Japan Petroleum Exploration Co., Ltd. (JAPEX)
Securities Code: 1662 (Prime Market of the Tokyo Stock Exchange)
Summary of Q&A Session in Briefing on Results for the Nine Months Ended December 31, 2022
to Institutional Investors and Analysts

Date and time: Monday, February 13, 2023, 11:00–12:00 (web conference)
Attendance: 49 attendees (institutional investors and analysts)
Key Questions and Answers:

Q1: Please let us know the factors behind the increase in profit for your domestic E&P business compared to the previous forecast.

A1: We expect operating profit from the domestic E&P Business to increase by ¥4.0 billion from the previous forecast of ¥36.7 billion to ¥40.8 billion. The factors include a higher sales price average, which will result in a ¥1.0 billion increase in profit from domestic crude oil sales and a ¥4.0 billion increase in profit from domestic natural gas sales, and higher costs associated mainly with domestic exploration, which will result in a ¥1.0 billion decrease in profit

Q2: Please explain the impact of the spot LNG price hike on your business performance and the revised amount of marginal gain on LNG procurement in the Infrastructure/Utility Business.

A2: Due to the rise in JLC price caused by the spot LNG price hike, we expect profits from the domestic E&P Business and the Infrastructure/Utility Business to increases about ¥4.0 billion and ¥7.5 billion, respectively, compared to the previous forecast.

In the financial results briefing last November, we assumed that the persistently high LNG spot price would boost JLC price by about ¥20,000/t. However, the price at this moment is actually even higher, up by a range of ¥20,000/t to ¥30,000/t. As a result, the sales price average for domestic natural gas has exceeded the previous forecast by about ¥10 /m^3 in the 3Q results and ¥20/m^3 in the 4Q forecast. This contributes to the ¥4.0 billion increase in profit (as answered in A1 above).

The Infrastructure/Utility Business is expected to increase profit by ¥12.6 billion from the previous forecast, with an increase of about ¥7.5 billion in marginal gain on LNG procurement due to the upward swing in JLC price and the absence of a contingency reserve for spot LNG procurement of about ¥5.0 billion.

Q3: What is your outlook for spot LNG prices and marginal gain on LNG procurement in the next fiscal year?

A3: For LNG procurement in the next fiscal year, we plan to avoid spot procurement as much as possible and instead procure LNG stably through the term contracts mostly linked to oil price. The JKM price, which once soared to about $70/mmbtu, has most recently subsided to about $16/mmbtu. Although we anticipate a certain amount of marginal gain on LNG procurement in the next fiscal year, we can hardly expect the large marginal gain that we saw in the current fiscal year.

Q4: What is your policy for future use of cash and deposits to improve capital efficiency?

A4: The balance of cash and deposits at the end of the current fiscal year is expected to reach roughly ¥170.0 billion. We consider it a top priority to expand our business portfolio through continued investment. Going forward, we will see a significant increase in our total investment. Specifically, during the current fiscal year, we will spend about ¥36.0 billion to purchase non-current assets. During the next fiscal year, we plan to spend about ¥5.0 billion to purchase investment securities related to renewable energy on top of ¥60.0 billion to be spent on non-current assets. Since some projects are in progress, the cash position will be substantially reduced over the next fiscal year. So, we will examine to what extent cash will be allocated to shareholder returns in light of the next fiscal year's business performance and cash flow forecasts.

Q5: Could you elaborate on the progress of the tight oil development project in the United States and the Seagull Project?

A5: The tight oil development project in the United States is progressing largely as planned. The investment will total approximately US$500 million for the three years from 2022 to 2024. Production will likely be around 850,000 barrels for this fiscal year, with operating profit of approximately ¥4.0 billion. We expect operating profit of approximately ¥10.0 billion for the next fiscal year on a WTI $70/bbl basis.

The Seagull Project in the U.K. North Sea is still under consideration for the initial production volume and other factors, but production is anticipated to start during the first half of this year to the middle of the year. Although operating profit is expected to reach several billion yen, the contribution to net income should be smaller than previously estimated due to the impact of the windfall profit tax in the U.K.

Q6: I would like you to elaborate on the absence of the additional cost to provide for possible spot LNG procurement, including the background of your decision. Also, please tell us if there is a risk of similar incidents occurring in the future.

A6: Because of the possible spot LNG procurement due to the force majeure declaration of the LNG Dua project in Malaysia, we factored in an additional procurement cost of ¥5.0 billion as a contingency reserve to prepare our previous financial forecast. However, after that, various efforts were implemented on the supply side, and we also managed to better schedule and utilize vessels. These efforts almost eliminated the possibility of spot procurement; therefore, we have removed this cost from our revised forecast.

Based on our basic policy for LNG procurement of avoiding excessive exposure to any particular source, we procure LNG from various sources. Even if a similar incident were to occur, additional spot procurement could be avoided by combining certain measures, including the efficient scheduling and utilization of vessels, so we have no major concerns at this moment.

Q7: Please let us know if there are any updates on SODECO.

A7: SODECO was approved by the Russian government to assume an equity in a Russian corporation (LLC), a new business entity, on November 9. SODECO is holding various discussions on and making adjustments to the future operation of the project.

Q8: As for electricity sales, please tell us about any possible impact on the next fiscal year's business performance due to factors such as changes in clients to whom electricity is sold.

A8: The majority of our electricity sales are based on long-term bilateral contracts. Although some sales are made under short-term bilateral contracts or made in the market at JEPX, the impact on our bottom line is limited.

Q9: If profits decline in fiscal 2023, is there a possibility that the dividend will be reduced in line with the 30% payout ratio policy?

A9: We believe that a payout ratio of 30% will be a baseline. Given some changing factors such as the JLC price trend, we will consider dividends for the next fiscal year in light of our business performance and cash flow forecast.

Q10: Are there any restrictions on the implementation of share buybacks and cancellations in the future?

A10: Although there are no explicit restrictions on share buybacks, we will make a comprehensive judgment, including the impact on the shareholding ratios of major shareholders.

Q11: With regard to the new management plan, please describe your financial targets for fiscal 2026, other than an ROE of 5%, including the equity ratio and DE ratio, along with your approach to setting targets.

A11: With the equity ratio increasing, we recognize how to consider that situation as an issue to be addressed in the future. From our past business investments and other factors, we believe that any situation of excessive debt should be avoided. We aim to achieve our ROE target by maintaining financial soundness and, most importantly, expanding our business earnings.

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