Whitehaven Coal March 2021 Quarter Market Call - Transcript

Operator: Thank you for standing by, and welcome to the Whitehaven Coal March Quarter 2021 Production Report. All participants are in a listen-only mode. There will be a presentation, followed by a question and answer session. If you wish to ask a question you will need to press the star key, followed by the number one on your telephone keypad. I would now like to hand the conference to Mr Paul Flynn, Managing Director and CEO. Please go ahead.

Paul Flynn: Good morning, everybody, and welcome. Thank you for taking the time to dial in to the March 2021 quarterly production report for Whitehaven. As usual, I'll get on to the highlights, and then move through the body of our report and get on to Q&A.

The quarter. Look, the quarter's been an interesting one. We certainly got some very good results from an open cut perspective, and we've got some variable updates and also revised guidance for related impacts from Narrabri's difficult period in this quarter and the previous.

The highlights, our March quarter ROM production of 5.5 million tonnes, was a good result, 12% up previous to our corresponding period. The quarter managed saleable coal production at 4.3 million tonnes, 6% up. In terms of total managed coal sales, at 4.8 million tonnes, managed own coal sales, 4.2 million tonnes, and equity coal sales of our own coal, at 3.4 million tonnes, all these factors up at about 7% period-on-period.

Coal stocks are healthy at 2.8 million tonnes at the end of the quarter.

We have reported, obviously, during the quarter, that there's been some challenges from a logistical perspective, and we'll get to that a little bit later on, but strong coal production during this quarter, at Maules Creek, particularly, was pleasing, given that we actually have had some rain impacts across the board, and Maules have been able to manage their way through that relatively well.

Narrabri's underground mine production has been impacted by continuing geological challenges, so, from last quarter and into this, and associated downtime with wear and tear on our equipment. Given all of that, we have revised the 2021 full year production guidance with sales and unit costs, also relatedly, having to be revised, and I'll get to that shortly.

As far as COVID goes, we are still living with that, but we have no known cases - haven't had one as yet, thankfully, but we continue to operate with our distancing and hygiene measures in place.

From a safety perspective, at 5.92, whilst that positions us relatively well to the industry as a whole, it's still not our best efforts, so we do need to continue to apply attention to improving our TRIFR rate, for better results, at we come into the year end.

I'm over the page now, on to the tables of results. As I've said, ROM coal production was pretty good at 12% up and then across those other dimensions at the managed level, saleable coal production, sales produced tonnes, sales of purchased coal and then our sales overall, on an equity basis, about that 7% up as well.

The interesting part, I think, in terms of this quarter, if you skip over to the equity coal sales and realised pricing table, which I'm sure everybody's focused on, a couple of interesting points to come out of that. We have got a higher proportion of other thermals coal sales during the course of this quarter, and we'll get into the drivers for that. The prices, you can see, have been relatively strong across the way, but our realisations have been affected by a couple of factors, and we've tried to call that out for a little bit further in the report.

Our thermal to the average for gC NEWC realisations for the period, about 15% down, principally driven by two factors, a lag in how we realised our benefits of better pricing in a better pricing market, but we are selling more other thermal coal, outside gC NEWC spec than we would have planned to. That really is a function of Narrabri churning out fault-affected coal, which is an out-of-seam diluted coal, which is a result of this traversing of this faulted area in the mine. So that is a temporary thing, and, as I say, subsequent quarters, given the lags, will see realisations picking up over time, but this is a point in time observation, 15% down for this particular quarter.

gC NEWC, as I say, average $89, so that's a big improvement, up on the previous quarter, which is nice to see, but as I say, we've got two different dimensions there. Now, the issue here is that if you're selling other thermal coal in greater proportion, it does push you into a very wide spread between the 5500 market and the 6000, which we've been studiously trying to avoid, but if we've got fault-affected coal, then we do dip into that market, which is unfortunate, given that there is some $30-odd spread between gC NEWC and the 5500 market.

So that really is the driver for those realisations, and I'm sure the key questions when we get to Q&A, will be, how long does that last and when are we back into normal coal quality, at Narrabri, in particular? And, of course, there's just the general lags, as we've seen in the rising market.

Met coal sales at 20%. The met coal market and pricing has been relatively stable, albeit at subdued levels. We have got away a few extra cargos in this period, and so 20% is a little higher than what we've done historically, and it's higher, given that Maules itself only did 17% during that period. So the other mines have contributed to PCI sales into India during this time.

As a result of the changes that we've seen at Narrabri, we have revised our guidance there, and so revised our sales guidance target for the full year down to 17.8 to 18.3 million tonnes, and there is a related cost impact, as I say, and there is, as a result, I'll speak to the changes in the ROM production for Narrabri itself, shortly.

But over at Maules, Maules is doing really well, and has had a consistent performance throughout the year and it positions itself very well for the final quarter of the year, at 3.7, versus 2.4, we're 58% up, so it's a nice, solid performance, de-risks a good portion of the production for the year, as a result of that solid quarter-on-quarter performance, and so we're well positioned as a result.

We have had logistical challenges, as you know, just with ship loader 1 and ship loader 2, although we've got, obviously, 1 back up and running, and the remainder of the work to be done for NCIG, to bring full capacity back on, will probably be - we're talking, probably, about the October/November period to see that back on toward. It might be a little early, but I think it's worthwhile just positioning ourselves around there.

As a result of that, we have had some sales slippage, and so stocks are looking good - or high, as a result, and at 2 million tonnes of the 2.8 that we've reported, but we will see that whittle its way down over the balance of this quarter.

So, as I say, Maules is doing well, and positions itself very well for this final quarter. We'll see it push up to the upper end of its guidance for the full year.

Narrabri, I'm sure, which is the odd person out here, in this instance, it is struggling through an area of difficult ground here. At 1.1 versus 1.5, we're 29% down on the ROM totals, which is very disappointing, I'm sure, for all concerned. Coal sales of 1.1 million tonnes, and managed coal sales has been the same number. It's disappointing. We are carrying half a million tonnes of stock there, but it is stock which is qualitatively less than what the average of the mine normally produces, just because we are traversing these challenging areas.

The big issue here is that having cut a lot more rock and stone and conveyed it out the mine, our gear is suffering from a lot of downtime from outages and wear and tear, and as a result, we have concluded that key aspects of the longwall won't be able to continue on until the end of the panel, and so a mid-panel overhaul is required for certain key features of the longwall, and so that's going to require further outage.

So, coupled with the slow cutting time in traversing this faulted ground, and the outages in terms of time that we need to conduct a mid-panel overhaul of key items, we're essentially, there's an aggregate of about four weeks' lost production in all of that, hence the need to change our ROM guidance for the full year, unfortunately, to 4.5 million tonnes to 4.9 million tonnes now, for the full year FY21. That is most unfortunate.

Additionally, the longwall move moves from 109 to 110, so that is now rescheduled into Q1 of FY22.

The Gunnedah open cuts, albeit on schedule for the full year, they've done pretty well. They were, obviously, slightly less in period-on-period results, for both Tarrawonga and Werris, but they are on plan to deliver their results for the full year, and have been relatively uncontroversial, I would say, during the course of this period. They have both snuck away a couple of extra PCI sales in this quarter, hence, as I say, that higher met coal percentage of 20%, so Tarrawonga and Werris have been able to do that, which is good. There was a little bit of deferral of met from last quarter into this, which bolsters that, but the target of those sales has been into India, which is, I'm sure will be part of the Q&A session, what's going on with that end of the market, when we get to the Q&A piece.

As I say, the logistics and weather have played a part in this quarter. Tarrawonga and Werris both have been affected by weather during the period of this quarter, but they were ahead, in any event, year-to-date, so they are positioned well for the full year.

As we reported on 23 March, ship loader 1 was taken offline for some critical repairs that needed to be done. That outage is now over and it back up and running. I'll just say, ship loader 2 is definitely going to be later on this year. It's running well, that work, but I think the October time is the best time to think about when it might be fully operational.

As I say, the impact of these various changes, unfortunately, means that from a sales perspective, we're now at 17.8 to 18.3, as a consequence of all these changes, logistics impression, and principally, Narrabri's challenged quarter.

I'm over on development projects, and there's really nothing in particular to call out during the course of the quarter 4 development projects themselves, so I might just move through that, given that there's nothing that has advanced through the period for that.

Over on to our outlook for the markets. As I say, the high CV thermal market is pretty good, and you want to stay in that market, and we've unfortunately drifted a little bit further into the 5500 market than we would like to, or coals based off pricing for that, that part of the market, by virtue of this out of stream dilution and faulted coal we've had at Narrabri. You are seeing a massive divergence between the high CV market and of course that lower rank coals.

The met coal market itself I think is really quite interesting, with compression of the prime hard coke market and low vol PCI, and also semi-soft pricing, all within a bull's roar of each other, at very low levels, from a hard coke pricing perspective. I think this will take a little while to solve itself.

Overall, coming to our guidance, just to wrap this up for everybody, the managed guidance now for the balance of the year now, we are now guiding at 20.6 million tonnes to 21.4 million tonnes for our total of ROM coal production for the year. Maules Creek, as I say, remains unchanged, and will probably do at the top end of its guidance. Narrabri, unfortunately, has been the catalyst for this revision, at 4.5 million tonnes to 4.9 million tonnes, and the Gunnedah open cuts remain unchanged at 3.9 million tonnes to 4.1 million tonnes.

Coal sales, as a result, at 17.8 million tonnes to 18.3 million tonnes, is the refined guidance for this full year, a consequence of those Narrabri changes.

As a result of having an under-representation of what's historically been our cheapest coal in Narrabri, and the impacts of under-absorption of take or pay, and also other factors, we're now revising our guidance on unit costs slightly upwards to $73 to $75 in range - Aussie, which is not what I'm sure everyone wanted to hear, but it is a fact of not being able to have the normal proportion or the expected proportion of our cheapest coal represented in our cost base.

That brings us to the end of the quarter to say, good results from the open cut perspective. Another quarter, unfortunately, off the back of the previous one, where Narrabri is traversing some difficult ground and revisions to the guidance as a result.

With that, Operator, I'll hand back to you, and we may as well open up the Q&A session.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you're on a speakerphone, please pick up the handset to ask your question.

Your first question comes from Rahul Anand, from Morgan Stanley Australia. Please go ahead.

Question: (Rahul Anand, Morgan Stanley Australia, Analyst) Hi, Paul and team. Thanks for the opportunity. Perhaps if you start with Narrabri, please. Obviously we've struggled a bit with this one, but if we account for the four-week outage, and you've also moved the longwall move to the next year, you're still only expecting that 800,000 tonnes of production for the last quarter.

I just wanted you to help me understand that number and perhaps put that in context off the target of seven million tonnes per annum to 8.5 million tonnes per annum that you talked about previously, once you start going into smaller panels off the southern leases, 201 and 202. Because they're only about 600,000 tonnes per annum. Thanks. I'll come back with a second.

Paul Flynn: Right. Rahul, I'm not quite sure I got all of that down. The 600,000 tonnes per annum - do you just want to go through that part? I didn't get that last bit. How did that relate to your previous statement?

Question: (Rahul Anand, Morgan Stanley Australia, Analyst) Yes. Sure. My understanding was 201 and 202 will contribute about 600,000 tonnes per annum to…

Paul Flynn: That's cut and flipped

Question: (Rahul Anand, Morgan Stanley Australia, Analyst) Yes.

Paul Flynn: Yes, okay.

Question: (Rahul Anand, Morgan Stanley Australia, Analyst) I just wanted to understand how we can get to the seven million to 8.5 million tonnes per annum run rate, for Narrabri, even if we include that, considering, for almost a full quarter of production in the fourth quarter, the lower end of guidance is suggesting only about 800,000 tonnes production?

Paul Flynn: Yes.

Question: (Rahul Anand, Morgan Stanley Australia, Analyst) That's the first one. I'll come back with the second. Thanks.

Paul Flynn: Yes, okay. Thanks, Rahul. I should have said I'm joined here by Ian, as well, so he can answer some of these questions. I've got Kevin here, of course, and Sarah, as well.

Let me just start off, firstly, by saying, it's a disappointing result. There's no doubt about it, but the gear is limping as a result of the extra wear and tear. It's not just one feature, there's a bunch of aspects to this, which have obviously been suffering as we've laboured through, not just the planned faults, but then the unexpected fault that we found in face, as well. That's really where all this requirement for maintenance work comes.

We just acknowledge that we can't get to the end of the panel when an overhaul would normally occur, so some of this work has got to be done soon, and it's got to be done soon in areas where there's limited space to conduct this type of work. So, it's slow work, and the cutting in this area itself, getting to the areas where it can be conducted is also slow. So, hence the relatively modest expectations of incremental production from our total today, as you say, arriving at the lower end of the range, where you calculated your additional 800,000 tonnes from.

Now, in terms of trying to bridge the seven to 8.5 million for you, you've skipped over, obviously, panel 10, and you're now concentrating now, on panel 203.

So, if I look at 203, and I don't have the map here to point to, but if you look at 203, 204, 205, they are in correspondingly good areas of shallow ground, where we've got high productivity, low costs, and as a result, strong production will come out of those areas. As you say, 201, 202, they are cut and flit. We're proposing that as cut and flit tonnes, and in a full year, they will produce, as you say, about 600,000 tonnes of that total, that range that you've just recounted. But the 203, 204, that type of area, those totals that you've mentioned, seven to eight, no problem at all, but we are in deep ground, as we've repeatedly discussed.

Our desire, obviously, with the plan that we announced for stage three back in December, was obviously to get across to the shallow ground as quickly as possible and resume cutting at rates which were consistent with where we were in 104, 105. When you go back and you look at those previous years, when we were cutting at those levels, obviously production was well up, compared to what we're, unfortunately doing at the moment, and costs were well down, as a result.

I'll leave it there, Rahul, and see if that answers a couple of the aspects of your question. Have you got a follow-up there?

Question: (Rahul Anand, Morgan Stanley Australia, Analyst) Yes. Two quick follow-ups on that then. So, panel 10, you're still expecting that you should be able to produce quite predictably and somewhat in line with past quarterly run rates, especially because you're stepping around the fault this time.

Paul Flynn: Yes.

Question: (Rahul Anand, Morgan Stanley Australia, Analyst) That's the first, and second, the longwall step around, is that going to be delayed into Q3, then, for next year?

Paul Flynn: Yes. I think all that we've just gone through, in terms of going through this difficult ground, the wear and tear on the equipment, the quality and the price realisation impacts of having the quality, really does speak to the reasons why we've chosen to have a step around in panel 10, to go around this faulted area. We've given the equipment a fair beating, driving through these faults, and we're really keen to avoid that in panel 10 - and, of course, avoid the dilution associated with traversing that type of ground.

In terms of production rates, it will be, for the year, the total, we'll give our guidance at the end of the year, end of financial year, but of course, with the slippage of now, the relocation, moving deeper into the year, the totals for the full year will be adjusted accordingly.

Ian, is there anything you wanted to add to that?

Ian Humphris: No, I think you've summed that up, and that's correct. Obviously, the push out of that move between 110(a) and 110(b) will be pushed back in line with a delay in 109 to 110 itself.

Question: (Rahul Anand, Morgan Stanley Australia, Analyst) Okay, perfect. Okay, one quick question, then I'll pass it on. Just on Maules Creek, coal stocks nearly two million tonnes there, mine performing pretty well. If I look at past performance in terms of peak coal sales, you've done 2.6 to 2.7, is that the peak capacity of the infrastructure to get to port? If you assume that the port is working fine? Could you remind me a bit on that, as to what the capacity is for the logistics there, perhaps?

Paul Flynn: Yes, we can certainly, Rahul, do more than that. All the contracts that we have allow us to have surge capacity in them, so we can - we were, originally, worried, obviously, when the first ship loader went down, as a result of the storm damage last year, but we satisfied ourselves that we could get through there with the one ship loader working with two berths. Of course, we've had the mechanical outage for ship loader 1, which was pretty annoying, and with the balance of time remaining in the year, our view was that there is a point of compression here, in terms of when you can get the ROM and convert it into sales during that time.

The floods, which knocked out the line for about a week, a little bit less than a week, have been unhelpful, but that's all obviously dissipated. So, we think we're fine for our guidance, and we have, as I say, we have surge capacity in our contracts to be able to do that.

Question: (Rahul Anand, Morgan Stanley Australia, Analyst) Okay, perfect. Are you able to put a number, at all as to what you think you can peak at?

Paul Flynn: No, I haven't got a number here for you, Rahul, thank you.

Question: (Rahul Anand, Morgan Stanley Australia, Analyst) Okay. No problem. I'll pass it on. Thank you very much for your help.

Operator: Thank you. Your next question comes from James Redfern, of Bank of America. Please go ahead.

Question: (James Redfern, Bank of America, Analyst) Hi, Paul. Good morning. Just want to dig into the price realisations, please. Can you please remind us what the lag is to the gC NEWC index? Then, also, given the geological issues at Narrabri, how would you think about the price realisations in the coming quarters? Weighing up the lag effect and then also when you think you'll be through the faults and so on, at Narrabri? Thanks.

Paul Flynn: Yes, thanks, James. The gC NEWC index is really the piece of the puzzle which probably lags the least, if I can call it that. It's generally the average for the month, as you know, so to the extent that the prices have risen considerably, and quickly, there's always a distortion there in terms of when you see that benefit materialise on the realisations that follow. So, call that if it's the average for the month, the worst it is, is a month, and the least it would be for a sale that happened at the end of the month, is minimal.

In that context, if we've got a continual - now that we've got what looks to be like a relatively steady price path, at the moment, then you should be able to see that materialise in the following month.

The confusion of this area is that Korean sales say for instances, as I'm sure we've talked about this many times, are done on an annual basis, and so, to the extent that there's a lag of, potentially six months, on average, because those contracts are signed during the course of the year, not just at one particular point, on average, a lag of six months, so you do need to work your way through that.

To the extent that there are other sales which are other indices, which some of this fault-affected coal that we've taken on, those ones are relatively short lag type situations, so there's essentially about a month's lag in those. The quarterly settlements for the PCI and semi, you're aware of.

Question: (James Redfern, Bank of America, Analyst) Yes, thanks.

Maybe on Narrabri, in terms of the issues there, do you have any line of sight as to whether there'll be more faults in the seam, going forward? Obviously, ongoing weighting issues will obviously been an issue, at Narrabri, as the depth of cover increases, but do you have any line of sight to improvement at Narrabri, in terms of the productivity, and faulting issues?

Paul Flynn: Yes, it's a good question. Yes, thanks, James, that's a key question. We are doing a lot of work, as you could imagine, to try and minimise the exposure to any further unknown events in the future, and not just the balance of the panel that's left before us in 109, but also in 110, as well, so I might just get Ian to describe to you what we're doing there.

Ian Humphris: Thanks, Paul. We obviously had the mapping from the work that was done in the tail gate and main gate roads, but one of the other programs that we've been putting in, which is a development exercise working with a third party supplier, is on what we call geo-sensing technology, which is building on the oil shale gas type of work.

What we're going to do is put a drill rig, which drills long holes, from where we would take 109 panel off, and drill back towards where we are. We're going to do about six of those, at a 50- or 60-metre spacing, and using that technology, we're hoping that what that will do is give us better - or, I guess, answer any of those questions about delineation issues on the existing faults that we're aware of, going forwards.

Question: (James Redfern, Bank of America, Analyst) Okay. Thank you.

Kevin Ball: I would say to you that that's - with the material coming out of Narrabri in this next quarter, over this quarter and the stock that we're holding, and the spread where it is at the current moment, my expectation is that I think that the June quarter discount for the coal associated with the - other than 6000 Kcals, is it going to be about the same in June. So, I'm thinking that number's probably close to a 13% discount in June, and I think that will tail off, as we get through into fiscal year '22, because we go back into 110 (a) and that coal quality improves back in that silo. So it'll just be pushing that coal through, to answer the question, I think someone else asked earlier on.

Question: (James Redfern, Bank of America, Analyst) Thanks. So, just to clarify, the 13% discount to the gC NEWC index, that includes a lag effect plus the issues at Narrabri?

Paul Flynn: Yes, that is the lag effect.

Kevin Ball: Traditionally what's happened is that the coal price hasn’t jumped 32% in one quarter. It's been going up and down steadily, or more steadily than that. And the other part is that the premiums that we've been receiving for the high CV coal and the volume of other coal, has typically been a constant sufficient to offset, so that's why we've been reporting those numbers to you in the past because effectively we're a gC NEWC stock.

Question: (James Redfern, Bank of America, Analyst) Okay, great. Thanks. Thanks, everyone.

Paul Flynn: You're welcome.

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

Question: (Paul Young, Goldman Sachs, Analyst) Yes, good morning, Paul, Ian, and Kevin and Sarah. Paul, the first question is on Narrabri, and again, looking at the mine plan and the difficulties you've had, again, during the quarter. Can I throw something out there? I know you're leaving longwall 11 for a later date. How much development work have you done on 203? Have you actually looked at, similar to what you did in, I think it was longwall - longwall 8, where you left that little section because of the dyke, of actually leaving that northern section in 10 and just stepping around, or, just stepping straight to 203? I'm curious about what development you've done on 203 and throwing out your thought process around trying to get into that shallow area earlier.

Paul Flynn: Thanks, Paul, that's a very good question, and you can imagine that question's occupied the minds of many people internally here, for some time.

Ian can comment on just the 203 development timelines, but the reality of it is that 11 was an opportunity to do that later, just given that there - float is the primary consideration, which is, I suppose, the basis of your question on 203 in particular.

We have looked at the various scenarios. Leaving behind 10(a), or the primary part of the panel, is not really the right answer. I mean, if we looked at the step around and said, should we step around rather than stepping around, going straight to 203? That's a question which has been analysed to death here, internally. Even though it is the back end of this panel, the 109, which has been giving us the struggles, obviously, the previous question from James, and Ian's answer, is to ensure that in the back end of 10, which we refer to as 10(b), after the step around, we don't encounter the same sort of issues.

The key challenge there is making sure that we have enough float to be able to move into the shallow ground as quickly as possible. Our determination was that we couldn't do that any quicker, given the development lead time we need to develop 203 fully.

Ian?

Ian Humphris: Yes, thanks, Paul. That's correct. We don't have the float. The sequence that we have has sufficient float in all of our blocks for probably the next - well, it goes out for the next five plus blocks. So, if we were to do any of those suggestions you've said, that would cause us to get an interruption to longwall production.

That technology that I just spoke about previously, we're going to drill the rest of the 109 block out, or we're in the throes of setting up to do that now. As soon as that's finished, we will be going down and doing the same process in 110(a) and (b) as well, to best set us up for the mining of those panels.

Question: (Paul Young, Goldman Sachs, Analyst) Okay, thanks, Paul and Ian. The next question then is, when is the quarter that you're scheduled, based on looking at the profile in 110, longwall 10 - when are you moving to 203?

Paul Flynn: Paul, that's at the back end of Calendar 2022, now. So, we're talking about November, December of '22.

Question: (Paul Young, Goldman Sachs, Analyst) Okay, so effectively, we've got another 15 months or so, 18 months of hard yards in Narrabri, dealing with these geological geotechnical issues, I should say, before we move to 203. Okay.

Paul Flynn: Yes, I think that's a reasonable assessment. Whether or not they're all hard yards is another thing. We think by the step around, Paul, we've excised the primary portion of the hard area that we've experienced in 109, and in 110 - 110(a), obviously, you recall, in the equivalent location in 109, we did actually have a million-tonne month, which is welcome and extraordinary, given the circumstances we find ourselves in now.

To the extent that we're able to better understand whether there's anything unexpected in 110(b), we shouldn't be suffering the same way as we are now, given that we won't be driving the equipment through lots of stone in the meantime.

Question: (Paul Young, Goldman Sachs, Analyst) Yes. Thanks, Paul. Second question is on your coal stockpile, and also, again, back on your coal book, and price realisations, Paul, can you maybe just - it's obviously a complex book, with five or six major customers or countries you sell to, with different pricing structures and lags.

Just to keep it really simple, I know you've tried to say that 40%, 50% of your book is priced on a lag basis, and a lot of that is the Korean tonnes, but just to put a number on it, as far as the lag is concerned, what, roughly, would that lag be? Would it be Q minus one, or minus three? Would it be a three-month lag on that 40% or 50%?

Paul Flynn: I think it's just an average of, if you want to try and land on something, you're only going to get an average of that, Paul.

Question: (Paul Young, Goldman Sachs, Analyst) That's fine. That's effectively what I'm after, is to determine roughly what that lag is on that half of your sales.

Paul Flynn: Yes. Okay. I'll probably have to come back to you…

Question: (Paul Young, Goldman Sachs, Analyst) Yeah, is the higher prices, coming in, and realise that in the June quarter or the September quarter?

Paul Flynn: It's not going to be six months. It's more like three months.

Question: (Paul Young, Goldman Sachs, Analyst) Yes, okay. No, that's…

Paul Flynn: The longest is six months, for your annual stuff, but that's only 20% of the book.

Kevin Ball: Paul, if you have a look at the annual report, where you see the break up in the revenue, between countries and jurisdictions, it's really the Korean tonnes that have a longer period. The Japanese pricing generally tends to be gC NEWC month, gC NEWC prior month, gC NEWC prior quarter, and that's the majority of the tonnes here. The incremental tonnes have come through in this past period, because we're selling more of that - more of the other coal has been in the Korean market, which tends to be struck as a year-long contract.

So, let's go away, and we'll come back and we'll have a chat.

Paul Flynn: We'll come back with a better answer.

Kevin Ball: Yes.

Paul Flynn: If you're looking for something that you can simplistically go for one across the whole thing, obviously, the semisoft sales are on a quarterly basis, so on average there's six weeks, if you see it, a lag there. The Newcastle benchmarked stuff should be no more than a month of lag. But when it rises dramatically, and that's when you've got a stable price path throughout the course of a month, right. So, today, you've an average of 94, but the spot is actually only 90, on a month-to-date basis. So there's a difference there.

Then, as I say, the Korean tonnes, generally, that's a 12-month contract, so on average, a six-month lag there.

Kevin Ball: We'll do some maths for you and come back.

Question: (Paul Young, Goldman Sachs, Analyst) Yes, okay, I'll phone through this afternoon. My last question, at least for now, is, just on that coal stockpile of 2.8 million tonnes, based on your view on the infrastructure and the port and the rail, what number - Kevin, this is really a question around working capital. What number do you think you can get that to, and when? What's the level you want to get it to? Obviously, probably the lowest level as possible, and by which quarter?

Kevin Ball: It's a good question. It's a nice balance between product stock to enable blending and product stock to enable smooth use of logistics. The number we work to is typically around a million tonnes of product and ROM behind that supporting it. So, probably somewhere between one and a half to 1.8, I'd think would be the final number that you're looking for. Somewhere in that one to 1.8 or two million tonnes. That's sort of the number I think that works really well for us across all those, and we want coal at each place. So, there's a number for you.

Question: (Paul Young, Goldman Sachs, Analyst) Yes, great. You said SL 2 at NCIG should be operational early in Q4 of this - of calendar year '21, so, do you think that 1.5 to 1.8 will be achieved some time in September quarter, is that how I - into December quarter?

Kevin Ball: I'd say first half. I would say the schedule at ship loader 2 is coming ahead, is coming forward, and when projects like that are coming forward, it generally tends to be good news, and keep coming that way. So, we've said early quarter four, so, we'll keep you advised as that comes through. There's a couple of key points coming up in the next month or so, and again, we should be able to give you an update on that in May.

Paul Flynn: Yeah. The impact of that, Paul, to get back to more normalised stocks, will happen later. It will be later in the first half. It won't be in the first quarter.

Kevin Ball: Yeah.

Paul Flynn: Because firstly, the second ship loader won't be up, and then, by the time it is up, then your lag time, in terms of that being able to ramp that up and push that stock through at the rate we'd otherwise like to, means that you're still going to have healthy stocks at the end of the first half.

Question: (Paul Young, Goldman Sachs, Analyst) Understood. Okay, thank you for that. That's it for me.

Operator: Thank you. Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. Your next question comes from Lyndon Fagan of JP Morgan. Please go ahead.

Question: (Lyndon Fagan, JP Morgan, Analyst) Thanks very much. The first one is to try and understand a bit more of what happened in the last three weeks. You've provided guidance on 23 March, and it's only really three weeks ago. I'm just trying to understand a bit more about what happened to lower it again. That was the first one. I did have some follow-ups, if I could.

Paul Flynn: Yes, thanks, Lyndon. It's definitely been dynamic. There's no doubt about that, but it's really just the challenge of some equipment failures, which have occurred over the last three or four weeks. This is not a new thing. I mean, it's been happening since we've been traversing some of this faulted ground, but the question is, there's only so many Band-Aids you can put on the equipment until you get to a point where some more fundamental pieces of the equipment can't last for the duration of the panel. That's been our conclusion.

We've been monitoring this all the way along, but this last fault really has given us a difficult time with the gear, which is already impaired to some degree, by virtue of having come through these large, faulted areas, which were known, but the extra one, which we found in the middle of the face, really has caused us some difficulty. As I say, we've got some ground to go through now, before we can change out some of this equipment. It's really just the cascading nature of that. It's not one particular piece. It's just a number of them cascading, causing related weaknesses within the longwall itself. The AFC, in particular, the beam stage loader, all these items, which are bearing a lot of wear and tear, you've just got to get to the end of it and deal with it.

Question: (Lyndon Fagan, JP Morgan, Analyst) Right, okay. That makes sense.

Then, going back to the previous discussion, so, in 18 months you get to 203 and beyond. Can we talk about what the ground is like out there? I mean, are you expecting any geological challenges or is the base case that it's smooth sailing, once you're out there?

Paul Flynn: The ground there looks very good, Lyndon. That's why we're very keen to get to there. We know it's got the odd geological feature, as the same corresponding panels in that eastern flank that the mine had, but nothing too exciting. It's obviously very shallow ground, so the secondary support requirements that we have at the moment aren't required anywhere near as to the same level. And gas is actually very minimal there, CO_2 levels in the face are very good there, as well.

So, yes, we're wholly expecting that area to be a return to the form that you would have seen us in years '16, '17, '18, as we - and I'm thinking, just looking at the diagram now, if you go back and have a look on we're in panels three, four, five, six on the northern side, you'll see consistent production there at high levels and at low cost.

Question: (Lyndon Fagan, JP Morgan, Analyst) Can you remind us a little bit on the coal quality out there? There's no met coal. Is the thermal coal quality any different?

Paul Flynn: Well, there's still PCI capacity in the mine. That's not until you get to stage three that that starts to wane over time, so you will see us continue to produce the PCI, and coal quality is pretty consistent across the southern panels. As you get deeper, then you do start to see small increments in ash over time, but that's years away.

Question: (Lyndon Fagan, JP Morgan, Analyst) Okay, great. To go back to the achieved price discount, it's really not until we get to this area in 18-odd months that we shouldn't be worrying about that. So we should be forecasting some sort of achieved price discount for some 18-odd months. Is that a fair statement?

Paul Flynn: We certainly won't be seeing the level that we've got at the moment, that's for sure, Lyndon, and the reason for that is, as I say, the step around avoids that fault-affected coal, and that's obviously a big driver of this discounts that we're experiencing at the moment.

So, from our current realisation adjustments, taking into account what Kevin said about the quarter to come, and unwinding that fault-affected stockpiled coal that we have on site at the moment. We are predicting an improvement in the discounts as a result of that. Not continuation the same across panel 10, no.

Question: (Lyndon Fagan, JP Morgan, Analyst) Great. The final question hasn’t really been discussed on the call, just on all the projects. Are you able to - was there anything new in the quarter that we should be talking about, in terms of progress. I mean, obviously, no FID on anything any time soon, but is there anything worth highlighting? Also the pecking order? Are you thinking Vickery before Winchester, or vice versa?

Paul Flynn: Nothing particularly noteworthy has come out during the course of the quarter. I mean, there's work continuing across all the projects. Stage 3, generally, is transitioning more into a more operational orientation to its evaluation now. Vickery is continuing to be refined. There's no doubt about that internally, but we are waiting for the judgement from the judge, having held the hearings. We note the EPBC deadline for approval of the project under their statutory rules is at the end of this month, April, but we're not going to be holding our breath, potentially, for that.

Winchester South is just trucking along, but nothing noteworthy after release of the reserves last year. We are working through the feedback from the adequacy review that the Queensland Government is going through, but there's nothing surprising out of that at all. That's just really the response to questions from them.

Question: (Lyndon Fagan, JP Morgan, Analyst) All right. Thanks very much.

Operator: Thank you. Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. Your next question comes from Peter O'Connor, of Shaw and Partners. Please go ahead.

Question: (Peter O'Connor, Shaw and Partners, Analyst) Morning, Paul, Kevin and Ian. Paul, in December quarter you talked about the problems that you had, and you mentioned there was one discrete area of longwall 9, which had a fault, and then you talked about the one in a 55 million tonne event, where you hit the one in late December, which was discrete and unusual. I'm just trying to piece together what was discrete and unusual when we had the December call in January, and what's there now?

So, as a step back, you really need to put a plan in these comments, because we're all trying to struggle with where you are in the longwall block and where these features are. Just trying to understand, the main longwall fault area and what's discrete and different, and where we are. It seems like you're getting continued area faulting.

Paul Flynn: Yes, look, the primary fault that we've known about for some time that's been the feature of the conversations of the last few panels, Peter, that is known, and we've been open and transparent on that.

Of course, the displacement in panel 10 is such that we feel it's better now, to step around that, and we made that call and everyone's been informed of that.

In terms of this midface faulting that we found at the back end of - in the second half of 109, yes, there's no doubt that that was a surprise to us. It was not evident in the drivage going up either side of the panel, which would have been one of the sources of intel that you would have used to discern whether or not there's a feature there.

As Ian's mentioned, as well, we are drilling up from the mains, essentially, from the take-off roads, up through the remaining part of 109, to further ascertain whether there's something else that we should be planning for in the balance of the panel that remains. The same work will be done, as Ian's also mentioned, in 110, particularly - in 110 in total, but particularly in 110(b), the second half of 110, after the step around, given that - given what we've just been through, that would be the area of 110 that you would say would be susceptible to the same conditions.

Question: (Peter O'Connor, Shaw and Partners, Analyst) So how acute is this fourth angle as it presents to the main gate tail gate? Is this hundreds and hundreds of metres of faulted area because of an acute angle?

Paul Flynn: No. No, it's not, Peter. Ian, do you want to give Peter some colour on that?

Ian Humphris: Yes, thanks, Paul. Morning, Peter. Sorry, a little bit of what you were talking about there dropped out, Paul, so if I go over something, apologies.

Depending on which fault we're talking about, Peter, sometimes it's been visible both in the tail gate and main gate, and we're able to understand what that looks like and interpret it across the block. The original one that we talked about that was mid-block in around about November period, that we weren't aware of that didn't show up, it went for, call it about half the block sort of length, as we progress. But, generally speaking, they go across the block, not along the block, if that helps.

Question: (Peter O'Connor, Shaw and Partners, Analyst) We've been through one in longwall 9 now we're going to step around longwall 10, and we've been through one we didn't expect. Now, in the last three months, we've been in what? An area of just incredibly difficult ground? I'm just trying to - I think we're all struggling with why it's taken three months in this deeply difficult area.

Ian Humphris: All right. Maybe I can give you - late last year we had the unknown fault, which took us a while to get through, where predominantly most of the damage occurred because we were cutting stone, and Peter, you'll probably understand this, but maybe some of the other people on the call, for a bit of context, might help. When we know where a fault is, whether it's an up throw or a down throw, where we have to make the longwall go up or down, generally speaking for about every metre of advance you can only get it to go up or down by about 100 millimetres.

So, if we know we've got, for example, a two and a half metre fault, we need to start at least 25-odd metres before it, ramping up, to be at the right height, or, conversely, ramping down, depending on what type of fault it is.

Historically, when we've been - understand the mapping of those, we do what we call the flight plans, so that the wall can follow those and we navigate the fault, and then we come down.

In December we had a larger fault that we knew about, a four-and-a half metre fault that we'd got through, and we were ramping down that in very early January. Since then, in February, we've had another smaller fault, a two and a half metre fault, which, again, mapped, and as we would expect, we'd normally be able to go up and over it.

But, to one of the earlier calls about the accelerated wear and what's happened over the last few weeks, is a section of that fault was greater than, I'll call it the average that we'd assumed. So, we're forced to cut that rock, because the longwall's not that flexible. That's what caused the accelerated wear on an already limping the longwall through to the end or the places we planned to do that maintenance.

The other thing we noticed, coming out of the faults in that February period of time, was the roof conditions were more difficult to hold them up, as we started ramping down, as well, and we had a number of bits of stone fall and cause us problems there.

So, significant amounts of what we call carbo fill, which is a filling material, and also the polyurethane, to hold it together. So, there have been smaller faults post that that we've been working through, that, in summary, of course, is more difficulty than we'd historically experienced getting through.

Question: (Peter O'Connor, Shaw and Partners, Analyst) On your drilling, if you're drilling transverse holes through the block, if you don't have a full face fault, what will you find? You could get the drill hole goes straight through and you say a part seam fault, and you don't pick it up. I'm wondering, is that useful? It's clearly better to do it than not, but what's it going to pick up?

Ian Humphris: Well, Peter, what we're planning is, obviously we're using the UIS long hole drill rig, and we will do both where we think we know where structures may or may not be. We'll do floor and roof touches and also, the geo-sensing technology that we're working with and developing gives us a number of feedback and into that model, it generates, which should also help us determine whether or not those, if there are any faults, what the magnitude of them may or may not be.

Question: (Peter O'Connor, Shaw and Partners, Analyst) Okay, and just to be clear, that fault you hit in mid-Feb, that's the two-week outage that you had during this quarter just gone? Or the lost production during the quarter?

Ian Humphris: Well, yes, we're coming out of that. It caused us a fair bit of angst, yes.

Question: (Peter O'Connor, Shaw and Partners, Analyst) Okay. Paul, could I just ask one for Kevin? The cost split, given the cost guidance change, it's quite a marked impact coming from Narrabri. What is the breakdown of that hike? You talked about the take or pay components and the ability - the lack of ability to amortise that across more tonnes. How much is it just Narrabri lack of tonnes there, and how much is it take or pay and any other factors?

Kevin Ball: Yes, Pete. It's - you understand running a longwall operation's largely a fixed cost business and the volume of tonnes that come out of it really drive the outcome. So there's two impacts there that come out of Narrabri's downgrade. If you look at our ROM guidance, we haven't changed Gunnedah open cuts, nor have we changed Maules. So, the real issue here is that we're getting less tonnes as a divisor in the Narrabri cost base, which is really just driving costs up.

The second piece around that is that in the final quarter, the tonnes that arrived from Narrabri typically arrive later in the periods, so we're going to have periods of unutilised capacity on the rail and the port, through April, and then, as we go and do the repairs, we'll have a couple of weeks with that. That'll be April and May. Really, it's just it's biting that. It's, we're not selling a million tonnes of Narrabri. That million tonnes typically comes with around 22 bucks worth of port and rail, some of that's variable, but most of that's fixed. And that's what's coming to bite us.

So, the cost guidance going up, we were looking to hold the cost guidance we held. We were right in the middle of that, and this piece of work with Narrabri's downgrade in volume is just causing us issues on the fixed costs at Narrabri and then the fixed costs of take or pay.

Question: (Peter O'Connor, Shaw and Partners, Analyst) Okay, totally get that. Hey, Paul, can I have one more? Given the obvious feedback you're getting from us on the call, and you no doubt get from shareholders, how do you manage expectations about this issue upwards? How do you pitch this to the Board? They must be getting just as frustrated as you are and we are. What's the dialogue like in that direction?

Paul Flynn: Oh, I think everyone in the Company in its entirety are disappointed. There's no doubt about this more recent area. But by the same token, management and the Board are all focused on the areas that we know to be better and whilst it's difficult in this area in 109 at the moment, there's no reason to think that we can't get a better line of sight on any potential issues in 110.

The Board well understands that moving back into the shallow ground on the southern panels, on the eastern side, is obviously going to be a far superior operating environment in which to mine, and they've taken the necessary steps and decisions to move in there as quickly as possible.

I think, generally, it's just a difficult thing, as you know, Peter, underground mining can be, from time-to-time, and we look forward to getting out of the back end of this panel and into 10, and then on to 203.

Question: (Peter O'Connor, Shaw and Partners, Analyst) Thanks, Paul.

Ian Humphris: Paul, can I just jump in, sorry? Just to clarify, too. I mean, we're asking about the faults in February, which causes some angst, but just to be clear, that we're in a fault now, as we've discussed, which is what's obviously caused the - we've had some similar issues and that's what's caused the accelerated deterioration in the equipment.

Paul Flynn: Yeah.

Operator: Thank you. Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. Your next question is a follow-up from Paul Young of Goldman Sachs. Please go ahead.

Question: (Paul Young, Goldman Sachs, Analyst) Yes, hi again, Paul and team.

A few questions on Maules Creek. I mean, obviously a lot of questions on Narrabri, and rightly so, but Maules is still the cash cow of the Company, and it actually had a very good March quarter, considering it was wet. So a few questions on Maules, Paul.

On the run rate, if you look in the March quarter, sorry, and if you assume that you hit your guidance, which you're on track for, I guess that implies that you're going to have to ease off on production, potentially, in the December half, just because of that 13 million tonne limit, and probably want to do so, just because of the coal stocks. Can you maybe step through that?

Paul Flynn: Yes. It's a good question. It's a good question, Paul, and highlighting again the difference between the financial year and the ROM production year.

That generally naturally occurs anyway, Paul, and the reason for that is it's just in terms of the timing of when you hit the Braymont seam, as we talked about previously. I mean, a lot of coal comes very quickly there, and that adds a lot of volume. But generally, once you're out of it, you do generally see a period of less volume, or more normalised volume than that quick flurry of coal, once you're outside of the Braymont seam. There's nothing really that compares to the Braymont, given the size of it relative to the total reserve. So, that will naturally occur in any event, in the second - well, in the first and second quarters of the new financial year.

Question: (Paul Young, Goldman Sachs, Analyst) Yes, okay, great. On differential between semisoft and 6000 kilocal, it makes sense to push out as much thermal, high quality thermal from Maules as possible. I know you've got the Japanese contracts on semisoft, you probably have to deliver into. The question there is, what percentage of semisoft did Maules produce during the quarter, roughly?

Also, what premiums are you seeing for the 6000 kilocal at the moment, in dollars per tonne terms? For the ash and the energy premium?

Paul Flynn: Yes, 17% was the answer to the question on the semi, Paul, just for Maules, so it was a little low, but the overall sales is about 20%. As I mentioned, that's because there was an opportunity to get away a couple of PCI. The PCI market and the interest in the PCI coal has been actually quite strong, strangely, not the semisoft, so much. So, India, and that was the primary source of those incremental sales, there were opportunities for Tarra and also Werris, to take on a little bit more during the quarter.

Premiums are looking pretty good. I mean, there's a 5% energy benefit there, anyway, generally, and then in terms of, depending on the particular quality dimensions that people value, you've got anywhere between, at the low end, US$3, but on the better end, US$5 on top.

Question: (Paul Young, Goldman Sachs, Analyst) Yes. Okay, great. Last question on Maules, Paul. Any update on the Itochu minority stake?

Paul Flynn: Nothing that I'm aware of, no, Paul, sorry, nothing to report there.

Question: (Paul Young, Goldman Sachs, Analyst) Okay. Thanks, Paul. Thanks, team.

Paul Flynn: Thank you.

Operator: Thank you. Your next question comes from Stephen Wood of Eiger Capital. Please go ahead.

Question: (Stephen Wood, Eiger Capital, Analyst) Hi, guys. Sorry to come in as a slight non-poet here, but can I just clarify, you've received $76 on average, per tonne, in the current quarter. If we assume the current structures in the marketplace just stay exactly as they are, right now, how many quarters does it take, bearing in mind the coal quality issues and Narrabri that we've just been discussing, how long does it take for us to see a material step up in that number - I mean, assuming we're going to see it in the June quarter.

Then, what sort of number, if the prices in the market just do not change at all, bearing in mind everything we've just discussed, where do we get to by September and December? On price?

Paul Flynn: Yes, thanks, Stephen. I think, as Kevin's mentioned already, on the thermal side of it, discount's a little less, but broadly the same as what we've experienced now, in the next quarter, and that, as we've talked about, with a number of different people this morning, that's just a product of those lags that we've mentioned to you.

Question: (Stephen Wood, Eiger Capital, Analyst) Does that mean the next quarter $76 as well?

Paul Flynn: No, that means 13%, is Kevin's number - 13% on the average of whatever the gC NEWC is for the next quarter. It doesn't mean a dollar sum.

Question: (Stephen Wood, Eiger Capital, Analyst) Okay, so if we assume the price doesn't change at all, from where it is now, what's that 13% - what's the number minus 13%?

Paul Flynn: If you take, so the average, let's assume the average for the month is $94 at the moment, is it? Somewhere around there.

Question: (Stephen Wood, Eiger Capital, Analyst) Yes. Minus 13%..

Paul Flynn: Yes, minus 13%.

Question: (Stephen Wood, Eiger Capital, Analyst) …94 times 0.87, so that's $82.

Paul Flynn: Yes.

Question: (Stephen Wood, Eiger Capital, Analyst) All right. So that's the jump from $76, is it?

Paul Flynn: Yes.

Question: (Stephen Wood, Eiger Capital, Analyst) Okay, so that's about 8%, if nothing changes.

Paul Flynn: That's the convergence of two things there, of course, the realisation is improved, relative to what we've experienced in this quarter, and the average gC NEWC price is higher than the one that we've just experienced in the quarter that's gone by.

Question: (Stephen Wood, Eiger Capital, Analyst) Yes. Got that. So, if prices don't then change at all, bearing in mind all the discussions we've just had on Narrabri coals, if they don't change at all, do we then squeeze up a little bit higher in the September quarter again, because of the various lags we've talked about on the Korean coals?

Kevin Ball: Yes, and I think, Stephen, the other question that's in there is that the way that spread exists, you get a - what we get is a premium over gC NEWC for higher quality coal, discount to lower really incentivises you to blend out whatever you can, and that's why having coal stocks on hand at different places, with better qualities from Tarrawonga and Maules Creek, to blend out the Narrabri and Werris Creek product is really important to us.

That's why you see the physical price for gC NEWC today in the market being higher than the paper price, because producers are doing whatever they can to procure high quality, high CV coal that fills out that lower quality coal spec. So there's quite a…

Question: (Stephen Wood, Eiger Capital, Analyst) So, putting into a big, brown paper bag everything we've just heard about the various production issues at Narrabri, it's not unreasonable to go, okay, June quarter up 8%, September quarter up another 8%, if nothing changes in the marketplace?

Paul Flynn: Based on that scenario that you've just outlined, that's correct. As we look at the next quarter, there's modest production out of Narrabri, as we've obviously just acknowledged, so there's a lower proportion of poor quality coal in there, but that's generally in the 13% that Kevin's already acknowledged.

When you move into the next quarter, the first quarter of the new financial year, we'll be in a change out, so there’ll be very little of this poor quality coal remaining to be sold, and so the quality, the average quality of production and sales during that quarter will jump up.

Question: (Stephen Wood, Eiger Capital, Analyst) Right, okay. So I think that 8%, 8% scenario, certainly putting aside for a moment all the issues we've got with coal quality, the prices are going to step up reasonably significantly in the next two quarters, assuming the marketplace stays exactly where it is right now.

Paul Flynn: You mean, it's stable. Yes, that's right.

Question: (Stephen Wood, Eiger Capital, Analyst) Okay. Great, thank you.

Operator: Thank you. Your final question comes from Peter O'Connor of Shaw and Partners. Please go ahead.

Question: (Peter O'Connor, Shaw and Partners, Analyst) Just a quick clarification. There's too many thoughts going on in my head at the moment. You've just been through, we're now in late March, early April. You had one in February, you had one in late November, which was the one that's out of left field, and you had the one prior to that, which was the expected one. Is that how I'd recap the last nine months?

Ian Humphris: Sorry, I'll start this. Call it November was the one that was unexpected. December, into January was the one that was expected, the large one. Then there was the February one. Then, there is one we are in now, in March.

Question: (Peter O'Connor, Shaw and Partners, Analyst) Okay. Got you. I strongly encourage you to put a plan out next time. It would make it a lot easier. Thank you.

Ian Humphris: Okay.

Operator: Thank you. There are no further questions at this time. I'll now hand back to Mr Flynn for closing remarks.

Paul Flynn: Yes. Thank you, everyone, for the call. If there's further follow-up questions, there, you know where to find us. Look forward to speaking with you, and thanks for your time today.

Operator: That does conclude our conference for today. Thank you for participating. You may now disconnect.

END OF RECORDING