

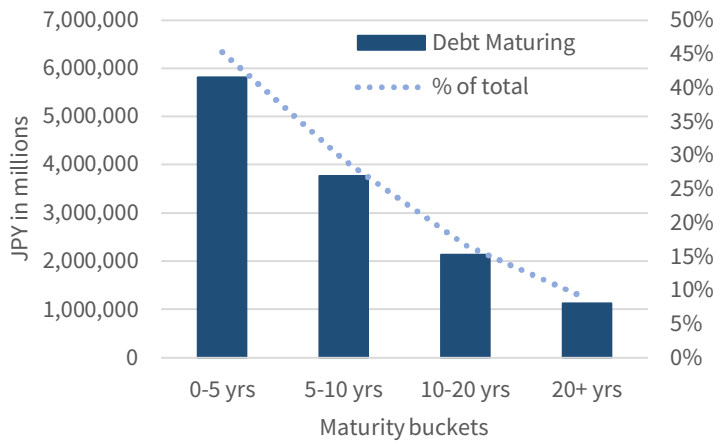
Funding opportunities post *ippan tanpo*: Kansai Electric

Rose Choy [(*)]

Kansai Electric's (ticker KANSEL) recent February issuance of US$500 million in bonds attracted a whopping 11.5x book cover.[1] The company may be one of the last utilities to issue US$ secured bonds with "*ippan tanpo*", or statutory preferential rights, as the window for issuing these closes on 31 Mar.[2] In the past, Japan's electric utilities have funded over 90%[3] of their public bond issuances with such statutory preferential rights. Such bonds were issued under a special provision granted by the Electricity Business Act, are collateralised by all assets and have a right to be paid before other unsecured creditors. In 2020, this special provision was removed as a part of a broader set of reforms in the electricity market to increase competitiveness and fairness. A grace period of 5 years was offered until March 2025. This change has potential implications for the funding strategies of Kansai Electric Power and other electric utilities in Japan.

This may drive diversification of funding sources away from the traditional domestic market. New senior unsecured debt issued by the electric sector will be subordinated to existing secured debt, and possibly subjected to a lower rating, which could affect future financing costs. S&P will consider rating new senior unsecured debt one notch lower than secured debt, if the latter constitutes more than 50% of total outstanding debt for the issuer.[4]

Figure 1. Maturities of Japan electric utility issuers outstanding, Source: Bloomberg, accessed 3 Mar 2025.



The majority (~75%) of the JPY12.8 trillion in outstanding Japan electric utility debt raised in the public bond market have maturities of less than 10 years and 45% of the maturities are under 5 years as of March 2025.[5] Some utilities, such as KANSEL, have relied on unsecured bank/insurance funding to raise longer-term capital. KANSEL has about 51% of total borrowings (refer to Table 1) in unsecured

[1] "Kansai Electric: rare USD issuer with focus on nuclear", AFII, 17 Feb 2025. Book-cover source: Bloomberg, accessed 3 Mar 2025.
[2] "Kansai Electric - Final Offering Circular", Kansai Electric, 18 Feb 2025.
[3] Data from Bloomberg, AFII, sourced, 3 Mar 2025. Data includes Japan's 10 electric utilities' bonds: KANSEL, KYUSEL, CHUGEP, CHUBEP, TOKELP, TOHOKU, HOKUEL, SHKUEL, HOKKEL & OKPOWR.
[4] "Japan Utilities To Rethink Financing With Changes To Bond System", S&P Global, 20 Feb 2025.
[5] Data from Bloomberg, AFII, sourced, 3 Mar 2025.

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

long-term bank funding as of Dec 2024. The weighted average interest rate of these borrowings was 0.515% (Mar 24) with staggering maturities through 2043.[6] The ability to fund unsecured long-term borrowings from local financial institutions varies depending on the issuer, with lower-quality issuers seeming to have no access. Capex and investment needs are high for electric utilities as Japan's energy transition progresses, meaning issuers will need to prudently term out some of their debt to longer maturities. Therefore, funding mix is becoming increasingly important.

In 2022-2023, some companies expanded their investor bases by issuing green bonds, transition bonds, and subordinated bonds. During this period, electric utilities incurred higher energy costs due to the Russia-Ukraine war and suffered from negative operating cash flows. Many of these utilities tapped the domestic bond market to close their funding gaps. More recently, issuers have branched out to overseas markets. In the last 12 months, several Japanese electric utilities have ventured into the US$ market including Kyushu Electric, Chugoku Electric Power, JERA, and Kansai Electric. Going forward, there should be more opportunities for the sector to issue in overseas markets and expand issuance of labelled bonds. Within the sector, transition bonds account for only 3.1% of total issuance and green bonds account for 2.8%.[7]

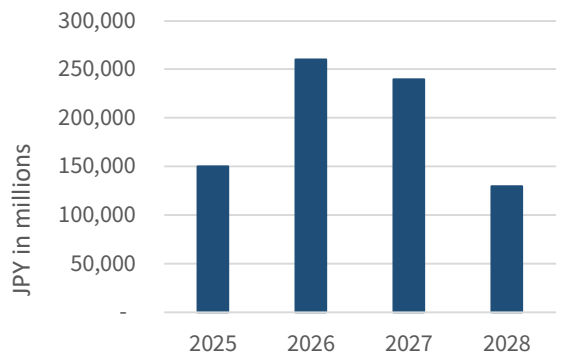
KANSEL has total bonds outstanding of JPY 1.7 trillion, and a total debt of 4.54 trillion JPY. The debt profile (Table 1):

Table 1: Kansai Electric debt capitalization, Source: Kansai Electric Offering Circular, Feb 2025.

(MM JPY)	12/31/2024 (1))
Secured Bonds	1,533,615
Current maturities of LT debt	526,088
Short term borrowings (incl. bonds)	157,724
LT borrowings	2,323,497
(of which are secured loans)	250,481
Total	4,540,924
Secured bonds /total	39.3%

(1) Pro Forma for US$500 million USD issuance on 18 Feb 2025

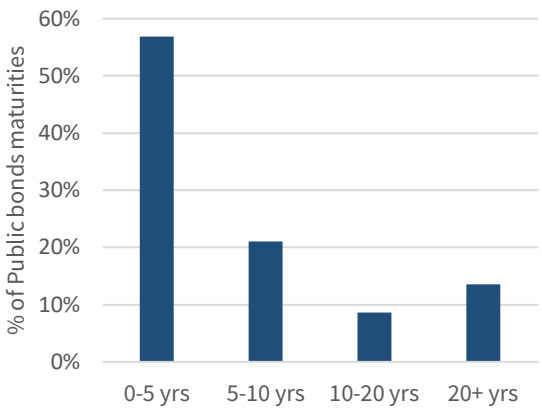
Figure 2. Kansai Electric's domestic market bond maturities from 2025-2028, Source: Bloomberg, accessed



Total secured debt as a percentage of debt for KANSEL is ~39%, which leaves headroom for the issuance of new senior unsecured bonds without breaching the 50% threshold that triggers ratings changes. Over the next 2-3 years, KANSEL will have upcoming maturities in the domestic market of about JPY150-250 billion per year (US$1-1.7 bn). Of these maturities there is one green bond maturing in 2027, with notional value of JPY 30 bn.

[6] "Kansai Electric - Final Offering Circular", Kansai Electric, 18 Feb 2025.
[7] Data from Bloomberg, AFII, sourced 3 Mar 2025.

Figure 3. Kansai Electric's bond maturity buckets



KANSEL's public bonds are concentrated in the shorter maturities bucket with over 50% maturing within 5 years. Its green and transition bonds make up 3.1% of total debt, and 8.2% of total bonds outstanding. (See Table 2).

Table 2. KANSEL green and transition bonds, Source: Bloomberg, accessed 3 Mar 2025.

ISIN	Security	Issued Amount	Payment Rank	Issue Date	Currency	Transition	Green
JP322860BP96	KANSEL 1.073 09/20/33	20,000,000,000	Sr Unsecured	1/9/2023	JPY	N	Y
JP322860BP70	KANSEL 0.9 07/25/33	20,000,000,000	Sr Unsecured	13/7/2023	JPY	N	Y
JP322860AN40	KANSEL 0.33 04/23/27	30,000,000,000	Secured	8/4/2022	JPY	N	Y
JP322860BN49	KANSEL 0.574 04/23/32	25,000,000,000	Secured	8/4/2022	JPY	N	Y
JP322860AQ70	KANSEL 0.888 07/25/29	30,000,000,000	Secured	5/7/2024	JPY	Y	N
JP322860BQ79	KANSEL 1.56 07/25/34	15,000,000,000	Secured	5/7/2024	JPY	Y	N

Kansai Electric background

Kansai Electric is the second-largest integrated electric utility with generation, distribution, and transmission in Japan. KANSEL procures fuel and supplies electricity, gas, and utility services in the Kansai region in Japan. As of FY2023, KANSEL's power generation comprised of 44% nuclear, 29% LNG, 14% hydropower, and 11% coal.

KANSEL plays an important role in Japan's energy transition as it has the nation's largest carbon-free generation capacity. In KANSEL's decarbonisation plan, nuclear power generation is essential to achieving its pledged GHG emissions reductions. By FY2023 the company had achieved its FY2025 goal of cutting Scope 1&2 emissions by 58% from FY2013 levels, more than its 55% reduction target for 2025. (See Table 3 for KANSEL's emissions reduction targets.) However, one metric – its CO2 emission factor of electricity supplied to customers – remained high at 0.401 kg-CO2/kWh in FY2023 (from 0.42 kg-CO2/kWh in FY2022).[8] KANSEL's existing green and transition bonds proceeds have been fully allocated to renewable energy uses, nuclear power, zero-carbon thermal power, and its transmission and distribution businesses.

In Nov 2024, KANSEL issued 377.4 billion yen (~US$2.5 bn) of new equity and treasury stock. Proceeds of the equity issuance were allocated as follows: 1) JPY 165 bn for expansion of growth business (including data centre business) 2) JPY112.4 bn for capex to increase efficiency and decarbonize power plants, and 3) JPY 100 bn for potential acquisitions in growth businesses.[9] Interestingly, JPY88.4 bn (US$589 mn) is allocated for the renewal of the Nanko LNG-fired power plant, while JPY24 bn is to be used to renew hydro and nuclear plants. KANSEL's plan is to decommission the aging LNG power plant by Mar 2025 and install three new General Electric gas

[8] "Environmental Data 2024", Kansai Electric, Aug 2024.
[9] "Mid-to Long-term growth Strategies", Kansai Electric, 31 Jan 2025.

turbines that are scheduled to be in operation by FY2029. The company expects this to increase power generation efficiency by about 40% and reduce its CO2 emission factor by 30%. The plan is to introduce hydrogen co-firing in the late 2030s and exclusive hydrogen firing by mid-2040s.[10]

Table 3. Kansai Electric GHG emissions target (Source: Kansai Electric)

	Actual		Target	
GHG Emissions	2013	2023	2030	2050
Scope 1&2	4710	1988	1400	0
Scope 3	4030	3596	2970	0

However, Kansai Electric continues to run two heavy and crude oil power plants in Gobo and Ako, and one coal-fired power plant in Maizuru. KANSEL currently has no plans to decommission its coal and oil plants and is instead investigating carbon capture technology to reduce emissions. With nuclear capacity factor running at 92.1% as of Dec 31 2024,[11]in order for further decarbonisation to be achieved concrete measures must be taken with regards to its fossil fuel power plants.

Conclusion

Kansai Electric is an important part of Japan's energy transition, given its dominant role in nuclear power generation. With the change in the bond issuance provisions for the electric utility sector, KANSEL will need to tap the senior unsecured market for future bond refinancings and debt funding. With much of its public bond maturities coming up in the next five years, KANSEL can consider terming out its bond maturity profile. Given the strong demand for its recent USD bonds, the company can engage US$ investors for future funding requirements, including via the green and transition bond markets.

[10] "Integrated Report 2024", Kansai Electric, Dec 2024.
[11] "Financial results for 3Q of FY ending 3/2005", Kansai Electric, 31 Jan 2025.

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