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Integration Case Study:
Social integration at LG Chem

SOCIAL

2022

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LG Chem (LGCLF)

LG Chem

SOCIAL

Company Description

LG Chem is a chemical manufacturer. The company's products include petrochemicals, plastic resins, and engineering plastics. It also provides industrial and electronic materials. It is a global leading provider of electric vehicle batteries, therefore it falls into the investment universe of the Energy Transition strategy. Last year, the investment team conducted a thorough due diligence on the company as a potential portfolio candidate. On top of the acceleration of EV penetration globally, LG Chem also benefitted from its strong relationship with OEMs, unique geographical manufacturing footprint, and relative cheaper valuation versus peers at the time of consideration.

Social factors taken into consideration

The investment team identified several ESG red flags in relation to the company during the due diligence process. These red flags included a recent toxic gas leak in its Indian plant which claimed 11 lives and injured over 300 people, and indictment for allegedly manipulating emission measurements at its South Korean facility. It led to community protest demanding the closure of the plant and could result in operational disruptions. It was facing numerous regulatory fines in South Korea, China, India and the U.S. related to toxic gas release and breach of safety measures. These incidents cast doubt on the company's enforcement of its environment, health and safety regulations as well as management's integrity and oversight. In fact, the company did not have senior-level oversight to manage toxic emissions risks nor did it have any toxic emissions reduction target. Given the material risk associated with hazardous substance release for its business model and the absence of an environmental safety policy, these episodes could severally compromise the company's reputation and growth opportunities. The company has continued to lack provisions for audits of ethical compliance practices, appropriate governance oversight, and it continues to be involved in multiple business ethic controversies.

The company was downgraded by MSCI due to concerns related to the aforementioned controversies along with the presence of significant governance risks in the board and ownership structure.

The investment team engaged with the company regarding these issues but remained skeptical over the transparency on how these issues could be resolved and prevented in the future. The investment team therefore decided not to invest in the company despite its fundamental investment case.

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