

Osaka Gas Co., Ltd. (9532)

Q&A at the Analysts' Meeting held on May 9, 2024, on the financial results for fiscal year ended March 31, 2024 (FY24.3)

Q1: What are the reasons behind 20 billion yen as the maximum share buyback amount for the first half of FY25.3?

Are there any share buyback plans for the second half?

A1: We aim to achieve the ROE target of 8% in FY27.3 through profit enhancement and shareholders' equity control. We believe that repurchasing own shares of 20 billion yen in the first half of FY25.3 will contribute to the goal. Currently, there is no specific plan for share buybacks for the second half. We will make a decision flexibly in light of relevant factors.

Q2: What is the outlook for OGUSA's future business environment surrounding the operations of Freeport LNG liquefaction, Sabine Oil & Gas' shale gas, and electricity businesses?

A2: As of today, Freeport LNG's liquefaction operations are partly suspended due to the work to prevent future disruptions, as reported.* We believe that Freeport will be able to achieve stable operations in the near future as Osaka Gas and JERA, minor shareholders, are supporting the restoration work together by providing know-how to Freeport LNG, and strict safety checks will be conducted by FERC, the US regulatory authority.

Regarding Sabine Oil & Gas, its shale gas production was reduced in FY24.3 due to the low HH price, a benchmark for local gas prices. As the HH price has slightly increased recently, we are adjusting Sabine's production while monitoring market conditions. We aim to increase profits in the near future.

Our electricity business in the US achieved a profit increase in FY24.3, mainly due to the favorable market conditions and the start of renewables operations. We are planning to implement asset replacement.

* As of May 15, all three liquefaction trains are in operation, while some tanks are still being repaired.

Q3: In the International Energy segment, there has been an announcement on investments in the gas business in India. What are the company's business strategies for India and other Asian markets?

A3: Investing in the gas business in India, a country with rapid economic growth, was first considered around 2020, following our entries into Southeast Asian markets which we started with Singapore. In India, we have an eight-year exclusive sales monopoly and own gas business assets exclusively. We procure domestically produced natural gas from the government and supply gas for transportation use and to industrial and residential customers through the gas pipelines we have laid and other means. This is the first opportunity for us to fully engage in a gas distribution business outside of Japan. We dispatched one of our associate officers to the office in India this fiscal year. We intend to continue enhancing our efforts in the country.

Q4: The projected ROIC for FY25.3 is 4.7%. What are the ROIC forecasts for each segment?

A4: The projected ROIC for the Domestic Energy segment is 2.8%, International Energy 7.7%, and LBS 5.4%.

Q5: As mentioned in the answer to Q4, ROIC for Domestic Energy is low. What are the plans to improve ROIC?

A5: As stated in the Medium-Term Management Plan, we expect a profit increase from the renewal and expansion of LNG wholesale contracts.

In the electricity business in Japan, it will be challenging to improve ROIC until 2026 due to significant investment inflating the balance sheet to complete the ongoing construction of the Himeji power plant, currently under construction. Once the plant's operation begins in 2026, depreciation will start, reducing the size of the balance sheet, and the highly efficient power plant in Himeji will increase our profits, which is expected to contribute to ROIC improvement.

Q6: Osaka Gas has announced that it won the long-term decarbonization auction. What is the position of the Himeji natural gas-fired power plant Unit 3 in the company's business strategy?

A6: We decided to participate in the auction based on our study's result, which indicated that winning the auction would secure the profitability of our electricity business. Prior to our decision to construct Units 1 and 2, the environmental assessment of the Himeji power plant was conducted under the assumption that the plant would be built up to Unit 3.

We intend to continue responding to various electricity needs by operating natural gas-fired power plants. Securing power supply capacity will remain crucial as electricity demand grows in multiple sectors, such as data centers, while coal-fired power plants and other aging power sources phase out. As the power generation capacity of renewables, which are variable power sources, increase, gas-fired power plants will continue playing an important role as excellent dispatchable power sources.

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