# PPC: a Heraclean decarbonisation

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PPC, a Greek utility, announced its financial results on 9 Apr 2024.[1] Most importantly for Sustainability-Linked Bond (SLB) investors, it achieved the Sustainability Performance Target (SPT) for its 2028 bond, reporting 9.7 mt of Scope 1 $CO_2$ for 2023. This had not always seemed likely, given the large improvement needed after it missed its 2022 target.

As the step-up will now not be received, we would expect the bond to underperform as the value of the SLB option hedge dissipates. This translates into a curve steepening versus PPC's shorter bond.

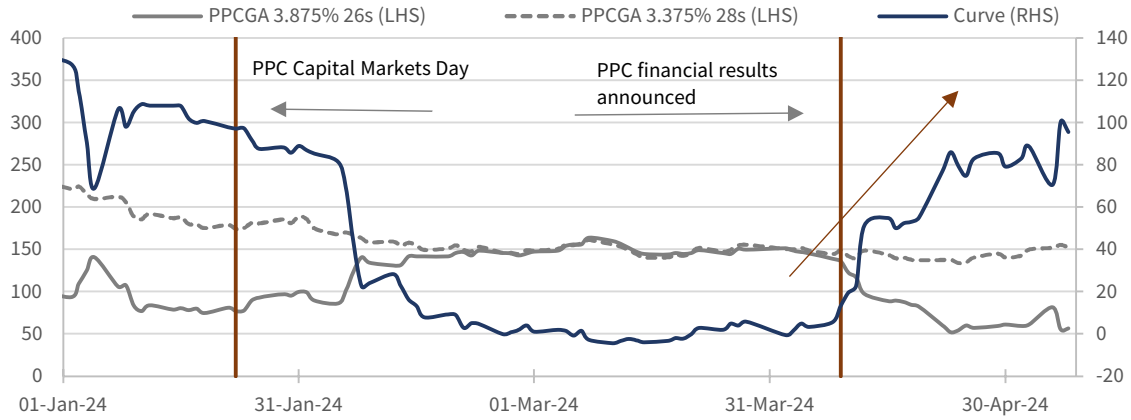
In the past month, the bond curve have steepened significantly (see Figure 1). Since ambitious coal decommissioning figures were first released at PPC's capital markets day in January,[2] the curve is largely unchanged, however both bonds are around 50bps tighter, compared to the iTraxx Xover which has tightened only 14bps. **This suggests the strong emissions reductions may be taken as positive for PPC's credit.**

**In its reporting, the company explicitly links its "*strategic decision to exit lignite*" with achieving the SLB target, demonstrating the potential transition impact of this financing product.[2]**

**PPC has shown that decarbonisation is possible via ambitious coal decommissioning, even against the background of energy security concerns.**

There have been other recent announcements that are relevant for SLB investors. Enel missed an emissions intensity target driving swift outperformance of impacted bonds,[3] and London & Quadrant Housing Trust has guided the market to a likely missed target which is not yet reflected in market pricing.[4] These examples support a broader focus on sustainability reports by investors.

*Figure 1. Historic PPC bond spreads. Source: Bloomberg, accessed 9 May 2024.*




[1] "Financial Results FY 2023", PPC, 9 Apr 2024.
[2] "Capital Markets Day", PPC, 23 Jan 2024, as analysed in "PPC: coal decommissioning success impacts SLBs", AFII, 19 Feb 2024.
[3] As analysed in "Enel SLBs: fortes fortuna juvat", AFII, 26 Apr 2024.
[4] Please see "L&Q Housing Trust SLB 'builds' in a coupon step-up", AFII, 26 Mar 2024.

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## Bond moves

When PPC (ticker PPCGA) missed its 2022 target, and paid a 50bps step-up on its 2026 bond,[5] this was one of the first SLBs to miss a target.[6] PPC's absolute emissions miss was attributed to extended coal usage driven by the Ukraine crisis. Given its 2022 emissions figure was behind target, the reductions needed to achieve the 2023 goal appeared to be a stretch (trajectory is shown in Figure 3 overleaf).

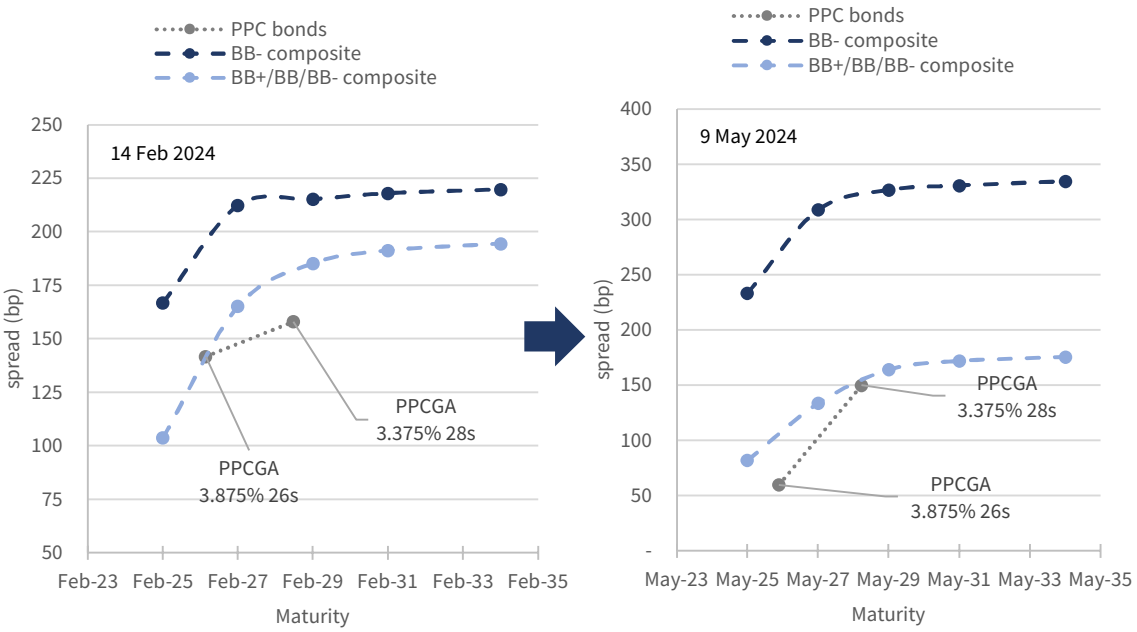
PPC updated investors on its 2023 coal decommissioning figures at January's capital market day, and they showed a remarkable turnaround, potentially enough to achieve the target. However, the bond price did not seem to react.

PPC has two bonds outstanding. Its shorter bond (also an SLB) matures in 2026 and missed its target in 2022. This resulted in a 50bps step-up. When it became clear the target on the longer bond would be achieved, and therefore that this bond would not pay a step-up, our option pricing model would expect the curve to steepen.[7] However, this did not initially occur.

As Figure 1 shows, since the financial results were announced, there has been a significant steepening between these two bonds.

Figure 2 shows the movement in these bond spreads when compared to Bloomberg composite spread curves for different ratings.[8] These show that relative to the BB+/BB/BB- composite (PPC is rated BB-), the curve has steepened via a combination of the 26s outperforming and the 28s underperforming.

*Figure 2. PPC bond spreads compared to implied Bloomberg composite spreads. LHS=14 Feb 2024, RHS=9 May 2024. Source: Bloomberg, accessed 9 May 2024.*



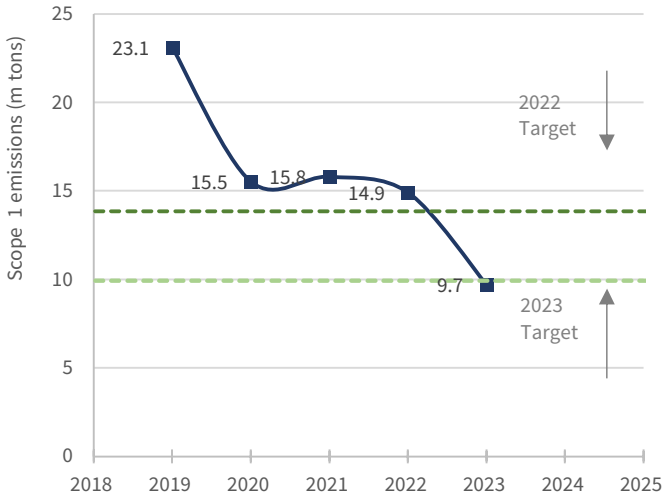

[5] "Sustainability-Linked Bond Performance Report", PPC, 15 Mar 2023.
[6] "SLB target misses aren't necessarily a negative: it's about the context", Natwest, 18 Apr 2023.
[7] For the AFII option pricing model please see "An option pricing approach for Sustainability-Linked Bonds", AFII, 8 Nov 2022.
[8] There spread curves are implied by removing the risk-free rate from the composite yield curves.

## Emissions impact

Embedding sustainability targets into bonds supports disclosure and accountability. Given PPC's 2022 target was missed, and the SLB featured in its capital market day materials was explicitly linked to the company's improved emissions profile, we posit that the SLB created an incentive to deliver the 2023 target.

Figure 3 shows the historic trend of emissions, which highlights the accelerated pace of decarbonisation that took place in 2023.

*Figure 3. PPC Scope 1 emissions. Source: PPC.*




If the emissions-cutting trend from 2021-2022 had persisted, the implied 2023 emissions amount would have been 14.0mt, significantly above the ultimate figure of 9.7mt. Therefore, it could be argued that the presence of the 2023 target and its linkage with the 202 SLB saved 4.3mt of $CO_2e$, which is estimated to be equivalent to driving 11bn miles in a petrol-powered car or exhausting 198mm propane cylinders for home barbeques. It is the same amount as is sequestered by 5mm acres of US forest in one year.[9]

**It is impossible to evidence categorically the impact that this SLB had on PPC's decarbonisation trajectory. However, transitioning energy sources is an effective action given the substantial emissions reduction payoff. In PPC's case, the transition impact was very large given the energy source exited was lignite coal.**

## Conclusions

PPC has confirmed that its 2023 emissions target has been met, meaning its outstanding 2028 SLB will not receive a step-up coupon. Even though this was messaged to the market at its January capital markets day, the bond curve was still very flat prior to the announcement.

**In its reporting, the company explicitly links its strategic decision to exit lignite with its SLB targets. It is hard to find other financial instruments providing exposure and incentives/impact in terms of transition financing.**

The 2028 SLB has steepened significantly since the target achievement announcement, representing an underperformance of the bond. This is further verification of an option pricing approach; the bond has moved wider in response to the option hedge losing its value with the achievement of the target.

**The most positive conclusion is that PPC has demonstrated a strong commitment to decarbonisation, showing coal can be retired in Europe, despite energy security concerns.**

[9] Estimates from using "Greenhouse Gas Equivalencies Calculator", EPA, accessed 9 May 2024.

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