Osaka Gas Co., Ltd. (9532)

Q&A at the Analysts' Meeting for the fiscal year ended March 31, 2022 (Held on April 27, 2022)

Q1: Given the renewed importance of LNG for energy security, what is the Daigas Group's stance on further development of the International Energy Business, particularly in North America?

A1: Amid fears of a global LNG shortage due to Europe's shift away from energy dependence on Russia, the development of LNG terminals and gas fields is booming in North America. Our International Energy business is also expanding its proportion among our core businesses, as seen in the results for FY22.3. Sabine Oil & Gas, our shale gas company in North America, is steadily advancing gas development in a large area of acreage they own. In addition, we are considering ways to boost our revenue in alliance with several developers of solar power generation, which is the driving force behind the expansion of renewable energy in North America.

Q2: I would like to ask about the capital and business alliance with West HD, which was announced yesterday. Is it related to the Daigas Group's ROIC-focused management?

A2: We have been procuring renewable energy from West HD even before the announcement, and we have decided to form an alliance in light of the high synergy potential between the two companies. West HD has strong capabilities in small- and medium-sized solar development, while Osaka Gas has marketer capabilities to sell electricity while adjusting supply and demand. It has always been a win-win situation, and by forming a capital and business alliance, we intend to solidify this relationship further, as it is crucial for us to procure electricity from solar power sources. We pursue strengthening our partnerships rather than relying solely on equity capital, which is in line with our ROIC-focused management.

Q3: With procurement costs rising, what kind of efforts is the Daigas Group making in procuring raw materials and fuels for its electricity and gas businesses?

A3: Even with the procurement volatility growing, we have not changed the company's stance of stably procuring sufficient LNG and electricity to meet demand. The majority of our LNG contracts are on a long-term basis, and the majority of our electricity supply is based on our in-house power sources and medium- to long-term OTC contracts. Recently, we have seen a growing gap between our actual demand and medium- to long-term demand forecasts due to factors such as the competition that has intensified since the markets were fully deregulated. In order to maintain the balance between supply and demand, we generally adjust the LNG supply at the beginning of the fiscal year and either increase or decrease the OTC electricity contracts. If supply is still insufficient, we may use short-term transactions to fill the remaining gap.

We recognize that supply and demand for both LNG and electricity are very tight at the moment. Since the second half of last fiscal year, the prices of raw materials have remained high, and we expect to incur some costs in preparation for the high demand season.

Q4: I would like to know more about the "Impact of separating gas pipeline business" in the increase/decrease breakdown of the Domestic Energy business. Is this a one-time cost related to the legal separation?

A4: The amount shown as "Impact of separating gas pipeline business" is not a one-time cost, but a gas transportation service revenue. The amount of the revenue from gas transportation service, which was previously recorded by Osaka Gas, will be recorded by the Osaka Gas Network from FY23.3 due to the legal spin-off of gas pipeline business.

Since "Gross profit of gas business" shows the profit of Osaka Gas, the revenue from gas transportation service will be transferred to "Others," which also includes other cost increases.

Q5: What are your views on the Daigas Group's carbon neutrality efforts over the past year or two?

A5: The amount of our contribution to CO2 emissions reduction in FY 22.3 amounted to nearly 1 million tons on a preliminary reporting basis, and we believe that our efforts are proving to be very effective. In the transition period to a carbon neutral society, the role of natural gas is extremely important. Implementing the ROIC-focused management, we are increasing our renewable energy off-take and expanding renewable energy sources while making the most of silent partnership investments. We also continue developing renewables with partners, receiving support from a fund company called Z Energy, which we founded last year. Our renewables development contribution has reached approximately 1.4 GW, with several power sources that are scheduled to be put into operation in the near future. While monetizing these projects, we will continue pursuing carbon neutrality as our very long-term initiative, receiving support from the government.

Q6: What is the future position of the LNG business in Australia?

A6: We have stakes in two projects in production, Ichthys and Gorgon, in Australia, and we are seeking new opportunities to participate in other promising projects in the country.