

Osaka Gas Co., Ltd. (9532)

Q&A at the Analysts' Meeting held on July 29, 2024, on the financial results for the 1st quarter of fiscal year ended March 31, 2025 (FY25.3)

Q1: What is the status of the progress in the International Energy segment, especially concerning the US power business and the Freeport LNG?

A1: The progress has generally met our expectations. The US gas-fired power business remains strong. Although we do not identify any specific direction for future market conditions at the moment, we will continue monitoring developments closely.

Freeport LNG suspended its operations in July as planned due to a hurricane. Following this, the company is expected to resume the three-train operation shortly. In January 2024, Freeport LNG experienced an issue with one of its trains. They addressed the issue with appropriate measures, including the inspections of all three trains during a partial shutdown until May.

Q 2: What is the reason behind the 8% decline year-on-year of the gas sales volume in the residential segment?

A2: The decline is primarily attributed to the higher average temperature in April, which was 1.9°C higher than the previous year in Osaka. In a typical year, households still require heating in April following the winter season. However, due to the unusually warm weather, households reduced their gas usage for heating, significantly impacting the gas sales volume.

Q3: The profit of the "Other" category in the Domestic Energy segment decreased by 13.9 billion yen compared to the previous year, which accounts for a major portion of the 16.1 billion yen year-on-year decrease forecast for the FY25.3 full year. What are the factors behind this significant decline in the first quarter?

A3: Our subsidiary, Osaka Gas International Transport Co., Ltd., experienced a 4.9 billion yen decrease in profit compared to the previous year. This is attributed to the increased charter rates caused by the necessity to transport LNG around the Cape of Good Hope due to the drought in the Panama Canal. Although the Panama Canal's impact has lasted longer than expected, the water level in the canal is expected to normalize shortly as they enter the rainy season. In the meantime, we will continue monitoring the situation closely.

Additionally, our LNG sales profit decreased due to reduced sales volume and profit margin. In the previous fiscal year (FY24.3), we profited from selling LNG at opportune times from the surplus inventory we held to cope with the uncertainty in the Freeport LNG's operation status. Furthermore, there was a decline in the time-lag profit related to our gas and electricity businesses during this first quarter, which similarly affected our LNG.

Q4: Regarding the sensitivity to the exchange rate on page 21 of the presentation material, how does the exchange rate fluctuation affect the performance of the Domestic Energy segment and International Energy segment?

A4: In the Domestic Energy segment, the profit will decrease when the yen weakens, mainly due to the time-lag effect. The depreciation of the yen increases our cost of LNG procurement. As a result, our profit decreases in three to five months due to the time lag in reflecting the change in the price of LNG we purchase on the gas tariff for our customers under the gas cost adjustment system.

In the International Energy segment, the profit will increase when the yen weakens for the simple reason of converting the profit figure from dollar to yen in accordance with the exchange rate.

Q5: Regarding the International Energy segment's sensitivity to the foreign exchange rate, my calculation indicates that a one yen change in the exchange rate will result in an annual profit fluctuation of approximately 500 million yen. It is based on this fiscal year's profit forecast of 500 million dollars, which is calculated using the assumed exchange rate of 145 yen per dollar and the full-year profit forecast for the International Energy segment of 72.5 billion yen. Does this align with the company's perspective?

A5: Your assumption is generally correct, and the International Energy segment's sensitivity to foreign exchange of 500 million yen aligns closely with our company's assumption.

Q6: The shareholders' equity increased in the first quarter. What is the company's strategy to achieve the target of an 8% ROE?

A6: To achieve the target, we aim to expand profits by primarily focusing on the US shale gas, LNG sales, and Himeji power plant. In the US upstream business, we are steadily increasing shale gas production. In the LNG sales, we are working to improve our LNG sales contracts to achieve increased profits during this medium-term. With the Himeji gas-fired power plant scheduled to start commercial operation in 2026, we plan to take measures to increase power sales volume throughout this medium term, as we did in this first quarter. Difficulty in income growth is expected in FY2026, the final year of the current medium term, due to a significant depreciation expense on the newly built power plant in Himeji. Nevertheless, we aim to achieve our goal through our continuous efforts to be the customer's first choice.

Our shareholders' equity, the denominator of ROE, increased in the first quarter mainly due to the impact of the foreign currency translation adjustment and the deferred gains on hedges. As stated in our medium-term management plan, we will continue controlling the ROE level appropriately from a medium- to long-term perspective.

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