

Kansai Electric: rare USD issuer with focus on nuclear

Rose Choy[*]

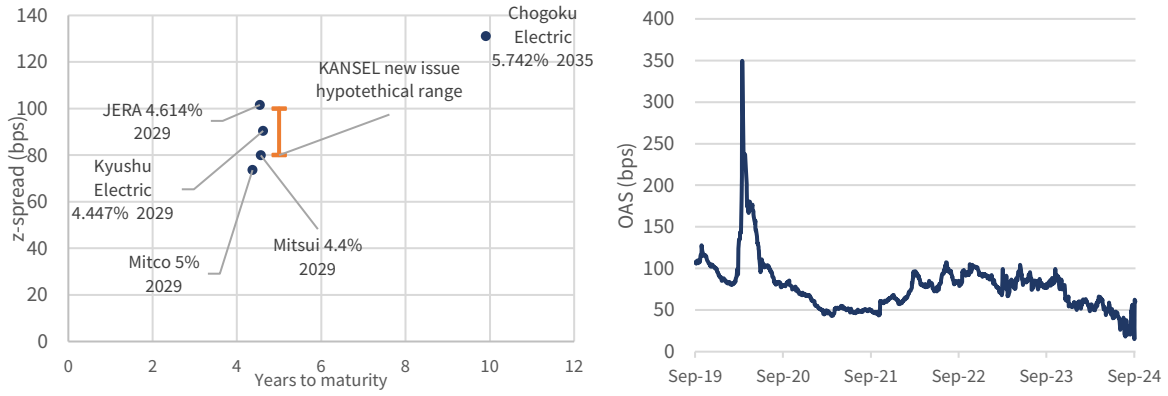
Kansai Electric Power (ticker KANSEL, rated A3 by Moody's) is coming to the USD market with a 5-year benchmark bond that is expected to price as soon as 18 Feb. This will be the first time since 2019 that the issuer has tapped the USD market, though it has frequently participated in the domestic market and even forayed in the green and transition bonds space since 2022, with total volumes of 140bn yen (US$950mn).The last USD benchmark bond raised US$500mn, and the new issuance is expected to be of similar size.

KANSEL is Japan's second-largest integrated power and utility company involved in electricity generation, transmission, and distribution, and is also the country's largest nuclear producer with almost 50% of Japan's operating capacity as of Dec 2024. The company has been gradually shifting its focus to nuclear generation, aligning with the government's push for more carbon-free energy and its GX policy to promote renewable energy and nuclear power utilisation.

Currently, KANSEL has the largest carbon-free generation capacity in all of Japan, at 14.8 GW(FY2023). Its generation mix is 44% nuclear and 14% hydropower. Despite its ongoing use of fossil fuels, KANSEL is taking gradual steps to reduce reliance on LNG and coal. In 2023, KANSEL cancelled a long-term construction project for a 3.7GW LNG-fired power plant in Wakayama, leading to an impairment loss of JPY126.5bn (US$835mn). The auditor report cited "shifts within the business environment surrounding the electricity business" [1]as the reason for the cancellation.

Proceeds from the bond sale are expected to be used for capital expenditures and repayment of debt and loans to Kansai Transmission and Distribution. The 2019 USD bond (KANSEL 2.55 09/24) matured last year and it is reasonable to assume that this new issuance is a way to maintain the dollar lines of the company. Figure 1 shows the relative value comparisons in USD of the new bond and historical spreads in the previous 2019 bond and the curve in yen in Figure 2 (overleaf).

Figure 1. (Left) Kansai Electric USD bond versus USD comparables. We have assumed a pricing of 100bp for the new KANSEL. (Right) Spreads of the previous KANSEL 2019-bond. Source: Bloomberg, accessed 17 Feb 2025.



[1] Kansai Electric Power preliminary offering circular, 17 Feb 2025.

Not investment advice. This version 17 Feb 2024. Important disclaimers at end of the document.

(*) Anthropocene Fixed Income Institute (www.anthropocenefii.org), Author for contacts: rco@anthropocenefii.org

Figure 2. Kansai Electric JPY bond curve. Source: Bloomberg, accessed 17 Feb 2025.



IMPORTANT DISCLAIMER:

This report is for information and educational purposes only. The Anthropocene Fixed Income Institute ('AFII') does not provide tax, legal, investment or accounting advice. This report is not intended to provide, and should not be relied on for, tax, legal, investment or accounting advice. Nothing in this report is intended as investment advice, as an offer or solicitation of an offer to buy or sell, or as a recommendation, endorsement, or sponsorship of any security, company, or fund. AFII is not responsible for any investment decision made by you. You are responsible for your own investment research and investment decisions. This report is not meant as a general guide to investing, nor as a source of any specific investment recommendation. Unless attributed to others, any opinions expressed are our current opinions only. Certain information presented may have been provided by third parties. AFII believes that such third-party information is reliable, and has checked public records to verify it wherever possible, but does not guarantee its accuracy, timeliness or completeness; and it is subject to change without notice.

Any reference to a company's creditworthiness or likelihood of positive or negative performance in the current or future market is purely observational and should not be taken as a recommendation or endorsement or critique of such company or security.

AFII is a non-profit organization "to monitor, advocate for and influence the impact of the fixed income and bond markets in the age of human induced climate change." For more information about the Institute, please visit wwww.anthropocenefii.org.

AFII is not in any way associated with, nor are any of its directors, employees or advisors, any of the companies it references in its materials or reports and is not receiving compensation or consideration of any nature for its observations and/or insights.

