WHITEHAVEN COAL

BoA Securities Global Metals, Mining & Steel Conference Whitehaven Coal presentation transcript

JAMES REDFERN: Good afternoon and good morning, everyone. And welcome to the Whitehaven Coal presentation. My name is James Redfern, and I cover the Australian metals and mining sector for B of A in Sydney.

I'm pleased to introduce our next speaker, Mr. Paul Flynn, managing director and chief executive officer of Whitehaven Coal. Paul joined the Whitehaven board in 2012 and was appointed managing director and chief executive officer over seven years ago in March 2013. With that, Paul, I'd like to hand the call over to you to provide an overview of Whitehaven Coal before we move to Q&A. Thanks, Paul.

PAUL FLYNN: James, thank you. Thanks very much for the opportunity to speak today. And good morning and afternoon to everybody wherever we might find you. I'm going to go through a presentation for about 15 minutes, and then we're going to open up for question and answers. So we thought we might go back to just some basics here just to give everyone some brief coverage on background as to who Whitehaven Coal is.

And so, as if been directed, I need to indicate to you the slides that I'm on when I'm speaking to you. So who we are. We're probably the largest independent coal company listed on the stock exchange in Australia. We're certainly the dominant player in our high quality basin at the Gunnedah Basin. And we export the entirety of our production into Asia.

Two products generally we produce, metallurgical coal in the semi-soft and PCI ranges, and then very high-quality thermal coal into those markets. All our production is currently based in the northwest of New South Wales, although we are expanding into Queensland, which I'll mention for you.

I'm over on page 5 now, so just some basic data around the company. We've got a billion shares on offer largely. Healthy traded volume, so we are a considerable stock in terms of the turnover, which allows people to get in and out of our register freely. From our mines' operations, we've got a very large underground mine, the Narrabri Mine, our large open cut at Maules Creek, the two most recent assets that we brought online. And then a couple of our historical assets in Tarrawonga open cut and Werris Creek open cut as well.

Production for this year in the order of about 20 million tons. We do have growth options that can allow us to double that over the next 10 years. Those growth projects, namely Vickery at 8 million tons of saleable coal that would come out of that, and Winchester South certainly about a similar level but a metallurgical Queensland project.

Now, costs for the year, A$73/t to A$75/t. We're reiterating that.

We have some large shareholders in our register, AMCI being a very strong and steady holder there for many, many years. In fact, I don't think I recall them ever selling a share. And our institutional ownership has gone up considerably, which is a very good result over the last couple of years in particular.

And there's some data in terms of our capital structure there. Our recently refinanced senior facility of a billion dollars, that was a very good outcome. Oversubscribed, which is good. We have export credit facilities, leasing for equipment, and cash on hand, and so on.

I'm over on page 6. And just for a brief history for those who are not as familiar with us. And the snapshot I've given you here is essentially a 10-year window, which is a decade of growth from very small beginnings through to now at the 20 million ton range, as I mentioned. The real catalyst for change was 2011/2012, where we brought on Narrabri and then acquired Maules Creek and subsequently brought that online as well. So quite a significant pathway for us in terms of growth over the last 10 years. And certainly the next 10 we contemplate doing more of the same.

Over on page 7, I've got a bit of geography for you. The Gunnedah Basin being our traditional home, where we are the largest player there. It does produce very high-quality thermal coal being very low ash, low sulphur, very high energy coals, and a semi-soft and PCI product. You'll see the mines depicted there in blue, and then our development projects depicted there in the orange colour.

So Vickery obviously in our backyard in the Gunnedah Basin and Winchester South sitting smack in the middle of the Bowen Basin, which is a very exciting prospect for us to be able to bring on a metallurgical coal mine into our portfolio.

Over on page 8, quick summary of our existing producing assets. So Narrabri. You've got the Narrabri underground mine. And we've highlighted there the approved production limits for you in terms of each of these investments and the approximate mine life. Narrabri at 11 million tons approved. Can go for another 25 years. Stage three, a life extension expansion project, is certainly key to that. Maules Creek currently approved for 13 million tons. Its life is about 35 years. And a couple of key things happening there with the AHS rollout, which I'm sure we can talk about a little bit later.

And the mine maturing such that we can have input dumping opportunities available starting this year. We do think that this mine can produce up to 16 million tons, so we are doing some studies to evaluate that work and formulate a modification request for approval.

Tarrawonga has a new fleet deployed and is currently in the process of ramping up to 3 million tons. And we'll get to those sort of levels just at the end of this year.

Werris Creek, a mature mine in the rundown phase in its life now, now another four years to go after this one, is approved for 2 and 1/2 million tons. In the end, it'll do between 1.3 and 1.7 during those remaining four years of its life.

Now I'm flicking over a couple of pages. I'm over on page 10. And this really is a slide which just simply depicts where our customers are and the type of customers they are. But this has grown significantly over time, as we have grown in our production volumes. So chief markets here obviously in North Asia, Japan, Korea, Taiwan, and India. If I aggregate all those four together, it's about 85% of our output.

The emerging markets, which we've seen expansions into, are also highlighted here, where we've seen Vietnam, Philippines, and Malaysia also come to the fore in the last 12 months. Indonesia and New Caledonia, they are really boutique smelting applications that we sell coal into. And it might seem odd to people that we're selling into Indonesia, but that's what that is, nickel smelting.

Of course very topical on page 11 is COVID-19. I thought we'd just give a quick overview in terms of what we're seeing. Obviously the gC Newc pricing has been soft and certainly has seen headwinds in April, and I suspect we'll see that for the balance of this financial year. The customer support for the product actually is very strong. We haven't seen any change in behaviour there from our thermal customers at all.

On the met side, as everyone would have observed, there certainly is some softness in the marketplace there. And we have seen a couple of customers trying to push cargos out of June quarter into the first quarter of next year, which we've been able to accommodate for them. We do see things changing in China. Production actually has been quite interesting in April.

But we are looking to see where this balances out. We do see extra production in some areas and still a slow movement back into production with others within China. So I think that's a mixed picture that we're monitoring very closely. Albeit, as many of you know, we don't sell any of our product to China. But it is influential, obviously, in the supply and demand balance in the seaborne trade.

As a company, as it relates to COVID-19, we're largely unaffected, I have to say, operationally by this. And I'm sure other companies, mining companies, would've highlighted this to you. Obviously with a very good safety and well-being focus for our workforce, we do have mature and established safety frameworks within which to develop and roll out new initiatives from a safety perspective. So the mining industry generally has been able to be able to adapt pretty quickly because of that delivery mechanism that sits there for new initiatives.

So our business has been largely unaffected, leveraging, of course, the remote regional presence that we have and that all mines have, which has been essential to being able to operate the way we have. Very early on, we cut all travel between city and country just to preserve that natural advantage of being remote from the centres of infection. And to this day, we haven't had a case. And we're monitoring everything very closely and will continue to do so.

I'm on page 12 now, and I'll just talk to you a little bit about supply and demand. And I'll look at through the lens of both thermal and met. There's a lot of data on this slide, so I hope you can all follow it. But I'll quickly summarize what it's telling you. And essentially, what it's saying is that from a supply and demand perspective, you've got a relatively tight underpinnings of the market for thermal. And so if you look at the IHS numbers, you can see the CARG across the period from 17 to 23 is about 2.2%.

And then growth of the major players who can solve that demand outlook is really just Australia and Russia. And obviously a lot less growth there. I think that's one of the key aspects of this particular softness in the market is its demand driven rather than supply driven, which I think the last trough, if we think about the trajectory of coal prices through to its bottom in early '16, that was as much a product of supply as it was of anything else, whereas in this instance that's not the case.

If I flip over just to the met coal outlook, then that market looks more balanced to us. And I think that is consistent with the fact that probably met pricing has been softer in relative terms than what thermal has experienced through the same period. And I think that's going to take some time to play out. I see more stimulus and government policy being influential in the demand for metallurgical coal. And so it makes sense to us that this has been softer. But it also makes sense to us that this would rebound strongly with government stimulus as countries look to reignite their economies in hopefully not before too long, a post-COVID-19 environment.

I'll move across to page 15 because I mentioned at the outset, and I'll just get onto this now, we are a company that's grown a lot, and we would aspire to continue to do that. And we've just outlined our reasoning for this. There's obviously the diversification benefits, which many of you will observe. The range of metallurgical products are constrained in our basin, so the opportunity to bring more of those into our mix is very attractive.

We will obviously spread our wings to other operating jurisdictions with different infrastructure footprints. And of course it'll expand us into new customers with new markets. And if you do it with the right assets, then you'll be able to increase your margins as well. Now, all of that we see is important in securing sustainable returns for our shareholders. And so Whitehaven focuses on long-life assets that are scalable and that bring products at the higher end of the quality curve into our product mix.

So again, I'll go through our opportunities here just briefly for you. Now it is broken up into brownfields and greenfields. And I'm over on page 16 for you here as well. Maules Creek, of course, can go to 16Mtpa, as we mentioned before. It can go a little bigger, but we think 16Mtpa is about the right size. Narrabri, of course, with stage 3 approval, extends its life out to 2045. And we are heavily into that process and expect to lodge our EIS for that within the next six months. Tarrawonga is already online and ramping to its 3 million ton production limit.

Then Vickery, of course, is in the very midst of the approvals processes, and we look to see an announcement very shortly from the government about the timing of the final IPC hearing. COVID-19 obviously has thrown a handball into the mix of things here, and the government is obviously looking at how to conduct that final hearing in electronic form, which we understand the announcement will be made shortly. Winchester South, as I've mentioned already, obviously takes us into the Bowen Basin, brings a predominantly metallurgical coal asset, our first foray into the hard coke market. It does have an associated thermal product that comes out of that, as all mines in the Rangal Coal Measures do.

So onto our value proposition, as I say, we like to identify, develop, and operate high-quality, efficient mines that have long lives that will provide the best returns to our shareholders, our employees, customers, and the communities in which we work. And that essentially encapsulates our value proposition as a company. Now in terms of how that rolls out through the cycle and capital allocation, which I'm sure will be a focus of questions at this time, we've depicted for you over on page 19 our pattern of behaviour, if you like, from essentially when Maules Creek came online through to this most recently closed half.

And what we've demonstrated there is that we've deployed capital in a prudent fashion, and we've generated significant returns for shareholders through expansion over time. And Maules Creek, many of you will know that Maules Creek was commissioned on the 1st of July '15. And so we've depicted that period. We did increase our debt as we built Maules Creek. We moved quickly into a phase of debt reduction once the mine was up and running at a commercial level. And you can see we paid down debt through the next two years and essentially paid for the construction of Maules Creek within the first two years.

We entered a period with solid pricing with surplus capital and returned A$1.1 billion through the next two years to shareholders. So that brings us pretty much up to history. And of course we have this $1 billion facility, recently refinanced, going up to July of 2023 maturity.

So in summary, we've been a growth company. We look to continue to grow, obviously in a prudent fashion. The market's interesting right now, so we will do that prudently through this cycle. We have quite a balanced combination of brownfields expansion and also greenfields opportunities with our options to grow with new projects. We are very well positioned with quality products that align with quality customers in an area of the world, Asia, that is growing, not just from an energy perspective, but also from an industrial and construction materials perspective as well.

We have been prudent managers of capital, and we'll seek to continue to maintain that into the future with a solid balance sheet allowing us to grow. So with that, I'll complete my presentation and hand over to you, James.

JAMES REDFERN: Thanks, Paul. That was very good. Let's kick off the questions now. Paul being a thermal coal producer largely, maybe let's start with the outlook for thermal coal. You did touch on that in your presentation. Like many commodities, thermal coal prices have declined sharply year to date, and they're currently in the low US$50s/t. Just wondering where you see this relative to the global seaborne cost curve. Do you think we'll see any production being curtailed globally?

And just maybe you can go into a little bit more detail about the supply-demand outlook at the moment. Obviously COVID has had a big impact on demand. But just wondering where you see prices in the near to mid-term for thermal coal. Thank you.

PAUL FLYNN: Thanks, James. Yeah, look, I think there's going to be a period of softness here. And the clearly unknown in all of that, as I'm sure you've heard through other presentations, is companies talking about how long does this last. And the challenge for us I think is that our customer jurisdictions will come out of this at different paces. And although you can see clusters of our market in particular in terms of Whitehaven's market - Japan, Korea, Taiwan being a very large proportion of our production, I would generally say that they are in a similar boat, if I can call it that. And I would expect them to re-emerge from this period in relatively uniform fashion.

India, of course, is a big met market for us, and they've got shutdowns in their ports currently. But they are talking about reopening those as well. So my sense of this, James, to come back to your question on pricing is that I think we've seen the most recent softness, to me, representing the low. And I think we'll see a gradual movement of this now through the balance of this calendar year, gravitating more back towards the US$60/t. Whether or not we end up getting to the US$60/t by the end of the calendar, look, I think that's, again, it's a difficult call to make given that there could be subsequent outbreaks of COVID-19, which may delay people's recovery programs.

But I think the world is pretty much uniformly acknowledging that they need to get back into gear economically here before too long. And I think that bodes well for having seen the low point in this particular cycle price wise.

JAMES REDFERN: OK, great, thank you. That was good. I just want to touch on one of Whitehaven's major growth projects, which is the Vickery expansion. Vickery has already been approved at 4.5Mtpa ROM and Whitehaven seeking approval to expand to 10Mtpa. The New South Wales regulatory process is rather protracted, as you know, and approvals can take a long time.

Just for everyone on the call, maybe if we can simplify it down to when you think Vickery will obtain all the necessary regulatory approvals in order for the board to then make a decision on Vickery. You mentioned that the IPC hearing date is expected to be announced soon, and anything else please add to that.

PAUL FLYNN: Yeah, thanks, James. And you've been very polite in describing the New South Wales regulatory regime. So, look, I'll try and summarize that as best I can. So the trigger for the calling of the final chapter in this, which is this final hearing conducted by the IPC in its new guise, because many of you will realize that it's gone through a period where many of the proponents haven't seen great value out of it. And so the government has reviewed it, and a bunch of recommendations have been handed down from the Productivity Commission who reviewed it, which the government has accepted. So we see all that as very positive.

But the trigger for this final stage is the release of what we term as the whole of government report, which is the government's recommendation to the IPC on approval or otherwise of the Vickery project. Our understanding is that report is complete. It's been waiting essentially in abeyance for the IPC to nail down the process for this final IPC hearing. Now the minister has said to the IPC, you should consider conducting these things virtually given the COVID-19 backdrop. And so our understanding is the delays have been about how do they do that and make sure that everybody still has their say, or given the opportunity to have their say at this final hearing.

The hearing itself would be focused on the recommendation report, the whole of government report, and obviously the associated conditions that would come with that report. And so those conditions, we are aware of what they look like. Our views have been sought, and so we're accepting of those conditions for the approval of the project. But the final step is here to allow the public to have another opportunity to have their say. And that extinguishes all merit-based appeals once the IPC has determined.

Timeline, I think it's in the next week or two we'll see the whole of government report. From the date of the release of the whole of government report to the determination of the project, the government has set a 12-week period. So if the report comes out next week, then it will be 12 weeks from then that the IPC has to have conducted the hearing, digested the feedback from the hearing participants, and then determined the project one way or the other. So that's three months, essentially, they've got to do that.

I think it will take us post that receipt of that determination another three to four months in secondary approvals. So the finalization and approval of management plans for not just the construction activity, of course, but then also operations then after. And you've got to allow a similar period, if not a little bit longer, for the receipt of the EPBC approval as well. There is a federal overlay here. It's relatively simple compared to the state-based process. And of course, we've always spoken about allowing some legal time just to make sure that legal hurdles are overcome.

In essence, I'd say allow six months post the IPC approval to receive all approvals necessary to proceed to construction.

JAMES REDFERN: Thanks Paul, that’s very useful. I just want to touch on maybe climate change and some investors increasing focus on the environmental aspect of ESG and a big push to reduce carbon emissions and reduce exposure especially to thermal coal in some cases. I've got two questions. Has Whitehaven seen a change in its investor base in the past six to twelve months on the back of this climate change movement, if you like, and negative sentiment towards thermal coal by certain investors and groups?

And then the second part is, do you think climate change concerns will have any bearing on the whole of government report or government approvals for Vickery. Thank you.

PAUL FLYNN: Again, two good questions. Look, I think there's an interesting dichotomy here involved in this discussion. My first data point I'll remind everybody about is that institutional ownership of Whitehaven is now at 40% Aussie ownership. Now, we have been under-owned for many years, and that's obviously increasing over time. And that's the highest institutional ownership of the company more generally is at the highest it's ever been historically. And so that's a very interesting data point when you consider your question, James. And this is posed to us many times as what we've seen from an ESG perspective.

I'd have to say that we're not seeing a lot of change in that regard. Quite the reverse. I think organizations' view on these things has been maturing. And what we're seeing as a result of that is a deeper discussion on ESG matters from a holistic perspective, not just through the prism of climate change-related concerns. And so that's been very positive for us because as a company, we've got a very good story to tell, and which is broadly encapsulated in our Sustainability Report.

If any of the people on the call have not had a chance to read that, I would recommend that to you. It's a good document that encapsulates our view of this. So I don't see that changing too much. To your second question on climate change-related considerations from a Vickery perspective, our understanding is that the previous anomaly of IPC concerning itself with scope 3 emissions, our understanding is that, that avenue of pursuit of concern has been taken off the table, and that won't be a feature of the final stages of the process for the Vickery project and projects generally then after. I think the government's ruled out individual agencies involved in this process engaging in consideration of national and international commitments.

JAMES REDFERN: Thanks, Paul. That's good. We've got a few minutes left, so I want to touch on capital management and how the board thinks about capital management. So in light of the option to pursue Vickery, Winchester South versus perhaps share buybacks, just wondering how the board weighs up capital management in the current environment, reflecting, obviously, Whitehaven share price, the outlook for coal, and then the various growth projects that are potentially available to Whitehaven. Can you please talk about how the board thinks about capital management? Thank you.

PAUL FLYNN: Yep. Thanks, James. Good question. Front of mind, there's no doubt about that. That's definitely a feature of every board meeting, as you would imagine. At this point in time, I think, given the capital generation, it hasn't been as prolific as what it's been in the last couple of years. I think every organization has got to be responsible about how they deploy further capital. So from our perspective, we've highlighted that there are no investment decisions, obviously, this side of the end of this calendar year. But we are doing all the necessary work to do the approvals of those three large projects.

Now we've always said that we wouldn't be conducting those big greenfield projects concurrently. There is an order here that would be dictated by the approvals processes of those two competing projects. But at this point in time, I think it's prudent to be pursuing the approvals, but minimizing your capital spend. From the obvious point that you make is that with the share price being the way it is, then there's more merit in, if you have surplus capital, then potentially buying your stock back. I'll agree with that notion.

JAMES REDFERN: Great. OK, Paul, thank you very much. Just one last quick question. We've nearly approached the end mark. But I just want to touch on Whitehaven's unit cost. The guide for this year, I think, was at A$73 to A$75 per ton. Just wondering, do you think that we've seen the peak for Whitehaven's costs, and do you expect them to decline from here? I think there's a few reasons for the increase in cost this year, largely due to I guess you could say one-off operational issues. Do you think we've seen the peak for Whitehaven's costs? Thank you.

PAUL FLYNN: Look, James, I do. I do see that. Obviously you've noted that there's been a couple of one-off instances which have increased costs in the short term. Maules Creek is obviously at its most inefficient stage of its life at the moment, because we don't have meaningful in-pit dumping, and our dumps, out-of-pit dumps, are higher. And so the elevation difference between a deepening pit and the height of those dumps consumes a lot of fuel. And obviously the lap time, the cycle time of sending a truck out there and bringing it back is at its longest.

Now this will all change with in-pit dumping and then, of course, the autonomous haulage system coming to the fore as well. So given currently Maules is such a big piece of our production pie, it is very influential in terms of where it goes. So I see this, as you say, as being the high water mark. And we've seen a pathway, obviously, to the cost base that we refer to in our guidance being consistently performed in the second half. So we're certainly thinking from here on in, we can bring those costs downwards.

JAMES REDFERN: Excellent. And Paul, thank you very much for your time this morning in Sydney. Unfortunately, we are out of time now, and that concludes our Whitehaven Coal presentation. Thanks again, Paul, and hopefully we'll see you live in Barcelona in 2021. Thanks, everyone. Have a good day.

PAUL FLYNN: Thanks, James. Thank you very much.