Osaka Gas Co., Ltd. (9532)

Q&A at the Analysts' Meeting held on March 8, 2024, on the Medium-Term Management Plan 2026

Q1: Is there a plan to increase the total return ratio to meet the 8% ROE target for FY2027.3?

A1: The assumed ordinary profit level for FY2027.3 is estimated to be around 1600 billion to 170 billion yen.
To achieve ROE 8%, it is necessary to control our capital adequately. We will consider implementing share buybacks as effective means for that purpose.
Based on this assumption, we believe that the total return ratio will be higher than before.

Q2: What is the background behind the introduction of DOE and the rationale for the 3% level as the new shareholder return policy?

A2: DOE is an indicator based on shareholders' equity, while the payout ratio is based on single-year earnings.
Changing our dividend-determining indicator from the payout ratio to DOE will make it easier to have a dividend outlook despite the growing short-term fluctuations in profits in a rapidly changing business environment.
We believe that the introduction of DOE, as well as the progressive dividend policy, will boost shareholders' confidence in investing in Osaka Gas for the longer term.
Regarding the level of DOE, the rationale comes from the formula DOE = ROE x payout ratio, which is an approximate formula because, in our DOE calculation, accumulated other comprehensive income is excluded from shareholders' equity as the denominator.
Although our DOE is approx. 2.4%, calculated from the ROE target of 8% and the dividend payout ratio of 30%, which is the previous policy, we have decided on a DOE of 3% to strengthen shareholder returns.

Q3: Which businesses have the potential for ordinary income growth?

A3: In the Domestic Energy business, we aim to increase electricity sales by utilizing our expanded power generation capacity, with the Himeji Natural Gas Power Plant starting its operations in 2026.
Please note that earnings growth in the electricity business is expected to be limited around the final year of the new medium-term period. This is due to the depreciation of the Himeji power plant starting that year.
We also plan to increase profits through the renewal and expansion of LNG wholesale contracts for our bunkering business and other initiatives.
In the residential segment, profits are expected to increase after the current medium-term period when expenses were required for our telecommunications business.
In the International Energy business, while Sabine Oil & Gas expects to increase profits, the overall segment profits are expected to remain unchanged under the assumption of yen appreciation and a deteriorating electricity market situation in the USA.
In the LBS business, we expect steady growth in the real estate, materials, and IT businesses.

Q4: What is the difference in level between the ROIC targets by segment and the current situation?

A4: Comparing the single-year figures, it is difficult to identify the effects of ROIC improvement measures

because those effects are exceeded by the impact of temporary factors. The following is a supplement to the ROIC forecast for each segment.

The FY2024.3 ROIC forecast for Domestic Energy is 3 to 4%, a similar level to FY2022.3., a year before the Freeport plant was shut down. ROIC is expected to improve to 4% during the new medium-term period.

In the International Energy segment, FY2024.3 ROIC is expected to be about 8.6%, a similar level to FY2023.3. ROIC is expected to fall to 7% in FY2027.3 under the assumption of yen appreciation and a deteriorating capacity market situation in the USA.

In LBS segment, ROIC for FY2024.3 is expected to be about 5.6%, a similar level to FY2023.3.

ROIC for each LBS business is expected to improve during the new medium-term period. However, as we expect growth in the real estate business, which has a relatively low-profit margin, ROIC for the LBS segment as a whole is expected to remain almost unchanged at 5.5%.

Q5: What are the definitions of “10 million tons of avoided emissions” and “5 million tons of CO2 emissions reduction in the Daigas Group” as the FY2031.3 targets?

A5: An example of avoided emissions is to launch a highly efficient LNG-fired power plant. Introducing such a power plant is considered a significant CO2 emission reduction by replacing a coal-fired power plant, which emits a large amount of CO2. This emissions reduction effect is counted as avoided emissions.

Similarly, the emissions reduction effect of installing high-efficiency gas equipment is also considered to be avoided emissions.

The FY2024.3 avoided emissions are estimated to be 4.83 million tons/year, which demonstrates that we are making steady progress towards the targets of 7 million tons/year for FY2027.3 and 10 million tons/year for FY2031.3.

As the target of CO2 emissions reduction in the Daigas Group, we aim to reduce the Group's total of Scopes 1, 2, and 3 emissions under the GHG Protocol compared to FY2018.3.

Although launching the state-of-the-art LNG-fired power plant will reduce society-wide CO2 emissions, it will also increase our CO2 emissions in Scope 1. This impact is included in our target of 5 million-ton emissions reduction.