Half Year FY20 Results – Market Call Transcript

OPERATOR:
Welcome to the Whitehaven Coal interim FY2020 results. All participant lines are currently on mute. Following the presentation, we will open the call for questions. To queue for a question, please press star one on your telephone keypad. Thank you again for joining us today. I'll hand over to our first speaker, Managing Director and CEO, Paul Flynn. Please go ahead.

PAUL FLYNN:
Good morning everybody and thank you very much for joining us today for the half-year results for financial year 2020 for Whitehaven Coal. I do acknowledge this is a brave new world of using new technology and from time to time I know technology has defeated us on one or two occasions in the past but thank you for embracing it and joining us through webinar and also the teleconference. So, we'll work our way through this. In keeping with that change, we're going to mix it up a little bit for you to as well in terms of how we present the half-year results. So, I'm joined here in the room with Kevin Ball who will do part of the presenting as well for the financial component of the business. And we've also got on the line Quentin Granger, EGM Ops who's going to participate also through the Q and A section that follows at the end. I believe the webinar, when it comes to questions from the webinar, we'll read out the question and answer it. Whereas those dialling through the phone can pose their own questions verbally themselves.

So, without further ado, I'll move on. Thank you for joining us. I've brought your attention to slide two just in terms our disclosures as we always should. There are forward-looking statements in the presentation here so you should read the disclosure. It does also refer to our reserves and resources, whilst not new they were previously released back in August and they are included in this pack by way of reference.

So, if I can move on to some change. I'm going to deal with a little bit about the market before we actually get to our financial goals and then I'll come back after the results to talk about our projects and our growth.

So, moving onto page five is where I'll kick off. Looking at our customer base we've got a chart which you've seen there in previous iterations but reconfigured - in this it's easier to understand. Obviously, we've got a growing customer base across the growth centre of the world being Asia and that's a very good place to be strategically for us. You know that we've got a very good footprint in the thermal coal product with high energy, low trace elements, low ash, low sulphur, and low phosphorus which is of great benefit to thermal coal uses i.e. electricity, electricity uses mainly. And then we've also got a growing footprint with our semi-soft and PCI coals into steel producers and smelting operations across Asia. And being the growth centre of the world the outlook for us is very positive and we'll go through that as we move through the pack.

Over the page, you can see some stats here in terms of our key markets. Population growth, real GDP, and urban population growth as well, all of which are key drivers in demand for electricity demand, for infrastructure demand, manufacturing and industrial output more generally. On page seven, one of the key determinants of that drive is obviously increasing electricity consumption in our region. And I'm sure you've seen these charts from us before where we've depicted what is in this instance actually quite a short term outlook, evidencing significant growth for electricity across our Asian markets. The good thing about our business is we do have the benefit of proximity to this market, we have the quality they like and an extensive customer footprint which is expanding year on year.

Over the page on eight, electricity consumption is driving thermal coal demand there's no doubt about that. And although the world is a dynamic place and it differs depending on which part of the world you reside in. In our region, the low ash, low sulphur, high energy, low trace element coal that we sell is in very good demand, as is our semi-soft and PCI product that is driven by the roll out of the installation at HELE plants as it relates to our thermal coal and with growing demand for infrastructure and the associated building materials that go with that, we're seeing strong take up of our coal in this region. Of course, in other regions, and that's why we've got it here, the rest of the world, you will see that there are other dynamics playing out in those markets and in some of these markets, they have cheap gas. Other markets they have strong nuclear footprints. But in our backyard, neither of those things are as relevant and we're seeing strong demand for our thermal coal.

On the other side of our business, you realise obviously there's the semi-soft and PCI demand and that is also with a strong outlook as well. These graphs really depict to you the coal as an integral component of the steel and industrial development through to construction materials in our region, and that paints a very strong picture in a relatively short period of time for continued demand for our products.

Over on page ten, again for our semi-soft and PCI outlook it is very strong. I think there's no denying despite the short term interruptions that we see with various trade-related discussions and more recently the coronavirus phenomenon, then the backdrop for demand for our growing metallurgical business is very strong.

As you know Australia is the source of the best hard coke in the world and we're also large producers of PCI and semi-soft. And in New South Wales, in particular, our footprint of semi-soft and PCI has been well received by the market. India now represents half of our metallurgical sales which is quite a significant change in our business. And with the arrival of our exposure into the hard coke market with Winchester South, I'm sure India will play an increasing part of our outlook as far as our metallurgical sales go.

Now, just onto our results, and just to come off the highlights quickly and I know that much of these are numbers which are familiar to you as a result of the December quarterly release but I will just call these out for you. Our TRIFR at 5.72 is a decent result. As we pointed out much lower than the average for the New South Wales market but that's not really the way in which we measure ourselves. Year on year we must improve and if we're going to produce more tonnes we must continue to lower the rate of injuries in our business and we continue to work hard in doing that.

Obviously, we've had a softening Newcastle index backdrop for this first half which is no surprise to any of you and our thermal coal prices average $70 for the half and $94 for our metallurgical coal products.

The Narrabri change out was our most onerous, our most challenging and longest change out with the upgrade of our chock cylinders during the relocation from panel eight to nine which went very well, on budget and not an injury despite all that complex work that was going which was tremendous.

Managed coal production at seven and a half million tonnes is 31% down. Maules Creek, which we'll get to, with a labour shortage and dust events, we've got an update on both those aspects and, of course, the scheduled outage of Narrabri being in change out.

Equity coal sales including purchased coal at 8.5 million tonnes is actually, period-on-period, quite consistent given that we have purchased coal and drawn down stocks to maintain our sales profile with our customers.

We did close the acquisitions at 7.5% of Narrabri with the purchase from EDF Trading. Longstanding as that is, as many of you have observed, that is concluded and so we look forward to our improved ownership there at 77.5%.

The Board has declared an unfranked dividend of 1.5 cents per share in line with the more subdued coal pricing but we are continuing to pay dividends and really we'll reassess this in the second half which we expect will be a much stronger half that the first.

And it's very nice to be able to say that we have concluded the amend and extend of our financing facilities here for our billion-dollar facility very successfully on similar terms to what we've had in the past, and Kevin will talk to this, and now maturing out at 2023.

So, we'll just move over to safety. And this picture here it demonstrates the right relationship between reducing our injuries and increasing production. And as you've heard us talk in the past increased production is not sustainable if we don't actually improve our safety. And that is the right relationship to exhibit but we are looking for further improvements past the 5.72 figure that we have recorded year to date. I can say to you that the first couple of months of the year have been improving on that trend which is nice. But there's more work required here in order for us to continue to deliver on the aspirations of growing the business past the 23 to 25 million tonnes our current portfolio can produce with the arrival of Vickery and Winchester South. And with that, I'll hand over to Kevin and he can present the financial results.

KEVIN BALL:
Thanks Paul. Thanks very much. So, you can see on slide 14 the main numbers, main P & L numbers and balance sheet items. Soft retail pricing for the first six months of December 2019 having an impact on our earnings. It's been the biggest impact on our earnings. It is the main cause of the driver of the decrease compared to the price of the previous period. But because there was a smaller volume of sales and a smaller volume of production, and with the business that we have that means that the fixed costs of the business were absorbed over a smaller base and this has led to an increase in unit cost. We'll talk about that in more detail in a few slides. The Board declared a dividend of one and half cents per share unfranked and the payment for that is scheduled for Friday, 6th March in 2020. And that fits around the 50% of NPAT for the result of the year.

Looking at the balance sheet, net debt is a little higher than it was at 30 June 19 but that's not unexpected. We did pay out nearly $300 million in dividends in that last six months and that is the main cause of the change in the value of net debt. But I draw your attention to gearing. We have a range of gearing up to 20% and we're at 15% so we're comfortably in that range and we're reasonably happy with that at the moment.

If I turn the page and talk about the profit and loss you can see in the revenue line that revenue down from $1.3 billion to $900 million and that's really just driven by that sales line and the sales price and we'll show you a little bit of that in the future. Interest expense pretty flat. Included in the operating expenses there are purchased coal. So, I draw your attention to the face of the profit and loss statement that we've released to the market which will give you the purchased coal cost and that will lead you to understand what our operating cost performance looks like. Rail, port, marketing and royalties are down a touch not surprisingly because the prices were down. And our EBITDA was down from $551m to $177m. That decrease in EBITDA margin is as I keep saying mainly a factor of softer pricing. However, the increased cost per tonnes did contribute a little bit. We'll do a little bit of a deeper dive coming forward now. So, if you look at the EBITDA bridge that's on slide 16 you can see that $332 million came around from the price changes and a slight benefit with an FX falling from 0.72 in the first half of fiscal year 2019 to 0.68 in the first half of fiscal year 20. There's a volume, there's about 600,000 tonnes less sales of our own coal in there which contributed to that $38m and costs of about $51m. Those costs you would expect as we talked about in the release to market in December, were going to be impacted by labour issues and by dust and smoke events. And we talked about those before, and certainly that shouldn't come as any surprise. But I guess the question you are going to have is how do we get from a first-half number of about $76/t to the second half guidance of $73/t to $75/t, and we'll get to that in the slide as well. But we're coming to unit costs. I think none of this is terribly surprising. We had our first half cost in fiscal year '19 of about $69 a ton. We finished the first half of fiscal year '20 at $67 a ton, and in this slide, you can see the places that which we attributed those cost outcomes. Labour shortage and dust, together with under-utilised take or pay, come together. We've talked about an increased strip ratio at Maules Creek in the past, and that certainly comes through here, and we've got a program there of increased washing. So we've implemented a revised labour and retention program at Maules Creek that is delivering. We're seeing more people there, and certainly, on the calls we have each week on production, we're hearing good outcomes from that. In relation to dust, I'm pleased to say, and I think Paul will talk to this a little bit more, we've had quite a strong return to summer rainfall in the region, and this has addressed the drought and bush fire conditions. And then there is, as you know, our logistics costs are often fixed in nature, and we have take or pay arrangements for them, but in the second half, with our expected increase in production we're expecting to see those cost due to underutilisation come off.

We took a conscious decision in our marketing strategy to focus upon positioning these products at Maules Creek and Tarrawonga at the better end of the market, and we're washing more coal there, but that coal attracts a higher price. So the increased quality, and the price, the product comes at a higher cost, but comes for the better margin for us. So we expect it continue to do that. It certainly helps our marketing team to deliver this coal into the markets of Asia because the market and the environmental benefits that a higher quality coal bring are well noted. So at the end of fiscal year '20, our unit cost are a dollar above the top of our guidance of $75/t, and I will just step into how we think that gets from $76/t back into the range of $73/t to $75/t. And on slide 18, you can see here we think we'll get better productivity at Maules Creek in the second half. We're expecting to see better productivity in Maules Creek in the second half with a labour program that's there, and we expect to see better utilisation of our logistics chain as we push more coal down that chain. And again you'll see increased production will give us a better outcome mainly because those fixed costs we have in the business around mine operating overhead, and sites will reduce. So that's how we think we get back from $76/t to $73/t to $75/t, and we'll move on.

Another two more lines in here I want to talk about, which was the $116 million in depreciation which is a step up from the previous year. And that unit cost of depreciation in half one fiscal year '20 was about $17/t, while in half one fiscal year '19 was about $13/t, and that change comes from three areas. So in '19 we increased our rehabilitation assets - that's cost us about 50 cents a ton. We had underutilisation of assets at Maules Creek because a lot of these assets are amortized on a straight-line basis rather than the units of production, and we think that has costed us about 60 cents a ton, and because we've put our efforts into overburden movement in this first half which has led to the reduction of volume of coal produced that depreciation charge comes through the P&L and so there's about $2.80 that comes from that. In the second half as we turn to balance up the coal production and the overburden movement that number shouldn't be repeated because we'll have a bigger divisor in the tonnes that we produce.

I wanted to take two minutes as well just to take you through the interest. You'll see that the interest is down about two million from the previous year, or previous half year from $22m, down to $20m. And I'll give you some break ups for that. There are some costs in this we incurred because of the nature of business, so they're relatively fixed in nature each half year. Bank guarantee fees and undrawn commitment fees. And there are costs that vary with the level of drawn debt in our senior facility. So while interest rates were cut in '18 from 1.5% to 0.75% the undrawn commitment fees come at us

when we have an undrawn amount on the debt. And as you can see establishment or upfront fees which were all spelled out in the financial statements are really a fixed cost each period.

Over the page on the balance sheet, cash on hand, we normally hold about $100 million in cash on hand, and the bridge on the right-hand side there shows you how we move from $162 million in net debt to $587 million. And the main change there was the payment of the final and special dividend of 30 cents per share. You'll also see that we spent $132 million on investing in our business, and we'll talk about that, and with the introduction of IFRS16 we've been steadily refinancing some of our operating leases into financing leases which brings them into net debt definition. We have sourced the fleet for Tarrawonga, and again, on the right-hand side there on the lease payments that's made of about $40 million worth of payments in actual lease fees, and about $40 million worth of equipment that has come on the balance sheet. And just to round it up. The decrease in equity from $3.5bn to $3.2bn is really the dividend we paid.

Investing capital expenditure it was a number of $132 million, but as you can see we spent about $34 million on sustaining capex in total, $13 million on mains development, and $21 million in sustaining capex, but the number that we spent the most at the moment is $81 million in growth projects. And the first point in this slide you can see we spent $16 million on water security which with the 2018/19 drought we focused on ensuring that our operations would be uninterrupted by a lack of access to water. You know, we did a lot of work through '18 and '19 to make sure that happened. We bought several parcels of land which provided us with access to productive sources of ground water. We laid pipelines from those sources to Maules Creek, and I'm pleased to say that over the course of the drought our production has been uninterrupted, other than for the dust and smoke events. It's been relatively successful. In the future, we will continue to address water supply and water security in the medium to long term.

We also sourced a new Tarrawonga fleet that was about $19 million. We increased the strength of the Narrabri longwall face by an upgrade in the longwall chock cylinders that was about $13 million, and we spent $13 million on the Vickery expansion project, infrastructure design and studies as part of that program. We spent a little bit of money on Winchester South, again, in the studies around that program. Some money on Narrabri Stage Three, and we spent some money on AHS at Maules Creek. And finally, I'm pleased to say that we spent about $17 million on the first cash payment for the acquisition of EDF 7.5% in Narrabri.

Over to the page on the financing and Paul has referenced this. So yesterday we closed the refinance of the billion-dollar facility, and that number hasn't changed from the previous amount. We do have a good relationship with our financiers, and we have strong banking relationships with a range of Australian banks and international banks, and that may come as a little bit of surprise to people who aren't familiar with coal. So our banking relationship is really strong. We really feel well supported. We do adopt a program of refinancing our senior debt facility about mid-term, so on average we have no less than two years left to mature, and that really gives us a good runway into how we structure our capital going forward. This is the facility we use to fund growth opportunities and it supports paying shareholder returns. Over the last decade, our syndicate has changed. Originally it was mainly Australian banks, now what we're finding is that the end user customer jurisdictions are coming into the banking markets in Australia and providing funding for resource projects in this country, and we're certainly included in that. As you can see we have a diversified source. We seek money from the senior debt facility. We use ECA facilities, because that's really how we acquire our yellow goods, or our orange goods in the form of Hitachi, and of course with rehabilitation obligations, and obligations around logistics we have a need for bank guarantees. So we have $424 million at 31 December on outstanding guarantees, and again we've refinanced that into a series of bilateral agreements with members of the senior syndicate. We will keep working on the ECA facilities. We're in discussions with NEXI out of Japan, and we've met with Sinosure out of China, and we already have a Euler Hermes arrangement, so they're important sources of funding for us in the diversified capital structure.

If I can take you over to the next slide which talks about capital allocation before handing back to Paul. I just want to put a little bit of colour about how we think about this. We are prudent debt managers, and that is how our senior syndicate looks at us. And we like to do that because that means we have a strong balance sheet, and good banking relationships, and shareholders can expect to see returns continue for years to come. So what you see here is a graph which has a coal price on it. From 2015 to 2020, and that improved price between '16 and '19 provided us with lots of opportunities to provide a return to shareholders, to invest in growth in the assets of the company, and to retire debt. And the first thing we did when coal price improved was retire debt because that was the commitment we made to our funding providers. Now, going forward our priorities remain to continue paying dividends. We expect to return surplus cash to shareholders. I think as Paul said, we'll get to the end of the financial year and the board will reconsider, depending on our debt levels, where we are with share buybacks. Hopefully, we're expecting those to be better, and we expect to construct Vickery and Winchester South in future years. So I'll hand back to Paul, and he can talk about the operational performance for the half.

PAUL FLYNN:
Thanks, Kevin. I'm over now on slide 24, and we are into coal production and sales. So again, I won't belabour these too

much because you've seen these numbers with the successive quarter through the half. But we'll acknowledge that we set out at the beginning of the year with a small first half, large second half, and certainly, that's going to be the case with the 60/40 split between the two halves. The key things to watch of course with the second half will be the Maules Creek increased productivity as we continue to fill the workforce slots that we're looking to fill. Narrabri of course was expected to be low on the first half, but will is returning to normal production levels. It already has done so in fact. Doing quite well since it re-initiated production in panel nine. And Werris Creek, which as Kevin mentioned, was focused significantly on the overburden removal in the first half. It shifts its weight more towards coal production in the second half as we always tap into these thicker and deeper streams at the bottom of the pit seemingly in the second half of each every financial year at Werris Creek.

I'm over on slide 25 looking at coal sales. Again, this is not a new picture to everybody here. And as I mentioned earlier, India is now half of our metallurgical sales which is quite a change over time. We still enjoy very good support with our customer bases across Japan, Vietnam, Taiwan, Korea but India certainly has an appetite for both our PCI products which has traditionally been the coals that we've sold there, but in more recent times our semi-soft as well seems like its hit the right spot with our Indian customers.

Over drilling down into Maules Creek in particular, obviously we're going to have a bigger second half as we've all acknowledged. As we've talked about quite a bit, we've obviously had some labour shortages but we are improving significantly in this area I have to say. Re-jigging the proposition that we're offering to new employees. Looking and using different service providers to find the labour for us. We are outperforming the forecast build-up of that manning level that underpins the second-half's production. So, we are ahead of schedule here and very positive about the momentum that's being created with the changes we have made. On the dust and regional dust event side, I think which caused us significant delays in October and November. In fact, we had 30 stoppages during those two months alone for regional dust events which were outside of our control. We did budget for some of that in the second half but we actually have taken some measures to agree circumstances in which we can continue to operate from a regulatory perspective in these regional dust events. So, we don't expect that to be as big a driver of stoppages as it was in the first half.

Of course, our autonomous project at Maules Creek also continues to move on. In fact, over the next two or three weeks, we will put in place the first fleet in a quarantine area in the pit which will start overburden removal in an autonomous form. That is an exciting development and we look forward to the rolling out of that through the balance of the overburden fleet over the next few years.

Narrabri as I mentioned as you know went through a scheduled changeout in the first half. So, production was consequently lower than you would've expected. Having said that as I say the most complex change that we've done given that we changed the drift belt and also the chock cylinders was completed very well on time and budget and Narrabri's back into good production which is very encouraging. You will see it step back up to its normalised level in the second half and as Kevin says, that extra volume will see us absorb fully our infrastructure contractual costs at both rail and port and that will be fully absorbed during the second half, relieving some of that cost burden we experienced in the first half.

Gunnedah ops, again, weighted to the second half of the year, as you know with Maules Creek as I've already mentioned. And Tarrawonga obviously starting to see the commissioning of much of its fleet and will be running around its three million ton rate at the very end of the year. Rocglen and Sunnyside as you know have moved into the rehabilitation phase.

We have thrown a slide in here on water security just to wrap up the discussion we've been having on that in the past. Water security as Kevin mentioned continues to be a focus for us. Just because we've had very good rain across our operations doesn't mean we're taking our eye off this. There is a longer term position that we need to put in place to better waterproof, in inverted commas, our operations and also for Vickery as well. But we have received substantial rain. In fact, we've had some short term glitches associated with receiving, you know, significant rain in a very short period of time. In some instances, ten inches in two weeks, which has caused some short term disruption. But it's welcome to acknowledge that our water facilities are largely full across our operations and that the Namoi River is flowing again after over 12 months of not flowing and we are able to use our high security water entitlements to pump from the river during this period which is certainly relieving some pressure. But again, I think there's more work to be done here in ensuring that whilst welcome, these recent rainfalls are not the answer for everything long term. But certainly no problem with water security underpinning our current guidance.

So, I might turn to growth and as you know we've obviously got a pipeline to growth. And we look to diversify both in product and in geography and certainly in customer destination. So, I think that you all know that Vickery and Winchester South products represent significant incremental growth but I will just reflect back on a slide which we've shown you before. It's not just new projects, our brownfield projects have upside as well. Maules Creek as I mentioned AHS is tied

very closely to our drive to move Maules Creek into a position where it could produce 16 million tonnes per annum. The life extension of Narrabri whilst it is aptly described as such, as a life extension, it will actually mean more tonnes once we move into those longer blocks per annum and Tarra as you know moving to three million tonnes. So, I think all of this is moving ahead. In terms of Vickery, we are waiting for the whole of government report and as frustrating as it is for everybody, it's not in our control. We know the Government is about to conclude its work so that's positive. You will have an IPC hearing then after and I think it's realistic to think that that determination there by the end of this financial year, frustratingly slow as that is. Winchester South continues to do its work with its studies with the various components of its work both on infrastructure, both on mine plans, coal quality, and certainly we will publish our reserves there, inaugural reserve before the end of this financial year.

So, overall we provide a graphic on 33 which sort of tries to overlay all of these projects together across a timeline which should help you understand the intersection of each of these projects across the outlook period. I won't talk too much more about them but at least it gives you a sense of how these projects will fit together and obviously is a graphical representation that there's clearly a body of work going on in the business to execute across a broad field of endeavour.

And now to manage all that growth we have actually changed the structure of our leadership team. So, I know that we've talked about this a little bit but there's a graphic just here. I must just explain this quickly for you. We do absolutely acknowledge we need further capacity to manage a bigger business but we are investing in new skills and talent for the executive team to be able to do that. And I've just highlighted a couple of items here. Obviously, we've reconfigured the EGM Ops role, and we've taken out of it people and culture and HSE and elevated those to the executive table. And as we've mentioned in the past, Leigh Martin who's taken on the P&C role is already with us and is now six weeks into her time and really making a difference. Mark Stevens has taken on the reconfigured EGM of Project Delivery. And so that project delivery role is significantly bigger than what it has been in the past. Brian Cole is retiring and having done a great job for the company but it is time for him to retire. Mark has now taken on responsibility for not just Vickery and Winchester South but also Stage Three in Narrabri. So, vastly different from what's been a singular focus on a singular development project in the past. And our HSE EGM role, we're currently in the recruitment for that and we're awash with very high-quality candidates I have to say which is a very nice position to be in and I look to file that down into a preferred candidate over the next month.

And just onto our guidance, no change on our guidance here. I just wanted to reiterate both on the production sales and also the capex guides. The only changes there that some of the capital has slipped out into the new year obviously with the delays associated with Vickery. Again, outside of our control but that will be dealt with in FY21.

And just to conclude, our focus for the year. Obviously our operational discipline for the balance of this year and going forward obviously is very important for us. We obviously want to make sure that we improve the utilisation and productivity of the fleet at Maules Creek. The AHS role out at Maules Creek is a very exciting project and we look forward to making sure that that underpins that productivity drive at Maules Creek as well. We're chasing down as you know the Vickery project approval and we'll look to explore the joint best opportunities that that represents for us as well, finalise Winchester South reserves and resources. And again as Kevin's mentioned we'll look at returning surplus capital to shareholders with a bigger second half.

So, thank you all for your time this morning and going through that presentation in the changed format. I move on with some trepidation to the new technological domain that is the intersection of webinar and teleconference. I know I'm sounding like a luddite but let's pull the band-aid off and get onto it.

OPERATOR:
OK, thank you, Paul. Thank you and welcome to the Q and A session. To ask a question please press star one on your telephone keypad and wait for your name to be announced. For our participants logged into the webinar, click on the blue hand icon in the top right-hand corner of your screen. We'll be taking questions from the phone first followed by the webinar. We'll now pause a moment to assemble a question queue. Your first question comes from Paul Young from Goldman Sachs. Please go ahead, Paul.

PAUL YOUNG:
Yeah, good morning Paul and team. Paul, great that there's no changes to production guidance. Just on that, can you maybe just add a bit more detail around how Narrabri and Maules Creek have been performing in February? And around Maules Creek just with the later restaffing and impact from the rains is the operation back around 13 million tonne mark and Narrabri back up at the sort of eight to nine million tonne mark? First question, thanks.

PAUL FLYNN:
You're an ambitious guy. Thank you for that question. Eight to nine at Narrabri in the second half annualised. Let me get

onto that. Look, the reiteration of guidance is obviously confirming that we do have a big second half. So, that pathway for that big second half at Maules Creek is underpinned by a similar forecast of being able to fill the seats of each of our pieces of equipment to drive utilisation and productivity as we want. As I mentioned a little earlier we are actually achieving better than forecast in terms of attracting and securing the labour required to do exactly that. So, I think that the changes that we made there are certainly yielding positive results ahead of schedule. So, that is comforting, Paul. Narrabri's kicked back into gear very nicely. The goaf formed very quickly there which is really good to be able to get out of that risky period at the beginning of any panel. And in fact, we've actually seen small weighting events during the last month which our improved shocks have managed very well. And so that's again a very good early sign there, coal quality is nice as well because we're in ground which is not affected by faults or anything like that and, but for a couple of little commissioning sort of niggles, you know I think those two big assets are in line to do what they're supposed to be doing.

You've mentioned the weather and I think it would be wrong not to acknowledge that whilst that weather is great to have received all that water, we did receive it very quickly and that has caused us some short term disruptions. Interestingly not at Maules Creek, it's actually with the smaller assets where they are less able to deal with the big inflows in that regard. So, less material Paul is the answer to you there but very welcome to have our dams full. I do note that there's more water or seems to be more rain on the way. And so we are making sure that we manage ourselves when we have full dams. We've also needed to be able to receive more water if more is coming and we just need to be able to balance that equation. But yeah, it's temporary disruptions but welcome to have relief from our tight water environment that we've been managing now for every 12 months.

PAUL YOUNG:
Just to clarify that eight to nine, I mean, you did 2 million tonnes of run on the first half and you've gone up to 6 to 6.5 for the full years so that implies, obviously, an eight to nine run rate for the second half if my math is correct.

Just a question, now, for Kevin, or two actually, Kev. One is on working cap behind a 100 million working cap release in the half, if I just look at receivables, payables and inventories, what are you looking at for this half and on working cap, build or release?

KEVIN BALL:
Well, I think we'll do a little bit better - on working capital release. We're going to build some stocks on the second half and just - it's going to depend a little bit, Paul, on the timing of sales but really, I mean, our terms on thermal sales are, you know, 7 to 10 days so, we might see a little bit of an inventory build, a little bit of receivables build, depending on price at the back end of the period. Look, I just forecast flat at the moment. We're going from there because we'll get an improvement from other parts of the business, as well.

PAUL YOUNG:
OK, great. Kev, on the target, gearing and leverage ratios, just to confirm that's without leases, correct?

KEVIN BALL:
It doesn't include the right of use asset leases but it does include finance leases, Paul, and with that change, we're pretty happy with that 15%.

Over the years, we've said $400 or $600 million on a through-the-cycle basis as what we want to carry as net debt. We're sort of in that range and we're expecting a stronger second half so, I'm pretty comfortable with that net debt and particularly, when you look at the refinance, it was really well subscribed, really well supported. So, our banks are backing us up in terms of how we're managing the balance sheet.

PAUL YOUNG:
Yeah, great, Kev, last question. Do you need to see an improvement in the Aussie dollar per tonne coal price to actually push ahead with Vickery in the next 18 months? It's a significant spend.

PAUL FLYNN:
No, Paul, we don't need to see that. In fact, I did the math with someone earlier today, just a previous question on this. Today is $68 and acknowledging, we have two very good products here. Both those products are better than Maules Creek's equivalent. So, acknowledging that. But that $68 is just for the thermal. You're going to get between $75 and $77 dollars, just for the thermal component of it. And that's without overlaying any premium for the semi-soft which the capacity of Vickery is about 60% of. So, at that level, and it takes $77 because I haven't added any semi-soft into that but at today's currency, where we're 0.68, less your 8% royalty, you'll do Vickery on those numbers.

KEVIN BALL:
Yeah, I think, Paul, when I look at it, I go like Paul says. We're getting a really good premium out of Maules but Vickery is a better product again. So, as Paul says, the math there, you know, we get $78, for Maules product and this has got a higher energy content again. So, let us work our way through that conversation.

We like the product, our customers like the product more importantly and it really does give us a really, good, strong semi-soft coking coal going into that market.

PAUL FLYNN:
You'd love to see a better underlying Newcastle price, of course, we would love to see it. But the point I'm making to you, Paul, at these levels, it's in the game.

PAUL YOUNG:
OK, thanks very much.

OPERATOR:
Thank you, Paul. Your next question comes from Lyndon Fagan from JP Morgan. Please go ahead, Lyndon.

LYNDON:
Thanks guys. I'm hoping to explore the projects a little more. So, I guess between Vickery, Winchester and Narrabri South, we're looking at almost $2 billion of capex and yeah, we've got a sort of 20% gearing cap. I'm just wondering how you can execute on all of those projects but maintain your gearing ratio within that range. And I guess, maybe, that's a through-the-cycle target, where we would you expect net debt to peak at in pursuing all of that?

KEVIN BALL:
The way we clarify that is we say that we would have a 15 to 20% gearing ratio or up to 20% on a through-the-cycle basis, although, we would stretch ourselves. And this is the difference between equity and debt. Equity will look at that number in the rear vision mirror and debt will look at it as though we've spent the money and is contributing EBITDA to our line. So, we're happy to invest on a value accretive asset but we would expect contributions from cash flow to help fund some of those projects and those projects aren't all being run concurrently. We still have that program. We're waiting for the whole of government report to come out and the approval to come out. And then, I think, we'll engage in conversations with potential joint venturers. And you can see from that met coal mix slide that's there that we're reaching into places that are outside of traditional Japanese joint venture partners there. So, we've got a pretty good interest in what is a very strong semi-soft product coming out of this.

LYNDON:
I guess, Kevin, putting it another way, where would you be comfortable for net debt to peak out while you're building all these things?

KEVIN BALL:
How about you leave me alone on that one and we'll work out when we get our approval and we'll work out what our capital program looks like and we'll work out what our joint venture program looks like and we'll end up with a package. I think, Lyndon, if you go back to the slide where we talk about being proven debt managers, that's what we'll be.

PAUL FLYNN:
I think that you need to think about this on a sequential basis. This is still sequential in nature. We're annoyed that the Vickery - the government has wasted a lot of time on Vickery. We're annoyed by that because that does that bring a little, Vickery, a little bit closer to Winchester South. It definitely does do that. So, that's annoying. But it is built to be sequential in nature and Vickery will produce good revenue and EBITDA for us when meaningful capital for Winchester South commences.

LYNDON:
OK, and maybe just on Winchester then. It looks like from the new slide diagrams, perhaps, the timings for construction has been pushed out a year or so. Is that interpretation correct? Or is it just a way that the image looks on the slide?

PAUL FLYNN:
It's just the way the image looks on the slide. Sorry, about that. Nothing's changed there. The comment I would make on the reserves and resources and I think, it's important to make because that's the important piece of the puzzle here. And I know a couple of people have asked where is that because you've said it was coming a little bit earlier. What we have

done here is that there's a two-part process here, the way we divided this up. There's an easy answer on the reserves and resources.

The Leichardt and Vermont seams are well understood. Well-understood. And if you wanted to cut out reserve quickly on that, no problem, we already know what those numbers look like. But we are interested in maintaining the optionality for the Fort Coopers which is a big piece of the overall resource puzzle there. And so, we're taking extra time to work out how much of that we want to drag in in the short term and then, there's a whole lot more upside associated with those Fort Cooper resources given how close they are to the bottom of the Vermont seam. So, that's really the work that we're going through at the moment which is, we feel, deserves extra time to make sure we get that answer right otherwise, you could just publish a Leichardt and Vermont-based reserve quickly here. And those seams and qualities are well-understood by all the surrounding operations that you'll be aware of around Winchester South.

LYNDON:
OK, so, just to finalise. So, we really shouldn't be modelling any overlap between the spend of Vickery and Winchester South even though Vickery's still facing a bit of a delay.

KEVIN BALL:
I'll step in here before Paul but I would say it's always been our intention to do them sequentially and certainly not to try and run two large projects concurrently. So, you shouldn't do that, no.

PAUL:
Exactly.

LYNDON:
Alright, thanks a lot guys.

OPERATOR:
Thank you, Lyndon. Your next question comes from Kaan Pecker from Jefferies. Please go ahead, Kaan.

KAAN:
Good morning Paul and team. Thanks for the opportunity. Two from me. First one, just wanted to touch on operating cost. So, can you talk through how much is leveraged to volume? From slide 17 and 18, it looks to me like it's around two and a half bucks a ton. And just on that, maybe, can you give an update of what you expect to receive in terms of cost-benefit from Maules in-pit dumping in the next 12 months.

KEVIN BALL:
I think Kaan, you've pretty much nailed that. It's around that 3 bucks a ton that we see coming through in by operating in the pit and coming through in logistics. And because the first half tonnes were where they were, we have a piece of those unutilised logistics coming through. In the second half, with tonnes stepping back up and Narrabri coming back in and Werris Creek and Tarrawonga producing more tonnes than selling them then, we would expect to see that logistics charge reduce and we'd expect to see things like our administration cost and our site overheads absorb over more tonnes. So that's why we think that reverts about the two or three dollars in the second half and that's how we end up coming back from $76 in the first half to falling in this guidance and see between $73 and $75.

KAAN:
Sure, just one second question. For around capital allocations, just wondering how, sort of Whitehaven views-up or weighs-up buy versus build decisions? Some of your peers have publicly indicated that thermal coal assets are no longer part of their long-term portfolio and it seems like in the current stage of the cycle, it's probably more favourable to buy rather than build it particularly in thermal coal. I mean, not looking for a specific asset, just wondering how this stage of the cycle was being viewed.

PAUL FLYNN:
Yeah, thanks Kaan. Look, it's an interesting question that you posed and we don't look at this thing in a one or the other type approach. We do look at all the assets that come up around the place and we have pretty firm views on what we like but we're also balancing that. We also know that we create more value for shareholders over time if we use all of our skills and when I say all of our skills, we have the capacity, obviously, to navigate our way through the regulatory processes to get greenfield projects up. And we can build things cheaply and we can run them well. And when you do those three things, we create more value. There's no doubt about that. Having said that, with our current portfolio, most will observe, that we have probably got plenty of greenfields-associated rich profile in the portfolio and you may not need too much more of that for the immediate future. To the extent that there are other things on the market that make sense,

then as I say we look at all things but I think you just got to be disciplined in making sure that you understand what it is that's going to add value to your business and your shareholders, as opposed to decisions that other companies may make from time to time in respect of the interest of their own shareholders. And the shareholder groups may not often align in terms of those two groups. So, we do look at that equation, buy or build a lot, but you know I think we've got a lot on our plate and to be buying stuff right now, it would have to be something incredibly compelling to want to distract you from all the work that's going on in the company today.

KEVIN BALL:
And I think the final point I'd make on Paul's comment is we see the quality end of that market as being an important place to play, so that is the lens through which we look at these assets.

KAAN:
Sure, thanks.

OPERATOR:
Thank you, Kaan. Your next question comes from Sam Webb from Credit Suisse. Please go ahead, Sam.

SAM WEBB:
G'day guys, thanks for the opportunity. Just a couple of quick ones. Just with Maules going to 16, looking at the same schematic too on slide 33. Ramped up to 16 so it looks halfway between 20 and 24. How long does it actually take to ramp to 16 once you get approvals? I just want to understand that further to make sure we're not putting 16 in our numbers too early or too late. Second question on the labour program ahead of schedule. Can you give us a sense, I know we talked a lot about it at the quarterly, but does this program actually go into FY21 or is this remediation work that you're doing with the labour force, is that all largely done by the end of this financial year? Thanks.

PAUL FLYNN:
Sam, I'll try and answer that first one. I don't think you should assume that going to 16 is an easy thing. So, I think you've got to have a couple of years post approval to achieve that. And the reason for saying that is it sounds simple an extra 3 million tonnes, but there is a bit of work infrastructure-wise to be upgraded. But these are not massive pieces of work but you know you've got implications for stockpile footprint say for instance. You've got implications for the bypass circuit there, the processing capacity for the CHPP which need to be factored in there as well. So, I would consider that to be a two year thing. So, yeah I don't think that's magically going to occur in one 12 month period. And the second part of the question?

SAM WEBB:
The labour.

PAUL FLYNN:
The labour well, look I think labour aspects of the business I think are as I said earlier were on the better side of where we thought we'd be forecast wise for the improvement in labour. So, I think April, May we'll see us at the position we want to be in by the way we are tracking.

SAM WEBB:
OK, so just with Maules so I understand, what sort of capital would it take to get that incremental tonnes?

PAUL FLYNN:
We haven't published numbers there. All we've done is we've mentioned the pieces of infrastructure firstly that would be affected by an increase by three million tonnes. And we've also acknowledged that the three million tonnes obviously would dictate our further coaling capacity. We think we've got, with an AHS enabled overburden fleet, capacity there to do the 16Mt, although the dirt associated with that, but we do think that there's further coaling capacity, so an additional fleet to be able to manage that.

SAM WEBB:
OK, thanks very much.

OPERATOR:
Thank you, Sam. Your next question comes from Glyn Lawcock from UBS. Please go ahead, Glyn.

GLYN LAWCOCK:
Good morning, Paul. Just wanted to investigate a little bit more around Maules Creek and this new labour. I mean you

talked about labour-hire so I would've thought that was quick. So, is this task of getting you know full labour up by sort of middle of this year is that getting to a full permanent workforce or is that just labour hire? And then how does that impact this new arrangement you want for labour? Will it have a long-lasting impact on cost and how does that impact your views around labour for Vickery? Cause I would've thought you're looking at another 600 permanent people maybe for Vickery if I'm not mistaken? You know is it possible to get that sort of labour in the region on a full-time basis? That's Maules Creek and then just interested to explore a bit more the corporate facility. You know I think Kevin said something about you did lose some banks out of the refinancing but you've obviously picked up others. Just if you could talk a bit more in detail around which banks are you losing, who are you picking up and if we continue to see that trend of banks dropping off what are the alternatives for that facility or shouldn't I be concerned? Thanks.

PAUL FLYNN:
I'll try and answer the first part and Kevin can try and deal with the second. Look, when I refer to labour I didn't really highlight the terms, labour in the context of contractual labour, labour-hire businesses. I mean we use all of them. As you know we have a contract labour component on each of our sites and we actually use them in a permanent fashion. But we actually also use them in conjunction with our own recruitment activities as part of the front end recruitment of people. And you're able to bring people on and they can use their national footprint these labour-hire companies, to bring people from other places and they're able to assess once they're on the ground whether or not they're the people you want to bring onto your payroll. And so, we've re-jigged what we've offered them if not just to allay your concerns here from a cost perspective, it's not material in that regard. But we have relaxed and enhanced some other parts of the overall package because it's not just about dollars per hour, in order to attract the people we need. As I said we're ahead of schedule there which is good. I do think the way in which we were managing this in the past perhaps wasn't delivering the right outcomes and when it wasn't delivering the right outcomes perhaps the blame was not on the people not being there. And as I said earlier we found people quickly once we made some appropriate changes and we're ahead of schedule in being able to ramp that up. As it relates to Vickery, we will be with Maules obviously with the roll-out of AHS liberating a number of people from the roles of truck driving, which will be retrained for other roles. Now, that's not a net, that's not a complete displacement of those people they're actually new roles that come with AHS that many people are already putting their hands up for because they're interested in the technology. So, we think for Vickery there's probably about 400 to 450 somewhere in that order net, that you'll need to find. Now, there's more capacity in the local environment there's no doubt about that but we are obviously going to need to convince people to come to our region in the same way we have done with Maules and very successfully with Narrabri. Narrabri went through this whole issue now nearly two years ago and currently is fully manned. So, I think we've dealt with this before. Perhaps site-based leadership wasn't dealing with that in the way in which they needed to previously. We've made some very good changes and that's yielding results. So, I don't think this is going to be as big a matter as what it would appear to be temporarily at this time. Kevin?

KEVIN BALL:
Yeah, look I'm happy to talk about the corporate facility. A corporate facility and I'm not sure where you get the statement that I said banks were dropping out. But that might be in the media and the AFR and that's certainly the conversation that's been going on in this country for probably the last four or five years, Glyn. But what I can tell you is that we had a billion-dollar facility in 2015 that was refinanced to $1.2bn and syndicated. We reduced that to a billion in 2017 and we refinanced it at a billion in early 2020. And over the course of that there have been some banks that have come and some banks that have gone. Or re-weighted and because we run this amend and extend program every two years what we feel from particular banks that are either coming into the country or growing in their presence in the country, they will come to us and express an interest that they want to come into the facility. So, I'm really happy with the group of banks that remain there and the group of banks that have come in. And I think that we've got a really strong facility and a strong relationship with those banks. So, I'm not trying to oversell it, it just evolves over time like many other things.

GLYN LAWCOCK:
Sorry, Kevin. Maybe I could've asked it in a different way then. Is the pool of banks to choose from shrinking?

KEVIN BALL:
Well, you're going to see, I think, on the thermal side there's no real surprise there Glyn, that the European banks have left the market about three years ago and they haven't been there. So, we had a couple of those in the '15 refinance that left and we had probably one or two that left in '17, and we've replaced those banks with other banks, typically Asian. So, our syndicate has moved between 2012 and 2020. We started out here with basically an Australian banking syndicate with a small Asian contingent to really being balanced between Australian and offshore.

GLYN LAWCOCK:
OK, but you don't see it shrinking further or I guess it's too hard to tell at this stage if the pool's deep enough?

PAUL FLYNN:
I think, Glyn one of the things that we did and Kevin and his teams have done very successfully now over three successive amend and extends here, so over the last six years for instance, we think there's great merit in aligning our business to our end user markets who fund us. Who invest in us, who are large members of our share register, who are equity members in our projects, who sell us equipment, and where we sell most of our product. So, we see great symmetry there and so we've brought more Asian participation into our syndicate over those six years and we think we'll further migrate there. It doesn't mean people leave but there has been re-weighting over time as we've brought others in who are knocking on the door. I think we'll continue to do that.

GLYN LAWCOCK:
OK, that's great, thank you.

PAUL FLYNN:
Alright Rachel, thanks very much for that for everybody and, of course, if there are any questions that you haven't been able to ask or that you'd like to explore from the previous questions asked, feel free to contact us. I'm sure we'll see many of you over the next few days as part of the results roll out. But I appreciate you again making the time and look forward to catching up with you all soon. Thank you.

OPERATOR:
Thank you, Paul. That concludes the Whitehaven call interim FY2020 results. Thank you once again for joining us today.