Whitehaven Coal H1 FY22 Results Market Call - Transcript

Start of Transcript

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Whitehaven HY22 results presentation. 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 over to Mr Paul Flynn, MD and CEO. Please, go ahead.

Paul Flynn: Good morning, everybody, and thank you for taking the time to join us for Whitehaven Coal's half year results presentation for financial year '22. Today, with me, I've got Kevin Ball, our CFO and Ian Humphries, our EGM Ops and Sarah McNally who is our Head of Investor Relations.

As usual, I'm going to go through a short presentation and we'll get to the Q&A. Given the fact that everybody has seen the operational outcomes for the first six months in any event, we'll probably focus on the financial component and scoot on to the Q&A as we can.

I'll just draw your attention to the forward looking disclosure statement, given that we are talking about guidance today. So, draw that to your attention and we'll move off to our slides.

So, in order to set the scene for you a little bit, let's just quickly recap on our customers and who we are. We're obviously a 100% exporter into the premium markets of Asia. You can see the split of customers here in the various jurisdictions that we service.

So, Japan, Korea, Taiwan and India being the mainstay of our business and expanding into Vietnam and Philippines and Malaysia in more recent times and Indonesia with boutique markets there. I mean, the obvious exception here is the fact that we don't sell anything into mainland China, which I think everybody understands.

Our premium products and the split of sales during the period you've got here, which is there for you to see. Again, no major changes in too much of that. Majority of the thermal coal goes into Japan, Korea, Taiwan, as you know. Then steel-making, smelting, other purposes goes into India, Korea and Indonesia. Japan's in the other component here at the moment.

The backdrop of pricing, obviously is pretty good and I'm sure we'll talk about that a little bit further as we get into things. You're obviously seeing some variability in the market moving from cyclical – well, COVID-induced lows, cyclical lows if you want to refer to them that way, due to certainly a much tighter market with significant demand right across our customer base and globally, more generally. Then of course, supply side constraints leading to a very good and tight market overall.

In terms of the current coal market, again, prices low. Back in August of – jeez we saw things go low at August of '20 and then they've moved further lower and then we've seen a much better market coming through on the supply side.

Being constrained as it is, you're not seeing any benefits of that but there's a number of different reasons why we've seen the changes that we have. Of course, there's been stimulus being obviously injected into the markets of each of our customer economies but global economies more generally as people are trying to recover ground after their COVID-induced backward movements.

So, that's good and that's being exhibited right across all of the energy complex. So, you're seeing oil, gas, coal, all obviously responding to that, which is a positive thing.

Obviously supply side has been interrupted, not just by COVID alone but COVID has been a supply issue constraint on pretty much all the producing jurisdictions you could imagine. Then, of course, there's been other features which have taken place across the globe as well.

Whether it be weather in our particular circumstance here or industrial relations-type issues or infrastructure constraints. Be that in South Africa or Colombia. There's been certainly constraints on either side, leading to a very tight market overall.

Just with an outlook for the seaborne thermal coal market, volumes and price looks pretty good generally. On the right-hand side, you've got Wood Mack's view as to where price are going to settle. $80 more or less going out to 2035.

That's up for debate, that one, in terms of where this lands. It's certainly, that's a long way off where we see it. The forward curve in the more recent times are going to point to something settling at something north than that, in my estimation.

The left-hand side is quite interesting when you look at the bedrock, if you like, of coal demand. Obviously, this slide sees China and the rest of the world drift off as you move out to the 2050 period but largely Asia, ex-China, is pretty stable at around the 400 million tonnes, which is pretty good for the seaborne market.

Just quickly, why do people like our coal? Well, of course, we've got the trifecta of benefits here. We've got obviously – we've got the lowest carbon intensity of any thermal coal sold in the seaborne trade so that you get more energy for the tonne that we give you, which is great.

Given the educated nature of this audience, I don't need to highlight that CO2 emissions are important and it's clearly not a pollutant whereas our coal does definitely deal with the air quality concerns of our customers and that is that the SOx and NOx outcomes from using our coal are much better than our competitors and, of course, the low ash profile of our coal means that there's not ash disposal issues at the back end of their use of our product. So definitely got the trifecta of benefits in that regard.

Just over to our results and I'll start with safety, as we should. Safety performance has been reasonable but not where we want it to be. The TRIFR at 6.1 is okay but I know we can do better than that so there's a lot of renewed focus on making sure that we continue to push this pressure – this number down and concerted effort across our business is necessary to make sure that we can achieve a better outcome than what we've got in this particular period.

I know industry-wise we're doing really well and severity-wise, obviously the instances are improving all the time but that's what – we know we can do better so let's continue to focus on that.

Just some highlights for the financial results. I'll just call out a few of these numbers here. Obviously our achieved prices, you already knew this from the previous information we've given you over the quarters. So, I know everyone should have had our EBITDA range well and truly in hand given the numbers that we've given you quarter-on-quarter.

The record revenue for us at $1.4 billion is very good. EBITDA obviously at $632 million is a very good result and that cascades down to a record NPAT at $340 million. Cash generated during the period has been significant, $567 million from ops, which is a positive result.

The Board has reflected on obviously the first half and declared an unfranked dividend of $0.08 per share. Looking forward, has also deemed appropriate a buy-back, which notifications went out this morning that we would seek to conduct over the next 12 months, up to 10% of the issued stock of the Company and capped at $400 million over the next 12 months.

So, it really is a positive outlook from the Board's and our perspective about not just the immediate short-term but certainly the outlook for the business more generally.

These numbers, obviously you're no stranger to this, this audience, given that we've published these numbers over the past two quarters so I won't really go onto this too much at all but these numbers will be very, very familiar. Guidance for sales at 17.2 million tonnes to 17.8 million tonnes, ROM guidance there at 19 million tonnes to 20.5 million tonnes.

Kevin will come onto a little bit about de-leveraging which did reflect the fact that we'd spoken in the last quarter, in particular due to COVID and weather, we did have slippage of deliveries into this quarter which has obviously converted to cash. Significant cash during this quarter. So, I know Kevin will cover that in a minute.

This slide, I'll just go through this quickly again. Everybody's well familiar with where we're tracking with this. Maules Creek obviously was the one which was affected by weather. Not just the flooded period where we had lost accessed to the site for two weeks but for essential services being helicoptered into the site, but we were suffering from consistent rainfall prior to the flooding event itself. So, we did lose some tonnes in there which we had previously recorded at 600 thousand tonnes to 700 thousand tonnes for the year.

Narrabri obviously wasn't affected the same way. It was obviously in the midst of a change out which had been scheduled and that has been conducted well and on time and in budget so moving out of 109 to 110 is a positive thing, with our ramp-up continuing to proceed and cutting into 110 reasonably well already.

Just over on this next slide on Narrabri, it's just a highlight for you. The cut and flit mining preparations did start in January but actual cut and flit won't really occur until – well next month in March. So it is first quarter-related, I think, but in this one it refers to when preparations have started.

Longwall relocation, as I mentioned, went well. The step around obviously comes at the back end of this financial year and the relocation is scheduled for the second half of FY23.

Gunnedah ops at Tarrawonga, unfortunately was, like Maules Creek, affected by that weather pattern which was hovering over that part of our basin. That did cause us some delays there.

It wasn't as badly affected as Maules Creek was in terms of access to site constraints, although the challenge there is the roads were constrained and therefore transporting any coal, even if you could get people onsite, transporting coal down to our Gunnedah prep plant was all constrained by virtue of that limited public road access due to that flooding.

But Werris Creek, surprisingly, which is normally the one that gets the most rainfall of all our pits actually skated through that period in relatively good form and performed according to plan for the first half. So, with that, I'll give you – now over to Kevin.

Kevin Ball: Thanks, Paul. So, let's go through the main key balance sheet items. As Paul said, we've certainly reported a record EBITDA, a record NPAT and a record cashflows over half a billion dollars, almost more than 10-fold from the previous half. We've halved our net debt from $808 million to $404 million and over the coming slides, we'll take you through some of that material.

So, revenue at $1.4 billion. We did have sales slip out of the first half, it was really that wet weather and a bit of high seas in Newcastle at that point. Operating costs were down a touch to $322 million but with the reduced sales volume, that's what's driving that. Coal purchases were up, as you'd expect, in coal trading because we're paying more for the product that we're trading.

Net profit underlying earnings, $340 million in the profit line. We'll talk – take our way through the capital management framework that we've clarified and issued around here.

The $0.08 dividend is around 25% of NPAT for the current period and due to our confidence in the operations in the coal market, the Board has endorsed the implementation of an on-market share buy-back for up to 10% of the outstanding shares over the next 12 months.

You'll see that we've got an income tax expense there. We expect to pay tax in the second half of this calendar year so we expect to pay tax out of the FY22 year but that payment will take place in December. That's when it's scheduled to take place. That means we'll have franking credits in this calendar year and those franking credits will be able to be applied to any dividend that's declared after 1 July.

So, a little bit of a deep dive on some lines here at the moment, have a look at the drivers of EBITDA. Really, there's no surprise here. You know, when you make $202 on average realisation, up $121, the big impact here is price. $706 million increase coming around from price.

FX relatively flat. Not much there and I think the first-year margin that we made last year was about $5 a tonne in EBITDA because of the COVID-induced effect on pricing. So really, not much effect on volume there.

You see costs, I'll probably say to you that – I would say to you that a portion of that $80 million is what's turned up in the $706 million because diesel is up and we'll go through this in a little more detail. Diesel's up and there's some costs in there from demurrage and different things around coal quality.

I'll take you over to achieved thermal coal price. Again, there's really no surprises there. First half last year, US$55 a tonne. This year, US$146 – for this half year, US$146. US$116 of that comes from the gC NEWC increase and there's a discount there of about US$25 but that reflects Whitehaven's – the lag as we had rising prices through this period and the proportion of coal that came out of Narrabri was higher ash in materials.

So, we expect that thermal realisation in half two will revert to averaging gC NEWC and now that we've cleared that Narrabri material. What you should see and what you can draw from the guidance is that the production of sales in the second half is stronger than the first half. So, we are expecting a very strong second half to come through and be reflected in the full year numbers.

Over here on unit costs, you can see the groupings at the bottom of product quality strategy. Some underlying cost inflation. I think our average cost of diesel first half fiscal year '21 was $0.52 a litre. Our average cost this period is $0.78 a litre. So, we've had a 50% increase in diesel costs over this period. That's just reflected in both the operations at site and in the haulage to the ports. So that's been a big impact.

Again, you can see with the coal tightness, the tightness of the coal market and the elevation of coal price, you can see demurrage. Demurrage for us in the first half was up $2 on the previous and we've had some impact of flooding and then the volumetric effects of those sales slipping out of the first half into the second half to get us to $83.

So, I would think that when the volume rises in the second half, that volumetric piece will unwind. Where diesel finishes, I think we probably – we'll probably see again $0.78 is below where the average is for January, February, so we should see that.

Demurrage will probably soften in the back end of the year and the yield will remain, I think, because of what we're washing out of Maules Creek in terms of the lower seam quality there. The lower seams and the quality of those lower seams.

So, if I take you to EBITDA margin, this is the thing that warms my heart. $5 in fiscal year '21, $102 in fiscal year '22. That 55% margin on own coal sales is an outstanding result and is what's contributing to these improved results.

Over the page, we'll take you through some D&A and net finance. I know you're interested in this. The D&A from $138 million to $119 million, driven by decreased ROM and because of the impairment that we took at 30 June '21, there's a slight impact in there.

But that translates because of the lower volume and the time-based depreciation into a higher unit cost. Again, as volumes come on in the second half, those numbers should reflect that a little bit better.

On the net finance expense, we do expect to be – well we repaid $225 million since 31 December. Our expectations are that we'll repay the balance of the revolver in the next week or two and we'll be net cash in March as well.

So, we're expecting and we're seeing a really strong second half of the year in terms of volumes and price and we're certainly seeing that in cashflow. So that's fed into this conversation, I think, around where the Board's described the outlook for the year.

Net debt and liquidity, as I said, subsequent to year end, we've repaid $225 million. There's only $95 million outstanding and with six weeks left to go until we finish the March quarter, I can very confidently say that those numbers about being net cash in March is absolutely right and we'll repay the facility.

So, the strong balance sheet, really, is the piece that's supporting where the business is coming to in terms of returns to shareholders and the expectations for calendar year with the tight physical market for coal and elevated prices, we really see a strong year coming.

Take you over the page to free cashflow. Over half a billion dollars in free cash or operating cashflow. We've put $400 million of that to work to retire debt, which is what we said we'd do and then we put about $90 million into capital. You can see the breakup of that and we will pay to support the operating and maintain safe and operating conditions in the mine.

About $40 million in lease payments which I know most of you got and the other's just roundings, but as I said, we expect the second half to be very strong. That discount that you saw on the slide there on revenue should disappear in the second half and the volumes should be up. So cashflow from the second half should be much stronger.

Over the page, just wanted to clarify because I know we've been getting a lot of questions about this in the past. So, the message in here for people is, we really do remain focussed on adhering to a strict capital management framework. We will seek to diversify sources of capital and the work that we've been doing on getting into the debt capital markets continues.

We do plan to refinance the revolver that's with the banks that matures in July 2023. We'll refinance that in the second half of this calendar year and we will get into the debt capital market when conditions are better but the balance sheet's in very good health.

The credit rating and positioning of the Company is improving with every month that goes past. So, there's no downside in doing that – taking our time to do that and do that properly.

So, as I said, with production of sales weighted in the second half, the return of the usual mix of high quality coal and 6000 kcal prices. We expect those prices to remain robust and we expect to generate significant levels of free cashflow in the second half and in calendar year '22.

Just a couple of points. The interim dividend is unfranked because the Company doesn't have franking credits but as I said to you before, we'll pay tax out of the FY22 result and we'll put franking credits in the franking credit account in the December half. So, stay tuned for the full year result.

Secondly, as you understand, corporations law limits share buy-backs to 10% of the issued capital in any 12-month period and so we envisage this buy-back taking place over that 12 months' period. So back to Paul and to talk about how we view the remainder of financial year' 22.

Paul Flynn: Thanks, Kevin. Just to flip the page here and reiterate the guidance remains unchanged. So, no variation from us in that regard.

Obviously, our riders to that, which we explained previously were further weather impacts which we – well we've had rain but not anything as disruptive as what we saw back in November and December and the COVID impacts, whilst we are still living with COVID, we are seeing that diminish slightly. That absenteeism that's associated with obviously self-isolation and so on taking place. So – but otherwise, we're in the right zone to deliver on our guidance.

In terms of just the focus, obviously, for the year, improving our safety performance as I mentioned, that absolutely is front of mind for us. Making sure we deliver on that guidance. We are maximising the profit margins as you can see. We've been washing more and harder and that was the $3 that Kevin's outlined just in that bridge diagram from earlier.

Delivering the right mix of returns to – or initiatives to shareholders and as you can see, the Board's taken the position on an $0.08 unfranked dividend and, for the first time, initiated a buy-back over the next 12 months.

Of course, just managing the impact of Omicron on ourselves and also on suppliers and the coal supply chain more generally through the balance of not just this financial year but through the calendar year, I suspect, as well.

So, with that, I might draw this presentation to a close and hand back to our operator to get some Q&A started. Thank you very much.

Operator: Thank you very much, sir. Ladies and gentlemen, 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 are on a speaker phone, please pick up your handset to ask the question.

Again, to ask a question, please press star, one. The first question comes from Paul Young from Goldman Sachs. Please, go ahead.

Paul Young: (Goldman Sachs, Analyst) Morning, Paul and Kevin. I hope all is well. First question is on capital management. You're returning a big amount of cash back to shareholders through the buyback so that's great news.

I guess the question I have is around the mix of dividend versus the buy-back. Kevin, you've explained you don't have franking credits but you will have in the second half. Your payout ratio is still well below the rest of the mining sector as far as your threshold and certainly below other coal companies.

So, I'm just curious around when you do have franking credits available, do you think the dividend policy will be reviewed? Say August or throughout the year?

Paul Flynn: Thanks, Paul. I might start that and rather than predicting second half dividend outcomes and so on, Kevin's right to obviously point out that we are, as we speak, probably tax-paying now essentially, having consumed the shelter that we had with carried forward losses.

Paul, the challenge as you know with these sorts of things, is trying to strike a balance because they're pretty – obviously there's lots of different approaches you could take and that reflects the myriad of views of different shareholders and their different needs.

So, we've tried to strike a balance there in terms of re-initiating, obviously, dividends in this profitable period. I think that's a good thing to do. It is unfranked, as we've all acknowledged.

The buy-backs, we're trying to balance again those needs of shareholders and their expressed positions in terms of what their preference are for capital allocation and I suppose, if you like, shifting – because this will be conducted over the next 12 months, shifting to a position where you're, well, essentially fostering a further alignment between people – for people to stay longer in the register than what dividends-only might achieve as a capital allocation initiative.

So, there's just a shift in focus there on that. We obviously think that the second half is going to be very good and the balance of the calendar, that's certainly very good. We have no real major concerns in that regard.

But the second half, the final dividend will be the subject of much discussion, I'm sure, with the Board when that comes but obviously they're expressing – or they're exhibiting good confidence in the outlook for the Company in taking the decisions they've taken already.

Paul Young: (Goldman Sachs, Analyst) Yes, okay, great, Paul. Then the next question as far as priorities on capital allocation, does this now signal a bit of a change whereby returns to shareholders is number one, brownfields expansions and potentially bolt-ons minorities, acquisitions of minority stakes, I should say, is number two and then greenfields out on the right-hand side?

Paul Flynn: Look, I think it's – well I think you can see in our previous stated allocation framework, it was really getting the balance sheet in order, returning it to dividends and buybacks being part of that capital allocation returns to shareholders more generally.

We stated before that we weren't in the frame of mind to be wanting to push the button on a project in the short-term and I think that remains clear that we're doing that but that's not to say that we've stopped progressing work on those.

In fact, Narrabri stage three, IPC is on this week. We're obviously devoting energy to that. Winchester South has recently concluded its exhibition period for its EIS, we're pushing ahead with that and Vickery's secondary approval processes with management plans and others are proceeding.

So, we're working hard on that but we're not doing much in the way of committing significant capital to these assets right now. We think the time will come for that but it's not – it's certainly not within, say for instance, the next 12 months, say for instance.

Paul Young: (Goldman Sachs, Analyst) yes, okay, thanks, Paul. Last question from me, just on cashflow movement. Not much movement in working capital during the period but can I actually ask you a question on CapEx?

You only expect $70 million in the half and your guidance implies probably that and a bit more, then potentially up to – I'll have to the maths, $120 million or so in the second half. Can you actually spend that? I mean – and where will activity step up on the capital expenditure side of things in the second half?

Kevin Ball: Well I think, Youngie, you're answering your own question.

Paul Flynn: Yes, we'll undershoot there. We'll undershoot there, there's no doubt. I mean, we obviously had – from a cashflow generation perspective, we've highlighted the fact that we had slippage out of the first half into the second half. So there is, there's conversion of capital just after the half year end that obviously we'd use to repay the debt down further.

The only thing I'd call out there for you, Paul, as being a little – that goes – well counter to the notion that we're going to underspend generally is that we are putting a little bit more effort into Vickery, of course. That really is just to make sure we've got the finer details and design and stuff ready but we're not talking about big dollars here at all.

It really is that – at the time when we want to bring that project to the Board's consideration, we want to be ready to go. That means having all the detailed design and everything else done. So there's work going on to that, which you do count in the millions of dollars but we're not talking sheep stations here at all.

But that will fall into the second half of the year but if you – there's probably going to be, I don't know, $10 million, $15 million devoted to that over the 12 months from now but that's about it outside of the normal things that we've projected to do.

Paul Young: (Goldman Sachs, Analyst) Thanks, Paul. Just a – I have to ask, just on that Vickery comment there. I presume you mean take to the Board with a sell down in conjunction?

Paul Flynn: We'll look at all those options.

Kevin Ball: All those options Paul.

Paul Flynn: Yes, all those options will be part of that discussion, as you would imagine, Paul, because that's obviously an option for funding as well. Not just long-term offtake. So, the time that we consider these, it would be considered in the context of who would form that – who would you want to take forward as part of your partners for that project, for sure.

Paul Young: (Goldman Sachs, Analyst) Okay, great. Listen, I'll let someone else ask the question. Cheers, guys. Thanks.

Operator: Thank you. Your next question is from Alex Ren from Credit Suisse. Please, go ahead.

Alex Ren: (Credit Suisse, Analyst) Hi, Paul and Kevin, Ian and staff. Congratulations on the results and cap management but it looks like the market is not exactly taking this massive buy-back program very well. So, two questions from me.

So, don't want to put words in your mouth but the share price is at three bucks. So, on a weighted average price, by the time you've finished your $400 million, the share price could be – and hopefully, at five bucks. Is that the upper threshold you're thinking?

You also mentioned the focus is expected to pivot towards retaining long-term holders so the program – is that saying the program could potentially be extended further beyond? That's it.

Paul Flynn: Yes, thanks, Alex. Well of course the buy-back, as Kevin's already outlined and I'm sure you're aware, is 10% of the register without shareholder approval. So, you've got to put some limit around that rather than leaving it open as if you'll spend whatever in order to achieve the 10%. So, we've put a cap on it.

Now, the cap is in our view as to what represents good value or not. The cap is an assessment of what we thought was necessary to have authorised by the Board in order to achieve up to that 10% threshold.

So as to how the market responds over the next 12 months, who knows? We're just signalling our intent to engage in a buy-back and put what we believe to be a reasonable cap to be able to execute that program.

So, what happens during the balance of this next 12 months in that regard, we'll just have to see how that unfolds and no predictions from our part in terms of what goes on into subsequent periods.

Alex Ren: (Credit Suisse, Analyst) Yes, understood. Very clear and just a follow-up on that, then how do you rank cap management afterwards? After the $400 million buy-backs? So, at that time, growth projects would probably start requiring major CapEx. So, does that mean cap management will gradually pivot towards – or prioritise – start prioritising internal growth for a period?

Paul Flynn: No, as I said, no predictions for subsequent periods, Alex. We're certainly not making that but if – and you'll imagine that the Board will want to bear all factors into consideration as this next 12 months unfolds.

So, if our assessment and the Board's view is that the stock is cheap, then – and the business is continuing to perform at a level that demonstrates that that valuation is perhaps out of step with our own view, then that may continue on. So – but that will be the Board's choice to make that once we get to that position.

Alex Ren: (Credit Suisse, Analyst) Got it, thank you. Thank you very much.

Operator: Thank you. The next question is from Rahul Anand from Morgan Stanley. Please, go ahead.

Rahul Anand: (Morgan Stanley, Analyst) Hi, Paul and Kevin. I hope you guys are well. Look, a couple from me. Firstly, following on from Paul's question. I just wanted to understand whether – I mean, you step into the second half. You've got the cash, obviously. You've got your previous dividend payout policy of 20% to 50% NPAT.

Is it perhaps time to start reconfiguring that to free cashflow based policy? Especially given the fact that you do have brownfield expansion, you do have greenfield projects available to start spending some of that CapEx. How do you see that, going into the second half? I'll come back with the next one, thanks.

Paul Flynn: So, is that – are you – is your hypothesis that we should be paying out more? Is that what you're saying from a free – moving to a free cashflow…?

Rahul Anand: (Morgan Stanley, Analyst) Perhaps…

Paul Flynn: Is that what you're saying?

Rahul Anand: (Morgan Stanley, Analyst) Perhaps adding to the predictability of the dividend?

Paul Flynn: Well, you countered the idea of the projects following quickly then after in your question.

Rahul Anand: (Morgan Stanley, Analyst) I'm sorry? So, I was saying basically whether there's an opportunity here to provide more predictability of that dividend as you perhaps move into a free cashflow based policy. So, I just wanted to understand whether that's something you would consider into the second half? Or is the policy what it is, basically, on a go-forward basis?

Paul Flynn: Well, I'm struggling a little bit with the question, Rahul, because I'm struggling to understand how free cashflow based dividend policy would be less variable than currently, given that we are in cyclical industry.

Rahul Anand: (Morgan Stanley, Analyst) Sure, so I guess what I'm trying to get at is, if you do have lower free cash generation and you are investing in projects at a later period, that will allow people to be better prepared for a lower dividend, so to speak. But that's fine, look, I can take this one offline with Kevin, if that's okay.

Paul Flynn: Fine.

Rahul Anand: (Morgan Stanley, Analyst) In terms of the growth profile, Paul, if we talk about Winchester South, are there any updates there? What's the nature of work currently on and how should we think about that project? Does it fall after Vickery? Is that a fair comment to make?

Paul Flynn: Rahul, yes, look, that is a fair comment to make. It does fall after Vickery chronologically and I only say that by reference to Vickery obviously being approved subject to the outstanding case against the Federal Government that's been appealed. So, we're waiting on that judgment.

But Winchester South is proceeding well and so we're pleased with the progress that we made. I mentioned just briefly earlier, it had gone through its public exhibition period for its EIS.

So, we're in the phase now up there of working with the Office of the Coordinator General to work through the feedback that has been received during that exhibition period and so there'll – there may be some more work that comes out of that, that we've got to do for any questions or submissions that have been raised during that period.

Or the Coordinator General themselves actually ask for more work as a result of further review of the draft EIS but it's going according to plan and – but it is chronologically behind Vickery, no doubt.

Rahul Anand: (Morgan Stanley, Analyst) Okay. One for Kevin, perhaps. Just re the buy-back, Kevin. Is it fair that you probably start considering the buy-back after you've reached a net cash position?

Or is it – I mean, you're not very far from that, I acknowledge that, but – or if you do find the right price, you'd be inclined to perhaps delay that net cash position on 142 and then take the opportunity to pick up stock?

Kevin Ball: Look, Rahul, there's a two-week period before we can start to buy-back stock anyway. The net cash position on all of my forecasts is in the first half of March and I don't think that's as relevant as people consider it. The second half of this year, this financial year, with prices where they're expected to be and the volumes that are there, is going to be very strong.

I think we can do two things at the same time, which is manage a debt balance and manage returns to shareholders. That's what I think we're trying to do with this in a balanced way, Rahul. So rather than wait for net debt to turn into net cash and then turn up at the end of June with a large cash balance, we thought we could do that at the half and reflect our expectations on what the full year are going to look like.

Paul Flynn: Yes, there's not going to be a mad flurry of cash out the door, obviously, Rahul, because there's a process by which these buy-backs are conducted and a lot of the rules around that is to ensure that you're not disturbing the market. So that will be a measured process over a 12-month period.

Rahul Anand: (Morgan Stanley, Analyst) Okay, that's fair. Then final question was around expectations for the discounts. I mean, the market is very strong at the moment. Is this an opportunity to perhaps realise better prices for some of that product that falls outside spec? I know a lot of that is fixed price but whatever is not and how should we think about that discount's tracking in the second half of this year and beyond?

Paul Flynn: Yes, that's also a good question, thanks, Rahul. Yes, look, it's the second half, as we've said a couple of times in previous statements and certainly again today, we'll be averaging gC NEWC in the second half for sure, which'll be great.

So, that's very nice to move past the legacy higher ash material that came out of Narrabri as a result of the clean-up of 109. So that'll put us back in positive terrain in that regard. So we said no low-CV sales or – in the second half of the year. So that will certainly be the case.

Having said that, that's not going to allow us to fully recover, looked at on an annual basis, a realisation of above gC NEWC for the full year, even though the second half realisations are very good, as you're alluding to.

So, I think we'll be in the 5% to 7% range overall for the year realisation-wise when taken as a whole. Once we get to the back end of it.

Rahul Anand: (Morgan Stanley, Analyst) Got you, okay. That's very helpful. Thank you very much, I'll pass it on.

Operator: Thank you. The next question is from Matthew Hope from Credit Suisse. Please, go ahead.

Matthew Hope: (Credit Suisse, Analyst) Yes, thanks. Look, I also wanted to just delve into the tricky question of pricing a little. So obviously we're looking at $260 now for 6000 kilocal. Given the impact of lags, how long would it take to expect to see that kind of pricing hit some of these contracts like Korea? Or would it not happen? I mean, are we actually going to see these kind of prices or is that still some way off, just due to the lags?

Paul Flynn: Look it's – we've got a mix of contracts in various contract forms and durations. If you take a three-month lag, you're not going to be terribly wrong in that regard.

The reference that you've made to Korea is actually the longer of those lags, just because that's an annual contract. Most of the contracts that we have in Korea. So, on any given point, there's six months in duration at an average, throughout the course of the year but you've got others which are far more prompt than that. So if you use three months, you'd be okay.

Matthew Hope: (Credit Suisse, Analyst) All right, thank you. The other question I just wanted to look at was the met prices. Just wondering, what kind of prices are you getting? Most of it's not going to Japan, going to other areas but are they following the met prices? The semi-soft PCI prices that Nippon's putting through or is it some other basis?

Paul Flynn: Yes, Matthew, I'll refer you just back to the quarterly reports that we put out for the first two quarters because in there – and there's a table in there that speaks to the realisations for our products there for you. I haven't got that in front of me but if you just go back to those two reports…

Matthew Hope: (Credit Suisse, Analyst) Sure.

Paul Flynn: …you'll get that.

Matthew Hope: (Credit Suisse, Analyst) Okay and finally, just also – final question is just on Vickery. What are you thinking in terms of the timing of that? So if that law case was settled and passed, would you be wanting to start that immediately or would it still – are you still thinking sort of five years down the track?

Paul Flynn: Well certainly – and I'll come back to the previous remarks I've made, not in the next 12 months would be our view. I suspect it might be a little bit longer than that. I mean, the market's in good shape, no doubt about it.

Are shareholders calling for an expansion of capacity in this period of time or do they want us to commit to the capital to doing that? I'm not hearing a chorus of views supporting that proposition right now, but we'll certainly be in a much better financial position than we would have been 12 or 24-months ago, of course.

So, we will have the capacity to do that, so that liberates you to make a decision based on when you think is the right time to do that. So – but certainly not in the next 12 months, that's for sure.

Matthew Hope: (Credit Suisse, Analyst) Right, thank you. That's it.

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

Peter O'Connor: (Shaw and Partners, Analyst) Hi, Paul, Kevin. Just switching gears, Narrabri. Thanks for slight 16, it's a great update. Are you into the 200 Mains yet? If so, what's the conditions that you're enjoying or facing and the development float at the moment for longwall 203, how does it look? Then I've got a follow-up.

Paul Flynn: Yes, thanks, Peter. I think Ian's been waiting patiently for a question to answer so we'll let him – unleash him.

Ian Humphries: Yes, that – morning, Peter. Yes, we are in 200 Mains. We're necking them out. There's a number of headings there that we're working through and developing those. I think Paul's shown previously manning build up. So, we've been a little bit slower in the manning build up there. [Inaudible]. Sorry, there was a second part to your question there?

Peter O'Connor: (Shaw and Partners, Analyst) Just the conditions you're facing, what is it like in depth of cover? Is it the same as what all – the other side of the Mains?

Ian Humphries: Look, the conditions are better there in the shallower cover. There are some structures that we know about that we'd always planned to work through and we're just tackling them in the normal course of business.

Peter O'Connor: (Shaw and Partners, Analyst) Okay, thank you. Paul, Maules Creek. JV partner. Sale process. Any update? Any news? Any movement?

Paul Flynn: Nothing I can give you there, Peter. It's been very quiet. I mean, obviously we are all doing well out of Maules Creek and in this price environment. I'm not sure whether that's playing into the speed or lack of it, but they wanted to pursue their process. I haven't heard anything further on it, so we'll wait to see where that progresses and preserve our rights, of course.

Peter O'Connor: (Shaw and Partners, Analyst) Paul, with that in mind and your capital allocation framework and buy-back and dividends, which I applaud, how do you think about keeping that in that capital allocation process? Do you slot aside a couple of hundred million just for that day when it comes? Or just go ahead assuming it'll happen when it happens.

Paul Flynn: Look, I think I've said earlier that in previous discussions on this topic, Peter, that our pre-emptive rights allow – or ensure that we are offered terms similar to what somebody else has obviously tabled.

My understanding of that is that – my understanding of that is that deferred consideration has been one of the underlying premises upon which the Itochu has gone to the market on.

Now, whether or not that remains the same in this market, I'm not sure but that's certainly the case and so if we were to engage in that, we wouldn't be considering there'd be a large capital outflow initially.

Peter O'Connor: (Shaw and Partners, Analyst) Okay and to Vickery, your answer to the previous question about the process. When you go to FID, is long-term offtake and/or a sell down part of that? Are they necessary or are they just coincident with that event or subsequent to that event?

Paul Flynn: I think it's probably, Peter, probably preferable from my end to say – to answer it in the sense of what's our preferred position. I mean, equity would be nice from an end-user. I do note that end-users seem to be talking more about long-term offtake and perhaps funding associated with pre-payments type arrangements. So, I think there's a bit of a shift in the market more towards that rather than equity.

But in either of those forms would be – we would certainly explore and it would be a part of the proposition that we would want to make sure we considered at the time that we decided to go to the Board and ask that question.

Peter O'Connor: (Shaw and Partners, Analyst) So the trigger to start the process of the data room on the JV sell down process? Or some sort of third-party process for funding, is that post the approvals being – this public appeal process being paved through?

Paul Flynn: A hundred per cent, 100%. Yes.

Peter O'Connor: (Shaw and Partners, Analyst) Okay, thank you.

Operator: Thank you. The next question is from Chen Jiang from Bank of America. Please, go ahead.

Chen Jiang: (Bank of America, Analyst) Thanks, Paul. Thanks, Kevin. Just a few questions from me. Kevin, you mentioned Whitehaven will be looking for debt stability – when the market gets better. Just would like to get some clarity of the timing and what you are looking for? Are you looking to borrow again at the time when your growth projects are approved? What's Whitehaven's gross debt or net debt target, please? Thank you.

Kevin Ball: Yes, Chen, good question. The – when the markets improve, if you can let me know when that is, I'll be happy. It's really around – if you look at the business, the business is really strong. There's no pressing need to go to a market to raise capital, neither from – not for projects or for any reason at the moment.

So, the reason that we want to do this is just simply to diversify capital sources. That's all it is. It's just a natural part of how does this business grow and evolve over the next decade?

Part of that is a withdrawal from banking provider facilities in line with the way in which banks are – their glide paths are towards 2030 and 2035 and doing that ahead of that, so people understand, the investors and the debt capital markets understand your business or understand our business and understand what value proposition we offer.

So, there's no burning platform. There's no mad rush to do it. As I said, the revolver that's due for refinances in – we do that in the second half of this calendar year and then we'll take our time about getting into the debt capital markets when conditions permit and when circumstances permit.

But in all honesty, the balance sheet just gets better and better over this next year, so it doesn't hurt us to be – to take our time to do it properly.

Chen Jiang: (Bank of America, Analyst) Thanks, Kevin. Just a follow-up on that. Market conditions, what market conditions are you referring here? How's the debt market like for pure – from a coal Company like yourself? Thank you.

Kevin Ball: Pure pay coal companies can raise capital on the debt capital markets. We're an inaugural issuer, it's not like we've been there. We're waiting for bond markets to stabilise and digest the various conversations around whether it’s five rate hikes from the Fed or seven rate hikes from the Fed and how does all that play through?

If I talk to my advisors, their view of the world is you need to see the world settle down a touch and see all that get digested and that leads you to a conversation that – this is probably after the full year results rather than at the half year results, but we’ll be ready to go if conditions improve and that’s what we’re planning on doing.

Chen Jiang: (Bank of America, Analyst) Thanks for that, Kevin. Just another question in regard to your tax comments. Because you mentioned that Whitehaven will pay tax in the full year, from my memory, Whitehaven had tax losses. Just wondering if those tax losses can be used and the timing – when is Whitehaven planning to use those tax losses? Thank you.

Kevin Ball: Yes, Chen, good question. We had about – at the end of 30 June 2021, we had about $600-odd million of tax losses. Those losses will be fully consumed in the FY22 year, if not having been fully consumed at today’s date. So, the tax that we’re talking about is an income tax payable calculated on 30 June ’22 financial statements.

But under the PAYG system Australia has, that tax is payable on 1 or 2 December in 2022. Not to bore you too much, the franking credits, the franking accounts, need to be brought back into balance every six months so that’s at 30 June and 31 December.

So we’ll make our payment in 31 – in the December month and that puts us with the expected franking credit balance in the first half of fiscal year ’23 but that would be a period in which any final dividend would be considered. So, it’s likely that the – any dividend out of the full year will be franked.

Chen Jiang: (Bank of America, Analyst) Right, so the tax losses – so, based on what you’re saying…

Kevin Ball: They’re gone.

Chen Jiang: (Bank of America, Analyst) Okay. Right.

Kevin Ball: They’re gone.

Chen Jiang: (Bank of America, Analyst) Yes. Okay. Yes, clear, thanks. Thanks. Sorry, just the last question to Paul, please. Just on the thermal coal market, if China continues to intervene its domestic thermal coal market, like they did in October last year and then the thermal coal price plummeted after that, do you see any bounce at risk to the thermal – to the stable thermal coal price if China continues to intervene in its domestic thermal coal market? Thank you.

Paul Flynn: Yes, look, I think it’s a challenge. I think it’s a challenge. I mean, it doesn’t obviously affect us directly as you - obviously is the premise of your question. What China does or doesn’t do, I can’t predict.

I think it would be better for all if normal trade flows resumed. That’d be nice to see if Australian coal could access the Chinese – the mainland Chinese market again. So it would be hard to say. I mean, obviously everybody around the world is consuming more energy than what they were a year ago. So that’s driving the tightness.

My only comment on that, really, about – in terms of internal Chinese market dynamics is that it’s obviously a much more regulated market than this and so if they decide they want to constrain internal market prices, they can. But it obviously – it’s not so bad when you’re a vertically integrated energy company but it’s not that great if you’re a mining company and you’ve got a cap put on your – the price of if you can sell internally.

So, what they do, I can’t predict, I’m sorry, Chen, it’s just – we’ll just have to wait and see what happens but I think generally, it’s – it would be a positive for the market more generally if we were able to normalise traditional trade flows of coal.

Chen Jiang: (Bank of America, Analyst) Sure, understand. Understand. Sorry, just one last follow-up on the timing and the pace of your buy-back, please? So that’s my last question.

Paul Flynn: Over the next 12 months. Over the next 12 months, Chen, that’s what we’re guiding to do.

Chen Jiang: (Bank of America, Analyst) Do you have any preference for the pace? Is that going to be relatively equally spread in the next 12 months?

Paul Flynn: Well, there are rules around this. There are rules around how much you can dip into the market. So, the general premise is, don’t disturb the market by doing that too much. So, we’ll conduct the buy-back in accordance with the rules that govern this type of process.

Chen Jiang: (Bank of America, Analyst) Clear, thank you very much. That’s all from me.

I’ll pass it on, thanks.

Operator: Thank you. The next question is from JC Evenson from a private investor. Please go ahead.

JC Evenson: (Shareholder) Thanks, Paul. Congrats on the results. Just one from me. The 25% to 50% NPAT capital management range, just how looking to FY23 with Vickery and Winchester not being approved, what would be the use of free cashflow beyond capital management given the state of the balance sheet? Or to put it more bluntly, your net cash with no growth projects approved, any reason to cap capital management at 50% of NPAT? Thanks.

Paul Flynn: Thanks for the question, JC. Yes, look, it is a good question. There's obviously with the outlook, we're seeing that there's going to be a pretty robust time for us going forward. So, all – what we're seeing here obviously today is all forms are on the table in terms of capital allocation.

But whilst the stock is cheap, there's definitely a case for continued buy-back but that'll be something that the Board will have to look at and you might say, let's – those buy-backs, the projects will have to compete with the buy-back alternative as well so I'm sure that's not a concept that's foreign to anybody on this call.

So, we will be in a position to be able to do that. It won't be within the next 12 months as I've reiterated today but all those permutations will be considered by the Board during the course of the year as it unfolds.

JC Evenson: (Shareholder) Great and then, you commented earlier about the state of the credit and bank markets looking to see them settle down before potentially approaching the market.

But given coal prices and the tightness of energy units globally right now and your premium product and you talked about customers interested in the Vickery product and the Winchester South product, injecting a lower cost of capital, would access to debt factor into Management and the Board's decision on when to go forward with Vickery or Winchester South if Winchester South is approved versus buying back more stock?

Paul Flynn: Yes. Yes, I think all those things are important considerations. Yes. No, there's no doubt about that. Access to debt, I'm not worried about that too much. I think Kevin's commentary was really just about timing.

We were significantly prepared to go earlier but with the Chinese property market gyrations, that that causes in the bond market, we stepped away from that whilst that was unfolding.

In this new year, of course, as Kevin's noted again, commentary on where rates are going is something we'd like to observe a little bit further and certainly our advisors are telling us that's the case. We support that.

Again, all these same variables will have to be assessed at the time, but we're not worried about the access to debt. That's not something that weighs too heavily on us. If you – we move into those markets, of course that's a little bit higher price market than what we've been historically using with the corporate facilities here domestically. I think everybody accepts that.

JC Evenson: (Shareholder) Just on Vickery timing. With Werris Creek's life depleting or Tarrawonga's life depleting, apologies, in the next couple of years, when would you have to green light Vickery to replace those tonnes in the portfolio seamlessly? Last one from me, thank you.

Paul Flynn: Yes, thanks, JC. That's a good question. Werris is the one. Two years go after this. So yes, there's a two-year lead time if your only source of extra tonnes to absorb take-or-pay considerations was Vickery, then you're right. You're relatively tight on time in that regard.

That's not the way we look at it at the moment. We think we've got extra tonnes coming from Narrabri with its movement back into the shallow ground, so that will assist us in terms of making sure that our take or pay – take a pay considerations are dealt with, with the production that we have – or the latent production capacity we have within the business before we push the button on Vickery.

JC Evenson: (Shareholder) Great and Werris Creek, any equipment can be recycled or deployed at Vickery to reduce CapEx?

Paul Flynn: Yes, there's a little bit of that. Working through that currently. That's right, yes.

JC Evenson: (Shareholder) Fantastic. Thanks, Paul. Great results.

Paul Flynn: Thank you.

Operator: Thank you. The next question is from Glyn Lawcock from Barrenjoey. Please, go ahead.

Glyn Lawcock: (Barrenjoey, Analyst) Good morning, Paul. Paul, I just wanted to understand a little bit more, just the cashflow movements over this calendar year. I understand Kevin said before, no tax payable, albeit cash tax catchup in December. Will you pay any cashflow tax between now and December? Because I'm just trying to understand, obviously prices are good today but as you said, it's cyclical and it can disappear tomorrow.

So, I'm just trying to understand, will you put aside cash for the tax payment? Because I mean, if the prices fall, you've been doing the buy-back, we've seen this happen before where you've returned money, price falls out and then you get hit with CapEx for a project or in this case, a tax bill, which could send you back to net debt. So, I'm just trying to understand, how will you manage the balance sheet over the course of this year? Thanks.

Paul Flynn: Kevin, I'll let you talk to the cash tax payment scenarios.

Kevin Ball: So, to answer your question, Glyn, there is no requirement for us to pay tax until 2 December. That will be out of the FY22 results and yes, we can calculate what the tax liability is and we will reserve cash to meet the tax obligation.

Not only out of the FY22 result but the tax that no doubt will arise from coal prices and from earnings that are going to be earnt in the first half of fiscal year '23, which will be the December half.

So we will start making PAYG cash payments in December with the lump and then we'll start paying tax consistently which then should feed the franking account.

Glyn Lawcock: (Barrenjoey, Analyst) Okay, but…

Kevin Ball: Is that clear?

Glyn Lawcock: (Barrenjoey, Analyst) No, it's very clear but I guess you don't know what the price will be in that first half of fiscal '23 so is there a risk you – does that then – so if you are watching coal prices fall in the first half of fiscal '23, does the buyback get pulled to slower to make sure you build the cash for tax? Like what would you manage to? Like a net zero balance sheet?

You'll go back into net debt?

Kevin Ball: I think we'll manage to a net cash balance sheet. That's what I think we'll finish up, Glyn and I think it'll be strongly net cash, even with the tax payable at the back half of the year.

Glyn Lawcock: (Barrenjoey, Analyst) Unless prices…

Kevin Ball: That's what we're working to.

Glyn Lawcock: (Barrenjoey, Analyst) Yes, assuming prices stay at elevated levels above the previous lows where you were burning cash, I guess.

Paul Flynn: You're an informed observer here, Glyn. Where do you think prices are going? Are you forecasting significant declines, are you? Is that what you're saying?

Glyn Lawcock: (Barrenjoey, Analyst) I'm just – I know we're in a cyclical business, Paul, and no one forecast it to go to 200 and no one forecast it to go to 50 last down cycle either so I'm just trying to make sure we stay conservative. That's all. I don't see any of us are any good at it.

Paul Flynn: Yes, I think we're all staying conservative. We're with you on that one, for sure.

Glyn Lawcock: (Barrenjoey, Analyst) Okay, that's all I was after. Thanks, Paul. Thanks, Kevin.

Kevin Ball: Thank you.

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

Peter O'Connor: (Shaw and Partners, Analyst) Paul, Kevin, in the answer to the last question from JC, the private investor regarding FY23 capital returns, is the answer to that question that you have paid special dividends in the past and that is your opportunity in addition to other opportunity for capital allocation process to do above and beyond your 20% to 50% payout ratio and buy-back?

Paul Flynn: Yes, there's no reason why that couldn't form part of considerations going forward. No reason but it comes back to the previous comments there. We are keen to make sure we have a conservative posture, that the balance sheet's in good shape. We – our view is that net cash is the right position to be in.

Whilst we have paid specials in the past, I'll – it's hard. I would imagine, Peter, it's hard for people to value specials given the unpredictable nature of them and so there's probably a good debate to be had about what value you get from doing that.

Is that incentivising long-term ownership of shares? Or is that contributing to volatility in the register?

Peter O'Connor: (Shaw and Partners, Analyst) Agreed, Paul. They don't get capitalised.

Paul Flynn: Yes.

Kevin Ball: They don't.

Paul Flynn: Yes. Probably a broader discussion for another day, that one. There's lots of variables in that.

Peter O'Connor: (Shaw and Partners, Analyst) Can I finish with the notion of are you pro-cyclical or are you counter-cyclical? Your Board, your EXCO and what are shareholders telling you? It sounds like you're letting the tail wag the dog a little bit. Where – which camp are you in? Which camp are shareholders in and what's appropriate in a cyclical industry?

Paul Flynn: Well, I think we've got to make the right calls that are in the interests of shareholders. So that's what we're charged with doing. Last time we built a project, the fuse was already lit when we bought it and so that was done counter-cyclically at the time but that was done necessarily because that was the case when the approach – or the Company was acquired.

So yes, there's always a balance there, as you understand, Peter, between when is the right time to push the button on a project and when isn't? Are you going to get full value recognition for putting the capital to the project? Putting our business in the best position financially to be able to make that call to give us the greatest flexibility to make that call is exactly aligned to what you're saying and that is, do it when it makes the best sense for shareholders.

Peter O'Connor: (Shaw and Partners, Analyst) Thank you and congrats on the great first half result.

Paul Flynn: Thanks, Peter.

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, thanks everyone for your time today. If there are any further questions, you know where to find us. We look forward to catching up in due course. Thank you.

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

End of Transcript