Bunge-Viterra merger: an ESG analysis

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It has just been confirmed that two giants in global agriculture, publicly listed Bunge (ticker BG) and privately-owned Viterra (ticker VITRRA), intend to merge.[1] Agriculture is a sector with significant influence on biodiversity, and both companies are already under investor scrutiny for deforestation risks in their supply chains.[2] The combined entity will possess the largest deforestation footprint associated with soy globally.

Figure 1. Soybean in a tractor trailer. Source: Getty Images.



This note explores the ESG implications of such a merger, and analyses opportunities for bond investors to engage with the combined company on its approach to deforestation in the context of the deal.

There are three main takeaways:

- The merger will significantly expand the deforestation footprint of a single company**. Transformative changes can take place if the new entity adopts more conservative deforestation and land conversion policies.**
- Public-to-private transactions are raising concerns around sustainability transparency in the M&A market.[3] Private-to-public transactions on the other hand offer a chance for enhanced ESG disclosure. **This merger can bring greater scrutiny and engagement in Viterra's previously opaque operations.**
- Bunge's capital market activity suggests it could issue debt soon, which presents an opportunity for bond investors to have influence. **Given increased policy focus on deforestation,[4] investors should encourage the company to implement a stronger approach, potentially by proposing a Sustainability-Linked Bond coupled to deforestation reduction targets.**

[1] "Trader Bunge to Buy Glencore-Backed Viterra for $8 Billion", Bloomberg, 13 Jun 2023.
[2] "Storebrand urges agricultural traders to act on Brazil deforestation risk", FT, 24 Jan 2022.
[3] "Who buys the dirty energy assets public companies no longer want?", The Economist, 12 Feb 2022.
[4] For more details please see "Cargill: EUR bond, EU deforestation regulation", AFII, 14 Apr 2023.

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Background on Bunge and Viterra

Bunge is a publicly listed agricultural company headquartered in the US, with a market capitalisation just over $14bn.[5] The company is the largest oilseed processor worldwide and holds a top position in grain trading. Its key commodities include corn, wheat, barley and soy. Bunge underwent a leadership change in 2019 when Soren Schroder stepped down as CEO following pressure from shareholders after underwhelming financial performance.[6] Following his appointment, Greg Heckman swiftly assumed the role of CEO and transformed the company into a profitable business.[7]

Viterra is a privately held leading global trader in grain (mainly wheat, corn, barley), oilseed (such as soy, rapeseed, sunflower oil) and meal. Following the acquisition of Gavilon (formerly a wholly owned US-based subsidiary of Marubeni) completed in 2022,[8] Viterra gained a leading position in physical grain handling in the US. The company is also the third-largest exporter of soybeans in Brazil[9] and has substantial operations in Australia and Europe. Glencore acquired Viterra in January 2013[10] before selling a minority stake to Canada Pension Plan in 2016[11] and has been considering how to unlock value from its stake in the company.

There are substantial overlaps between Viterra and Bunge's business activities, specifically in oilseed production.

A merger between two such giants deserve analysis. This note considers the impact on sustainability of the announced transaction and considers the implications for bond holders.

Deforestation risks

The growing importance of ESG considerations in business decisions is affecting many aspects of M&A transactions.[12] It is a critical aspect for both shareholders and bondholders to engage upon, as such transactions can shift investors' exposure to sustainability risks.

Deforestation, as a significant driver of biodiversity loss, is climbing up the list of investor concerns.[13] Increased policy focus, for example through the new EU regulation on deforestation-free supply chains, turn these concerns into direct financial risks for issuers and, therefore, for investors.[4]

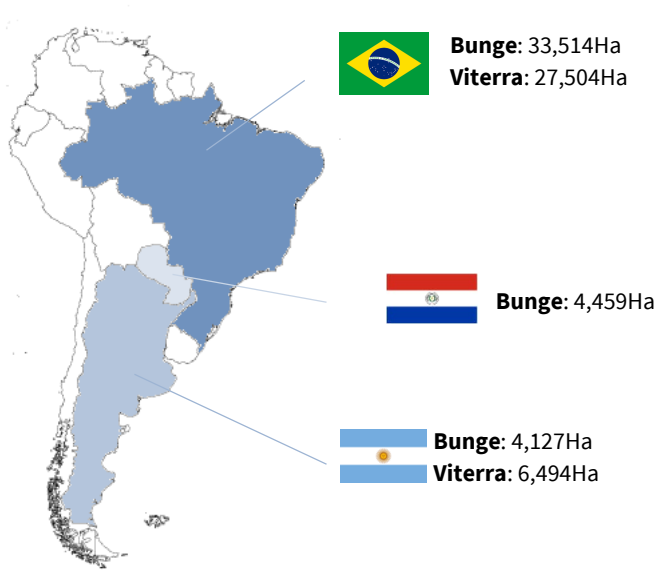
Both Bunge and Viterra are major global soy traders with a significant presence in South America, making them highly susceptible to deforestation risks within their supply chains. According to Trase Finance, an NGO providing data and analysis on supply chains, Bunge and Viterra have

[5] Source: Bloomberg, 12 June 2023.
[6] "Bunge CEO to step down", World Grain, 12 Oct 2018.
[7] "Trader Bunge to Buy Glencore-Backed Viterra for $8 Billion", Bloomberg, 13 June 2023.
[8] "Viterra completes its acquisition of Gavilon", Viterra, 3 Oct 2022.
[9] "Grain trader Viterra in talks to merge with rival Bunge", Reuters, 26 May 2023.
[10] "Glencore completes acquisition of Viterra and announces key management appointments", Newswire, 17 Dec 2012.
[11] "Canada Pension Plan Investment Board Signs Agreement to Acquire a Significant Strategic Stake in Glencore Agricultural Products", CPP Investments, 6 Apr 2016.
[12] "ESG and M&A in 2022: From Risk Mitigation to Value Creation", Harvard Law School Forum on Corporate Governance, 24 Jan 2022.
[13] "ESG and Climate Trends to Watch for 2023", MSCI ESG Research, 2 Dec 2022.

respectively the first and fifth biggest soy-related deforestation footprints in Brazil, Paraguay and Argentina,[14] as illustrated in Figure 2.

Figure 2. Viterra and Bunge deforestation exposure in South America. Sources: Trase Finance, AFII.

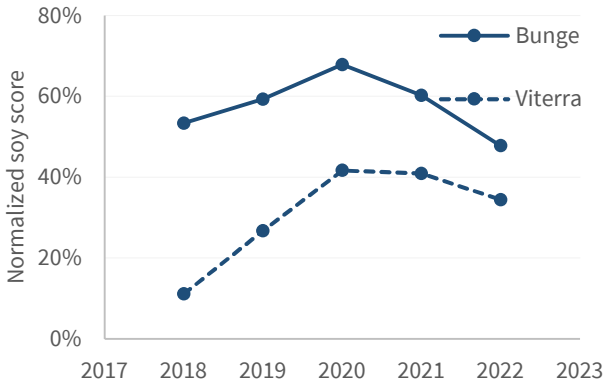
Rank	Organisation	Brazil/Paraguay/Argentina deforestation exposure
1	Bunge	42,100
2	Cargill	37,219
3	Amaggi Louis Drey	36,967
4	Archer-Daniels-Mic	35,430
5	Viterra	33,998
6	Amaggi	21,010
7	Mitsubishi Corp.	13,856
8	Marubeni	9,552
9	Unión Agricola de	9,346
10	CHS Inc	9,227



Recognising the importance of responsible supply chains, we note that Viterra and Bunge are active members of the Soft Commodities Forum[15] and adhere to the Amazon Soy Moratorium.[16] Both companies have made commitments to establish soy supply chains that are free from deforestation and conversion by the end of 2025, although Viterra's commitments appear to be more regionally focused on South America.

Independent analysis however suggests that both companies have clear potential to improve their deforestation strategies. Forest 500, which ranks corporates' commitments, reporting and implementation strategies towards deforestation, assigned Bunge and Viterra a 'soy score' of 31/90 and 43/90 respectively.[17] These scores are relatively low compared to the maximum available, and have shown slight deterioration in recent years, as illustrated in Figure 3.

Figure 3. Forest500 normalised deforestation scores for Bunge and Viterra. Source: AFII, Forest500, accessed 6 June 23.



[14] See "Trase deforestation public watchlists", TraseFinance, Accessed 6 Jun 2023.
[15] See "Soft Commodities Forum progress report ", WBCSD, Dec 2022.
[16] See "Sustainable sourcing implementation plan", Viterra, accessed 6 Jun 2023 and "Shareholder 2021 proposal regarding a report on the soy supply chain", Bunge, accessed 6 Jun 2023.
[17] See "Company rankings", Forest500, accessed 6 Jun 2023.

In summary, despite some public commitments to end deforestation from their supply chains,[18] both companies still need to improve substantially in order to achieve truly sustainable soy production.

The merger will significantly expand the footprint of a single company, which may simplify ongoing influencing efforts. One entity, as such a clear leader in the sector, can be the subject of more focused engagement. Any improved commitments could encourage smaller players to follow.

Private-to-public transactions can improve transparency

Discussion between a potential combination of both Viterra and Bunge's activities started making the headlines in 2017 when Bunge rejected a takeover approach from Glencore.[19] In late May the talks resurfaced, and the deal now has been finalised with Bunge buying Viterra in exchange of $6.2bn worth of Bunge shares and $2bn of cash.[1] As a majority shareholder, Bunge will control the publicly listed combined entity.

The deal is widely perceived as creating significant synergies between both companies, considering the complementary business activities and countries of operations. It creates a giant within the agricultural sector and will significantly transform the dynamics of the global grains market.[20]

However, it will likely be scrutinised by regulators in a sector already concentrated amongst a limited number of players,[21] so its completion cannot be guaranteed.

One key consideration when analysing the sustainability impact of such a deal, is the different disclosure requirements from public compared to private companies. Historically, private firms' ESG disclosures have lagged public markets,[22] which can incentivise the sale of polluting assets into private ownership.[23]

Table 1 shows the potential disclosure impact on different structures of private-to-public deals.

Viterra is currently privately owned and therefore not subject to as high a disclosure requirement as Bunge, a publicly listed entity.

Moving the combined operations into the public domain, and so requiring a higher level of disclosure including the company's impact on natural assets, [24] is a positive consequence of such a deal.

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[18] Notably, commitments to develop a sector-wide roadmap for enhanced supply chain action consistent with a 1.5° C pathway, have been taken by the Soft Commodities Forum. For additional details please see "2021 progress report executive summary", WBCSD, accessed 6 Jun 2023.

[19] "Bunge says not in talks with Glencore following approach", Reuters, 24 May 2017.

[20] "Bunge-Viterra Deal Would Create $25 Billion Rival to Cargill", Bloomberg, 26 May 2023.

[21] "A Bunge-Viterra merger would require Competition Bureau review", Real Agriculture, 2 Jun 2023.

[22] "ESG Transparency of Private Equity and Debt Firms", Böni, Pascal and Hendrikse, Jurian and Joos, Philip, 30 Nov 2022.

[23] This is a trend observed amongst private-sales of coal assets in Asia, as described in "APAC coal divestments: debt investors hold the key", AFII, 5 Jun 2023.

[24] See as an example the SEC's proposed climate risk disclosure rule which only targets public companies - "The time for public companies to prepare to meet SEC climate rules is now", Thomson Reuters, 19 Apr 2023.

Table 1. Private-to-public scenarios and potential outcomes in terms of ESG transparency. Source: AFII.

Company type	Financial statement	ESG statements and reports	ESG disclosure	Engagement	ESG transparency outlook
Public	Consolidated	Consolidated	Stricter requirements for public companies	Engageable in the public market	Strong
Public	Unconsolidated	Unclear	Stricter requirements for public companies but it is uncertain if the company will need to consolidate its ESG statements/reports	Engageable in the public market	Average
Private	Consolidated	Consolidated	Lower level of requirement but consolidated disclosures	Only engageable privately	Average
Private	Unconsolidated	Unclear	Lower level of requirement and it is uncertain if the company will need to consolidate its ESG statements/reports	Only engageable privately	Weak

Outstanding debt

Viterra is a relatively new entrant in the bond market. The company first came to market in 2021 with two USD and two EUR bonds (see Table 2) and now has $3.4bn of publicly traded debt outstanding. The bonds have a rating of BBB-/BBB (S&P/Fitch)[25] and have been well received by the market.[26]

Table 2. Viterra outstanding bonds. Source: Bloomberg – accessed 6 June 2023.

Bond	ISIN	Private placement	Issuing entity	Issue Date	Maturity	Currency	Amount Issued (USD)
VITRRA 1 09/24/28	XS2389688875	N	Viterra Finance BV	24-Sep-21	24-Sep-28	EUR	820.13MM
VITRRA 5 1/4 04/21/32	USN9354LAF87	114A Y / REGS N	Viterra Finance BV	21-Apr-22	21-Apr-32	USD	300.00MM
VITRRA 0 3/8 09/24/25	XS2389688107	N	Viterra Finance BV	24-Sep-21	24-Sep-25	EUR	585.81MM
VITRRA 3.2 04/21/31	USN9354LAB73	114A Y / REGS N	Viterra Finance BV	21-Apr-21	21-Apr-31	USD	600.00MM
VITRRA 4.9 04/21/27	USN9354LAE13	114A Y / REGS N	Viterra Finance BV	21-Apr-22	21-Apr-27	USD	450.00MM
VITRRA 2 04/21/26	USN9354LAA90	114A Y / REGS N	Viterra Finance BV	21-Apr-21	21-Apr-26	USD	600.00MM

Bunge on the other hand is a regular issuer with its first issuance dating back to 1994. As highlighted in Table 3 the company currently has five bonds outstanding – rating Baa2/BBB/BBB (Moody's/S&P/Fitch)[27] - amounting to $3.8bn.

Table 3. Bunge outstanding bonds. Source: Bloomberg - accessed 6 June 2023.

Bond	ISIN	Private placement	Issuing entity	Issue Date	Maturity	Currency	Amount Issued (USD)
BG 2 3/4 05/14/31	US120568BC39	N	Bunge Ltd Finance Corp	14-May-21	14-May-31	USD	1,000MM
BG 3 1/4 08/15/26	US120568AX84	N	Bunge Ltd Finance Corp	15-Aug-16	15-Aug-26	USD	700.00MM
BG 1.85 06/16/23	XS1405777316	N	Bunge Ltd Finance Corp	16-Jun-16	16-Jun-23	EUR	896.53MM
BG 1.63 08/17/25	US120568BB55	N	Bunge Ltd Finance Corp	17-Aug-20	17-Aug-25	USD	600.00MM
BG 3 3/4 09/25/27	US120568AZ33	N	Bunge Ltd Finance Corp	25-Sep-17	25-Sep-27	USD	600.00MM

[25] "Viterra Ltd – Rating Report", Fitch Ratings, 13 Oct 2022.
[26] "Agricultural commodity company sees € 4.1Bn of demand at guidance", GlobalCapital, 17 Sept 2021.
[27] "Fitch Revises Bunge's Outlook to Positive; Affirms IDR at 'BBB'", Fitch Ratings, 2 Dec 2022.

Implications for Viterra bondholders

The structure of the merger has now been confirmed, with Bunge acquiring Viterra and becoming its majority shareholder. Bunge will therefore assume all of Viterra's $9.8bn debt.[28]

According to Viterra's bond documentation, the issuer has a make-whole call. This is an optional redemption to cash out outstanding bonds so that Bunge would not have to take on the existing debt. As a consequence, there are two potential scenarios.

In the first scenario, Viterra exercises its option to accelerate its debt with bondholders receiving a repayment calculated according to the terms of the bonds. Make-whole calls typically exercise at the higher of par and the Net Present Value (NPV) of outstanding bond cashflows discounted at a specified spread, typically around 15% of the bond issuance spread.[29] Exercise of such a call generally creates a windfall for bondholders. Current Viterra bond prices compared to call levels are shown in Table 4. Such early repayment may already be accounted for in the deal's pricing.

Table 4. Viterra bond prices and make-whole levels. Source: Bloomberg, accessed 13 Jun 2023.

Bond	Currency	Price	Make-whole Spread (bp)	Make-whole Price
VITRRA 1 09/24/28	EUR	84.2	25	100.0
VITRRA 5 1/4 04/21/32	USD	92.7	40	107.4
VITRRA 0 3/8 09/24/25	EUR	91.1	20	100.0
VITRRA 3.2 04/21/31	USD	79.6	25	100.0
VITRRA 4.9 04/21/27	USD	96.5	35	101.9
VITRRA 2 04/21/26	USD	89.2	20	100.0

In the second scenario, Viterra does not exercise its early redemption option and bondholders can remain invested in the securities until they reach maturity. Bunge, as the majority shareholder of the combined entity, would be guarantor of all of Viterra's liabilities including publicly listed debt. Therefore, Viterra bondholders's credit risk would shift to Bunge's risk and there we would expect Viterra legacy debt spreads to price at the same level as Bunge's bonds.

Looking at current market prices, Viterra's bonds spreads have narrowed unevenly since the merger announcement. Euro-denominated VITRRA 1 09/24/28 and VITRRA 5 ¼ 04/21/32 bonds – tightened by respectively 64bps and 85bps. Narrower spread compression can be observed for short-dated USD-denominated bonds VITRRA 4.9 04/21/27(23bps) and VITRRA 2 04/21/26(24bps). In contrast, Bunge's bonds have shown minimal volatility, with spreads fluctuating in the range of -7 to 9bps.

Table 5. Viterra (LHS) and Bunge (RHS) spread movements between 24 May 2023 and 13 Jun 2023. Sources: AFII, Bloomberg.

Bond	Currency	Spread difference between 24/05/2023 and 13/06/2023 (bps)
VITRRA 1 09/24/28	EUR	-64
VITRRA 3.2 04/21/31	USD	-34
VITRRA 0 3/8 09/24/25	EUR	-30
VITRRA 5 1/4 04/21/32	USD	-85
VITRRA 4.9 04/21/27	USD	-23
VITRRA 2 04/21/26	USD	-24

Bond	Currency	Spread difference between 24/05/2023 and 13/06/2023 (bps)
BG 2 3/4 05/14/31	USD	9
BG 3 1/4 08/15/26	USD	-7
BG 1.63 08/17/25	USD	0
BG 3 3/4 09/25/27	USD	1

[28] "Bunge, Viterra will merge to form $34 billion agri-trading powerhouse", Reuters, 13 June 2023.
[29] "Setting the Optimal Make-Whole Premium", Powers, Eric and Sarkar, Sudipto, 8 Sep 2012.

Engagement opportunities for Bunge bondholders

Bunge has lined up debt financing, reportedly $7bn from SMBC, to fund the transaction.[1] Further capital will be needed both for the reported share repurchases, and also to repay €0.8bn debt which will mature later this month (BG 1.85% 26s ISIN XS1405777316). This significant capital expenditure indicates a likelihood of seeing bank-to-bond refinancing in the near term.

New bond issuance presents an opportunity for engagement by fixed income investors. Here it would present a significant chance for bond investors to exert their influence and encourage the company to improve on its deforestation strategy. One way for the company to embed those commitments could be issuance of sustainability-linked bonds associated with a deforestation KPI.[30]

The merger holds substantial implications for both Viterra and Bunge bondholders. Given the combined entity's sizeable deforestation footprint, any new issuance from the combined entity would present a significant opportunity for bond investors to influence the company.

Conclusion

This deal holds significant importance for the agricultural sector and deserves careful attention from financial market participants mindful of deforestation issues.

Lawmakers around the world are increasingly adopting regulations limiting sale of commodities linked to deforestation with substantial penalties for non-compliant companies.[31] As a result, companies deriving substantial revenue from soy operations, including Viterra and Bunge, pose a material risk to investors if not adopting stronger deforestation policies**. By combining into a single entity, engagement efforts should be simplified, and opportunities for such a significant player to lead best practice are present.**

Instances of mergers between private and public companies in the agricultural sector are relatively scarce, making the outcome of this deal particularly pertinent in terms of sustainability profile, disclosure, and commitments. Such considerations should be increasingly emphasised by banks involved in and providing commentary on M&A transactions**. In this situation, moving Viterra from private to public ownership has the potential to increase transparency and disclosure in an environmentally important sector.**

Ongoing financing from the consolidated entity offers a chance for debt investors to influence. **Investors providing new funding should make their financing conditional upon deforestation considerations**. For example, Sustainability-Linked Bonds with KPIs tied to deforestation commitments and or/targets can prove an attractive option for impact investors. If structured ambitiously,[32] they can offer investors a hedge in case the company is not able to align with regulatory requirements and subsequently experience financial losses.[33]

[30] For an example of such an SLB see "JBS: A meaty SLB impact proposal", AFII, 16 Aug 2022.
[31] The EU has been paving the way for such regulations and is likely to be followed by the UK and the US. See "Green Deal: EU agrees law to fight global deforestation and forest degradation driven by EU production and consumption", European Commission, 6 Dec 2022.
[32] This topic is discussed further in "Greenback SLBs: an impact standardisation proposal", AFII, 10 May 2023.
[33] As described in "Understanding dynamics between SLB and traditional debt", AFII, 26 Jan 2023.

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