

# **INPEX Corporation (IPXHY) Q2 2024 Earnings Call Transcript**

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**Body**

INPEX Corporation (IPXHY)

Q2 2024 Results Conference Call

August 8, 2024 12:30 AM ET

Company Participants

Takayuki Ueda - Chief Executive Officer, Director, President

Daisuke Yamada - Director and Senior Managing Executive Officer

Toshiaki Takimoto - Director and Senior Managing Executive Officer

Presentation

Unidentified Company Representative

We would now like to start the earnings briefing session of INPEX Corporation. I thank you, everyone, for gathering today despite your busy schedules as well as despite the hot weather. My name is Wakita, from -- General Manager of the Corporate Communications unit, and I had a pleasure of serving as the facilitator for this meeting.

Please allow me to introduce the speakers Mr. Takayuki Ueda, representative Director, President and CEO; and Mr. Daisuke Yamada, Director and Senior Managing Executive Officer; and Mr. Toshiaki Takimoto, Director and Senior Managing Executive Officer. Thank you.

As for the program for today, we'll spend about 30 minutes for the presentations and scheduling 30 minutes for Q&A. The meeting today will be held in a hybrid manner with online participation with simultaneous interpretation provided in Japanese and English. For those attending through Zoom, please select the language of your choice. For the presentation material, you can make a selection use in the bottom at the top of the screen.

Mr. Ueda will first explain about our business overview and about the progress update sustainable growth of corporate value. And Mr. Yamada then will explain about the consolidated financial results and consolidated financial forecast. So over to you, Mr. Ueda.

Takayuki Ueda

My name is Ueda, President and CEO of INPEX Corporation. Thank you very much for gathering and attending the meeting today. So allow me to start by giving you the business overview. And most important message that I want to communicate to you today is shown on this page. And so today, we are announcing the half year results.

And from January to June, the 6 months, the earnings result, we were blessed with a stable oil price and weak yen significant progress in the depreciation of the yen. And so we were able to reach this JPY12.5 billion of the interim profit attributable owners of parent. But you can see on the slide, the first half, the average Brent oil price was $83.4 per barrel exchange rate, did actually reach JPY160 at a time, but on average, it was JPY152.4. So in that regard, we did not experience any major problem. And so we saw quite a steady progress in the first half of the year. But from July onwards and after the first half of the year, but particularly the last week or so, the significant decline in the stock market or increase or the FX fluctuations and the decrease in the oil price.

And so over the last several weeks, significant change took place both in Japan and overseas. As a consequence, the share price of INPEX Corporation also came down quite significantly. So for the January to June, we were able to achieve quite a stable operation, achieving earnings, but you concerns would be given the volatile the situation or price coming down with the exchange rate movement. How is INPEX? Is INPEX okay? That is probably what you are thinking.

And so in that regard, when we give you the full year forecast, we have decided to incorporate this situation. And so for the net income, a full year, the forecast is JPY360 billion. But I would like for you to look at the assumptions shown below for Brent oil price and $76.6 per barrel would be the average for the second half of year. $83 was for the first half of the year. But for the second half of the year, $76.

Today, I came back to about $78 but it was about $76 just recently. So if we are assuming that oil price of this level would continue. The other -- the next is the exchange rate, JPY152 per dollar for the first half of the year. And just a few weeks ago, more than JPY160 of the yen depreciation. But for the exchange rate, we decided to use an assumption of JPY143.6 per dollar.

And so today, about JPY146. So coming back a little bit, but that is the assumption that we made for the second half of the year. Now given the significant changes in the environment, if we make that as a basis, how will we perform in the second half of the year? And that is what we wanted to share with you. And that is the objective of the full year forecast.

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And as you can see here, the JPY360 billion of profit attributable to owners of parents and last year was about JPY320 billion based on IFRS. But about a week ago, low oil price or the FX situation, even with that, we are still able to generate profit in excess of the level last year. And that is what we wanted to communicate to you.

So you may be thinking is the impact is okay. Well, of course, the oil price and FX, they do move up and down. So it's difficult to say. But the significant volatile situation over the last year or 2, even if that situation continue for the entire second half of the year, our earnings will be is still okay.

In fact, we should be able to exceed the level from last year. And that's the message and what I wanted to communicate to you. As for the returns, based on these assumptions and towards the current market we wanted to communicate certain convincing the message. And for dividend, JPY86 per share and 50% each in the first and second half of the year and JPY86 for the full year, that's a JPY12 increase year-on-year.

As for buyback, in the first half of the year, we did JPY50 billion and JPY80 billion additional, so a total of JPY130 billion of share buyback. And so JPY235 billion of the returns in total. So we are able to make this level of returns based on the assumption, and that is what we have come up with in terms of numbers.

And so that's the situation concerning our interim results as well as the forecast for the full year. So in a word, impact is okay. And that is what I wanted to communicate today. And that is the most important message, but I would like to give you some update regarding progress on a number of projects.

And if you go to the next page and for the oil and gas area, we have one unfortunate situation, which we have explained at the press briefing. We did experience a little bit of a production loss. And so 1 LNG train, we did experience some function in the facility. And so we are continuing with production using the train with reduced production level. And in October, there is a short-term shutdown scheduled.

And at that point in time, we will actually address this issue and we'll return to full production, the post that chat down. But we did have that type of trouble, and that is what I wanted to report to you. First half of the year, everything was quite steady. And we ended up with production volume in excess of our initial assumptions, but we did experience that trouble. And that is what we wanted to report to you.

For Abu Dhabi, we are continuing to increase capacity and for others here. So we have separated the domestic business, Australian would not be conducted by subsidiary, but we wanted to improve the efficiency of domestic business, and so we split out the domestic business. And we created a subsidiary called INPEX Japan as of first of October. It will enable us to engage in a more flexible operation.

As for Abadi, we are just continuing to make a steady progress on this project. At the end of this year or start of next year, we are making preparation to start the feed at those timing. And so we are doing various the initiatives like geophysical and geotechnical survey both onshore and offshore. And we are going to execute a feed as Servon, pipeline and and also onshore the equipment.

And so for these four Rs, we are going to hold a attender, and we are making preparation for assessing qualification and so forth. So we are for conducting the tender for feed. In the net 0 area, which is on the next page, the 5 net zero businesses. And right now, in [Indiscernible] prefecture, we are currently engaged in the blue hydrogen and ammonia production and utilization integrated demonstration, we are currently constructing the surface facility, which is progressing quite steadily.

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And from August next year, we're expecting to see the start of operation. Also in the United States, in Houston, we have commenced the pre-FEED for the large-scale low-carbon ammonia production and Ecoproject. And CCS was the progress. First, overseas. There is two major projects.

One is Bonaparte CCS. And this is to the sequestrate CO2 from Xs. And for this project for this year, we have been doing a 3D seismic survey, and we will actually drill well to confirm as to whether we are able to inject a sufficient amount of CO2. So that is what we are doing, and I will do for the rest of the year. The other is Abadi. Abadi is a project with [Indiscernible].

And as for Japan domestically, there are 2 major diseases projects that we were engaging First is the Tokyo Metropolitan Area CCS project. The other is called the Tork region, West Coast CCS project initiative. And these projects have been selected by the government as a Japanese advanced CCS project would like to design work towards implementation.

So for the next two years, we will engage into detailed design. Outside of that, we have the renewable energy. With LN, the first time we have coming up with the Compark storage battery business. When it comes to renewable energy, this powers solar power generation and also the storage battery combination we are working on the renewable energy project. And at the same time, for carbon recycling, methanation or inmethene is what we are trying to experiment and we are doing the construction at this moment.

So that's all for the progress around the projects. The next page and beyond, we have our progress update for sustainable growth of corporate value. So briefly, we announced this last year in August. And once a year, we'd like to do a follow-up based on the request from our investors. So I'd like to briefly explain about the current progress to increase the corporate value, what we are doing in particular.

So there are three areas. We are working all together comprehensively. So the top three on the right-hand side, number one is the improving capital efficiency. Second, growth initiatives to gain market confidence. And the third is the stronger shareholder returns and deeper dialogue with investors. So we are working on all of these three together, and we have mentioned this in the past as well. As you can see, these are the numbers we have achieved. So with these three initiatives, we have each of the initiatives explained using one page. So first, for the improving capital efficiency on Page 9. The ROIC is what we are going to introduce and what -- that's what we have announced. In Investors Day, yes, last year, we have started to disclose the ROIC by segment.

In 2023, we have been able to achieve ROIC to be above WACC. And based on that, it was 7.5%. And the forecast for this year is 7.5%. ROE was less than 8.8%. However, we are trying to achieve ROIC to be above WACC.

In the next page, for the growth initiatives to gain market confidence in the oil and gas field as well as the net zero business, we are going to work on these projects. And as explained earlier in the project progress, we have already covered the details. So I would like to skip this page. The next is the stronger shareholder returns and deeper dialogue with investors for this initiative, as you can see in the slide, over the past 3 years, you can see what was the return to our shareholders.

And as mentioned, in 2024, for the forecast in this fiscal year, including that, we have a 3-year plan, which is about JPY200 billion of total shall the return that we planned. And the current estimate is a total of JPY630 billion is what we're expecting in total. So 3 times or more is the level that we are returning to our shareholders.

As mentioned before, for dividends -- and we're able to have a steady progress in this amount. And for the share buyback, we had JPY120 billion, which is an all-time high before, but now we are achieving more than that this time with 530. So the total payout ratio of 65% is the level that we are expecting.

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Other than that, investors dialogue. We have conducted Investors Day. And for the retail investors, we also have online briefing. So in various ways with the shareholders, we are increasing our dialogue as a company. And last page is the shareholder returns as you might repeat the meeting, what I mentioned, but these are all for me.

Thank you very much. So next will be Mr. Yamada.

Daisuke Yamada

And so allow me to explain about the half year result as well as some forecast for the full year. So these are the highlights for the half year period. as at CEO has explained, as for the oil price, for the half year period, which is JPY3.50 more than last year. FX JPY153.3 per dollar, which is about JPY17 of yen depreciation. In other words, our external environment was very favorable for us.

And so you can see the revenue to the net income numbers and JPY111.8 billion of increase in the revenue. And why? And Brent went up, but the gas price came down because of the latency effect, but it was made up for by weak yen. And so the revenue increased by JPY111.8 billion. And for the profit attributable on the permanent was a decline of JPY35.9 billion year-on-year to JPY212.5 billion.

And there was an increase in revenue for oil because of the increase in the oil price, but the income tax increase. And then the excess related exploration expenses also increased. And so we ended up with JPY212.5 billion, for interim result, it was not bad, and we feel that it was a pretty good result.

And on the next page, you can see the oil as well as natural gas and you can see the analysis of the revenue. And -- so JPY765.5 billion to JPY892.1 billion of revenue this fiscal year. FX had JPY100 billion impact. The lower graph is natural gas from JPY296.5 billion to JPY281.3 billion. So this is the decrease in revenue.

This is due to the unit price coming down. And so this was the dilute effect and the FX was unable to make up for that and so other revenue came down. The next page is JPY248.4 billion to JPY212.5 billion, you can see the waterfall chart of the details. And so the decrease is JPY35.9 billion, and we can explain this based on business activity factors, JPY44.3 billion, one-off factors, positive JPY8.4 billion.

So if you actually look at the details, in terms of revenue, JPY111.8 billion of positive revenue impact and the selling price come down mainly for natural gas, but the strong FX contribution and so pushed up the revenue by JPY111.8 billion. Cost of sales increased but about JPY60 billion of the gross profit increase, but the increase in the exploration expenses, there was an increase in acceleration expenses for Australia, which had contributed negatively by JPY45.4 billion.

R&D expenditure, JPY9.5 billion or negative factor. And the share of profit of investment accounted for using equity method, JPY10.8 billion due to increased downstream and income tax, this was quite significant because we saw an increase in revenue for oil.

Income tax increased by some JPY68.1 billion. And the 2 on the right are the one-off factors in the second quarter. We did actually sell a certain stake in renewable energy. And there was also an incorporation of foreign exchange gains from type manager and JPY4 billion positive ended up at JPY212.5 billion. So in the appendix section.

I can't remember the page, but if you could refer to the appendix section, and there is a slide on statement of financial position.

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Total asset is increased from JPY6.7 trillion to JPY7.7 trillion, increasing by JPY1 trillion. This is essentially FX. And in June, at the interim period, we closed the book at JPY161. And so because of FX impact, the balance sheet increase. So if you could look at equity of the total liabilities and equity, for JPY4.49 trillion increased to JPY5.343 trillion, increasing by about JPY750 billion. But if you look at the exchange differences on translation of foreign operations, this is essentially a translation adjustments and translation in December was slightly less than JPY700 billion.

But at the end of June, it went up to JPY1.275 trillion, increasing by about JPY600 billion. So 1 year movement in FX. The translation adjustment increases by JPY30 billion. So the translation adjustments account for 25% of the shareholders' equity. And the translation adjustment increase in this mixed blessing and it improves our financial stability, but the capital efficiency, ROE or PBR is end up being the denominator.

So in respect of how much profit we make our OE and the PBR doesn't increase so that easily. So that's the financial structure that we have. Then for December '24, I'd like to move on to the forecast for this fiscal year. The next page, please.

So for the full year forecast, as our President mentioned earlier, the oil price, $80 and JPY148 to dollar assumption. And on Monday this year, this week, I was surprised there was so the fluctuation in the ForEx as well as the oil price. Until last week, it was about assumption for the oil. And we thought JPY153 to dollar, and that's how we expected.

But on Monday, suddenly, there was a fluctuation, and we changed the forecast, so $80 and JPY148. And as a result, the profit at able to owners of parent. We had JPY360 billion, as announced before, but as our president mentioned within the volatility, JPY360 billion in the volatility is the number that we can achieve, and that means our financial sameness is quite strong.

And for the ROIC, 7.5%. The WACC is 6.4% in the calculation. And ROE, 8.4. So our capital cost is 8.8% as a calculation. But we won't be able to achieve that. So unfortunately, you'll be undershooting. And net fee ratio, 0.33, and 0.3 to 0.5 is the number that we gave before. So it's in between.

And then Page 19, this is the difference analysis. So we have kept the guidance. So for the ForEx and the oil price, for the ForEx, it's about a slightly increase of JPY7 billion. And for the other factors, the Ichthys, the production loss impact on profit is minus JPY4 billion. And then the increase of expenditure around exploration in our Australia is about minus JPY14.2 billion.

And then the other tax-related impact and also the absorption of the subsidiary, including all of those factors, it's about JPY360 billion. So which is the same guidance as what we mentioned back in May.

Next Page 20 is the breakdown of the investment. And there are a couple of items. But the second from right, the second row in 24 December, this is the announcement forecast. At the very top is 9060, which is less than JPY1 trillion, so JPY900 billion. and we're expecting these operating cash flow.

And then the third line is the growth investment, which is minus JPY555 billion. So that is the moat we are investing. And then the fifth line from the bottom is the others, which is JPY167 billion, which is positive. So the -- because of the expiration of the interest-bearing debt and also maturity, we have a cash return Therefore, investment is -- growth investment is JPY500 billion. And then if you net that with the other, it's about JPY380 billion for the free cash flow -- for the investment.

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And then the investment development as well as the net zero business, JPY15 billion and then the exploration JPY84 billion. And for the shareholder return, as explained before, we are expecting JPY230 billion and 65% payout ratio, 65%.

And the next page is ROIC, ROIC. The domestic oil and gas overseas oil and gas exits and the others overseas of oil gas. So on the consolidation, 7.5% is the ROIC and which is above the WACC. And as explained in terms of the rule, mostly it's driven by Ichthys and that's the structure. 7.1, so it is impacted by exist and we have 7.5%. But if you look at the reference material later on, we have the ROIC calculation and the injected capital based on the cognition as well as the pack type of calculation. We have those details in the reference. Please have a look at them in your spare time.

That's all for me. Thank you very much.

Question-and-Answer Session

A - Unidentified Company Representative

So we will now like to receive questions. The first question is, so you have been expanding the shareholder return. And you've explained about the track record. But if we look towards the future, and from IFR 25, you enter into the next midterm management plan period. And so with that in mind, what's the dividend policy inclusive of the the capital allocation and so forth.

So your thoughts about the shareholder returns going forward. So the next 3 years of the midterm management plan, this is prior to a large investment starting from Body you are nearing a large investment. So receive of the financial operation, what are your thoughts? If you could give an explanation on that. That's the first question.

The second question is, again, similar. So prior to a body, so the medium-term span, maybe 3 years, organic performance, in other words, irrespective of the market condition, any changes that could potentially occur?

Well recently, in regards to Ichthys, the PRT and because we are making profit that you will be starting to pay the PRRT. And there is an impact on the P&L. I think cash flow wise is a little more in the future, but there is that. And also condensate you are making -- you're producing condensate quite well, but this is a liquid portion. And so you'll not be able to maintain peak production for a long time. And so inclusive both exploration work and nearby excess.

And for Ichthys mainly any changes in the organic performance? What is the type of view that we need to have over the next 3 years or so? And by the way, in regards to the first question and in regards to the finance, the net ratio. And I think you're thinking about the KPI there has changed slightly. And if I look at the change in the definition, so I think the level is likely to increase vis-a-vis the format the definition. But the 3 months of -- so you may be able to retain some funding based on the investment securities as this is not included. And so particularly readying for the investment for the body.

So inclusive of the cash allocation. This was a matter that copies. So if you could also include that in your response, please.

Takayuki Ueda

So allow me to respond to your question. In regards to the first question, the FY '25 onwards, the returns policy to provide an explanation of that is what you have asked. But for the return this year is as already explained. But if we -- in thinking about the returns for this year, of course, the cash flow situation and share price positioning within the current share market and also the situation regarding others. These were all taking into consideration in coming up with the message today.

But what we will do next year onwards is essentially what we are currently studying internally, unfortunately. And probably February time in next year, when we actually explain our new midterm management plan, we are likely to announce the returns policy. But I'm not expecting to see a significant change in the thinking regarding returns from now. So it will just be an extension of the kind of policy that we have adopted new. So that would be my response in that regard.

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In regards to DE ratio, a change in definition, and Yamada-san probably will explain about this after me. But now we are based on IFRS. And so how to handle cash and how to consider the securities or loans, we are trying to match our position to those of others. That is what we have been doing. And so there is no intent to in regards to what to do is the funding there.

But in regards to body, given the changes in the environment, how are we going to prepare funds going forward. That is a separate matter that we recognize. And that is what we will think of for that.

And the organic -- the growth, your second question centers the payment of PIRT. This has started on the P&L, but the cash payment will likely start in FY '26, but it is true that P&L is hit, where this may be some more detail, but for Ichthys, we are continuing to drill wells through exploration work. And so in that process, a certain layer, we call this Blue Star, layer, what we are drilling right now. And we feel that there is sufficient reserve there. And so we expect the liquids to be produced at quite a large volume as well.

And so plateau -- and if we continue to drill sufficient production wells, but until 2035, we should be able to maintain plateau. And the challenge we face this is to what extent can we expand to what extent can we extend the plateau, that is more the challenge for Ichthys?

And so with that in mind, we have been working on exploration activities near Ichthys. Unfortunately, one exploration activity was not a success. But that we will continue with this type of activity going forward. The challenge for this, as you know, on a global basis, we are seeing various costs increase. And of course, if this is also subject to the inflation of various costs. And so for us to secure profit for excess, what are we going to do in regards to controlling cost is going to be certainly an issue. Yamada-san?

Daisuke Yamada

In regards to net ratio, I think your interest there, so let me explain briefly. Now this is quite obvious, but the net ratio to the year-end, the equity is the denominator and so forth. But -- when we were in JGAAP, what we have done traditionally, the NAD ratio calculation method, this was used all way through. And so cash and cash equivalents was a cash deposit and all the securities minus 3%. And net debt was subtracted from gross debt to come up with net debt to calculate the ratio. That was what we've done.

But for this year, we have introduced IFRS -- and so we have investigated an example from others, but the IOCs from around the world and those -- the trading health using IFRS Iris the cash and cash equivalents, how they calculate that was somewhat different. More specifically, denominators are saying, but the numerator gross debt plus rete liabilities are added and the cash and cash equivalents are actually subtracted. But 3 months more or longer securities, for those doing IFRS the closing, we wanted to match our position. So we decided to calculate we felt is affecting that. And so for the first half of the year and for the full year forecast, we came up with 0.33 or 0.4%, and this is based on the IFRS basis where we calculate the net ratio.

And of course, Net DE ratio is reflecting the result of our financing activities. And so what to do with the future funds as you have indicated in your question, it's not the case that we changed in consideration of that. what we've done was to make it easier for us to be compared against others. So for a ratio, we aligned our definition to those of others, if you could understand it this way. That is all for me.

Unidentified Analyst

So first, both of my question is related to the next midterm plan and also the management views towards the stock market as well as the request from TSC last year from that standpoint, I'd like to ask my question. The first question is the ROE level of ROE that you want to target. So what kind of the views you have? And on Page 9 of the slide, you talked about the PDCA cycle once a year, and we appreciate that. And also the shareholder return expansion, the speed of that and the fast facial speed from the past historical speed, we think it will be more than expectation.

And the explanation.

But on Page 9, ROE, for example, for this year, the expectation for this year is 8.4% for this fiscal year's forecast. And compared to the oil price in the ForEx. I think you're in a favorable situation. And so that is a tailwind. And with ROIC 8.4 because of the tailwind and also the cost of capital although it's a tailwind, you have erosion from this top market standpoint.

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So as a result, there is an erosion. But instead of seeing that from this market standpoint, instead of saying that we have been erosion as an end as a result. But in instead of that, because of the favorable situation and having this kind of erosion is something you want to overcome. So what are you going to do to overcome that situation?

So I think you are in a favorable external environment. So when you're not in that environment in a normal situation, for example, if the oil price is at $70 per barrel or even in a normal situation, you want to have the ROIC above the WACC? Or what are you going to do to have these kind of numbers? So perhaps in the next midterm plan, I think that kind of viewpoint is necessary for the message to the stock market. I think that will be appreciated.

And from the stock market, that is the usual discussion and also whether it will be related to DE or whether you'll be working on ROIC improvement, you'll be up to your decision as a company. But first, regarding the capital cost of 8.8%, while you have that awareness and ROE 8.4%. And even though in a favorable environment, you can only achieve 8.4%. So what are you going to do in the next midterm plan? Or if anybody is added, what you're going to do?

These are things we want you to show the market. as number one. And the second point is for the foreign investors or the overseas upstream company, if you compare with those companies. And I have not studied this wall yet. But if you look at the U.S. upstream company's stock price and if you calculate all these indicators, ROE is more than double digit. Of course, with oil price of $80.

And in that situation -- this is the second question. But from your standpoint, your competitors are, let's say, the overseas upstream company. And for those overseas upstream companies, I won't mention about a particular company, but what kind of company, will you be benchmarking? And what are you trying to achieve, looking at which company? And then within the global upstream companies, whether you are going to be selected as 1 of those company.

And if there's any strength that you can talk about, ROE is not the strength. I think shareholder return is about breakeven or about the same. And for the growth investment, you have to see a body, so it's hard to say today. So I'm not trying to receive your answer today. But among the upstream companies globally or those exclusive upstream companies, what do you think is your strength that you can vote to other companies?

And if you can show that in the next midterm plan, and that's what we're waiting for. And what kind of companies in overseas upstream are you going to keep in mind when you try to benchmark your business. Thank you.

Takayuki Ueda

So both are a quite difficult question. And in the next midterm plan, of course, now we will announce that in next year. So we'd like to talk more in detail then. But first about ROE, the level of ROE with a capital cost of 8.8%, and we have 8.4% today. So it might be low and that is what you mentioned, and I think that's true.

But as you know, in order to increase ROE, 1 of the factor for our company is the ForEx adjustment. And for the ForEx adjustment, if it's a depreciation largely, then sensitivity is a large change because if a JPY1 depreciation. There is about JPY30 billion of increase in the denominator. And then when it comes to our -- the profit, about JPY2 billion, that is the structure. What happens is with the yen depreciation. Of course, there's an increase in profit with the yen depreciation, but that increase in profit and also the increase in the capital, if you compare the 2 from an ROE standpoint, its not necessarily positive or today, as of today, it's quite negative, and that is the real picture.

And if you look at the first half, JPY1.2 trillion of Forex is what we had in the first half. If you have continued yen depreciation, I think numbers will change. But those are also one factor we have in our business, and we hope you understand that.

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But if you look at ROE itself to increase that as one other mean is to increase our or whether reduce the E, it's either 1 of those 2. But for increasing AR, it is the question on how we can increase the profit each year, including nobody profit increase we can achieve. So that is something we cannot solve in the short term. And then working on reducing the E is something we have to think of as a company.

If you are to reduce, for example, largely divest the interest of participating interest or doing share buyback, there are various messages. But this time, we had JPY80 billion or JPY130 billion of buyback we announced this time. These are things we have in mind as well. However, going forward, over long term, what are we going to do is some challenge we have in the next midterm plan.

So I would like to study this more carefully. And then for the second point about benchmarking with other companies overseas, what we are looking at. As you mentioned, the overseas upstream ROE, the super major, it's a double-digit or more ROE. And today, we don't have the details, but if you analyze them, the overseas super major and our company, the difference between the 2 is for the overseas. They have acquired these large assets in 1970s or so, and they have finished all the depreciation and amortization.

For us, the biggest asset is excess study, we cited the production in 2018. We are still a work in progress. So the difference between overseas and us is in terms of ROE and looking at each individual project, I think it's difficult in detail to compare if you look at the legacy asset where the depreciation is over, I think the fact that you have those and the contribution to ROE is quite large for those overseas companies.

And for new projects, virus companies, if you compare with virus companies, our profit is not necessarily inferior. So from that regard, in order to become a company with ROE level as the same as overseas. I think with the end of the depreciation and working on more profitable projects. And then over time, we will solve that issue. So once we analyze, I think that is how we should take initiatives going forward.

And if you look at major there are various companies, Exxon and those super majors or there are more companies like Renal Woodside closer to our company's size, so I think comparing with those companies, how we're going to look about these forecasts going forward is also another challenge we'd like to take back as a company.

Unidentified Company Representative

So regarding the ForEx explanation, I think that was good. But with that JPY10 strengthening, you had to make a downward revision. And when ROE goes down, the yen appreciation I think, will be negative to ROE. I think that will be the excuse you will give. And with the yen depreciation, it's a negative, and then yen appreciation is also negative.

So that is the business model. Is that correct? So from an ROE perspective, the ForEx, we understand about the ForEx situation. But with when appreciates, it will be negative. For example, JPY10, JPY20 appreciation, the profit will go down dramatically. And then with the yen appreciation, I think you will explain the reason. But with the depreciation, it does not pick up.

And with the yen appreciation, it does not pick up either. I understand your business model to be such. So is that correct?

Takayuki Ueda

All your question, we also look at the for sensitivity, and that's a huge impact on ROE. So we do a lot of analysis. And I don't I cannot give you the number today. But if you look at the outlook in August today, JPY360 billion and then capital of JPY4.4 trillion, ROE 8.4. But with the yen appreciation and depreciation, if you calculate what will be the case, so we do have that analysis.

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If there's a yen appreciation with the yen strengthening in IFRS, when we convert to IFRS, the forge is JPY115, 1-1-5. And when there's a JPY115 the net profit and net profit and ROE, what will happen? If I were to calculate mechanically, the net profit will be at JPY280 billion. and then oil price will be the same. So what happens for the equity because of the ForEx not impacting, it will be about JPY3.4 trillion.

And then when that happens, ROE will go up. JPY3.4 trillion is the denominator and then JPY280 billion is in numerator, so it's about 9% or above. So with the yen appreciation, like our President mentioned, with a JPY1 change, JPY30 billion of increase and then profit will also increase by 20%. So 6.6% or 6.7% will be the number. So with the yen appreciation, it will be positive to us. On the other hand, if it's yen depreciation, what happens, 148 is moved to 150. And then it's about let's say, it's about yen depreciation JPY280, then the profit will be JPY440 billion.

But the equity will be JPY6 trillion. And then just a simple calculation means 7.7 percentage ROE. So in the current structure of our business, if we follow the same structure, the yen depreciation is unfavorable to ROE.

Yen appreciation is favorable to ROE. However, for the net profit itself or the cash flow itself, with the yen appreciation, it will be negative and the ROE-oriented manner, it would be favorable with the yen appreciation. So when the yen appreciates, depends on other factors like the oil price and the one-off profit and loss and also production level. So it's hard to say. But basically, that is going to be the trend.

And that is the analysis we have on R&R finance. Thank you very much.

Unidentified Analyst

In the next mid term plan, please do let us know about those details. Thank you.

Unidentified Company Representative

And is in regards to shareholder returns. Now on this occasion, for FY '24, the shareholder returns in total, I think JPY235 billion, quite a significant amount of total returns. And it's something that we can consider quite highly. But how that is the divided between share buyback and dividend. For JPY76 to JPY86, so JPY10 increase.

And so based on your policy, basically, I don't think you will not increase -- a decrease, sorry, the dividend. I think that is your fundamental thinking in regards to dividend level. And so is quite a high level as a kind of standard, but share buyback and dividend, the allocation between the 2. What was your thought in that regard? That's the first question.

The second question is the exploration of expenses in Australia. And there was an increase in the exploration expense. And I think you did increase that in first quarter as well. Of course, there are various factors like inflation, exploration expense level, what is the level that we should expect in the future? Do we expect this to continue to increase going forward?

And of course, there are onetime factors. But if we exclude that, should we think that this was settled down somewhat going forward. So if you could explain about the level of exploration expenses going forward.

Well, first of all, in regards to returns, so the JPY235 billion on this occasion? And what's the kind of allocation between the dividend buybacks? Well, basic focus for shareholder return is based on dividends. And so we want to increase dividends as much as possible together with the growth in our profit. That's the policy that we're adopting a share buyback is to supplement that -- that's the kind of role or that's the kind of positioning of buybacks. So that's the fundamental policy. But we look at the market condition at that time and the share price at that time we'll look at various factors like that. And we'll make improvements as required based on the situation at that point in time.

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Now in that regard, and if we look at the market situation recently, our share price is quite discounted. So against the market, what is the appropriate message that we can communicate. So when we consider that, then one thing is that for dividend, to show the appropriate position. And so we'll be increasing the dividend level by more than JPY10 on this occasion.

For share buyback, it's similar. So we're looking at the cash flow situation. And when the share price is low, there is a greater benefit from doing -- and so that was also taken into consideration as part of the total consideration, we came up with these numbers on this occasion. And so dividend and buyback -- the basic policy is as I have explained, but we will take into consideration the situation at that point in time and that could potentially change.

In regards to the exploration expenses level, it does depend on the exploration project and how to disburse the funding that's really up to that point in time. And when we require a number of exploration in feed exploration also that costs several tens of billion onshore JPY7 billion. So depending on the situation in exploration expenses level change, organic growth particularly growth in the natural gas area is considered to be important from us.

So peripheral acceleration as or in Japan domestically a Dhabi. Those will be areas where we intend to continue with exploration activities over the long term. the level is likely to be somewhat more settled. But of course, there is some ups and downs on this occasion, we had the strain acceleration activity. And when we have a project like that, it tends to really push up the numbers, if you could understand it in that way.

Unidentified Analyst

Two questions. Number one, it's some detailed numbers. But as [indiscernible] explained earlier, also recently, you had higher expectation, our assumption for the ForEx and the oil price. But initially, how much net profit were you planning. And I think it's difficult, but if you have any numbers.

And also in terms of how you look at those figures, the sensitivity that you announced at the beginning of the year and also the difference the difference in the oil price in this ForEx, is that how much we can calculate or by progressing towards the middle of the year. And maybe there are some different assumptions on these numbers. Because of the changing environment? Is that the case? So that is the first question.

And the second is the impact of Japan being set up. in the split as a split company. So what is the target? Or what is the purpose behind tha once again? And from President Ueda-san, you mentioned about each businesses in overseas are also the same structure.

So you want to do the same in Japan. What you have done already is what you have changed the organization to align with that situation? Is that the case? So it's not going to change so much. Or is it by having this split in Japan, including the net 5 zero businesses and the management itself, is there any change that you're trying to do intentionally -- so the split in Japan is -- can you please elaborate on that as well more in more detail. Thank you.

Takayuki Ueda

So last week, until last week, the forest that we came up with this number was 153. We thought it would be 153 or oil price of $83 per barrel. We thought about that level. But at that time, the net profit and ROE -- from this sensitivity standpoint, from left to right, between JPY390 billion to JPY400 billion, we thought net profit will be about that level.

And then as a result, the equity will be increasing as well. And ROE, 8.8% or above, that was the level that we we're assuming, so more than 8.8%. So 8.8% is our company's cost ratio. So we thought it will be above that, and that was the assumption we wanted to come up with that. So we are preparing for that.

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However, on Monday, the number has changed. So that is what happened. If you can understand that background, that would be great.

And then regarding the second point, regarding INPEX Japan, while we have set up the subsidiary for the domestic operation -- there are a couple of reasons behind that. So first, for domestic business, we have a changing environment. So for our company, in Nita and renewable energies, we have exploration, and we sell that in Nita business. But as you know, recently, there's a new hydrogen project and that's a nation project, and those were added.

And for CCS, we have [Indiscernible] and also in the metropolitan area or Chiba prefecture mainly. So we have various business activities, which are becoming more activated in Bruska. And in the past, just talking about our internal situation. We have 2 business domestic E&P business unit. And we also had domestic sales energy departments.

So mainly the sales department, we had those 2 divisions. But internally, we wanting to integrate these, too. so that domestic business will be comprehensively tackled and in various areas, various regions, we can do business more flexibly.

And then we will also have more rights and then -- so that we can be more flexible in dealing with these domestic operation. On top of that, what I mentioned earlier is also having a balance sheet overseas business. We thought this would be a good opportunity to have this split in Japan so that we can be more flexible in operation, and that is the basic idea.

There are various reasons as well outside of that. But this is the main reason. So from a management standpoint, the split of domestic operation. is to meet with various needs in domestic market and to meet them in a more flexible way, this is a realignment of domestic operation. So that's how we take this latest change.

Unidentified Analyst

Thank you very much.

Unidentified Analyst

The first question is the onetime trouble residences, you explained that the production has recovered, but you are producing slightly lower the separate level. Now the target for this year is lever growth per month. In the first half of the year, I think that was the pace. But for the second half of the year, how will this pace change? That's the first question. Next is changes in cash flow from investing activities.

And in terms of the presentation material, I think it was around Page 20, where you have shared the cash flow from investing activities comparing the revised forecast and the former forecast and JPY100 billion for the oil and gas area, the cash spend is being reduced.

But for others, they're obtaining the the purchase and disposal of investment securities, they decreased by JPY12 billion or so. So could you explain in some more detail there?

Takayuki Ueda

So I'll answer the first question. The second question, I'll leave it to data. So first, the test cargo numbers or the trouble there. To explain this in more detail on the 20th of July, I think, is LNG production facility to our onshore facility, we experienced technical trouble. And after that, we resumed production after a week.

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And right now, we are operating the facility. But LNG production level is suppressed by about -- so production level has been reduced by about 15% right now for the operation. And in October, we will have a weak short shutdown, which has been preplanned and we will rectify the situation then, and we'll go back to the normal production level. That is what we are thinking of right now. And the impact was the cargo number in comparison to the original plan, probably there will be a reduction of few cargoes.

And so for the second half of the year, probably 10 cargoes per month for the LNG is what we're assuming for the second half of the year. And for the second part of your question, investment for growth. Of the JPY555 billion, the oil and gas development expenditure, and that has come down to JPY468 billion, vis-a-vis, the forecast in May. Now for us, there were a number of M&A potentials and there were those that was feasible or not feasible, and so we made that judgment. And so we kind of allocated a certain amount for M&A.

But as we preceded, things did not happen and so forth. And so in comparison to what we were originally thinking, about JPY100 billion or so of lesser M&A are being realized. And so we became more realistic in terms of changing the investment earmarked for that. And so the MA, the earmarked amount has been corrected to be more realistic at this point in time. And for other investment and.

So EUR230 million to whatever. So -- and this is essentially what to do with regards to investment securities. So about JPY230 billion was what we intended to sell.

But from a overall situation, about JPY160 billion of divestiture was what we felt was appropriate. So at the end of the fiscal year, cash and securities, the JPY350 billion, JPY360 billion would be the level that we'll end up at -- and so for us, the retaining the fund should be appropriate level. And so as for investment, the divestiture of the investment security is essentially balanced to the fund the position for us.

Unidentified Company Representative

so we're at the -- close to the end of the hour. So we would like to have 1 more person asking questions, if there are any. If there are none, as we are at the hour, we'd like to end today's meeting.

So that's all for today's financial results announcement for the 6 months ended June 30, 2024, we really appreciate for all of your participation today out of the busy schedule. Thank you very much.

**Load-Date:** August 10, 2024

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