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 Six Months Ended September 30, 2024 to Institutional Investors and Analysts

Date and time: Thursday, November 14, 2024, 11:00–12:02 (both offline and online)
Attendance: 39 attendees (institutional investors and analysts)
Main Questions and Answers:

Q1: What is your revenue forecast for the U.S. tight oil development project in fiscal 2025 and 2026?

A1: Assuming that oil prices remain at the same level as in fiscal 2024, we expect profit levels in fiscal 2025 to be about the same as in this fiscal year. For fiscal 2026, we anticipate profits to be slightly lower than this fiscal year.

Q2: What is your reasoning behind deciding to sell investment securities?

A2: The current balance of cash and deposits has decreased as investments for growth have progressed. The balance of cash and deposits at the end of September was ¥113.0 billion. However, excluding ¥18.0 billion in short-term borrowings and ¥10.0 billion in commercial paper outstanding, the net cash balance was ¥85.0 billion, of which ¥50.0 billion was held by overseas subsidiaries as funds to make investments. As it is becoming increasingly difficult to obtain indirect financing, we aim to maintain around $300 million in cash to enable swift investment decision-making for future M&A opportunities in Norway and North America. For this purpose, we have decided to proceed with a partial sale of investment securities of this scale. The investment securities not sold at this time will continue to be held, but the Board of Directors will continue to review the appropriateness of retaining them.

Q3: You mentioned that investments for growth are progressing steadily, but your portfolio consists of a mix of highly profitable projects that only contribute in the short term, combined with projects that contribute to long-term earnings but have low capital efficiency. How do you plan to balance these in your pursuit of core assets?

A3: It is difficult to find affordable projects with high capital efficiency. Whether in the E&P or non-E&P business, we want to build our core assets with the mindset of adding value to acquired projects, either by developing a business portfolio in the region after acquisition or by pursuing synergies with adjacent businesses.

Q4: The cash inflow from the sale of investment securities will be quite large. Was there any internal discussion about allocation for shareholder returns?

A4: The decision to sell investment securities was based on the need to secure cash on hand of about $300 million that can be moved quickly, but we are not saying that none of it will be returned to shareholders. We will consider additional shareholder returns if we judge that we have excess cash and equity, taking into account the progress of investments for growth, the balance sheet, and the external environment including financing.

Q5: Are any of your projects in the CN field expected to contribute to financial results at an early stage?

A5: As all of the projects are still in the investigation stage, we plan to give them equal priority and work diligently on each one. Three consortiums led by JAPEX have been selected by the government as advanced CCS projects, and we hope to make an investment decision around fiscal 2026 so that we can start operation around fiscal 2030. This will require significant public support for large-scale investments, and we are making requests to the government as part of ongoing discussions regarding the construction of a support system. Similarly, we recognize that policy support is also essential for the development of ammonia supply bases, and given the uncertainty regarding investment returns, we believe we cannot make large-scale upfront investments in CN projects at this time.

Q6: Please tell us about the progress of your Norwegian business.

A6: We recognize that there is significant potential for new projects in Norway and that the country's E&P business environment is favorable. However, we will refrain from providing specific details about our project development status at this time. As our Norwegian business development includes both discovered but undeveloped projects and exploration assets, we expect the lead times in this portfolio to be slightly longer than those of our U.S. shale oil projects.

Q7: What are the estimated profits for the Freeport LNG Project in Texas, U.S.A., for this fiscal year and next fiscal year?

A7: For this fiscal year, we expect equity method profit of ¥1.6 billion, unchanged from the forecast announced in August. As for fiscal 2025, we do not yet have precise information available to share.

Q8: With PBR trending low at 0.5x, do you have any plans to strengthen shareholder returns?

A8: We have not ruled out allocating proceeds from the sale of investment securities to shareholder returns. However, given the increasing difficulty in procuring timely investment funds, we need capital to prepare for M&A and other opportunities. At the same time, we are aware of the market's view that a dividend payout ratio of 30% is insufficient, and we may revise our dividend policy when we have built a portfolio that can be expected to make a sustainable contribution to profits, or when other opportunities arise.

Q9: Is the difficulty in securing funds in a timely manner limited to the E&P business? Or is there a lack of understanding among indirect financiers regarding the entire fossil fuel supply chain?

A9: It is not limited to the E&P business. All loans to the E&P sector are counted as financed emissions, which means that financing is limited for us as an E&P sector business. However, this does not mean that indirect financing is completely unavailable. Gas-related projects, such as the Freeport LNG Project, or projects that contribute to the energy transition, are more likely to be eligible for financing. If we can clearly organize and explain the significance of a project toward achieving a decarbonized and carbon-neutral society, there is a possibility of securing financing. However, even in such cases, it is expected to take a considerable amount of time, making it difficult to procure funds in a timely manner.

Q10: Please explain the reason for the increase in investments for growth, which are now forecast to exceed the ¥275.0 billion figure announced in the management plan for the three years starting from fiscal 2022.

A10: We had the opportunity to participate in projects that exceeded our investment decision criteria, and at the same time, oil prices were stronger than expected in fiscal 2022 and 2023, resulting in cash inflows that were higher than anticipated when the management plan was formulated. These two factors combined allowed us to invest more than we had expected. In the Infrastructure and Utilities (I/U) field, our investment in the Freeport LNG Project was also a factor in this, as it involved a significant amount for a single project.

Q11: What are your thoughts on the development of additional power sources, including thermal power, given the expected increase in domestic electricity demand?

A11: We have not ruled out the possibility of natural gas-fired power generation with CCS, but there is nothing concrete we can say at this time. In the electric power business, we intend to accumulate knowledge that will enable us to generate revenue from multiple sources, such as the wholesale electricity market, the capacity market, and the supply and demand adjustment market. As one step toward this, we announced in August that we have entered into the grid-scale battery business. In the future, we are also considering taking on the role of an aggregator.

Q12: Do you intend to use leverage when managing assets in the future?

A12: In the I/U business, we often utilize off-balance sheet debt via project financing. In the E&P business, although it is primarily equity-based, we may consider utilizing debt financing, to the extent possible and depending on the interest rate environment, for projects expected to generate stable cash flow, as well as for the Freeport LNG Project, which was acquired with equity. Overall, we do not intend to rely on excessive debt but will use leveraged investment as appropriate. In the E&P field, it has become difficult to obtain funds from indirect financing, so in some cases, we may utilize direct financing such as corporate bonds.

Cautionary Statement

This document contains future outlooks such as plans, forecasts, strategies, and others which are not historical fact and these are made by the management's judgement based on the obtainable information at the time of the disclosure. Actual results may significantly differ from those future outlooks due to various factors.

This document is not intended to invite investment.