DSM: to create brighter forests for all

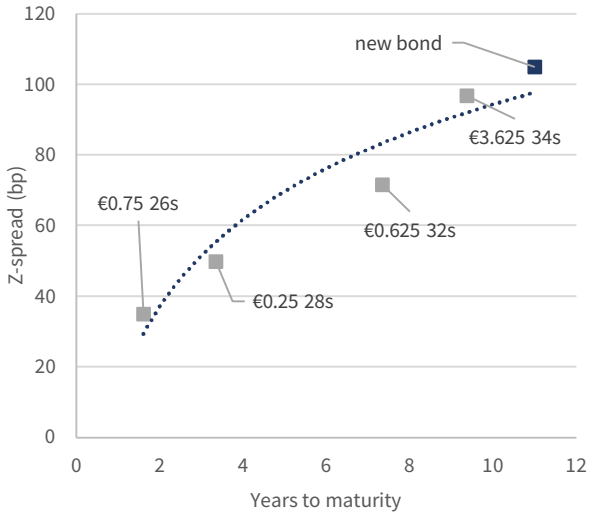
Josephine Richardson (*), Andrew Sulston

Koninklijke DSM N.V. was a Dutch chemical company which merged in 2023 with Switzerland's Firmenich to form the combined entity dsm-firmenich (ticker DSFIR). It is listed on Euronext Amsterdam.

The company's supply chain includes commodities which are at risk of contributing to deforestation, such as palm oil and soy used in its nutritional products. The firm was included in the AFII Deforestation Debt Universe.[1]

It is in the market today, 18 Feb 2025, with an 11-year benchmark bond issued at midswaps + 105bps. As shown in Table 1, this is only its second bond issuance since 2020, and therefore offers a rare opportunity for engagement. Within the credit family there are three significant debt maturities in the next 18 months, and so this latest issuance could presage further debt market activities.

Figure 1. DSM BV issued bond spreads with maturity over 1 year. Source: Bloomberg, accessed 18 Feb 2025.



DSM's 2024 prospectus does not explicitly consider deforestation risk, or make reference to the EU Deforestation Regulation (EUDR), which is relevant for EU companies exposed to key commodities.

New bond issuance represents a powerful chance for engagement and influence from investors who can request greater disclosure on deforestation risk and strategies for reducing exposure.

Table 1. Outstanding bonds issued under DSFIR ticker, including DSM BV plus two additional operating subsidiaries of dsm-firmenich. Source: Bloomberg, accessed 18 Feb 2025.

Description	Issuing Entity	ISIN	Issue Date	Maturity	Currency	Amount Outstanding
DSFIR €1 25s	DSM BV	XS1215181980	09-Apr-15	09-Apr-25	EUR	500,000,000
DSFIR €0.75 26s	DSM BV	XS1495373505	28-Sep-16	28-Sep-26	EUR	750,000,000
DSFIR €1.75 30s	FIRMENICH PRODUCTIONS PARTIC	XS2166619820	30-Apr-20	30-Apr-30	EUR	750,000,000
DSFIR €1.375 26s	FIRMENICH PRODUCTIONS PARTIC	XS2166619663	30-Apr-20	30-Oct-26	EUR	750,000,000
DSFIR €3.75 PERP	ELM BV FOR FIRMENICH INTERNA	XS2182055009	03-Jun-20	Perp	EUR	750,000,000
DSFIR €0.625 32s	DSM BV	XS2193979254	23-Jun-20	23-Jun-32	EUR	500,000,000
DSFIR €0.25 28s	DSM BV	XS2193978363	23-Jun-20	23-Jun-28	EUR	500,000,000
DSFIR €3.625 34s	DSM BV	XS2852136063	02-Jul-24	02-Jul-34	EUR	800,000,000

[1] This identifies a comprehensive unverse of issuers which have substantial deforestation exposure significant for fixed income investors. For full details see "Deforestation Debt Universe", AFII, 7 Jan 2024.

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(*) Anthropocene Fixed Income Institute (www.anthropocenefii.org). Author for contacts: jor@anthropocenefii.org

Deforestation exposure

DSM scores poorly in the most recent Forest 500 assessment, based on 2023 data.[2] Details of its overall approach are shown in Figure 2. Notably, DSM has no overarching commitment on deforestation, and neither reporting on nor targets to reduce emissions from land-use change.

Forest 500 also reports that DSM does not consider deforestation to be a business risk, which may impact its overall disclosure for investors.

However, the company did publish a position statement in Feb 2024 outlining an aspiration to source deforestation-free commodities,[3] and so may improve disclosure and performance in the future.

Figure 2. Forest 500 scores for DSM. Source: Forest 500, accessed 18 Feb 2025.



Deforestation risk disclosure

Fixed income markets depend on clear disclosure and so there is an important question how far DSM has disclosed its deforestation risk to the market.

The final documents for its new bond are not yet available. However the debt issuance programme base prospectus of 20 Jun 2024[4] (under which its EUR 800 million 10-year Notes were issued on 2 Jul 2024), is valid until 20 Jun 2025 and so may be used for the new security.

This document does not consider deforestation risk specifically. DSM discloses general risks of environmental change but nothing on deforestation risk or the EUDR, which requires that supply chains for all in-scope commodities be evidenced to be deforestation-free on pain of fines or loss of market access.[5] This regulation was finalised in June 2023 and is currently scheduled to take effect at the end of 2025.[6] Determining EUDR compliance will be important for DSM as an EU-based business.

DSM's general environmental risk factor is balanced with positive statements as to its sustainability credentials. For example, its base prospectus highlights its "*portfolio of naturals and renewable and sustainable ingredients which are produced with a focus on nutrition, health and well-being, while potentially reducing negative impact on the planet…*".[7]

It is also worth noting DSM's plan to spin off its Animal Nutrition & Health business in 2025 which could have a significant effect on its deforestation profile.

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[2] "DSM", Forest 500, accessed 18 Feb 2025.
[3] "Protecting Forests & Land based Natural Ecosystems", dsm-firmenich, 2 Feb 2024.
[4] "Medium term note prospectus", DSM listed on Luxembourg Stock Exchange, accessed 18 Feb 2025.
[5] For earlier analysis on how financially significant this regulation is please see "Cargill's EUDR compliance: risks of a soy-prise", AFII, 14 Jun 2024.
[6] The regulation has already been delayed once, as explained in "EU deforestation regulation U-turn", AFII, 21 Nov 2024.
[7] See p 96 of the base prospectus.

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