

Mar 14, 2017

R&I Affirms AA+/a-1+, Stable: Osaka Gas Co., Ltd.

Rating and Investment Information, Inc. (R&I) has announced the following:

ISSUER: Osaka Gas Co., Ltd.
Issuer Rating: AA+, Affirmed
Rating Outlook: Stable

Commercial Paper: a-1+, Affirmed

RATIONALE:

Osaka Gas Co., Ltd. is Japan's second largest city gas company by gas sales volume. Residential and commercial gas, whose profitability is relatively high and demand is stable, account for a large proportion of its gas sales, and the company has excellent capacity to purchase liquefied natural gas (LNG). The impact of deregulation of the city gas market is large compared to peers because of intense competition between electricity and gas companies in its operating region of Kansai. Demand growth in this region is weaker than in the Tokyo metropolitan area, which is among the reasons for such competition. As part of the countermeasures, the company has worked in recent years to cultivate new industrial demand in areas surrounding the Himeji-Okayama gas pipeline launched in 2014, thereby boosting the sales volume.

The gas system reform in Japan, which includes full liberalization of the retail city gas market and gas pipeline deregulation, will proceed from April 2017 onward, which is expected to increase competitive pressure on Osaka Gas. The Kansai Electric Power Co., Inc. (KEPCO), a major competitor for Osaka Gas, intends to enter the retail gas market including the residential gas sector. It has already announced competitive gas price plans. Near-term effects will likely be limited, however, given Osaka Gas's strength in sales and marketing activities that are focused on the particular needs of each customer and expected benefits from its new price plans. KEPCO may have much more leeway to increase the competitiveness of its electricity rates and expand the gas business if the operation of its nuclear reactors restarts in the future. R&I needs to pay careful attention to progress in the restart of KEPCO's nuclear reactors, as well as the firm's gas pricing and sales policies.

Osaka Gas earns considerable profits from businesses other than city gas, including electricity, urban development, chemicals, information solutions and international energy, and the ratio of profits from such businesses is the highest among the three major gas companies. Of particular note is the domestic electricity business, whose earning capacity is expected to grow supported by abundant power sources of its own. In the international energy business, the company has stakes in gas field development projects and jointly operates an LNG terminal with Chubu Electric Power Co., Inc. in North America. Although earnings are affected by resource prices, the percentage of the business is not large in the entire group. The Osaka Gas Group as a whole will likely continue to generate solid profits and cash flow. Equity capital is ample, and the debt-equity structure is sound. In tandem with expansion of businesses other than city gas, the business risk of the entire company is on the rise, but Osaka Gas has a financial base that is commensurate with the size of its risks.

The primary rating methodologies applied to this rating are provided at "R&I's Basic Methodology for Corporate Credit Ratings" and "City Gas". The methodologies are available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.

<http://www.r-i.co.jp/eng/cfp/about/methodology/index.html>

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R&I RATINGS:

ISSUER: Osaka Gas Co., Ltd. (Sec. Code: 9532)
Issuer Rating
RATING: AA+, Affirmed
RATING OUTLOOK: Stable

Shelf Registration (Bonds)

ISSUE AMOUNT (mn): JPY 150,000
ISSUE PERIOD: From Sep 30, 2016 to Sep 29, 2018
RATING: AA+, Affirmed (Preliminary)

Unsec. Str. Bonds No.7	Issue Date	Maturity Date	Issue Amount (mn)
	Jan 31, 1997	Mar 20, 2017	JPY 20,000

RATING: AA+, Affirmed

Unsec. Str. Bonds No.9	Issue Date	Maturity Date	Issue Amount (mn)
	Jan 30, 1998	Jan 30, 2018	JPY 30,000

RATING: AA+, Affirmed

Unsec. Str. Bonds No.18	Issue Date	Maturity Date	Issue Amount (mn)
	Feb 12, 2003	Dec 20, 2022	JPY 20,000

RATING: AA+, Affirmed

Unsec. Str. Bonds No.19	Issue Date	Maturity Date	Issue Amount (mn)
	Mar 10, 2005	Mar 19, 2020	JPY 20,000

RATING: AA+, Affirmed

Unsec. Str. Bonds No.20	Issue Date	Maturity Date	Issue Amount (mn)
	Aug 17, 2005	Sep 18, 2020	JPY 20,000

RATING: AA+, Affirmed

Unsec. Str. Bonds No.21	Issue Date	Maturity Date	Issue Amount (mn)
	Jun 23, 2006	Jun 23, 2026	JPY 10,000

RATING: AA+, Affirmed

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NEWS RELEASE

Unsec. Str. Bonds No.23	Issue Date Jul 25, 2007	Maturity Date Jul 25, 2019	Issue Amount (mn) JPY 20,000
RATING:	AA+, Affirmed		
Unsec. Str. Bonds No.26	Issue Date Jul 17, 2008	Maturity Date Jul 17, 2018	Issue Amount (mn) JPY 30,000
RATING:	AA+, Affirmed		
Unsec. Str. Bonds No.28	Issue Date Mar 09, 2011	Maturity Date Mar 09, 2021	Issue Amount (mn) JPY 10,000
RATING:	AA+, Affirmed		
Unsec. Str. Bonds No.29	Issue Date Dec 09, 2011	Maturity Date Dec 09, 2021	Issue Amount (mn) JPY 10,000
RATING:	AA+, Affirmed		
Unsec. Str. Bonds No.30	Issue Date Dec 14, 2012	Maturity Date Dec 14, 2022	Issue Amount (mn) JPY 10,000
RATING:	AA+, Affirmed		
Unsec. Str. Bonds No.31	Issue Date Oct 18, 2013	Maturity Date Oct 18, 2023	Issue Amount (mn) JPY 10,000
RATING:	AA+, Affirmed		
Unsec. Str. Bonds No.32	Issue Date Mar 24, 2014	Maturity Date Mar 24, 2034	Issue Amount (mn) JPY 15,000
RATING:	AA+, Affirmed		
Unsec. Str. Bonds No.33	Issue Date Oct 24, 2014	Maturity Date Oct 24, 2034	Issue Amount (mn) JPY 20,000
RATING:	AA+, Affirmed		
Unsec. Str. Bonds No.34	Issue Date Mar 05, 2015	Maturity Date Mar 03, 2045	Issue Amount (mn) JPY 10,000
RATING:	AA+, Affirmed		

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Unsec. Str. Bonds No.35	Issue Date	Maturity Date	Issue Amount (mn)
	Dec 09, 2016	Dec 08, 2056	JPY 10,000
RATING:	AA+, Affirmed		
	Commercial Paper		
ISSUE LIMIT (mn):	JPY 150,000		
SUPPORT:	Unsecured		
RATING:	a-1+, Affirmed		

A preliminary rating is assigned when a provisional credit rating is needed for an individual obligation on which final terms have not been determined. A credit rating finally assigned may differ from the preliminary rating depending on, among others, the details of the actual contract of the individual obligation.