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ESG in Corporate Valuation and Equity Research

VRS (Valuation & Research Specialists) - www.vrs.gr, deals with Corporate Valuation and Equity Research. VRS analyzes and evaluates on behalf of investors, fund managers and asset managers, various businesses and assets such as listed companies, private companies, real estate assets, as well as intangible goods. VRS selects the universe of listed and non-listed companies that it analyzes using ESG (Environment, Society, Governance) criteria.

VRS talks and communicates with over 400 funds worldwide, mainly in the European and North American markets, and proposes to their respective fund managers and asset managers through its research, sustainable investments. Institutional investors themselves are now attaching greater importance to investments based on ESG criteria, and therefore are giving less weight to investments that do not meet those criteria.

On the stock markets, the value of a "sustainable" listed company tends to be higher because it represents exactly where the investment capital is mostly channeled in, compared to the lower investment interest observed for non-sustainable businesses and their shares. And the investment selection based on ESG criteria is the process that maximizes and rationalizes the risk – return ratio for both professional and private investors.

The appraiser of a sustainable investment will indirectly identify in the assumptions of his/her financial model and the respective valuation report the ESG criteria and how they are met. The market also seems to be demanding more valuations and equity research coverage for sustainable investments or sustainable businesses.

A company with high ESG compliance, awareness and sensitivity indicators facilitates the adoption of more sustainable assumptions in financial models and this further enhances, if not increases, the company's value.

For example in the DCF model, one way to capture the fact that a company has high ESG satisfaction ratios is by incorporating lower risk assumptions into the WACC discount rate of the company under consideration, thereby raising its fair value, ceteris paribus. With regard to the same valuation model, a second way may be through adjusting the cash flows for the future of that business.

Of course, the opposite is true. For example, what can be the value of a water utility when the quantity of water available in an area of the planet where the company operates has been severely reduced? So ultimately, every future prospect turns out to be a variable dependent on sustainability.

In addition, in evaluating a business through multiples such as P/E and EV/EBITDA, an analyst or asset manager can substantiate the argument and therefore give a premium to the valuation multiple of a company that is a high-scoring sustainable investment in ESG factors.

Therefore, the ESG criteria in Corporate Valuation and Equity Research are becoming increasingly important and businesses around the world are taking concrete actions to improve the degree of satisfaction they achieve in areas related to the ESG factors.