Environmental Finance

Investors urged to steer carefully around autos following Mitsubishi scandal

Peter Cripps

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Investors were warned to be wary of the automobile sector after another major manufacturer was embroiled in an emissions scandal.

Mitsubishi Motors president Tetsuro Aikawa bowed in shame as he admitted that emissions testing data had been falsified for 625,000 cars in Japan.

The news, which bore strong echoes of the emissions rigging scandal that rocked Volkswagen (VW) last year, wiped 15%, or $1.2 billion off the company's share price today.

While VW's scandal shocked the industry because its environmental, social and governance (ESG) ratings were strong, Mitsubishi's ESG ratings tend to be lower.

VW was in the FTSE4Good Index, and the Dow Jones Sustainability Indexes (DJSI), and was later ejected from both. But Mitsubishi does not disclose to the CDP, and is not in the FTSE4Good or the DJSI.

"Mitsubishi Motors has a low ESG rating, as calculated by FTSE Russell, which is insufficient for membership of the FTSE4Good Index and it has never been a member of the Index," said a spokesperson for FTSE Russell.

Meanwhile Oekom scores Mitsubishi a D – just one step above its lowest rating of D-.

"In the Oekom Corporate Rating, the company has stood out for years because of its vast intransparency regarding sustainability issues," said Reinhold Windorfer, senior analyst at Oekom Research and expert in the automotive sector. "Due to the absence or inadequacy of this information, the company performs well below average. Recent events confirm the previous assessment of the sustainability performance of the company in the Oekom Corporate Ratings."

He said the impact on the rating is currently being examined, as is that of Nissan, which obtains cars from Mitsubishi and originally flagged the problem.

"Sustainalytics maintains a negative view of Mitsubishi Motors' management of product quality and safety issues, including its past involvement in controversies related to concealing vehicle defects," said a spokesperson for Sustainalytics. "Given the company's recent admission to manipulating fuel efficiency tests, we are currently reassessing their overall ESG average performer rating."

Arne Klug, automobile analyst at MSCI ESG Research, said Mitsubishi Motors is currently rated BB, having been upgraded from B in 2013.

Klug pointed out that Mitsubishi is "one of the few automobile companies to have adopted … quantitative targets to reduce … global fleet average emissions by 25% from 2005-2015 and 50% from 2005-2020."

Klug added that "the above target can be considered aggressive and challenging. The emissions manipulations case raises questions [about whether] the company decided to manipulate fuel efficiency tests since meeting the target would not be possible by legal fuel efficiency improvement measures."

Although there was no evidence of Mitsubishi manipulating fuel efficiency data in the past, Klug added, "it is well known that almost the entire auto industry fuel efficiency performance/ fleet emissions measured on the road often differs significantly from official numbers".

Some ESG experts advised investors to tread with caution when it comes to investing in the auto sector, fearing that there may be more scandals to come.

Stephen Hine, of Vigeo-Eiris, said: "It's important that investors should be asking questions of corporates in the sector. Is there enough oversight of these sorts of issues?"

He added that the problems with Mitsubishi currently only affect the Japanese market, but still have the potential to impact its reputation globally.

Philipp Aeby, CEO of RepRisk, said: "The car industry, overall, is associated with considerable ESG risks and it is difficult to say which company will possibly be affected next."

He added that Mitsubishi currently has a 'risk rating' of 54 on a scale of one to 100, in which 100 is riskiest. VW was upgraded from 63 before its scandal to 72 now. Daimler has one of the worst ratings in the sector at 65.

James Magness, head of investor research at CDP, suggested that the automobile sector needed to accelerate its movement away from the combustion engine into cleaner forms of power if it was going to hit increasingly stringent emissions targets without resorting to massaging the figures.

"If you are struggling to hit your fleet emission targets given that they are getting tighter over time, you may be more inclined to cut corners."

He said that VW, Fiat Chrysler, Hyundai, Tata and Suzuki were the worst performing of those that report to the CDP, according to its analysis of the sector.