

Electric power sector

Alert: Where we are in restarting nuclear plants (14) — Reaction to NRA chief's comments

- **Conclusions** — Shunichi Tanaka, the head of the Nuclear Regulation Authority (NRA), made some comments on February 12 about reactor safety checks. The debate over the country's energy policy seems to have reignited following the Tokyo gubernatorial election on February 9. We assume that nuclear power will continue to form part of the government's energy policy, but Mr. Tanaka's comments and other factors lead us to believe that re-opening the country's reactors will take a bit more time. Specifically, we think operations will not resume at the Ikata No. 3 reactor (Shikoku) or the No. 3 and No. 4 reactors at the Kawauchi plant (Kyushu) before June.
- **NRA chief's comments** — As part of the safety review process, the chief stated that the authority is considering incorporating a period of public comment and public hearings as part of the decision-making process to authorize requests for reactor set-up changes (authorization that nuclear power plants meet the new regulatory standards in terms of design). It would appear that the technical aspects of nuclear power is the issue here and not the merits or otherwise of nuclear power itself. The chief has requested a draft proposal from the NRA by February 19. As this is a new development, it is hard to determine what lies ahead, but if the process changes in line with Mr. Tanaka's comments, we think reopening nuclear power stations will require more time.
- **Energy policy** — The LDP's energy committee met on February 12-13 with the aim of advancing discussions about revising the Electricity Business Act and Japan's Basic Energy Plan. We think focus is likely to rest on the description of nuclear power as an important energy base and nuclear fuel cycle policy. In any case, we still think that the nuclear power stations that are currently undergoing safety checks will be reopened.
- **System reforms** — We expect reforms to advance in three stages. At the first stage, the area to coordinate supply with demand will be expanded nationwide, instead of leaving the issue up to existing regional utilities. The second stage involves fully liberalizing the retail electricity market by around 2016. The third stage, which is expected to take place in 2018-2019, involves the separation of power generation and distribution businesses and the elimination of retail price regulation. According to the timeline, the government will submit related legislation to the Diet in 2014 up to the second stage. Even with the gubernatorial election decided, we foresee no change in this debate. We think electricity rates are highly likely to rise if reforms go ahead as currently planned, but we sense industry reform is advancing earnestly.
- **Reference reports** — In our December 4, 2013 sector update "[Electric power sector - Lull likely for sector in early 2014, but upgrading Kansai to Buy](#)", we mooted the possibility of nuclear restarts in FY3/14, but we pointed out the likelihood that restarts would be delayed in our first sector report of 2014 on January 8 "[Electric power sector - Where we are in restarting nuclear plants \(13\) — Reaction to NRC commissioner comments](#)".

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Kansai Electric Power

(9503.T; ¥1,088; 1)

Valuation

We believe dividend prospects will remain a key share price driver over the near term, but as many electric power companies paid no dividend in FY3/13, we believe dividend uncertainty has increased considerably. At the same time, with progress being made in terms of price hikes as well as slight advances in re-starting nuclear plant operations, it has become easier to assume an end to the slide in shareholders' equity and also to forecast profit levels in 1-2 years.

Accordingly, we use PER and PBR as our main valuation metrics and in view of the improvement in sentiment we base our target price on the higher of 0.8x-1.0x BPS or c8x-9x the average of FY3/15E and FY3/16E EPS. In the 10 years before the March 11, 2011 disasters, the PBR range for the electric power sector was 0.8x-1.9x and the PER range was 9x-over 20x and we now use the lower end of these ranges to set our target price.

For Kansai Electric, we think rate hikes and the resumption of operations at its nuclear facilities suggests strong EPS is possible in FY3/15. Accordingly, we derive our ¥1,350 target price by applying a PER of 8x-9x to the average of our FY3/15 and FY3/16 EPS estimates.

Risks

Downside risks include 1) rising long-term interest rates and increasing inflationary expectations, 2) the introduction of asymmetric regulations (break-ups or the forced disposal of assets, etc.), and 3) substantial increases in the burden of safety-related costs at nuclear power plants due to changes in regulations, for example. Upside risks to our target price include the following: 1) legal problems, such as environmental taxes, for which the burden size and duration is unclear over along period, becoming clearer, as was the case with nuclear "back-end" costs; and 2) rising demand growth rates.

Appendix A-1

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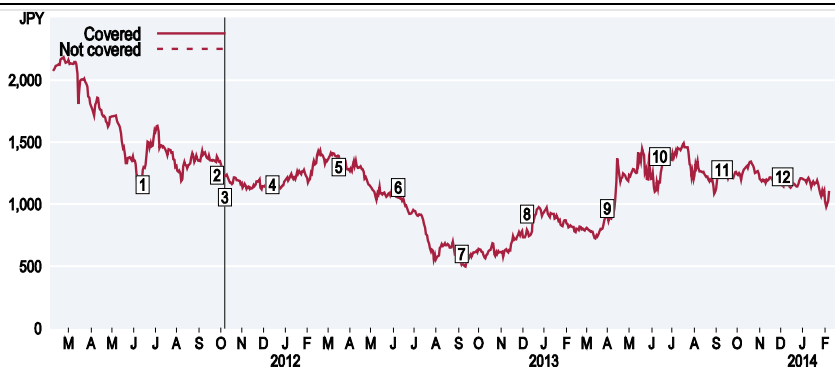
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Kansai Electric Power (9503)

Ratings and Target Price History Fundamental Research

Analyst: Takashi Miyazaki



	Date	Rating	Target Price	Closing Price
1	14-Jun-11	*1S	*1,600	1,277
2	27-Sep-11	*2H	*1,450	1,384
3	7-Oct-11	Stock rating system changed		
4	14-Dec-11	*1H	*1,400	1,121

* Indicates change

	Date	Rating	Target Price	Closing Price
5	16-Mar-12	*2H	1,400	1,388
6	8-Jun-12	2H	*1,250	1,052
7	6-Sep-12	2H	*630	513
8	7-Dec-12	*3H	*700	793

	Date	Rating	Target Price	Closing Price
9	1-Apr-13	*2H	*950	907
10	13-Jun-13	2H	*1,300	1,177
11	10-Sep-13	*2	*1,270	1,254
12	4-Dec-13	*1	*1,350	1,148

Rating/target price changes above reflect Eastern Standard Time

Kansai Electric Power (9503)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Takashi Miyazaki



	Date	Rating	Target Price	Closing Price
1	12-Aug-11	*ADD MP	-	1,319

* Indicates change

	Date	Rating	Target Price	Closing Price
2	21-Sep-11	*REM MP	-	1,355

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12 Month Rating			Relative Rating		
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55%	52%	44%	62%	52%	49%

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