August 10, 2022

JGC Holdings Corporation

First Quarter Financial Results for FY2022 ending on March 31, 2023

Q&A from the Online Earnings Release Conference (held on August 10, 2022)

This content is based on information available on the date of the earnings release conference (August 10, 2022).

1. First quarter financial results and upward revision of full-year forecast for FY2022 ending on March 31, 2023

Question	Answer
The gross profit ratio for the first quarter (April–June, 2022) was 13.7%, somewhat higher than the initial announcement of 9.0% for the fiscal year. Please tell us the main factors for this.	Depreciation of the yen against the U.S. dollar to 136.68 yen at the end of June, compared to 123 yen as used for the initial earnings forecast, had the effect of increasing net sales by about 26 billion yen and gross profit by slightly less than 5 billion yen. Besides this, positive factors in Total Engineering business included improved profitability of projects in the final stage of construction as well as the fact that for some completed projects, we were able to negotiate settlements with subcontractors to achieve significant reduction of project costs in comparison with budget. Another factor that increased the gross profit ratio was the balance between business segments. While Total Engineering business got off to a slow start, steady progress was made in sales from Functional Materials Manufacturing business, which has a relatively higher margin.
If we disregard the impact of foreign exchange rates, it seems that sales in Total Engineering business have been sluggish, compared to the full-year forecast. Please tell us the reasons for this.	In addition to making more progress in construction for large projects currently underway through the second half of the fiscal year, we expect to record sales in the second half for projects to be received during the fiscal year.

Why was the full-year earnings forecast revised upward?	Following a revision of the assumed dollar-yen exchange rate, which had been 123 yen but was revised to 130 yen, we decided it was appropriate to revise the figures, in consideration of progress in business during the first quarter.
Which projects in particular contributed to sales and profit in Japan and overseas? Please tell us the status.	By sales, the largest is the LNG Canada project, currently underway in Canada. Modules built in China and Italy are being shipped one after another to the construction site in Canada, where installation is proceeding smoothly. Next is a refinery upgrading project in Basrah, Iraq, where detailed design and procurement of materials and equipment are underway and most of the main equipment has been ordered. We have made good progress in laying the groundwork and completing temporary construction at the site. Off the coast of Mozambique, we are also in the final stage to completion of an FLNG project. Work is on track, with commissioning complete and performance being verified. In Japan, mega-solar and biomass plant construction projects are also proceeding smoothly.
Costs for materials, equipment, and the like continue to surge. This risk has probably been factored into the year's earnings forecast announced in May, but how has the impact changed over the quarter?	Regarding first quarter results, the risk contingency has not been increased, and there is currently no significant change from the risk initially assumed.
To ask an elementary question, why does a weaker yen affect sales and profit?	Exchange rate fluctuations increase or decrease sales and gross profit of overseas EPC projects denominated in dollars. In non-operating profit, revaluation of foreign-denominated receivables and payables results in a marginal gain for a weaker yen and a marginal loss for a stronger yen.

We understand that the dividend forecast has been revised upward based on the dividend payout ratio of 30% (consistent with the shareholder return policy) following the upward revision of net income in the full-year earnings forecast. In the event of continued appreciation of the yen and decreased net income, might the dividend also decrease automatically?	In accordance with the return policy, the dividend payout amount would generally increase or decrease based on the payout ratio of 30%. However, we believe the revised forecast is attainable even if the yen appreciates slightly. At present, we believe the revised dividend per share can be maintained.

2. Orders received, market environment

Question	Answer
We recall that for the contract received in May for construction of a gas-oil separation unit (GOSP) in Saudi Arabia, a portion was received by your overseas subsidiary. Do the first quarter results include the portion received by the overseas subsidiary?	Yes, first quarter orders received include the portion received by our overseas subsidiary for GOSP construction in Saudi Arabia.
Crude oil prices had been around $100 per barrel but are currently around $90. Has this affected your environment in general (including for LNG projects) or client investment?	Energy demand, including for LNG, is stable, and client investment remains robust, with no significant changes. For the JGC Group in particular, we sense that client expectations remain high.
Please update us on the progress of LNG projects in North America and Southeast Asia, where you are focusing on securing orders this fiscal year.	Currently, we are conducting front-end engineering and design (FEED) for expansion of Cameron LNG facilities in the U.S. and an FLNG facility in Malaysia. Bidding is also expected for a Freeport LNG facility in the U.S. In each case, investment decisions and determination of EPC contractors are expected in the second half of the fiscal year, probably around the fourth quarter.
How will the recent fire at the Freeport LNG export terminal in the U.S. affect plans for expansion?	At present, there has been no news indicating that the fire will delay client investment plans. We expect investment decisions in the second half of the fiscal year, as planned.

In consideration of the order target this fiscal year, the pace of orders received in the first quarter was quite brisk. What is the outlook for coming months?	In the first quarter, we were awarded contracts for large projects that had been delayed since the previous fiscal year, which represented significant progress toward our target. In each remaining quarter, we expect steady progress in securing the projects that we hope to receive.
Looking ahead, please tell us specific details about projects you expect to receive.	In large projects overseas, we are optimistic about receiving orders for planned gas chemical (ethylene) projects in the U.S. and the Middle East, chemical project in Thailand, and LNG projects in the U.S. and Malaysia.