we provide specialised capabilities across equity, fixed income and private markets, multi-asset and liquidity management strategies, and world-leading stewardship.

Our goals are to help people invest and retire better, to help clients achieve better risk-adjusted returns, and to contribute to positive outcomes that benefit the wider world.

All activities previously carried out by Hermes now form the international business of Federated Hermes.

Our brand has evolved, but we still offer the same distinct investment propositions and pioneering responsible investment and stewardship services for which we are renowned – in addition to important new strategies from the entire group.

Our investment and stewardship capabilities:

- **Active equities:** global and regional
- **Fixed income:** across regions, sectors and the yield curve
- **Liquidity:** solutions driven by four decades of experience
- **Private markets:** real estate, infrastructure, private equity and debt
- **Stewardship:** corporate engagement, proxy voting, policy advocacy

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