September Quarter 2020 Production Report – Market Call Transcript

Operator: Welcome to the Whitehaven September 2020 quarter production investor and analyst call. 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. Please restrict the number of questions you ask to a maximum two per person to allow for the opportunity for everybody to ask a question. I will advise if there is time at the end of the Q&A for follow-up questions. Thank you again for joining us today, I'll hand over to Paul Flynn, Managing Director and CEO.

Mr Flynn: Thank you operator and good morning everybody, thanks very much for dialling in to the September quarterly production report. I'll go through the highlights, as I normally do and we'll get to the Q&A which I'm sure will be the focus of a lot of the call. Look, from our perspective, a good solid first quarter actually, to get off the mark in delivering in this new year, so I'll go through the highlights.

Strong performance on a safety perspective, as you would expect, given that we did have a strong June also. September quarterly run-of-mine coal production at 4.5 million tonnes was 4% up period on period, but it really was the sales that obviously with the large stocks that we had, that we obviously sold a lot during this period. So total managed coal sales at six million tonnes, 13% up. Managed own coal sales of 5.6, 15% up. Recorded total equity coal sales at five million tonnes, 13% up and our equity sales of our own coal, 4.6 million tonnes, 16% up.

The managed coal production at 4.9 was about 2% up period on period and our stocks are down at 1.8 million tonnes, about half of what they were at June. As you all know, Vickery was approved during this quarter, so we can talk about that a little bit later on and we have provided the guidance range that we've given previously on costs down to $69, still the same bottom range, but the top of that is now $72. Balance sheet remains unchanged from what we reported at June and we are in the process of just finalising revisions to our ICR with our lender group.

Thankfully, we have no known COVID cases and operations continue to observe all the hygiene and distancing requirements, as you would expect, but thankfully, the region is pretty clean from a COVID perspective. Just on safety again, with continued good momentum that we had in the June quarter with 4.74 as our TRIFR and well below, as you know, the industry rates, but as we continue to push new initiatives into the business, we want to see that come down even further and we're confident we can deliver that.

Over the page, we've got the various tables that you'll see there. I won't repeat those numbers again, other than to say obviously, most of you will realise, the little sum there between the managed and the equity totals is about 80%, early 81%, 82%, depending on which dimension you're using. Then we get interestingly to the equity coal sales and realising pricing table, which I'm sure there will be some discussion on, just to go through a few numbers there for you.

Sales mixture in the course of the quarter at 63% for our high CV thermal coal, 26% for our other thermal coal proportion, which was slightly up on previous quarters, but as you know, it does vary a little bit and I'll talk a little bit more about that. Metallurgical coal sales was low, as you would expect, off the back of the June lockdowns in India, which deferred sales into this quarter, which pleased to say that those sales have been reinitiated but expectedly low as a result of that.

Observing the prices that were through the quarter, you have the average for the quarter for gC Newc at $52/t, JSM of course $82/t and the average semi-soft spot was $63/t. Realised levels, we managed to approximate that average for the quarter for gC Newc at $52/t, being the premiums outweighing the discounts for the other thermal, which is a good result. Then the average of our semi-soft realisations basically splits the difference between the JSM and the average for the Platts price during that period.

As I say, sales we've gone through, so I won't spent too much time on that, but in this next section I will call out a couple of interesting areas. The volumes obviously with the split of our coal between the high CV and the lower ranked CV coals, we did work through production from Werris Creek, which was affected by those legacy underground workings, which we're now past, so this is really just the unwinding and some higher ash stocks that we've sold during the quarter. There was some fault-affected coal at Narrabri also, which was higher ash than gC Newc, which we also worked our way through into the Korean markets, which was positive.

The met, as I say, we've previously reported that we had received a deferral request during the June quarter to move sales into the September quarter and those sales have reinitiated, which is positive, but it will take a few more weeks to ramp up to those normal levels that we experienced in the past, so that is expectedly low at 11% of sales for the quarter. But we are happy we're on track to meet our sales guidance for the year.

Maules Creek had a solid start to the year, I have to say, just under two million tonnes produced, which is in line with the previous corresponding quarter, saleable coal production at 2.2 was about 8% up and sale produced coal as we drew down those stocks at 2.45 was certainly a solid result, 15% up on the previous corresponding quarter. As I said before, our stocks overall at that 1.8 million tonnes is just slightly under the half of what we had at stock in June, so we have drawn heavily down on our stocks as you would expect and converted that inventory of working capital into cash during the course of this quarter, which will be a recurring theme as we cover the other mines as well.

If I call out certainly met call is again low for this level at 12.8% of sales volume, reflecting that theme, that same issue in terms of the Indian market being closed for a period and now slowly ramping up during the course of this quarter that we're in, the second quarter. Our sales mix and production mix, as we mentioned earlier at the end of the June quarter when we announced our results, was 40/60 split half on half and we are on track to deliver that for this year at Maules Creek. I think the pleasing thing about Maules Creek, is certainly not just the coal production is as expected, but certainly, the overburden movement has stepped up nicely in accordance with the volumes that we want to move for this year.

Narrabri's production at 1.65, 8% down on the previous corresponding quarter. We had traversed an area where there's a known faulted area, so we did anticipate lower production levels during that phase and have derated our production, our budget, to that level. But that was a good quarter nonetheless to get through that area and back into a normal rhythm of production now. Again, same feature sales of coal in the quarter at two million tonnes, 9% over the previous corresponding period as we draw down stocks.

We also see the PCI sales, particularly as it relates to India, reinitiated and will ramp up over the coming weeks to levels that we expect normally in the course of this year. The long-haul change out, just for everyone noting, end of Q3 for FY21 and Narrabri we're confident on target for its ROM production for the year.

Over to the Gunnedah ops and both our Gunnedah ops mines have had a good start to the year, so Tarrawonga there at 490, 14% up on previous corresponding period and Werris at 381, 166% up on the previous corresponding period. Both of them have benefited from large stocks, as we've said before, in terms of their sales and coal stocks have come down, as you would expect from the June quarter. Other than that, it's been a very solid start to the year, nothing particularly noticeable to call out in this area, other than to say, as I say, Werris is past the old underground workings, so that's nice, we'll be liberated from that for the balance of the life of the mine and hopefully just deliver a more consistent product quality without the heat affected underground areas reappearing in the future.

From the development projects perspective, I'll just call out the key features of this for you. Narrabri is actually just about to lodge its EIS for Stage 3, so that will be a good milestone. We have lodged the document from an adequacy perspective and are working with the government on its feedback, but it will go on public display shortly. Vickery, as you know, approved. We are working through the EPBC approval requirements with the Federal Government and simultaneously working through the management plan related secondary approvals with the state.

Winchester South, as I mentioned before, we had conducted an additional drilling campaign there, that's now been completed and we are analysing the information coming out of that as we speak and on track for delivery of its first reserve before the end of this calendar year.

Getting to the market, I'm sure this will be a feature of the discussion later on with the Q&A, I think the first two things to say about the quarter from our perspective is that met coal has behaved as I said it would in terms of the deferrals from the Indian market starting back again in this September quarter, which is very positive. The thermal coal sales from our perspective haven't changed at all during the course of COVID; we haven't received any deferrals or changes to any buying patterns or other deferrals as we stand here today. But we have of course seen some gyrations in the price during the course of this last quarter, so we've seen the low in terms of the cyclical low price, we've seen it recover quite quickly into the late $50s and then more recently moderating back to the $53 to $55 range.

Of course we've all seen the news in terms of, not formal announcements, but certainly changes in behaviour from what it appears to be Chinese import restrictions holding up some coal in shipments trying to arrive at their ports of unloading. Fortunately, as everybody knows, we're not physically exposed to any of that, which is a very positive thing for the company, but we do watch that with great interest, just to see whether this is bumping into their import quota restrictions, which may not be reset for a couple months until the click over into the new financial year, or something more complex than that.

Over at the corporate side of things, just for all concerned, we've given you the FX position for the company. Then as I mentioned briefly in the highlights, we are finalising the agreement with our debt providers, I'm sure there'll be some discussion on this, just on our ICR, essentially just to give us some more flexibility over the two next testing periods. That will be largely finalised shortly and on terms consistent with the existing facility, in fact no change there other than, as I say, some flexibility in those ICRs. All we're doing here really is making sure that we are providing for unexpected eventualities, if the COVID recovery takes longer and perhaps our customer economies remaining flatter for longer, we're just providing for some cover for ourselves on a belts-and-braces approach here.

I do also note, pleasingly, with Scott Knights, who was our EGM of Marketing and Logistics, having signalled his desire to change tack in careers, we've been through an international search process and awarded that role to Jason Nunn, who was Scott's 2IC, fantastic to see one of our internal candidates coming through the ranks. It was a role, which was highly sought after, so nice to see an internal candidate taking up that role, and he'll transition to that at the end of this year when Scott concludes his time with us.

Revised guidance, as I say, now at $69 to $72. Look this is off the back of a solid first quarter. When we look at our forecast, we think we're well positioned to deliver in that range, not just because of the sales in the first quarter, but also cost reduction initiatives taking hold, which is giving us the confidence to move this range into a narrower field.

So with that, for us, a good solid quarter on all fronts, I think, production. ROM, overburden and sales to start off this year and we'll hand over to the floor for questions.

Operator: Thank you and welcome to the Q&A session. To ask a question, please press star/one on your telephone keypad and wait for your name to be announced. As mentioned earlier, please restrict the number of questions you ask to a maximum of two per person. I will advise if there is more time at the end of the Q&A session for follow-up questions. The first question comes from Rahul Anand from Morgan Stanley. Please go ahead.

Mr Anand: Hi team, thanks for the opportunity. I might start perhaps with the most topical one and come back with the second. I guess the China restrictions, I guess if you can provide any more visibility in terms of how you view them, firstly for the thermal and the met market and secondly specifically for Whitehaven. You did say thermal coal is not really your end market being China, but I mean do you have a view on whether this is a quota issue or this is specifically a targeted issue? Then also if it is indeed a targeted issue, how do you see the market play out and then eventually impact yourselves and the pricing you received? Any more colour would be much appreciated. I'll come back with a second, thanks.

Mr Flynn: Yes, thanks Rahul. Look, it's obviously topical, but this particular nuance or variation on the previous themes in terms of Aussie-China relations, is only days old, so it's probably a little early to be making a call completely on this. I mean obviously we've seen plenty of different approaches to managing the import restrictions from China in the past, be they total volume, be they qualitative, focuses on things like fluorine and others in the past where you may or may not see that as necessarily being in the same basket as a physical quota restriction, but I see them more generally being means by which they moderate the importance into the country in one form or another.

Obviously, you've got some pretty large distortions at the moment between the domestic production prices on the met side and also on the thermal side and I think that weighs heavily on that market and so there is a cost to be borne here by these types of initiatives. Everyone can see the reports that highlight anywhere between four and six million tonnes seems to be laying around in boats waiting to be unloaded there in China, so I think it is early days to make a call one way or the other. We do know, of course, that they've imported a hell of a lot of coal out of Australia in the first nine months of the year. That's a fact and they have limits which they are bumping into. So whether or not it needs to be automatically characterised as some sort of targeted issue in the bilateral relationship between the two countries, I think it's early days to say that, but there's no doubt that people are experiencing some physical disruptions with being able to move the volume of coal in there that they had previously anticipated.

As to how that plays out for the markets is yet to be seen. From our perspective, don't see any issue with – there will be no change from our perspective on the thermal side of things in particular, given that we don't sell anything. From time to time we have sold met in there. What would happen if more that this met that doesn't land there is redirected to other markets, I don't think necessarily it's going to change too much our business, simply because, as you've seen, our semi-soft sales are relatively modest at this point in time. If there's hard coke that needs to find a home, it's not really going to be replacing the production that we have from a semi-sort perspective. So I think it's uncertainty which is unhelpful for the market more generally, there's no doubt, Rahul, but I think we do need to let it play out a few more days to try and work out exactly what's driving this and I'm sure the market will be, in the meantime, adjusting accordingly as we see in the softness in the current price.

Mr Anand: Okay, thanks for that. Look the second one's on Narrabri. This known fault that was the impact on production this time, perhaps if I compare it very simplistically to the fourth quarter of FY20, now is this still going to be an impact into the next quarter and does that put pressure, again, on guidance perhaps for this year, given third quarter you've got another longwall move and last year in a longwall move, you only produced about 230,000 tonnes of material?

Mr Flynn: Yes, I understand the question, Rahul, not necessarily like for like, but I'll explain to you why I say that. I mean at this run rate we're tracking, we'll definitely – let's just assume in your hypothesis here that we lose a quarter of production, then at this run rate we'll get to the bottom of our range in any event. In the next – we've got two quarters obviously until we actually encounter that change out and because this is not as significant change out as what we had last year, it'll be shorter and you will get production out of it. You'll recall the last change out was large, long and complex due to the chock cylinder replacement that we had there, which added a few weeks onto that. This time around you won't be experiencing that.

So as you map out these smaller faults, then we have accounted for a lower level of production during this period, that's already factored into our guidance. So we're quite comfortable with where we're at and as I say, we've got two good quarters ahead of us in good ground before we get to the change out, as I say, a simpler change out, I think we're fine on our guidance.

Mr Anand: In terms of the fault issue, is that continuing into the next quarter or are you past that now?

Mr Flynn: We're past that now.

Mr Anand: Okay, perfect, thanks a lot, I'll pass it on.

Operator: Thank you Rahul. The next question comes from Paul Young from Goldman Sachs. Please go ahead.

Mr Young: Moring Paul and team. Paul, first question is on your covenants and the discussion with the bank, two questions here. Can you give us a timeline on when you think this will be concluded? Also, I note that with covenant support, along with these discussions, you're looking at a distribution restriction or the banks are asking for that. Can you maybe expand on that at all, so are there any other equity injections or initiatives on strengthening the balance sheet that the banks are maybe encouraging you to do?

Mr Flynn: Thanks Paul. Kevin's here and I should have mentioned earlier, Kevin's here and Ian is also on the phone as well. So I'll hand over to Kevin, given he's in the thick of things, but we don't expect this to take too much longer to conclude, no.

Mr Ball: Yes. No, Paul, we were working to get this lined up with the quarterly release, but some things have had to come out of Europe for an ECA facility, so that's cost us 24 hours. So our expectation is done this week and that's where it is. Strong support from banks, they understand what's gone on in the coal market, they look at where projections are for business in 2021 and they've been very strong and very solid and supportive. The question about dividend distribution, it's typical in these arrangements. If you're operating with a reduced ICR ratio, a bank wants to know that the money is being retained in the business until you come out of that regime.

Any other equity conversation, I think you said, never been discussed, not on the table, never been raised by a bank in the process. So the approach here, Paul, was to 31 December 2020 test date and the 30 June 2021 test date, that's tough to say, so that leaves us pretty much all of calendar year 2020 and calendar year 2021 to navigate through this process. I've been really pleased with the engagement with banks and I'm not going to say I was – I'd say I was really pleased with the support they've provided, but not unexpected because we have a pretty transparent and strong relationship with the banks and the funding providers, so in good shape.

Mr Young: Okay, good news, Kevin. Maybe focused on or continuing on the balance sheet and bringing cash flow into the discussion, looks like your inventory draw down is tracking similar trend to last year. Shall we expect that by the end of December that you've drawn down coal stocks back down to that million-tonne level?

Mr Ball: It's going to depend on the timing of production, but we're certainly focused, Paul, on maintaining a strengthening cash flow out of the business and clearly when we built stocks in the back end of fiscal year 2020, that unwind was going to take place in the first half of fiscal year 2021. So our marketing team would like to have some stocks that gives them flexibility to manage with ports, so we clearly won't run it down too hard, but probably a touch more from where we are today is the answer that I'd give you.

Mr Young: That's great.

Mr Flynn: The only thing that adds to that, as we mentioned in the report there, there's obviously more than one working face there at Maules Creek in particular. We do hit the Braymont again in this coming quarter, so there will be good production and then stocks built again as you do when you contact that major seam. But yes, we think we can get our sales down. The market's fine with the quality, they love it, so I mean there's not an issue in selling it. Obviously we're not entirely happy about the price we're selling it for, but there's no issue about moving the coal at all.

Mr Young: Okay, great. I'll sneak in one more on cash flow guys and that's on Maules Creek. We're pretty used to now seeing September quarter run of mine production fall quite significantly versus June quarter, this is the third year in a row and that's just the mine plan and the way you're managing the end of financial year. But I know you've stated previously that you're overburdened or strip ratio does go up at Maules Creek slightly in FY21, so just curious about again, just on the cash flow theme, about what percentage of overburden for the fiscal year did you actually move the September quarter, considering that obviously if the overburden removal does fall in the next three quarters, that's positive to cash flow?

Mr Flynn: I'll just answer this more generally if I can Paul, because if you look at the production guidance that we've given you and you back solving for an implied total movement of overburden based on a strip ratio, then you'll see then that we're obviously stripping more but we're producing more in this year than we did last. Last year, from our perspective, was a disappointing year, as we've all discussed at length. But we are going to move more dirt this year. That's not out of step with the mine plan, it's just actually proper execution of a better formed plan than what we were using 12 months ago.

So it shouldn't be an over-stripping, if you like, period in this year, it should be balanced with the strip ratio that's consistent with the life of mine plan. I think as we mentioned, we had two years of seven before us, it's slightly less than seven in this year, strip ratio that is, I'm referring to, but you will get the coal that comes with it. There's not some period of eight- or nine-to-one strip ratio that we're enduring here in order to get the mine plan back into some sort of trajectory that it was before. It's just it'll be consistent with the production you'll see.

Mr Young: Yes, I get that Paul. Just to clarify, so you're saying September quarter, overburden removal, that's not higher than what will be, we'll see in the December and March quarter. I'm just trying to get a trajectory of waste movement going forward at Maules Creek, have we actually seen the highs for the year?

Mr Flynn: Look Paul, we're not giving guidance on quarter on quarter on overburden movements, I think that's just – as I said, you'll see the Braymont again turn up again at the back of this quarter, that's just part of the natural sequence of things. We're running three different operating faces here at the mine. I wouldn't be worrying so much at that level of overburden removal drawing too much cash out of the business. We've obviously gone through a period in this quarter where we've delivered on our mine plan and as we've said, the liquidity position of the company hasn't changed now for many months. So we're managing that all within appropriate working capital management.

Mr Young: Okay, no problem, I'll move on. Thanks.

Operator: Thank you, Paul. The next question comes from Peter O'Connor from Shaw and Partners. Please go ahead.

Mr O'Connor: Paul, Kevin, congratulations, good quarter, good start to the year. Paul, two questions I think for Kevin, firstly on the ICR. When you go into discussions with the financial group about that, are you looking at the – it's a trailing ICR, I take it – so if you're looking at changing the duration of the ICR measure or is it the coverage number that you're trying to change and if so, where do you focus on and what are the outcomes of that?

Mr Ball: Thanks Peter. The only changes we've made to that is we've just changed the ratio itself, so not changed the test period, so it's still a trailing 12-month period and as I say, the only two changes there are the dividend restriction to begin with and the second one was the ICR changing, but those two things are hand in hand. No change in the length, just your standard change.

Mr O'Connor: Is it trailing 12 months, Kevin?

Mr Ball: Yes, it's a trailing 12 months, so the reason why we-----

Mr O'Connor: But reset every six months?

Mr Ball: No, no, it's a trailing 12 months, so for example, when I provide the ratio certificate for 31 December 2020, it'll be for calendar year 2020. When I provide the ratio certificate of 30 June 2021, it will be for the 12 months ended FY2021. Clearly, as Paul said to start with here, what we've done is modelled a case that assumes that, for the sake of driving the numbers, that the recovery was slower than people though or took longer than people thought. It was really about providing a belts-and-braces answer, a bit of backup and support to what is really a period of uncertainty, that's all.

Mr O'Connor: What is the trigger for the dividends to be released, so to speak? Is that on 30 June next year if the trailing numbers are above a limit and what is that limit that it's got to breach to do that?

Mr Ball: You've got to not be operating under that adjusted regime, that's all it is.

Mr O'Connor: Second question, Kevin, also on costs, of that tightened guidance, which is favourable and it's come down about a dollar, can you give a sense in that dollar how much is the denominator effect, the benefit of excess sales and how much is other and what is those other items that are driving that dollar average gain or improvement?

Mr Ball: Well I can, I'd probably say to you that the benefit there is we gave you a cost guidance that said at the bottom end of the range on production we'd have a cost guidance at the top end of the range and if it's the top end of the range of production and sales, we'd be at the bottom end of the range. What we're telling you, I think, in this tightening of the range is that we're confident that we won't be at the bottom end of the range.

Mr O'Connor: The denominator effect seems to be a bigger part of that, got it.

Mr Ball: No, I would say it's probably half and half and I would say to you that what I am seeing across the business is some benefits come from a poor coal price environment, which you naturally expect, so you see tighter costs, contributions by suppliers in terms of cost reduction, looking for extensions of contract and managing to lock in better pricing, you're seeing suppliers who look at your business and say, what can I do to help you. And that's what we're seeing in the business, so it's a bit of both.

Mr Flynn: You're seeing productivity lift as well. Productivity has lifted substantially, so that's certainly driving lower costs.

Mr Ball: Yes.

Mr O'Connor: Okay great, thanks very much.

Operator: Thank you Peter. The next question comes from Glyn Lawcock from UBS. Please go ahead.

Mr Lawcock: Good morning Paul. Two quick ones, just to follow up on the dividend. So I heard what Kevin said about while you're operating under the adjusted regime, so does that mean a dividend declaration in August next year is off the table under the current regime, so the first time conceptually you could do it would be February 2022? I just want to make sure I understand what Kevin was saying.

Mr Ball: Yes, as I said before Glyn, while you're operating under the regime, the banks just simply want to ensure that the money in the business stays in the business. If you're exceeding the initial ratio certificate or the initial covenant that exists in the business at that point in time, then you're back to normal operations. So for that to happen, we'd need to be exceeding the ICR that's set out in the original facility and that is possible. The second question I think is you need to go and have a look at the board policy on dividend payment which says it's between 20% and 50% of net profit after tax. So again, that will be a function of where we finish the year at.

Mr Lawcock: Yes, so if the coal price picks up, profits will, ICR into June year end, with a 12-month trail, if you're above the original ICR, then it comes down to profit after that on top, so you could get a dividend potentially August next year, but it's coal price related.

Mr Ball: It is, your answer's right, but again that will be a board decision next August, I think.

Mr Lawcock: Yes. Then the second question if I could, Paul, you stopped providing the Maules Creek premium. It was 17% in the December quarter, it dropped down to 12% in the March quarter, which was a bit of a surprise given coal prices were falling and you would expect the premium to lift given it's a fixed premium for low ash, I wonder if you could just help me understand what the premium's done in the last quarter for Maules Creek thermal, thanks.

Mr Flynn: Yes, sorry about that Glyn, that's not intentional to throw you off the trail there. The premiums have been actually very good. We'll do a bit of scurrying around to try and see if we can get that to you whilst we're through the passage of the call, if not we'll deal with that subsequently. But look there is no material change there. There's no doubt at the top level, I mean obviously you understand the fixed and variable, those two components of that, which we've spoken at length about, the variable component is a function of obviously the underlying coal price, the fixed component has definitely come down from its peaks, but we're still actually seeing very good premiums. I would have said we're not seeing the near $7 or even in some instances a little bit more than what we've seen in the past; you're more seeing the four to fives. But off the back off a lower price, actually percentage wise it's very, very healthy, when you add in the energy benefit as well. So those premiums are holding up quite well in what's a pretty average market, so apologies for the oversight.

Mr Lawcock: That's all right. So just so I'm clear, so you're saying the low ash premium, which is $1 per tonne premium is under a bit of pressure, is that what I'm hearing?

Mr Flynn: Well it's not just ash, Glyn, it's a bunch of qualitative factors that go to our value and use calculation in terms of how our customers derive the benefit from not just the low ash but other low impurities that we sell our coal for. But that fixed component, that one, the qualitative aspect of it, yes, comes down, it's easy to get $6 or $7, $8 out of someone when it's $80 or $90 per tonne as your underlying base price. When you're talking about anywhere between $50 and $55, it's a little harder to maintain that same level of premium.

Mr Lawcock: Okay, so a bit of a buyer's market at the moment, obviously.

Mr Flynn: Yes, I mean asking for an $8 premium over a $50 coal price, plus energy on top of that, that's a little hard. Even as good as our marketing team is, that perhaps might be a little bit beyond them.

Mr Lawcock: A challenge for the new head of marketing, obviously.

Mr Flynn: Yes. Look he's got good form, so I'm sure he'll do fine.

Mr Lawcock: All right, thanks Paul, appreciate it.

Mr Flynn: No problem.

Operator: Thank you, Glyn. Just a reminder, if you do wish to ask a question, it's star/one on your telephone keypad. The next question comes from Trent Hamilton from Hammo Capital. Please go ahead.

Mr Hamilton: Good morning everyone. Paul, just back to the China quota issue, what's your understanding of when the quota will likely be renewed? Is it soon or not until next year? Thank you.

Mr Flynn: Trent, look my understanding is it's a calendar year basis, so as I've mentioned before, people shouldn't think that they don't like our coal. I mean we've been having some sort of trade tension, if I can call it that, I don't want to characterise it completely that way, but just for the sake of the discussion, for some time now. But if you look at the calendar year to date, I mean there's no doubt the Chinese have taken plenty of Aussie coal, there's no lack of liking of the quality and so through that first eight or nine months, had a mad rush towards the quota and they've bumped into it early in the year; there's a couple of good months to go and winter coming. So it'll be interesting to see how this plays out.

As I mentioned earlier, there's a massive distortion between the domestic price for met and also thermal versus what you can achieve in the seaborne market. I'm sure there's plenty of people making representations inside China saying, why do I have to buy domestically at that level when I can just dip into the seaborne trade and save myself a bunch of money. Let's just see how that plays out, but at a calendar basis is the answer to the original part of the question.

Mr Hamilton: Thank you.

Operator: Thank you Trent. The next question comes from Peter O'Connor from Shaw and Partners. Please go ahead.

Mr O'Connor: Thanks Paul, just two follow-ups. The fault at Narrabri, the displacement and the conditions, are they changing for the better or worse over the last couple of panels and how do you see that going to the next panel?

Mr Flynn: Yes, look it was as predicted, nothing materially changing there, Peter. The guys are getting pretty good at navigating through that particular fault, given that they've been through a greater displacement in the last panel than they did in this one. But we do slow down. There's wear and tear on the machinery, we've got to slow down, you can't run through it hard when you've got a lot of rock across the face. There are maintenance-related consequences of traversing that, rather than stepping round. So it's just we derate the production through that period, that's right that we do. The bigger issue is more just the qualitative aspects of it. We get higher ash coal out of there, as you would expect and it doesn't all wash out, so we do have to get rid of some of it into that secondary market, as we've commented.

Mr O'Connor: Okay and secondly, Paul, big picture, the IEA put out a report just the other day and they gave a whole bunch of scenarios which you can wrap around and get any outcome that you really want, but key to that was the COVID impact and impact on demand for coal. How do you see that in the context of the view which you've put to us quite well and quite consistently over the last little while, does that change how you see the outlook?

Mr Flynn: I haven't read the full length of it, I've certainly been through the summary, but I haven't been through the full length of the report. But look, I think I wouldn't be placing too much stock on their predictions in terms of how COVID recovery plays out, because as we all know, there are so many variables involved there and economies will come out at different paces. As we've mentioned before and you would well understand, our markets have done pretty well generally, but for India; India is having a tough time of course. So I reckon our markets will be on the front end of a recovery phase and fortunately for us, I reckon they'll all be consistently coming out of that. That's an expectation, rather than a prediction.

But there could be secondary and tertiary breakouts here which may slow it down prior to the vaccine, but every day we go further down the journey, we are a day closer to vaccines being available across these markets, so I think that's a positive thing. All these economies have suffered pretty terribly, as we know, ours included and I suspect all economies or all governments in all economies will be wanting to reignite their economies and whenever they do that, that stimulus requires energy and steel. When most economies around the world are engaging in some sort of stimulus in one fashion or another, that's going to be quite an unprecedented turn and demand for energy and steel. So in some scenarios, which the WEO doesn't really go into, but in some scenarios you can imagine quite a significant tightening for an extended period of time as economies or governments around the world try to rectify the damage that's been caused by COVID. In that scenario you would say there's actually going to be an extended period of positive momentum generated, admittedly off a COVID-induced low base.

Mr O'Connor: Okay, thank you.

Operator: Thank you Peter. Just a final reminder, if you do wish to ask a question, it's star/one on your telephone keypad. The next question comes from Paul Young from Goldman Sachs. Please go ahead.

Mr Young: Hi again Paul and Kevin, a question on growth CapEx, your guidance for the full year is $50 million to $60 million on your development projects. I think if I read on page 5, the fine print there, you spent about only $7 million in the September quarter, so tracking well below that. Have you deferred even further study work and spend, or is that just a timing thing with respect to Vickery engineering picking up in the June half of next year?

Mr Flynn: Peter, as you would expect, we're examining all avenues of capital management here and so we are constraining heavily any CapEx that can be deferred into next year or further. We are doing the work necessary to preserve all the approval pathways, we see that as being fundamental here, but we are squeezing it hard, as you would expect us to do. So yeah, I think the $7 million, a couple of things there were actually a little lumpy, even in $7 million, which we don't expect to repeat in the subsequent quarters of this year. So I would actually say that that's probably on the upside. If you're multiplying that by four for your numbers from the projects, I think that's high.

Mr Young: Okay, all right, so lumpiness would be an example, would be like land purchases, correct?

Mr Flynn: Yes, correct, that's right, or drilling campaigns, say for instance at Winchester, that doesn't happen every quarter, we're only planning one for the year.

Mr Young: Yes, okay, I understand. Okay, Paul, that's great.

Mr Flynn: Yes and sorry, I'll just add there Glyn, sorry, the team scurried around, the number was 15% on an equity basis for the premiums.

Mr Young: Thanks Paul, I'll pass that on to Glyn.

Mr Flynn: Thank you.

Mr Ball: Thanks Paul

Mr Flynn: I think he heard it.

Mr Young: Thanks gents, I'll move on.

Mr Flynn: Thank you.

Operator: Thank you Paul. The next question comes from Peter O'Connor from Shaw and Partners. Please go ahead.

Mr O'Connor: Kevin, just following on from the last question, when you discuss with the banks the ICR changes and dividends are obviously a part of that, were other items of discretionary capital including growth capital part of that and is that tightness that you've just talked about driven by internal broad focus and your focus or is it part of the requirements of trying to trim discretionary spend?

Mr Ball: No, Peter, you're jumping at shadows. There is no requirement from banks, banks haven't made any comments at all about what we'll do with capital. Over the years they've taken a view – and this is the discussions we've had – they've taken a view that says Whitehaven has been true to its word over the years the debt's been in place and leaves Whitehaven to manage the business.

Mr O'Connor: And per the last question, that \$50m to \$60m guidance, it sounds like sub \$30m as to where it's going to come out, based on the current run rates.

Mr Ball: I think we would update CapEx when we get to the half year. I think the better time for that, Peter, is that it is updated at the half year. What Paul said is right, we've got the thumbscrews on this thing and the better time for the is at the half year. We'll see what the run home looks like for the second half, we'll see where we are with the EIS for Winchester South and the EIS for Narrabri South and our expectations are that we're well within that guidance at the moment.

Mr O’Connor: Paul, a Vickery equity sell-down, is that any sooner or later than what you gave us guidance on last quarterly call?

Mr Flynn: No change, Peter. It’s just not front of mind for the people with whom you’d like to engage. I mean they’ve got so much on their plate at the moment, we’ve got to be respectful of that. But we’re just keeping everybody informed of the processes that we’re going through from the secondary approval perspective, because they’re all interested in that, so that’s where our effort is at the moment. I don’t see any change in that.

Mr O’Connor: Thank you.

Operator: Thank you, Peter. Just a final reminder, if you do wish to ask a question, it’s star/one on your telephone keypad. The next question comes from Tony Mitchell from Ord Minnett. Please go ahead.

Mr Mitchell: Hi Paul. You might have covered this before, but can you just give us some colour on finalising the new debt covenant?

Mr Flynn: Yes, thanks Tony. I think as Kevin said, we’re very close to finalising it, it’s just a bit unfortunate timing wise that there’s some different time zones involved in doing that. So we had planned to get it out by nine o’clock this morning when we pushed the numbers out, but it might take another day or so, but no more than that. This will week it'll get sorted, is our expectation.

Mr Mitchell: Right and will there be a marked difference with what you’ve got now?

Mr Flynn: But for the covenants and the dividend changes, there’s no changes at all for the underlying terms of the existing arrangements.

Mr Ball: Correct.

Mr Mitchell: Okay, all right, thank you very much, thanks.

Operator: Thank you, Tony. We have no further questions at this time. I’ll now hand back for any additional closing remarks.

Mr Flynn: Thanks everyone for dialling in. If there is any further follow up that you require, you know where to find us, Sarah, myself and others, so again, thanks very much for your time and we look forward to catching up with you in the follow-up to the quarter’s interactions.

Operator: That concludes the Whitehaven September 2020 quarter production investor and analyst call. Than you once again for joining us today, you may all disconnect.

END OF RECORDING