Whitehaven Coal March 2022 Quarter Market Call - Transcript

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Operator: Thank you for standing by, and welcome to the Whitehaven Coal's March Quarter 2022 Production Report conference call. 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 the telephone keypad.

I would now like to hand the conference over to Mr Paul Flynn, Managing Director and CEO of Whitehaven Coal. Please go ahead.

Paul Flynn: Good morning, everybody. Thanks very much for taking the time, and welcome to our March 2022 quarter production report.

As usual, I'll just go through the highlights and then cover off the performance for each of the mines, and I'm sure there'll be plenty of questions to go through the market and so on at the Q&A section, to I'll try to get to that in orderly fashion.

The highlights for you - sorry - I'm just joined by a cohort of regular participants in this call, with Ian Humphris, Head of Ops; Kevin Ball, our CFO; and Kylie Fitzgerald, at IR.

I'll move on into the highlights. We had, as you know, it's a strong market, so, calling out these sorts of numbers should be no surprise to anybody too much, but in Aussie dollar terms, we've had a record average coal price for the quarter of A$315 per tonne. The production itself has been pretty solid, so we're very pleased with the return to form in that regard, 5.2 million tonnes, significantly up on the December quarter, and 5% down on the previous corresponding.

The saleable coal production at 4.5 million tonnes, 50% up on December, and similarly balanced as far as the previous corresponding period goes, as well.

Managed coal sales of produced coal at 4.4 million tonnes, and equity coal sales produced coal of 3.5 million tonnes, similarly aligned to the previous corresponding period.

Stock's in a reasonable position, going into the last quarter of the year, and as everybody's known since the beginning of this year, we are in the midst of a larger second half, so we will be building some stocks as we gravitate towards the end of the financial year, as well.

Cash generation's been significant, and so, after deploying A$67 million in our buyback program, and A$80 million in our dividend, we are net cash to the tune of A$161 million, as of yesterday, and our guidance remains as it was previously stated, so no change in that regard.

Safety performance, I'll call that out at 5.3, is heading in the right direction, but not a cause for celebration, because we think there's plenty more work for us to do here, and all shoulders need to be turned to the wheel, in order to be able to turn that intent into a better result on our TRIFR measure.

I'm over the page, and we've got some context, just in terms of the opening paragraphs before the tables of numbers that you'll have now seen, with the release of numbers this morning, but I think it's worthwhile just calling out a couple of important aspects for the context, the backdrop, if you like, of this quarter, and also the next, in that regard.

In the March quarter, of course, we've been saying that our thermal coal sales would return to a gC NEWC normal type average, and it certainly has done that, at 94% of our thermal sales have done that have been in the high CV market, which is very positive. I'll get to the split between met and thermal a little bit later on.

As far as the operational rhythm of the business goes, the good numbers have certainly come out for this quarter, so we're pleased with that, but that's not without the pain of COVID absenteeism, which has been a feature since about December, with this last wave.

Then, of course, the variable weather, obviously the bad impacts that we had in November and December just for flooding in our region, but then, on the other side of the Divide, the Great Dividing Range, that is, there's obviously been consistent disruption of weather, which has caused less impact on our operations, as such, relative to the severe impacts we had in November, December, but certainly, it's had some severe impacts down the line from us, and logistics has been interrupted in that regard. Despite that, we've managed to table some decent numbers.

The production numbers, I won't go through those in detail, but you can see those are all tabulated for you there. It's been a very solid result for us.

The only real variation from a magnitude perspective has really just been the managed coal sales [of purchased coal] being a significant variation. The numbers are low, anyway, but 62% period-on-period, that's the big change, if we're looking on period-on-period comparisons, but that's really driven by the fact that we've had to buy less coal to replace out of seam dilution coal that we were producing some time ago, at Narrabri. So, there's been less purchases required in order to do that. In fact, the purchasing level is much more similar to the rhythm that we normally have with the blending that we have within the business, in any event, so not trying to mitigate some shortage of quality that one of the mines may be producing from time-to-time.

I'll go on to Maules Creek. Maules Creek has been running at about a pretty good rate. At 3.16 million tonnes for the quarter, is very good, and on an annualised basis, we made the comment there that that's approaching the level that the mine's approved to perform at. Which has been pretty good, despite the issues we've had with COVID absenteeism, as I say, and also intermittent weather challenges.

Saleable coal production of 2.6 million tonnes is predictable, that that's a good result, as well. Sales volumes at 2.5 million tonnes were 4% above the previous period, and I suppose a predictable event, given the amount of ROM that's been coming out.

Met sales at 24% of the total, [at] 400,000 tonnes, that's a decent result. There is more interest in the met, and we can talk about that in Q&A, so I do think that will start to re-enliven a little bit, but it has to compete pretty hard with the thermal and its premiums at the prices we're seeing today.

Stocks are returning to a better level, but at 1.3 million tonnes, we're obviously going to be shipping a hell of a lot in this month, April, and in the coming months, just to make sure that we achieve the levels that we want to with our guidance.

Moving over to Narrabri, it’s a return to some decent, consistent production there from Narrabri. As we said, we were seeing [this] when we reported the last quarter, but it's certainly more evident in these numbers that we've tabled here today, and 1.4 million tonnes for the quarter is a pretty solid result.

It was a slow ramp up, as we've acknowledged previously, once we'd commenced production in 110A, but that is moving along consistently, which is much more reassuring, from our perspective, and I'm sure not lost on the audience, as well.

In terms of the saleable, that translates pretty directly, as you would expect it does, with a high yielding mine, such as Narrabri, and then the sales volumes as well.

Key things here, I suppose, for us, is that we have been shipping every tonne, essentially, we've got on the deck, so the stocks are relatively modest there, so we will continue to do that, and we've been keeping the trains up to all of our sites, given the production. We did have a little bit of disruption from that previous flooding period, and also the logistical train issues more recently. We've been keeping the trains up as much as we can, just to make sure we hit these targets at the end of the year.

In terms of completion of 110A. We think that'll be all but done by 30 June, and so the step around really falls into July. Then, of course, re-initiation of 110 will continue on, until such time that we move to 203, which we're saying is in the half, as we said before, the second half of FY23.

Overall, pretty good performance from Narrabri. Coal quality is doing what it should be doing, which is very, very welcome, underpinning that 94% of thermal sales to hit the high CV market.

Gunnedah Open Cuts. You’ve probably, if you like, it's probably got the biggest ask, proportionately, for the last quarter of the year. It certainly has been a little bit more variable, given the weather impacts that these two smaller mines have experienced. They're also having their turn now with COVID absenteeism, which is expected, but annoying, nonetheless.

Tarra at 400,000 tonnes, a little bit below the previous corresponding period. Sales of production about the same, but we are, as everybody knows, washing harder there, in order to make sure we maximise the opportunity to high CV sales. That manifests itself most there at Tarrawonga.

Werris does what it does, obviously, watching opportunity to maximise sales there, given that it is a 100% bypass mine, and 300,000 tonnes produced during the quarter, and sales being, obviously, the same, as well. Stocks are relatively modest, but again, trains are being kept right up to each of these sites, to make sure we can hit our targets.

Over to the table, just on realised pricing, and this is always an interesting table, and people tend to focus on that, so, again, we've added in there the average Aussie dollar coal price for the quarter that we've achieved, the A$315, so you can see a nice pathway there from the A$189, the A$211, A$315, and of course, prices are continuing to stay high.

The realisations haven't moderated a percentage of the average index for the quarter, and that is because we're in the high quality situation of having rising prices. We wouldn’t be talking about this realisation lag if we had a stable market, but we're obviously benefiting from a good and active and strong market, so, the realisation lag will stay with us for a little while longer, but again, that is a high-quality problem, and the numbers at A$315, or A$229 average for the quarter, is very positive.

The high CV mark averaged A$264 for the quarter itself, and that's 43% up on the December quarter, so certainly nice increments that we are seeing, and as I say, our realised number, at US$229, A$315, is certainly very strong.

Demand in the market looks pretty good, as well. We're not seeing any notable change there, so that seems to underpin - and I'm sure everybody's observing the continued increase in firmness in the pricing in the market. If you look at the pathway of pricing over January and February, A$225, A$239, March at A$326, and went just over A$300 in April now. That's certainly a good situation to see.

Now, there has been, as we've talked about in previous quarters, quite a number of supply side disruptions that we've seen in various markets. Of course, Russia and its aggression towards Ukraine is causing further concerns in the marketplace, and as a result, the market is tighter again.

That's caused, obviously, a lot of uncertainty as to whether or not there's a long-term position here, a structural position that changes as it relates to the 110 million-odd tonnes that Russia tends to tip into the seaborne trade on a regular basis. I think it's yet to be fully understood, but in the meantime, what we're seeing is lots of discussions as you are around formal sanctions, but we're also seeing informal positions being taken already by various customers, where tenders are excluding Russian coal. So, that's obviously driving the coal price up, especially in the high CV market.

On the logistics side, I won't go into that too much. I think I've mentioned that there has been - this variable weather has caused a logistics change, some interruptions, but despite that, we are managing to get our coal through into the market.

Hedging there, is there for - there for you to note.

On the development projects themselves, a welcome change there. We're seeing another approval, a milestone being met, and that is at Narrabri Stage 3, now past the IPC hurdle, with conditions that we're happy to move forward with. That's a very positive advancement for that project, and nice to see the IPC turning that round in a reasonable time frame.

The piece of the puzzle yet to be finalised now for us, we move on now to the EPBC, the federal overlay, and so, our team are working with the federal government in that regard.

From a Vickery perspective, obviously, we've made our way through the various approvals hurdles there. You will note that the minister's appeal of the original Sharma case, in fact, was successful, so that the additional duty of care that the original judgement attempted to put into a longer-term position, has now been removed. In the meantime, we're just getting on with the secondary approvals associated with the mind, and some geotechnical drilling that we'll do in this quarter, just to better understand the ground conditions that underpin the assumptions that we made for the capital cost, particularly in the mine infrastructure area and in rail corridor.

Winchester South continues to move through the EIS process. We have closed the first round of public submissions. We're working through that with the government. The government would like to ventilate the responses to those public commissions publicly, so a second round of consultation would be permitted.

That's not the first time this has happened, but then again, we would prefer to only have gone through that once, but it is what it is, and we're just working through the process with the Office of the Coordinator General.

Guidance remains unchanged. We do, as you can tell, have - we always planned to have a solid fourth quarter, and we're going to have that. About the size of what we just had, in fact, if not, a little bit better.

So, subject to COVID absenteeism and weather, we see that as being the position that was planned from the beginning of the year, and we've just got to execute that over the coming two and a bit months.

Overall, from our perspective, nice to see a good quarter, with little, if anything of note to cause anyone concerns from a production perspective, despite the weather and COVID, but an excellent market, and great realised prices. Certainly, filling the petty cash tin, and we're moving now, obviously, to a cash accumulation phase, in addition to, obviously, the capital management initiatives that we've already announced.

With that, I might close that off, from the report perspective, Operator, and we might open up the call and the lines for Q&A, please.

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. Please go ahead.

Rahul Anand: (Morgan Stanley, Analyst) Oh, hi, Paul, Kevin, Ian and Kylie. thanks for the opportunity.

First one's around the Stage 3 extension. Firstly, congratulations on that achievement. I just wanted to touch upon perhaps the IPC condition in relation to CO2 emissions. Just wanted to understand, what is that exactly? You’ve clearly said that you're comfortable with the conditions placed, but does that require you to have special equipment or different equipment?

Then, second part of that question would be, the federal side of things, how do you envision that unfold, and how long do you think that would take, typically?

Paul Flynn: Thanks, Rahul.

I think the IPC documentation is a public document, so you can go in there and have a bit of a look for yourself, but when I say we're happy with it, I mean, there are conditions which we think are workable. They essentially cover a couple of dimensions. Firstly, they wanted us to study mitigation type measures over time, and we're certainly looking at that. that was always our plan, and part, in fact, of the original conditions of the mine, as well.

They'd like to look at - we know that going into the south does generate a little bit more methane, whereas the already approved mining lease is relatively methane-light. In fact, CO2 is our only real gas to manage, but we do acknowledge the exploration licence does bring with it a little bit more methane concentration, and they acknowledged the concentrations are pretty low, but they want us to have a look at flaring, where possible. So, we are looking at - those are studies that we need to do, as well, so that's the nature of it.

Then there's, overall there's an emissions intensity type metric that fits across the top of production for what will be the enlarged mine. There's an intensity metric that's embodied in those documents, and again, those numbers, we feel comfortable with the intensity metric that they’ve put there.

So, from that perspective, we think we can live with all of that, and work cooperatively with the government to look at ways in which we might reduce our emissions over time, and that intensity measure over time, as well.

From an EPBC perspective, this is an existing mine. It's just a life extension, so there's nothing particularly controversial that comes with this area, so we don’t think - and given that it's not something that, if we look at the EPBC concerns, generally, water is obviously a key one, this is not controversial at any level, from a water perspective.

There's no sensitive land there that we will be disturbing, from any great biodiversity sensitivity perspective, so we don’t think it will be controversial in that regard, but we'd want to allocate six months to make sure we go through the various aspects of that referral, to the EPBC referral.

So, I think at least six months is the way to think about getting that finalised, but we're already working with them, and have been, if you like, shadowing - a shadow process to the IPC process, just to make sure that when the flag finally fell with the IPC process, the EPBC process could then kick off in earnest.

Rahul Anand: (Morgan Stanley, Analyst) Okay, perfect. That's very helpful. Thank you.

Second question is around the met coal split. Obviously, you’ve mentioned that you’ve restated the splits for December, and that went from 11% to 18%, and now you're at 24%. First up, perhaps, if you could help me understand the motivation behind the restatement. I mean, are you getting a better price?

Paul Flynn: Yes.

Rahul Anand: (Morgan Stanley, Analyst) Or what do you actually achieve from this restatement?

Paul Flynn: Yes, thanks, Rahul. Nothing too exciting there. It's really just, the original restatement was really just calling out what was otherwise, call it a PCI-based material that was being used for nickel smelting activities in Indonesia.

People ask us, why are you selling coal to Indonesia? It was allocated in the thermal bucket. We just put it into the met bucket, which is what it is.

That generally doesn’t affect Maules Creek at all, which we called out, obviously, which has done better from the met coal side of things, and that's not involved in those sales, in any event.

Rahul Anand: (Morgan Stanley, Analyst) Okay. Then, in terms of the pricing, it is what it is, right? I mean, you're achieving pricing in line with that last quarter, and there's no change to - or no restatement of the pricing achieved?

Paul Flynn: No, no. It's not controversial in that sense.

There are different pricing mechanisms, as you well understand, in the metallurgical bucket. It's not just quarterly JSM pricing that's the only way in which we sell met coal. There's a range of indices that we've been using, an average of a couple of indices, in case, in some instances.

The realisation that we're giving you there, the 11%, is the product of those, just the simple arithmetics of those indices. It's not anything particularly controversial that's driven that from 19% to 11%. That's just the movement in the indices themselves.

Rahul Anand: (Morgan Stanley, Analyst) Perfect, okay. Then, a bigger picture question, around high CV tilt. Obviously, you’ve done a bit more high CV this time that's driven partly by Narrabri also. But first question would be, how much more can you tilt that to the high CV side, as you see that pricing gap emerge, i.e., how much more capacity do you have to be at that higher end?

Then, is there perhaps an opportunity here to start shifting more towards more met as well, as the market opens up there?

Paul Flynn: Yes, all those. Well, at 94% of thermal sales, there's not a lot of capacity left to go to, further high CV than that, so that's very strong.

So, your question more is about met to thermal arbitrage, and all of what you say is possible, but you obviously need to bear in mind the contractual positions that we have with longer term customers that need to be managed, as well.

If we were a spot seller for 100% of our production, people would be worrying about other things, so it is obviously positive to have some longer-term positions with customers, with reputable, long-standing customers, like the POSCOs of this world and Nippon Steels. It's not as simple, just to tip them out of existing contracts, and move in an arbitrage across the two different sales formats.

So, the thermal, not a lot of extra capacity, as I say, but as you quite rightly point out that Narrabri's return to form boosts that number pretty quickly. There was never an issue with Maules' or Tarra's quality. We are just washing more at Tarra - almost all of it - to get to what we want, and that is to maximise the margins in the high CV market, but, as I say, 94% - there's only 6% left.

Rahul Anand: (Morgan Stanley, Analyst) Okay, I had a final one on Maules Creek. That's basically perhaps to talk a bit about the first quarter run rate. Now, you have, obviously, performed well, and it's in line with the 13 million tonnes per annum, but typically, if we compare it to last year, at least, you had a very strong quarter.

I just wanted to understand, is this part of the mine plan? Are you seeing any specific COVID-related issues there that have led to that performance at all? Or is it all in line with the mine plan, and we shouldn’t really be reading too much into that number?

Paul Flynn: Yes. Thanks, Rahul, and that's number four, so normally that's a meeting, when you ask four questions. We'll have to hand over to somebody else after that.

What you say is important to point out. We are trying to spread the production more evenly over time, over the year. You all know, in the case of Maules Creek that that does have its nuances, because that big Braymont seam is such a big, thick one, and you fall away to much smaller seams as a proportion of the total reserve. So, when the big Braymont seam pops up, you get a lot of coal quickly.

That's great, and all, but it is unhelpful, from a scheduling perspective, so we are trying to smooth that out over time, which takes a little bit of work.

So, we're not doing anything particular. We've got to produce around about the same sort of Maules Creek effort in the last quarter, in order to hit Maules' targets, and we feel pretty comfortable in doing that, subject to, as I say - I sound like a broken record, I suppose - with COVID and weather, but that has been consistent and persistent, in a fashion that's been pretty unhelpful.

Otherwise, we think we're able to keep to track for this, the balance of this financial year.

Rahul Anand: (Morgan Stanley, Analyst) Perfect. Thank you very much for the time, everyone. I'll pass it on.

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

Paul Young: (Goldman Sachs, Analyst) Good morning, Paul. First question's on the thermal market. Obviously, a lot's changed in the last four weeks, particularly with the disruptions around Russian coal. Can you maybe just add to some of those comments you made around interest levels from those customers that might have been buying Russian coal? Particularly anything of interest from European utilities and then also, from a - what you've committed on volumes for the year, is there any scope to potentially divert spare cargoes into higher prices?

Paul Flynn: Yes, thanks, Paul. It's fluid, isn't it, this situation? Like you say, and as you've noted, in such a short period of time, things have changed quite dramatically, in that regard. In a negative way for the world, and obviously, positively from a supply/demand perspective for our product, which is - nobody's sort of high-fiving over that, because it's come out of such an unfortunate set of events.

We are seeing customers excluding Russian coal from tenders. That's without formal sanctions being, obviously, applied. So, they are self-sanctioning, if you like, in that sense. So, the question I was raising before, just the covering off of the report was, how long does that last? We don't know.

They are - many of the customers seem to be taking their existing contractual commitments - fulfilling that, and so no one seems to be turning off Russian coal, right now, but obviously, new contracts - and that doesn't take long before that new coal, signed up coal, starts to get fed into blast furnaces and boilers. It will happen quite quickly.

So, what's the longer-term position? You can't lose 110 million tonnes out of the seaborne trade without seeing an impact. I think that's just going to add further pressure to what we're already seeing is a very, very tight market.

Customers are asking for coal to be brought forward, and I suspect we're going to have customers also asking for the upside tonnage in a lot of our contracts. As you know, Paul, the contracts come with a positive and negative variation, depending on - at the customers' election, often, not our own. They can take, if you've got a million tonnes, it might be 10% up or down. We suspect that the individual customers will start to invoke the plus side option, just to make sure they've got the physical supply in hand. I suspect that's going to happen here, as well.

That tendering behaviour I've mentioned is certainly evident in Korea, excluding Russian coal, and we're starting to see a bit of that in Japan as well, now.

Paul Young: (Goldman Sachs, Analyst) Okay, thanks for that, Paul. Then, maybe a question on Narrabri, just looking at what it needs to achieve in the June quarter to hit guidance, looks pretty achievable. I'm a little bit out of touch with what this operation in the longwall can actually punch out, on a monthly basis, and you can annualise, obviously, with longwall changes and maintenance within that, but how did it perform in the March quarter, when it was running at full tilt, from a - how much did it punch out in a month?

Ian Humphris: Yes, I might jump in and answer that. The longwall, in good conditions, is capable of over a million tonnes in a month, but in March it was around about the 750,000 tonnes and that's able to maintain when we've got reasonable conditions.

Paul Young: (Goldman Sachs, Analyst) Okay, that's perfect. Then last question is on the approvals - oh, sorry, more on the growth projects and really around Vickery Paul. Just again, with what's happened in the last six weeks, have you had any offtake or utilities approaching you, just to chat around Vickery, and maybe getting it off?

Paul Flynn: No, there's been nothing triggered by that, as yet, Paul, that I could mention. I mean, there's been lots of interest in it. The government, in particular, is interested in our views on timing, so, we're talking to them about that type of thing.

We've got more work to do, as I've said, the secondary approvals need to get sorted out, and I'd like to get this drilling done, in this current quarter now, just so we can firm up capital - capital estimates for important pieces of infrastructure on the site.

There is a little bit of work to do, and of course, we've only just recently cleared this other issue of this duty of care, because the threat was also hanging over us, that there'd be an injunction the minute we tried to do anything that essentially ticked the box as far as the project is concerned.

Now, the appeal of that decision period, I understand has passed, so the original agitators are not challenging the remove of this duty of care, so I think that stands. Well, that's a great thing for the industry, for sure, and it's a great thing for any state/civilian development that gets referred to the federal government. So, I think that's very positive.

We think that, as far as Narrabri goes, with Stage 3 and its passage through EPBC, we think that'll be - that's better, now that they're seeing this question has been removed from the EPBC environment.

Paul Young: (Goldman Sachs, Analyst) Great. Well, it's remarkable how the government's view can change on time frames and wanting things to get done. Anyway, I'll pass it on, Paul. Thank you.

Paul Flynn: Thank you.

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

Peter O'Connor: (Shaw and Partners, Analyst) Paul, Kevin, Ian, Kylie, great result. I love the use of the word, rhythm, Paul.

Paul Flynn: Yes.

Peter O'Connor: (Shaw and Partners, Analyst) Because it sounds like things are going better. Good choice.

Paul Flynn: Yes.

Peter O'Connor: (Shaw and Partners, Analyst) My first question, cost pressures - cyclical, near term, structural, what was the split and thinking beyond the current year, and into the next year?

Paul Flynn: Yes. That's a really good question, Peter. We haven't, obviously, given any colour on that. We think, we've obviously included a reference in our report that we think, given the aggregate of all those things you’ve just mentioned, the temporary and the permanent - well, what might be permanent - that we think we'll be at the higher end of our range, unfortunately.

This year will be anomalous, in the sense that we've not had the production rhythm that we would have liked. The floods caused quite a big issue, that, and then, obviously, the problems down the line in subsequent months, from an infrastructure perspective, has interrupted that, which has been most annoying.

We've been dealing with a legacy of obviously sales, which slipped into later months, as a result of the floods, and then the infrastructure disruptions. We want to clear all that out within this year - in fact, this month should be the one that we clear those backlogs out. That does bring with it a legacy of under-absorbed take or pay, which should be a temporary matter. So, when you're performing on - with the rhythm that you would like, then the under absorbed take or pay goes away.

Having said that, we did call out for the half year the fuel costs, say, for instance. Now, fuel prices have only gone one way since then, and so that's going to be a feature in the second half, and that's going to roll into the new financial year, for sure. We're obviously in our budgeting period now, and careful consideration has been given to all these things, in terms of what assumptions we make for the new year.

All the flood impacts, the unabsorbed take or pay, those things should unwind as we called them out in the half year, with volume flow returning to expected levels, which they are, but you can't - all that went before in the first half, we can't overcome entirely in the second half. So, there's a mix of those.

With the full year results, we'll split them out again, so that people can see what the temporary impacts were, versus what we think is baked into the new year.

Peter O'Connor: (Shaw and Partners, Analyst) Thanks, Paul. Could I ask a question about projects? On Narrabri, in terms of the critical path and EPBC, what is the timing when it becomes critical, at approval process?

The second one on projects, which is the second round? Why did they go to second round? Did you get any colour as to, was it community pushback? Was it community pressure that drove that?

Paul Flynn: Yes. The deadline for EPBC approval - Ian, I don’t have that to hand. We can get that to you, Peter. We'll have to take that one on notice - but we've got time.

I don’t recall us talking about any particular sensitivity of pressure there. We've got years in front of us, essentially, till we cross the boundary, if I can call it that. But there is one key - well, there's a shaft that we'd like to put in, which services ventilation needs for the mine ongoing. That's the key driver in the short to medium term that we want to meet, but I understand that we've got plenty of float as far as time to be able to get the EPBC process tidied up, so, I'm not concerned about that.

As far as Winchester South goes, a couple of developments there. It was remiss of me not to mention that obviously, the reserve went out this morning, adjusted upwards, in terms of the met coal split, and quality of met. So, it's not just met split, it is the quality of met has improved with the semi-hard coke composition there, which is very positive to see.

To your question about our second round of exhibition, my read of this is it's the government in Queensland responding in a way not dissimilar to what other governments around the country are doing, and they're more sensitive to the idea that adequate consultation has been - more sensitive to the criticism that their consultation processes could be second-guessed at a later date.

So, they're very mindful of that. We understand that. That's not to say we like it, but it is what it is. We think that's probably a six-month delay, that we don’t like, but we've got to work with the government and the pressures they are under, to make sure that we can find our way through the approvals process.

The approvals process there is still - even with these changes - as I say, we're not the only one to experience it - is still perhaps more functional than New South Wales one, I have to say. So, as annoying at it is, we've just got to work our way through it there.

Peter O'Connor: (Shaw and Partners, Analyst) Okay. Well, the last question for Ian, if I may. In terms of longwalls, Ian, and changeovers, 110A to 110B, I'd call small, and 110B to 203, I'd call big. Could you just, for the benefit of the audience, articulate what the timing is for each of those? Just because the next one, 203, will be a big one.

Ian Humphris: No problems, Peter. As you indicated, what we call a step around between 110A and 110B, you're effectively in the same area. We've got a four- to five-week window in that, and in that change, we're also able to utilise some of our existing longwall equipment that we had on the previous block, so that will facilitate a quicker move.

When we go from the end of 110B back to 203, we're really going from the deepest part of the mine, or the furthest part of the mine, all the way back to where the mine started at the bottom of the drifts, and we've got about a seven-week allowance for that, just because of the additional travel time and taking the equipment back up to there.

I don’t know if that gives you enough colour?

Peter O'Connor: (Shaw and Partners, Analyst) Yes. Do you have to do anything with the support? Given you’ve obviously beefed up for the deeper areas you're in now, does anything change? Or do you use the same supports integrated in that shallower area?

Ian Humphries: No, we'll use the same support. We've got a program of bringing some out at every move, whenever we can, as part of a maintenance regime, so that would occur, but we still intend to use those supports for the first few blocks over there before we by the new longwall, which I think we've talked about as part of Stage 3, due to the seam thinning a little bit, and I think that's scheduled for Panel 206, I think is probably the first one that we'd looked at, to get the second longwall.

Then I guess there's some toy about whether or not we run both longwalls for a period of time, where we have some opportunity to reduce that impact of the changeover we just talked about, when we've got two sets of kit.

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

Operator: Thank you. Your next question comes from Chen Jiang from Bank of America. Please go ahead.

Chen Jiang: (Bank of America, Analyst) Hi, Paul, Kevin, thanks, and congrats on the strong March quarter production update.

Just a few questions from me. By looking at the discount in percentage, it seems like there's little improvement in thermal and met coal price realisation this quarter, despite improved coal quality from Narrabri. Just wondering if the discount is mainly due to the lagging and the pricing mechanism? Are we expecting Whitehaven June quarter to realise the lagged thermal and met coal price in March quarter?

Kevin Ball: Kevin. Short answer for that is that there's only two shipments of lower CV coal in the period for about 159,000 tonnes, 160,000 tonnes. The rest of the coal that was shipped was sold referencing gC NEWC, so high quality coal. The full impact there is just lag. It's - you can tell with 45 boats off the coast, that we're pricing some coal with reference to prior periods. We're pricing some coal with reference to the month of scheduled shipment, and if we slip from our February to the March actual delivery, we get the February price, even though we delivered in March.

Again, when we get to April, we'll ship March coal in April, and get the April the March pricing in April. So, it's just the lag, Chen, and all of that, or the vast majority of that 13% is just pricing. So, we'll catch that up, and it's just a nice problem to have, when you’ve got a rising coal price. If I look at where April coal price is today, it's over A$330, A$340 on the spot, and it's about A$312 average for the month. So we've got a rising price again, and I'm not really sad about having a lag when it's all due to rising pricing.

Paul Flynn: Well, you'll see lag again in the next quarter again, of course, given that you're in a rising price environment, unfortunately, but as I say, we’ve given you the average Aussie dollar realisations as well, so, we can see that in absolute terms, despite the lagging impact, and lag is not lost opportunity - you get it in subsequent periods, the absolute realised prices are eyewatering.

Chen Jiang: (Bank of America, Analyst) Okay. Thanks, Paul, Kevin, so that's due to the lagging and Whitehaven is going to catch up for the next quarter. Thanks for that.

Paul Flynn: Yes.

Chen Jiang: (Bank of America, Analyst) Just a follow-up on the Narrabri Stage 3. The CapEx released today expected from FY25 to FY28 seems different to the time frame, from memory, released from the Investor Day, I think two years ago. Does that mean the commissioning of the Stage 3 will be towards the end of this decade? How should we think of Narrabri long-term production? Are we still targeting 8.5 million tonnes without Stage 3? Because Stage 3 CapEx is towards the end of this decade? Thank you.

Kevin Ball: No, look, the A$400 million is the A$400 million we've talked about, Chen, so there's no real change there. The timing of it, is - consistent with how we've described it in the past. It may be slightly different from two years ago, on an investor roadshow, but that'll only just be what's happened between then and now, in terms of timing.

Again, the largest part of that is this new longwall that Ian referred to. So, when we commit to that and how we fund that'll be a different question. But the 8.5 million tonnes you talk about, if you go back to the investor roadshows, they give you the breakout on that. There's clearly development coal, longwall coal and a bit of cut and flit in that. So, we're expecting volumes to step up when we get into the area south of the mains. So, the material we've shipped out in the past, on Stage 3, we halted.

Chen Jiang: (Bank of America, Analyst) Right. So, by looking at the CapEx spend towards the end of this decade, which means the Stage 3 will be towards, I say, FY29 or FY30?

Kevin Ball: No.

Paul Flynn: No.

Kevin Ball: No, no.

Paul Flynn: No.

Kevin Ball: No, not at all. The spend 20 - we said, between FY25 and FY28 in the quarterly release, which lines up to the advice we previously had. Now, part of that is commitment to a longwall. Part of that is belting and conveyor structure, ventilation, water and air supply, all of those things take place over a couple of years.

Paul Flynn: Yes. I mean, that big - the chunky bit between the longwall, obviously, Ian's mentioned the timing of that, potentially, starting production, so that's - the lead time there, you would say, you've probably got to place an order in 2024 for that, in order to be able to commence production in 2026. That's not back-ended, in that sense.

Kevin Ball: No.

Chen Jiang: (Bank of America, Analyst) Okay, thanks for that.

Kevin Ball: Chen, happy to have you drop in, and we'll take you through that.

Chen Jiang: (Bank of America, Analyst) Okay, sure. Just a last question. You mentioned the demurrage cost from the impact of Port Newcastle, is that a cost Whitehaven is bearing? Or you will get reimbursement from the insurance company? Thank you.

Kevin Ball: No. No, no. The demurrage is really - how that works is between us and the customers, we agree a coal availability date, and we agree a date when that vessel's going to turn up, and if we aren't loading that coal at our - because we don't have it, or because there's some competing challenges for that coal, then we end up paying demurrage, and that's part of the reason why there'll be bigger demurrage across the whole business, across the whole coal portfolio. Every supplier in the country's having the same issue. So, you should expect to see demurrage up for everybody.

Paul Flynn: Yes.

Kevin Ball: Forty-five to 50 boats off the coast of Newcastle is telling me that everybody's going to have a demurrage - a bigger demurrage cost in '21/'22.

Paul Flynn: Yes. I mean, that's separate from the issue of recoverable demurrage from insurance claims associated with the outage of NCIG. That's a separate matter. There is some take or pay costs, which we are to receive under our insurance coverage there.

That's the reason why the coal flow, availability and rhythm of our business is so important. Given that we buy the take or pay spread over the full year, and if you don't use it in a particular period, then you still wear the cost, and if you need more haulage and port capacity at times you didn't otherwise plan for, you're paying again, to get it. That's the importance of being delivering the coal on a monthly basis, as and when you said you were going to.

Chen Jiang: (Bank of America, Analyst) Okay. Understand. Sorry, just a follow-up on the cost. Are we still expecting improved or declining save on cost in the next few years? From the in-pit dumping and your cost, there of fuel cost improvement initiatives Whitehaven purposely talked to the market? Thank you.

Kevin Ball: Chen, I think we will expect to see benefits from in-pit dumping, there's no doubt about that. The hauls at the moment - or the hauls we've had in the out-of-pit dumps, and Ian can talk to the lengths, not me, but those hauls have been long. In-pit dumping grows, has been in place in FY22, will grow in '23 and finally reach 100% in '24, I think, is about the answer there, Ian? We'll see some benefits from that.

Chen, the bigger swing in that at the moment, or the one that's influencing us across the whole of the industry at the moment, is diesel. I mean, two years ago, diesel costs would have been A$0.50 a litre. Today, they're a dollar. So, there'll be some other factors coming through, and that's why, when we talk about structural change in the coal price, in this document, we're trying to work out, internally, whether this is a structural change. Whether input prices are higher for longer, and whether prices stay higher for longer.

Paul Flynn: Yes. I think, importantly, just before Ian - and he's so eager to tip in a further contribution to your answer, or your question, Chen, I think we ought to acknowledge that not just weather and disruptions to production from the existing operations, particularly in Narrabri in more recent times, but then the flood effect across our entire business, there is the feel on costs, as you mentioned and the outlook for them, coming down, will be heavily influenced, also, by commencement of production in the shallow ground at Narrabri. Because that's such a big volume swinger, relative to the volume you're seeing us produce at Narrabri at the moment.

We think that there's going to be a significant volume step back up in the shallow ground. Certainly not to the 8.5 million tonnes that you've mentioned in that first year, in that first panel, because, well, it won't actually be a full, clear year. It will be part-way through a year, for a start, anyway.

Annualising those sorts of numbers, we'll see a significant reduction in our costs overall, because we are carrying take or pay considerations associated with a volume higher than the 4.5 million tonnes that Narrabri was going to produce, say, for instance, just to pick on one particular mine.

That, in and of itself, will be a material step down in costs. Let alone the fact that mining in that shallow ground will see, in and of itself, a significant reduction in cost per tonne at that mine.

Chen Jiang: (Bank of America, Analyst) Okay, that's clear. Thank you, Paul and Kevin. I'll pass now. Thanks.

Operator: Thank you. Your next question comes from Alex Renn from Credit Suisse. Please go ahead.

Alex Renn: (Credit Suisse, Analyst) Morning, Paul, Kevin, Ian and Kylie. Congrats on good quarter. Two quick ones from me, please.

First one is what's the inventory? What's the level of inventory at the port stockyard? I'm just wondering whether there is any - given the wet weather and disruption to ship movements, is there any risk to write-offs of stock due to, say, elevated moisture content, if any?

The second one is, what are the met coal pricing assumptions at Winchester South you're using, given the current market dynamics? Just wondering whether they have to see any uptake on the pricing - or upgrade on the pricing assumptions. That's it. Thank you.

Paul Flynn: Alex, you have no risk of writing off coal because of a bit of rain, so that's no issue there. We've got about 2 million tonnes in total, across stocks, both product and ROM, so we're in reasonable form there, but no risks. You shouldn’t be concerned about writing off any stocks in that regard.

Our drive is to make sure we just get the tonnes down to the port as quickly as we can, and get them on a boat. The queue of boats out there, as Kevin's mentioned earlier, reflects the fact that everybody has got product shortages, and that's not what our customers want, but that is a product of the weather situation we've been experiencing for the last more months.

Hopefully, that will pass now that we're seen to be getting a clearer run - clear run at things.

Kevin Ball: Yes. The Winchester South. I thought there was some material in the original reserve that came out of it. Probably, the simple way I think about it, Alex, is that this is looking more like a 10.5 ash, semi-hard coking coal standard that you would see from mines that are located in close proximity to it. So, if you were using a pricing standard for things like Daunia and Poitrel that's probably what you're talking about in this, coming out of Winchester South.

Paul Flynn: Yes, but we haven't taken any adventurous spot-based pricing deck positions, in order to strike the revision to our reserve. That's been very conservatively positioned, using…

Kevin Ball: It's Wood Mac data.

Paul Flynn: It's Wood Mac data that underpins it. If you go into Table 1 in the back of the release today, you'll see them referring to Wood Mac price curves. We obviously take an appropriate discount, which is also mentioned in that document, as well.

Alex Renn: (Credit Suisse, Analyst) Yes, I've come back again. Thanks.

Operator: Thank you. Your next question comes from Glyn Lawcock from Barrenjoey. Please go ahead.

Glyn Lawcock: (Barrenjoey, Analyst) [Inaudible] times.

Paul Flynn: Sorry, Glyn, you're breaking up there. We didn't catch all that. Can you go again?

Kevin Ball: He's dropped out.

Paul Flynn: Oh dear, he's dropped off. Operator, we might deal with the next question, whilst Glyn's dialling back in, maybe.

Operator: Thank you. Your next question comes from Greg Hoffman from Hoffman Capital. Please go ahead.

Greg Hoffman: (Hoffman Capital, Analyst) Hi, guys. Could you provide some details around the Company's tax position? When will it begin incurring tax liabilities? What options are there in terms of prepaying or timing of tax payments, and the resulting franking credits and that flowing through to franked dividends?

Kevin Ball: Yes, no, happy to answer that. I think, based on where we see the second half of the financial year finishing. In the first half, we cleaned up pretty much all of the tax losses we've got on the books. I'd expect to see us paying tax first week in December 2022, which will be in respect of the fiscal year '22. That number is going to be probably around the A$300 million mark. That relies on, effectively, the coal price we expect to see through April, May and June, as we currently see it.

That'll give us a credit, for franking in the second half of the year, which means dividends - any dividend that's paid in the second half of the calendar year will be fully franked.

Greg Hoffman: (Hoffman Capital, Analyst) Great. Thank you.

Kevin Ball: Welcome.

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

Peter O'Connor: (Shaw and Partners, Analyst) Kevin, just on capital management, just be a housekeeping question. Buyback, when can it resume?

Kevin Ball: Tomorrow.

Peter O'Connor: (Shaw and Partners, Analyst) Great, and, to the last question, with that franking credit available from the second half of FY23, do you sense there'll be a skew towards buyback versus dividends over the next two dividend payments?

Kevin Ball: I think the – so in the December '22 period, we'll pay that tax – there'll be franking credits available for consideration by the Board in the full year results analysis, and I think people will work their way through what we see as value between buyback and dividends.

I think, Peter, when I look at the whole thing, it's - there is a - as you know, there is a tremendous surplus of cash coming out of the business in this second half, and it looks like it's holding all the way through '22, and pricing in '23 is still holding up. So, I think it's going to be an interesting debate between now and August '22, with the Board.

Paul Flynn: I think the Board is going to want to keep a close eye on this. I mean, the proposition, as it was, Peter, that we put to everybody in the balance of dividend to buyback, probably still holds today to a good degree, even though the share price has moved. But the underlying cash in relation to the business has moved with that, and one might argue that you're still cheaply valued, in this current situation.

Without taking the words out of the Board's mouth, I mean, they're actively looking at that. Month-on-month they are looking to see how we position this, going forward.

Peter O'Connor: (Shaw and Partners, Analyst) Okay. Just a second one on shipping, and the shipping book. You've talked about the demurrage, you've talked about vessel queue, you've talked about demand profile. Good with all of that. Can you give us a sense of how the presentation of ships will look, over the next couple of months? Is the triangular queue too big to shoehorn into the theory? So, guidance too tight? How does this play out? Maybe walk us through month-by-month how it looks?

Kevin Ball: No, no. The short answer for all of that, Peter, is that if you've got coal available at port, you can load on turn. Which means, in plain English, if your coal is at the port, the boat comes in, regardless of where it is on the queue.

The thing that's holding up the 40 or 50 boats off the coast is the cumulative impact, probably, over the balance of the last 12 or 18 months, on across the Hunter Valley, across the whole supply chain, on production, and it's just tightened up and tightened up.

Paul Flynn: Yes. I mean, from a relative exposure perspective, Peter, we've probably borne our pain, in terms of contributing to that queue of ships, and that was because of November, December floods, when we got shut out there. So, proportionately, we're probably the least exposed to that queue than others are, because the wet weather that's occurred in the last few months has been largely Hunter Valley based, not us.

You can see in our report, we're just talking about the logistics challenges that have arisen from that weather, not production issues on our part. Our production problem happened back in the previous quarter.

Kevin Ball: First half.

Paul Flynn: So, we're in a better position to be able to deliver our coal, because all these ships are waiting for coal to front up at the port, and as I said, we're keeping the trains well and truly up to our mines, at the moment, to keep them as short as coal on the ground as we can, to make sure we deliver as many sale as we can, in these remaining months.

Peter O'Connor: (Shaw and Partners, Analyst) So, is it fair for me to conclude a degree of confidence that you've just presented, then?

Paul Flynn: As I say, the weather and COVID are the two things we're mostly concerned about. We've left our guidance unchanged, and we must be feeling good about it, if we've done that.

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

Operator: Thank you. Your next question comes from Glyn Lawcock, from Barrenjoey. Please go ahead.

Glyn Lawcock: (Barrenjoey, Analyst) Oh, Morning, Paul, can you hear me?

Paul Flynn: We can now, yes, you're back.

Glyn Lawcock: (Barrenjoey, Analyst) Yes, apologies for that. Fat fingers on this end - apologies.

Paul Flynn: No problem.

Glyn Lawcock: (Barrenjoey, Analyst) I just wanted to think about, it's extraordinary times we've got, with pricing where it is, and it's obviously going to be volatile. How are you and the team thinking about the business, going forward, then? Is there opportunities to accelerate anything from a volume perspective? Or is the pricing still uncertainty in terms of how high for how long, meaning you don’t accelerate anything?

I'm just trying to understand, is there opportunities? You’ve got a cap at Maules, obviously. Narrabri, obviously, just runs, depending on ground conditions, but is there anything you can do at any of the open cuts, or maybe accelerate the permit at Maules? Or is it too early to do anything like that? Thanks.

Paul Flynn: Yes, that's really good question, Glyn. I'm presuming you’ve positioned that broad enough to cover not just, what can we do with the existing operations, but then presumably, development opportunities with our pipeline projects, as well?

Glyn Lawcock: (Barrenjoey, Analyst) Yes.

Paul Flynn: Vickery is, as we said - I don’t think there's any notion of us bringing that forward within the next 12 months, and we've been consistent on that. There's just more work to be done in that space.

One of the biggest things, though, at the moment, which I think is probably the handbrake on all of this, is people. I know everybody else has been talking about that, but it's been extraordinary, to try and get the people we need.

We've done really well, I think, in the quarter, despite the COVID absenteeism, and to anchor our people. Because there's a bloody merry-go-round of people, staff, going round, from one mining company to the other, as people struggle to have the necessary talent to man each of their operations. So, we're fighting a battle in that regard, which is not good.

Maules, as you say, is at the limit. There's a little bit of upside in Tarrawonga, but not a lot. I mean, it does have an approval to go a little bit more. We are studying that at the moment, just to understand whether or not there's an opportunity to operate more time there. You know it's a five-day operation. Of course, we've got some relatively new gear there, and can we run it a bit harder? So, we are looking at that very closely.

Of course, Narrabri takes a step forward, significantly, volumetrically, by returning to the shallow side of the mine, so, we are hanging our hat, if you like, on that, and that's as we should. We want that to return to the historical run rates or better, that you've seen in the past, because when it was doing 7 million, close to 8 million tonnes with the 300-metre wall, we should be able to do that, for sure with the 400-metre wall that we've got.

So, that's - Maules Creek, we have spoken at numerous times about doing more there, and we are still keen on that. We are closely monitoring the progress of AHS, because that is key to us asking for more tonnes than less. We think if AHS goes ahead, then we've asked for more, if it goes up to the 16 that we've asked about in the past, and if doesn’t, we still probably need 14, 14.5, even in a manned version of our future for Maules.

So, that's pretty much around the grounds' upside. It is relatively limited, I have to say, without new volume coming on. Other than Narrabri returning to the shallow side.

Glyn Lawcock: (Barrenjoey, Analyst) A couple of follow-ups, then. How bad is labour turnover at the moment? Could you maybe quantify that? What it is, versus your historical average?

Then, I believe you actually commenced the cut and flips in the shallow areas at Narrabri. Just wondering, any observations you’ve made, now that you're in the southern zone? I know it's the shallow areas, but any observations from the cut and flip throwing up anything you weren't expecting?

Ian Humphris: Glyn, it's Ian here. If you look at our labour, we're probably running at about 5% to 10% of the workforce down, trying to fill those vacancies. Then, as Paul touched on, there are some key roles that are very difficult in the industry to fill, particularly in the underground space. Tradespeople, statutory roles, mining professionals more generally are hard - mining engineers, et cetera, particularly ones with a bit of experience.

So, we've got a number of initiatives out there, as all of our, I guess, competitors have, in trying to attract the additional operators. We're obviously looking at the remuneration, making sure it's market competitive, but obviously mindful of that cost pressure, as well.

Sourcing from different areas - we're looking at that. Looking at how we might manage around the travel arrangements associated with that. We've got some longer-term initiatives in place, where we're taking trainees on, and we're also then looking at upskilling of other people that are outside of the industry, as well.

So, there's no one silver bullet, unfortunately, and we don't see this problem going away. We're also having an overarching look at all of our training programs, and, like most entities, that's an area that the industry is going to have to continue to tackle, to bring more people in it, because the pool that's there now is just insufficient.

To your second point, about the cut and flip, we had hoped to have started that. We do have work going on in that area, establishing belts, et cetera, but the particular continuous miner that we've been waiting on from that has been delayed, and we're expecting to see that late this month, and then we'll get in there and start actually doing the production from that method.

Glyn Lawcock: (Barrenjoey, Analyst) Okay, and just a final one, Paul, if I could? I think it was Kevin that mentioned diesel's gone from A$0.50 a litre to a dollar a litre. Could you help me understand what that means in dollar millions spent, perhaps? Could you give me a sensitivity, you know, for every A$10 move in the oil price, is there any way you could help me understand the cost pressure? Thanks.

Kevin Ball: Yes. We burn about 140 million litres of diesel at a managed level, and when it goes from A$0.50 to A$0.70, it puts on A$70 million on about 22 million tonnes of ROM, or 20 million tonnes of ROM. So, it's about - it adds, effectively, somewhere between A$3 and A$4 a tonne, from that price, back at that previous price.

There's also a little impact of that on rail, Glyn, because of the diesel locos that go up and down, but by far and away the biggest impact is in the pit, with excavators and trucks.

Glyn Lawcock: (Barrenjoey, Analyst) Kevin - yes, no, obviously, hurt.

Is there a way for me to loop that back to the oil price that I follow then anywhere? Or how? Do you think I could - sensitivity to dollars per barrel? Or - not too hard?

Kevin Ball: I could probably - where it ties back to is a Singapore Gasoil contract. That’s where it ties back to. So, if you're tied back to crude, and you can get a correlation back to Singapore Gasoil, then you'll get how that ties back into here, but I'm happy to provide you a little more colour on that offline, rather than on the call.

Glyn Lawcock: (Barrenjoey, Analyst) No worries. I'd appreciate it. Thanks very much.

Kevin Ball: All right.

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

Paul Flynn: Well, thanks, everybody. I think we've moved - I think we've gone over time by three minutes, so thanks very much to everyone for your participation and attention today. If there's any further questions, you know where to find us. We look forward to catching up with you in due course.

Thanks very much, Operator, we'll hand back to you.

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

End of Transcript