Osaka Gas Co., Ltd. (9532)

Q&A at the Analysts' Meeting held on July 31, 2023, on the financial results for the 1st quarter of fiscal year ended March 31, 2024 (FY24.3)

Q1: In the electricity business, profits increased more than the extent of the improved time-lag impact. What are the factors behind this profit increase, and how does that affect the full-year forecast?

A1: The electricity business saw an increase in profits from sales in the reserve market, where transmission and distribution companies procure the necessary electricity to maintain the balance between power generation and consumption in the market, which is indicated by the electricity grid frequency. In a reserve market, the demand varies depending on the season and climate, and the price rises when demand exceeds reserves. In 1Q, our sales volume increased in a tertiary reserve market, which requires a response within 15 minutes. We expect only limited profit growth in this operation for 2Q onwards and, therefore, a little contribution to the full year profit growth.

Q 2: Ordinary profit exceeded 80 billion yen. Is that in line with the full-year plan? Please provide the assessment by segment.

A2: In the International Energy business and Life & Business Solutions business segments, ordinary profits were largely within the expected range. In the Domestic Energy business segment, while the electricity business increased profits from sales in the reserve market, the gas business profit fell slightly short of the plan due to the lower-than-expected JLC. In total, the overall performance resulted as planned.

Q3: Gas sales were down 7.7% in 1Q from the previous year. What are the factors behind this -7.7% result in 1Q, which is much larger than the 1.0% year-on-year decline in the full year forecast?

A3: In the residential and the commercial and industrial (C&I) sectors, gas sales decreased from the last year, which is largely within the expected range. In the C&I sector, some customers executed their planned operation reduction, which resulted in a gas consumption decrease of about 70 million m^3, and other customers reduced their facility operations mainly due to the slow economy in the quarter. The residential gas consumption declined due to the following factors: the absence of the demand increase as we had under the COVID-19 pandemic in the last fiscal year, the increased market penetration of high-efficiency gas equipment, and warm weather in early spring.

Q4: The Freeport LNG liquefaction facility resumed operations. How did that affect the 1Q performance?

A4: Due to Freeport LNG’s operation resumption, the Domestic Energy business profit increased by 31.4 billion yen, recovering from the losses in 1Q of the previous year, when we incurred a 31.4-billion-yen loss due to Freeport LNG’s plant shutdown. Meanwhile, the International Energy business still suffered a several-billion-yen-scale loss in the income we would have gained as an equity holder due to Freeport LNG’s plant shutdown during this January-March period, as reported under the January-December accounting system in the US. Combining the Domestic Energy and International Energy businesses, the total Freeport impact on profits amounted to a net increase of about 25 billion yen in 1Q year on year. While still repairing tanks and berths to secure redundancy, Freeport LNG has had all three LNG liquefaction trains in operation, and we have received LNG from Freeport in the planned volume as scheduled.

Q5: TSE has requested companies with PBR below 1 to take improvement measures. What is the progress of the board and internal discussions on the request and financial strategy in response to it?

A5: We have intensified our efforts to identify PBR improvement measures as we are formulating our new Medium-Term Management Plan for the period starting from the next fiscal year. We are considering business management with a greater emphasis on ROE and exploring relevant targets, such as the level of shareholders' equity necessary for our business' sound growth. Our financial strategy for fiscal 2024 and beyond and other key subjects are being discussed at the Management Advisory Committee, including outside directors, corporate auditors, the company president, the Corporate Planning Headquarters president, and the general manager of the Corporate Strategy Department.