WHITEHAVEN Q3 FY23 INVESTOR CALL TRANSCRIPT

21 April 2023

INTRODUCTORY COMMENTS / OVERVIEW OF Q3 FY23

Operator:

Welcome, ladies and gentlemen, to Whitehaven Coal's Q3 FY23 quarterly production update. All participants are currently on mute. Following the presentation, we will open the call for questions. To queue for questions you may press star-one on your touchtone keypad. Thank you for joining us today, I will now hand over to Mr Paul Flynn, Managing Director and CEO. Thank you, Paul.

Paul Flynn:

Thank you very much, operator and good morning, everybody. Thanks for taking the time to dial in this morning for Whitehaven Coal's March 2023 quarterly production report. As usual, I will head through the highlights, get into the body of the report and then move into Q&A.

Highlights for the quarter, average coal price at A$400 was a pretty good outcome. Obviously less than what we've seen obviously in the December quarter, but period-on-period it was actually a step up on what we saw last year for the previous corresponding.

March quarter run-of-mine production at 4.3 million tonnes, down 12% on the December quarter. We'll go into the details of that shortly. Equity coal sales of produced coal 3.4 million tonnes, down 2% on December. Managed coal sales of produced coal 4.1 million tonnes, down 4% on December.

Cash generated during the quarter at $1.2 billion and the cash position of the Company generally healthy at $2.7 billion. Tax bills have been paid (for FY22) and I'll talk about the dividend and the buyback in a later section of this report. Since the buyback started, we've bought about 16% of the Company back now of the voting shares available to be purchased and spent just over $1 billion in doing so. We expect the buyback program to resume on Monday 24 April.

The other highlight for this period is that our Board has approved the small CapEx version of Vickery and I'll talk to that a little bit more and we have provided some additional information and slides for you, which we can go through at the end of the formal report.

Over the page, just in terms of the quarter's production, as I said, 12% down on the December quarter. A couple of features obviously which have been playing out there which we've announced to the market, which we'll go through.

Maules, whilst ramping up over the previous corresponding quarter, did not ramp up to the extent that we would have preferred and I'll speak to the issues associated with manning and so on that's playing out across the industry more generally, but as it relates to us and Maules Creek in particular.

Just the tables here, the ROM coal production at 4.3 million tonnes versus 4.8 million tonnes. Managed saleable coal production at 3.6 million tonnes versus 4 million tonnes. Managed sales of produced coal at 4.1 million tonnes versus 4.3 million tonnes. Minimal coal purchased during the quarter and as you can see, total sales at 4.1 million tonnes versus 4.6 million tonnes and we have drawn down stocks during the quarter, on a quarter-on-quarter basis.

The equity numbers there play out generally, you all know, 80% to 82%, depending on variations of saleable and so on of those totals above at the managed level.

Over at Maules Creek, whilst Maules did produce 2.3 million tonnes during the quarter and 9% up on the previous quarter, it was less than expected. The key drivers for that, putting weather aside in the month of March and it was only March that was the weather-affected one, but labour generally is certainly causing us some challenges.

Then we have the added challenge of congestion in our pit, with limited dumping locations and we can talk about the detail of that. But it's essentially the out-of-pit dump versus in the in-pit dumping and the need to quarantine still our AHS fleet from the manned fleet in the pit, so that is causing us some productivity loss as a result of that.

It's a process we will need to work through. We suspect we've probably got roughly, in rough terms, about 12 months where we can manage to keep these fleets apart.

But we are feeling that we are closer to the end of this journey in terms of the development of AHS, so it will need to cross the critical threshold of being able to blend manned and unmanned equipment together, which we are starting to do in limited form as we speak, so that is on the positive side.

March sales there 1.7 million tonnes in the December quarter, reflecting the saleable coal production volumes and stocks are pretty meagre there now as we've drawn them down during the course of this quarter.

Narrabri's tonnes were lower than the previous quarter at 1.2 million tonnes versus nearly 2 million tonnes, most of which was planned as we ran down to the back of the panel, which has now been finished. But we were suffering some productivity losses, really just as a result of the thinning seam.

Again expected, that's planned but there was quite a little bit of work required just from an operational perspective and productivity did suffer as we moved into lower cutting height phase at the backend of that panel. The panel has been completed, so we have commenced the relocation and we expect to be cutting at the end of May in panel 203.

Saleable coal production there, as you can see, 1 million tonnes for the quarter, down 43% on the previous quarter and the sales at 1.4 million tonnes were 25% down. Again you can see we've drawn the stocks down there to a good degree.

In terms of the Gunnedah ops, I'll move firstly to Tarrawonga. Tarrawonga's coal ROM production there at 521,000 tonnes compares to 348,000 tonnes saleable coal production 540,000 tonnes versus 254,000 tonnes. So the quarter itself was really quite a decent quarter, but it's obviously - the increment over the previous quarter was obviously against a heavily weather-affected one. So those proportional steps up are really just a reflection of returning back to a little bit normal operations relative to the weather-affected first half of the year that we've had.

Saleable coal production in the March quarter at 0.5 million tonnes is 113% compared to December on that basis. Sales for the quarter at 600,000 tonnes, again up on the quarter for the same reasons.

Werris, as you know, is coming to the end of its time, at 261,000 tonnes versus 416,000 tonnes and saleable coal production at 410,000 tonnes versus 336,000 tonnes is a function of the fact that we've drawn down our stocks during that period as well.

We did suffer a geotechnical slippage during the quarter, which was unfortunate given it's close to the end of its life, so it is a little bit of a disruption, but not particularly major. We're just working through what the impact of that will be for next year, the last year of Werris's production life. Saleable coal production at 400,000 tonnes was 22% above the quarter, but again this is a weather-affected period versus not comparison.

I'm moving down to the table for our equity coal sales and realised pricing, so obviously pricing in the quarter from a thermal perspective, you can see the average for the period of US$248 per tonne, certainly down on what we've seen in the past.

Our realised numbers there at US$280 per tonne yielded at 13% improvement over the average of the index for the period. I don't want to make too much of that because we are in a softening coal price environment, so as we've always talked about, realisations will look better when the coal price index is coming down.

The JSM Quarterly obviously for the average for the period US$268 per tonne and we've achieved US$234 per tonne, so about 13% down. The volumes are very small, as you can see in the balance of the report, in the metallurgical side of the business.

From a split perspective, the March quarter we had high CV sales, the proportion of total sales at 68% and then the mid CV sales at 26% and metallurgical at 6%. So the A$400 was pretty good from an Aussie dollar perspective. We see the market continuing to maintain itself at around the current level that we're at.

Overall, the metallurgical coal side does look like it's starting to become a little bit more interesting. So while 6% of our sales were in the met coal space in this period, we do expect that to change in the new year, given that semi-soft pricing is starting to look pretty decent relative to the thermal coal price, which seems to have found its floor in and around the $175 to $200 mark, which I think is very positive.

I do think that will continue to hold there and firm as the northern winter obviously was milder and therefore left stocks on the ground for most of the consumers up in the Northern Hemisphere, Japan included for that matter. So drawing that down now through their summer will see them obviously confront the challenges of restocking and that restocking opportunity obviously is without the benefit of access to Russian coal for our key markets. So I think that that will continue to see things firm during the course of this calendar year.

As you can see, export volumes through the Port of Newcastle have been pretty mild during this period as well. Met coal prices, whilst they have inflated quite nicely and look pretty good, they have softened since the time of the end of the quarter. But we do see, as I say, structurally a very tight market playing out over the balance of this calendar year.

I'll move over to the corporate and regulatory, we do get quite a few questions about the buyback and for those people asking, we've put a summary together of the buyback program since its inception. As I mentioned earlier, we've spent about $1 billion in the buyback to date and we've purchased essentially about 16% of the Company's voting shares. We've laid that out for you in terms of what we call tranche 1 and tranche 2, in terms of how we play them, then cut that also on a financial year basis for you.

Since we commenced the buyback program, we've spent about, between dividends and the buyback program itself, in aggregate, about just under $1.8 billion in terms of returns to shareholders during that period. As I said earlier, we'll be recommencing the buyback program now that the quarter's out, so expect that to recommence on Monday.

We are getting quite a few questions on the domestic coal reservation policy as well, so I thought I'd throw in some information there. Our commitment there is 200,000 tonnes per quarter, essentially for five quarters commencing from 1 April.

We are now in the first quarter, so in the next quarterly report we will separate out the tonnes associated with that and report those separately. As you know, we are constrained to a price of A$125 per tonne and the AER has finally come out and given what it believes to be its view on a fair margin, being $18 a tonne.

Essentially what you do is you claim your $125 or whatever the bid price is that you've agreed with the generator, when you've agreed an arrangement with them. To the extent that your costs are that they don’t allow you a margin of $18, essentially in $125, then you apply to the AER for a top-up. As I said, we'll talk about those sales separately in the next quarter.

Safeguard mechanism, really just a place marker here for everybody. I know it's well reported that the Government is going through their consultation processes associated with this. We have two facilities, of course, that have long been reporting under the NGER program and therefore part of the safeguard mechanism.

But I think it's really just a matter of months now before we can find out exactly what we think the implications are for the coal mining industry and of course there's likely to be divergences as well in terms of the treatment for underground and opencut.

I did skip over the logistics part, but down in the development section of our quarterly there you will note we have internalised - as you probably saw a report in the papers, it was a small acquisition, but we did internalise a contract of hauling coal in our Gunnedah operations, so from Tarrawonga down to the Gunnedah CHPP. There was $15 million of capital involved in that, that service was previously provided to us by Bis and so it just came to us.

It was an opportunity obviously to internalise that and we were suffering from underperformance in that area in the past. So with the opportunity to internalise that contract, we took that and in fact we are seeing what was a manning challenge for Bis is actually improving, from what I can tell, with the applications for new drivers to come on now that we own that fleet. It gives them access to a larger organisation with more opportunities within it.

Now on to Vickery. As I mentioned before, we've highlighted this notion that we were going to have a low CapEx, small version start-up of Vickery, transitioning to a bigger version at some later point when the Board has a separate opportunity to consider the full version at a later date. The Board has only sanctioned what we call the early mining case.

The objective of early mining being to access revenues earlier and utilise essentially the existing processing and take-or-pay capacity in the business currently. There's about $150 million that will be devoted to this project. The box cut itself represents about $50 million and about $120 million of the $150 million is capital that relates to the big version of the project.

Now whilst we would think that we could get construction started in June, (closure of) Werris Creek obviously coincides with the advent of the early mining case being approved. So we are looking to transition our people to the extent that they can or want to move over to the early mining version of Vickery, as well as utilise the equipment that we have, that will progressively stood down from Werris. We've allocated some money in that $150 million for refurbishments of that and redeployment at the small version of Vickery.

Vickery coal, as we've talked repeatedly about, is very high quality coal. It'll be slightly better than Maules from a thermal perspective, making it probably the best thermal coal you can buy in the seaborne trade. It also has a very strong semi-soft product which is better than Maules Creek as well.

Total volumes, we think, under the small version will be in the 1.2 million tonnes per annum to 1.3 million tonnes per annum, matched to the processing capacity of our Gunnedah CHPP. As I say, usefully we'll be absorbing take-or-pay, both on rail and port, that we’ll have spare as a result.

We have some spare anyway today, but we will obviously have spare with the advent of the closure of Werris as well. So that is usefully going to absorb that, until such time that the Board chooses to consider the big version of Vickery in the fullness of time. I have got some slides here at the back of the document, so I will go through the highlights of that for everybody as well.

On Narrabri stage 3, not a lot to report there. The hearings that go through the judicial review challenge in the Land and Environment Court at the state level occurred and we were quite pleased with the passage of that hearing. We feel like we've put our best foot forward in defending the claim against the approval by the IPC of the Vickery extension project, sorry, of the Narrabri underground project.

The other aspect of that, of course, that everybody knows is the EPBC reconsideration request that has captured a significant amount of projects at the federal level. We've been encouraging of the minister to include Narrabri stage 3 as part of the first tranche of projects that will be considered under the reconsideration requirement.

So we look forward to that playing out as soon as we can, so that we're able to move on without any disruptions to stage 3 planning, which we don't at the moment have any issues in that regard, but similarly we don't want to see this process consume available time along the way.

From a Winchester South perspective, the only real change there period-on-period is just that the second exhibition period of the project has closed. We've received all the submissions from public during that period. We now have formally sent our response to each of those submissions, so the ball is now in the state government's hands in terms of how they would like to process the responses to each of those submissions put in by the public.

Just flipping the page, our guidance, as you know, was revised on 12 April, reflecting the challenges that we're seeing from a labour perspective and congestion at Maules Creek principally. That did have a related impact, of course, on sales and unit costs in this period. I'm sure we'll explore that further in the Q&A.

Now I will just go through these slides quickly for everybody, just on the small version of Vickery. I won't take too much time because I'm sure people want to jump into questions. Just for everyone's baseline knowledge, this is a very low CapEx, low start-up, low risk start-up, to our Vickery project.

It obviously utilises the Gunnedah CHPP latent processing capacity and also take-or-pay obligations that we have on port and rail. It has the benefit of bringing revenue forward and obviously the prices that we're experiencing have been pretty good, so that's going to make a good contribution.

There's the obvious blending benefit that Vickery and Maules Creek for that matter and Tarrawonga represent across our business. That certainly plays out nicely in blending with Narrabri coal, just to name one opportunity. We obviously do have the opportunity to spread our overhead costs across our broader base with the closure of Werris and to redirect and redeploy good people across our businesses also, and equipment, is also a known opportunity as well.

The geography there in terms of the map, I'm sure everybody understands what's going on there and I've mentioned each of those key points in both the body of the report and the executive summary in the front.

It is a low cap CapEx start-up and there's very little regret capital in it, which is very positive. $100 million of the $150 million is overhaul equipment, there's infrastructure associated with water management and site-based facilities. The box cut itself which is necessary for the broader Vickery project is about $50 million, as I said earlier.

Regret capital about $30 million there of the $150 million leaves $120 million well spent in terms of the contribution to the Vickery project, when the broader approval is addressed by the Board. We've put some assumptions in there just for you in terms of average coal prices that we've assessed over the first three years. Parameters there which you'd be well aware of, 9:1 strip ratio and very high quality coal which is very, very positive for us.

There is a timeline there with a depiction of where the initial works will start at the Vickery mine site. There's just a little bit of history for you. I do note one correction there, just for those who are very keen watchers of these things, the full version of Vickery actually was approved in September of 2014, not 2013, my apologies.

The IPC didn't do it, it was actually directly approved by the department itself, given that it did not have the requisite number of naysayers to mean that it would go across to the then predecessor of the IPC, which was called the Planning Assessment Commission.

Then over the page, I'll just give you a quick recap on where Vickery sits from a coal quality perspective. Vickery coal, given it was mined in still living memory, if I can say that, of the market and many of our customers are very keen to see this coal return, which is very positive. You can see why, the ash is very low, the energy's very good, it compares favourably to Maules Creek which currently is the highwater mark from a thermal coal perspective, but Vickery will be superior to that.

As you can see, Tarrawonga's great but it's small in terms of volumes. You can see there's an obvious blending benefit for us across our business with the Narrabri coal. So with Werris actually falling out of our portfolio in a year's time, our portfolio of thermal coal will be 6,000 plus during the course of the cycle.

What that means generally is hopefully we can stop talking about realisations up and down, because in a steady market we'll be a plus, a gC NEWC plus business rather than - but that is in a steady state market. As we've noted, we've benefited from a falling coal price from a realisation perspective. I know everybody understands this but I thought I'd just reiterate it, just to be sure.

Let's just focus on what the Board has done here. They have approved just a small version of this and what's relatively modest capital, to take advantage of what's otherwise going to be, in the absence of a small version of Vickery stepping forward, increased costs in our business as a result of latent take-or-pay. Obviously, overheads over a smaller base in our Gunnedah operations as well.

So there is quite a bit of a benefit to us in bringing this forward and absorbing these costs, which has otherwise been our business for years to come. That of course opens up the opportunity for the Board to sanction the bigger version when they see fit.

From a management preparation perspective, we think we'll bring that to the Board, the full version that is, within this calendar year, so later in this calendar year. But of course the Board - what that does just for everyone's education, given that we're unable to secure fixed prices for any of the construction packages for Vickery, what's necessary here is an approval that our project delivery team can then take to the market and tender in order to get an appropriate assessment of what we believe to be the full construction cost of the Vickery project.

Given the tightness of the market and inflation at hand, as you well understand nobody's building anything on a fixed price basis these days. But certainly the feedback from the market has been with an approval in hand, the various suppliers and constructors will know we're serious, they'll do the necessary work to put proper prices on the table and that will give the Board an opportunity to assess what the full construction costs of Vickery will be. So that's one of the important pieces of the puzzle for a future view of the bigger version of Vickery.

I've tried to scoot through that relatively quickly, so I think, operator, that'll do me for the moment and we'll open the lines up to a bit of Q&A, if that's all right.

QUESTION & ANSWERS

Operator:

Thank you so much, Paul. For those of you who are wanting to ask a question, please press star-one on your phone now. You will be placed in a queue and I'll introduce you in turn.

Our first question, thank you Paul, is from Rahul Anand from Morgan Stanley. Go ahead please.

Rahul Anand: (Morgan Stanley, Analyst)

Hi Paul and team, thanks for the opportunity. Paul, I just wanted to talk about Maules Creek first up. Obviously, you've highlighted some of the key drivers for the performance there, but I wanted to understand what's changed since the time of the site visit. Was this not part of the planning? Has the labour issue led to perhaps the over-congestion in the pit?

Then looking forward at the asset specifically, you talked about the interchange between autonomy and manned trucks. Does this mean that we'll have a bit of a volatile performance going forward as well? I'll come back with my second, thanks.

Paul Flynn:

Thanks, Rahul. Thanks for that, I'll try and work my way through that. I'm joined here, of course, by Kevin and Ian as well, so they can chime in on any of these questions, to mention if there's any question that I haven't covered off. But let me just start with the labour side of things.

Labour, as you would have seen and I'm sure would have heard when the site visit was taking place, labour continues to be a challenge. It's not just labour in total volume, I must say, Rahul, just to get into a little bit of detail. It's not just total volume of people, which is a challenge itself, we are making headway in that regard, bringing people on, but there's a lead time associated with getting those people on the ground and trained up and working efficiently.

There is a cost associated with that as well, as I'm sure everybody understands. We're not talking about 3% and 4% type percentages, it's inflation at a national level plus in terms of what we've got to do in order to find the people to come and work for us.

The Government seems to be making all the right sounds, the Federal Government that is, in terms of opening the doors a little bit more fulsomely for labour to come through. We are working through that as well from an importing skilled labour perspective, so that is slow but it is yielding some results.

Now the other dimension of labour which is quite frustrating is absenteeism is causing us a bit of a headache along the way at all our operations. I'm not quite sure, quite frankly, what's gone on there, but it was better before COVID, it's worse since COVID.

So I don't know whether people just feel like they can take their sick leave and more, but there's certainly an absenteeism issue that we're seeing. I know the rest of the industry is suffering the same, because I talk a lot with our peers about this, so that is playing out.

In terms of the operational constraints for AHS, I'll speak to that, I'm sure Ian will chip in here. At a high level, we have made a decision to find some more time for the AHS to play out. We feel like we're at the sharp end of being able to transition to a more fulsome deployment of AHS.

For those who went to site, they would have seen one fleet running around, but we have actually started a second fleet running around as well. We are trialling that, but that is a good step. We also have started limited, I mean very limited, manned and unmanned interaction, so that is a very positive step.

But we can't keep obviously persevering with this trial forever, so even though we have found more time, we think it's about 12 months to give Hitachi a final opportunity to move this over to a commercialised proposition. In the meantime it means keeping these autonomous fleets separate from the manned. There is a productivity penalty that comes from doing that.

The convergence of that obviously is a time when we're transitioning from out-of-pit dump reliance to almost entirely in-pit dumping, so keeping those fleets separate when you're going to be entirely dumping within the pit obviously is something we've got to work our way through. We think again there's a productivity cost associated with that, so that's the feature that we've referenced in our announcement on the 12th and that's a little bit more colour for you in terms of what's going on there. Ian?

Ian Humphris:

I think maybe only to add to that, Rahul, you asked a question about the south-west corner, that is still a priority that we need to get done. As Paul said, obviously we're trying to keep – well, we have to keep the fleet segregated, which has meant then that that south-west corner, as I think we've explained to you, becomes the next large volume of pit material to the extent it probably fits nearly two years' worth of capacity in there once it's established.

So whilst we've been pushing that down and we've had some challenges in that area, it's tight, back to the congestion point Paul's made out and the seam geology and a few other aspects there that made that more complex. The other areas that have been available in-pit have been smaller, to the point Paul made with the remaining ex-pit still being tied up with AHS.

Rahul Anand: (Morgan Stanley, Analyst)

Sure, okay, thanks for that. My second question, perhaps one for Kevin. Kevin, obviously net cash position pretty strong here, $2.7 billion. Just a quick recap perhaps would be helpful in terms of how you're going to be thinking about buybacks, yield and then also potentially smaller Vickery followed by bigger Vickery. Are you going to start putting some capital to the side for these things and start planning for the future?

Kevin Ball:

Thanks, Rahul. I think the $2.7 billion in net cash – there is probably about a tax bill there from the first half and a tax bill from the quarter you've got to take account of. If you look at the net profit, I think the broker consensus view is falling somewhere between $2.5 billion and $3 billion (NPAT) for the full year.

If you take 50% of that, that's about the capital that we're looking to allocate to shareholders in the form of dividends and share buybacks. The dividend will be decided by the Board in August, but the buyback, we'll commence that again on Monday and we'll execute that, taking that towards meeting that metric of about 30% of the NPAT for the year.

On the capital front, I think as Paul's outlined, the investment in Vickery over the next year and a half or year, year and a half is not substantial. In fact it's really a sensible extension for employees from Werris Creek and it uses up capacity we've got at the CHPP and across the road and some port take-or-pay. When I look at the economics on that I'm very encouraged by that.

You asked about do we set money aside for big Vickery, I think I'll deal with that in due course when the Board makes that decision, when that decision comes to the Board. But at the moment I'd say the balance sheet's in pretty good health. We're compliant with the capital allocation framework we've put out to market. Clearly if we have no further need for that capital at a future point in time, we'll make a decision about what best to do with it. But that's where we sit now, Rahul.

Rahul Anand: (Morgan Stanley, Analyst)

Sure, understood. Thanks for that colour, I'll pass it on.

Operator:

Thank you, our next question is from Jim at Barrenjoey. Go ahead please, Jim.

Jim Xu: (Barrenjoey, Analyst)

Hi Paul, in your commentary in the market you said low production is supporting the floor for the gC NEWC price at around $175 to $200. That's obviously considerably higher than consensus for long-term prices. What's the key driver behind that high floor price? Is that where you see cost curves to fall right now?

Paul Flynn:

Thanks for that question, Jim. I don't think I made that leap of doing those two observations, but now that you've raised it, less volume in the market certainly does keep prices healthy. I think the challenge at the moment in the market is really just there's a little bit more coal and gas and oil laying around in stockpiles after a mild winter.

We can see those capacities have been drawn down and consumed and that just takes a little bit of time. Of course, summer is coming for the Northern Hemisphere so that will continue to draw down. As I mentioned earlier, being able to restock is in a vastly different world now than it was this time last year.

Without the access to Russian oil, gas and coal, you are going to see prices remaining high across all these areas. But that's not to say it's not without volatility, but I think directionally supply and demand in the coal side in particular, in the high CV end of the coal pool of global seaborne coal, is going to be very constrained.

Now on the other side you're saying there well - sorry, I'll just add some further comments. Our friends in Japan, of course, are now living in a world where they don't have access to Russian coal. They stopped taking it at the end of March, so whilst they do have the comfort of having some stock on the ground at the moment, their focus is turning to how do I resupply? Directionally our bigger customers are starting to look for greater duration in their contracts with us.

So we are working through that with them and we are interested in signing up longer term deals with them. I know in the past we've talked a little bit about from one to two to three-year type duration deals that we've done. But we now have the prospect of some customers asking us for longer, so even seven to 10 years in duration. So that's telling us that there's a higher degree of anxiety in the market of being able to resupply.

The other part of your question was really just about the longer-term price and I think that's a good thing to focus on here. Long-term prices, I'm pretty sure everyone can conclude, bear no resemblance to the current market. In a constrained world where there's essentially limited investment in new capacity, none of those price curves that you've seen from any of the commentators, I think, are reflective of that new supply and demand constraint going forward.

So there's underinvestment in coal, of course, underinvestment in gas and oil and all these curves are going to have to be reassessed. Now you are seeing that from the various commentators coming along, so they are actually starting to revise this upwards.

Where that lands, I think that's going to take a little bit of time for these commentators to - the Wood Macs and others - to land where they feel comfortable. I have seen some numbers already from credible commentators in the US$130 to US$150 range and so I think to me that's actually more reflective of where the underlying tightness of the market will be over time.

Jim Xu: (Barrenjoey, Analyst)

All right, thank you. Just on Narrabri stage 3, you've mentioned that it's now being reviewed by the federal environment minister after requests from the Environment Council of Central Queensland. Why was Narrabri stage 3 picked up and not Vickery? What does that review actually involve? How long do you expect it to take and what's the worst case scenario that can come out of that?

Paul Flynn:

Vickery was already approved, so we didn't have to worry about that. It did capture Narrabri stage 3, I think with 19 other projects that got caught up there. We were encouraging, as I mentioned earlier, of the minister to include phase 3 in the first tranche of projects to be reconsidered.

The interaction we've had with the federal minister's department looks like that's moving ahead, which is good. I can't predict exactly what the timeline will take in order for them to work their way through this, because this is new, being reconsidered in this way.

We know the Government is minded to try and provide some clarity to everybody here pretty quickly, because there are a lot of projects here, not just ours, wrapped up and they can't essentially allow this to be a logjam for the system.

But we do have plenty of time up our sleeve, so it's not causing us any particular concerns from a stage 3 perspective. To the extent that we are getting to a timeline where we think it would be concerning, we'll have more to say about that if that occurred.

Jim Xu: (Barrenjoey, Analyst)

Thank you.

Operator:

Thank you, our next question is from Lachlan Shaw at UBS. Go ahead please, Lachlan.

Lachlan Shaw: (UBS, Analyst)

Morning team, thanks for the update. Just a couple from my side. Firstly, just on I guess weather and production, productivity and also labour, again it's been a real headwind for industry recently.

Weather is forecast or predicted to improve as La Niña eases and we're starting to see some pockets of labour shortages easing. Can you just comment on how you might expect that to - those headwinds to fade and improve operational performance in the business going forward on a 12, 18 month view please?

Paul Flynn:

Thanks, Lachlan. From our perspective, it depends on who you want to point to for your data points. They're saying that we're potentially moving back into a drier phase and I don't know, in March it didn't feel like that. In March we had quite a bit of a downpour which did cause us a few hiccups. Nowhere near as bad as obviously the first six months of the year, so nowhere near as bad.

But we do have the legacy of having a lot of water in our pits and that is causing us ongoing management constraints in that sense. If it moves back into a drier phase, we'll consume that water relatively quickly and having been through a drier period, quite a significant drought in 2018/2019, which broke in early 2020, we have made considerable progress in drought-proofing our operations. So we feel a whole lot better moving into a drier phase than we were in previous periods, so that is an issue.

Labour again is - we are seeing progress on the labour side of things, so we are making headway. But as I mentioned earlier, there's just a lead time here. When you get the people, you've got get them in and trained and up to speed and that does take a little bit of time.

The areas where we're making headway, just to give you a little bit more colour, we are flying in, flying out people now, which is not our preferred model but you've got to do what you've got to do in a tight market. So we're doing that, we are overseas, as I mentioned briefly before, looking to bring trained and experienced miners in.

So we have a pipeline there of - I think the last time I looked some 40-odd good looking candidates across a range of disciplines, which is very positive for us. So we are making headway, it's just that there's a lead time.

Like I said, the other issue we had been experiencing and I know it's right across the industry, is actually just people on the books aren't turning up and that is from a manager - it takes a lot of time to be managing excessive sick leave taking. As you know, it's pretty easy to get a medical certificate these days online, so it's causing us ongoing issues. But I know this is an industry-wide issue, it's not just a Whitehaven one.

Lachlan Shaw: (UBS, Analyst)

Yes, that makes sense, thank you. Second one from me, just in terms of Queensland Winchester South and obviously there's some industry M&A consolidation going on, Blackwater, Daunia and others. Can you just maybe outline how you're thinking about build in Queensland with the royalty, et cetera, versus buy? What are some of the factors that you think might tilt where you'd prefer to be?

Obviously if you buy in the short term, funds in the short term versus built in processes, it seems to be getting longer and longer to get approval. So I'm just interested in how you're thinking about that decision. Thank you.

Paul Flynn:

Thanks, Lachlan. I think you've highlighted all the difficult aspects in your summary, it's challenging. We obviously like Winchester South, we're working hard on that. We think we're actually getting to the sharp end of the state-based approval period, so that feels quite good but we've just got to push it across the line.

Then we've got to undertake the federal level and as you rightly pointed out, these timelines seem to be elongating as time goes by. We didn't expect to have two exhibition periods for Winchester South. We'd seen others had it, so directionally we knew it was a risk, but we were hoping we didn't have to go through that. We have, we're on the other side of it now, let's move forward.

The question on buy versus build, I think, is a good one. I think you've just got to be cautious on any of these acquisitions, opportunities that go round. Firstly, they'd better fit within your strategic crosshairs first and foremost, because there are lots of people who'll sell you something and it may not fit your strategic parameters. So we're very disciplined in making sure that anything we look at fits there.

It must compete against not just the opportunity to build a project, because the building of a project subject to approvals is something we can do at a time of our choosing. Whereas M&A occurs as and when the vendor wants to do something.

But both of those things also need to be considered in the light of the buyback and our shares, we still believe, being cheap on a relative valuation basis. That seems like a sensible use of funds as well, that needs to be considered in any of that dynamic you've just outlined. As I say, on Monday we'll start buying our shares again.

Lachlan Shaw: (UBS, Analyst)

Great, thank you.

Operator:

Thank you, our next question is from Peter Williams at Shaw and Partners. Go ahead please, Peter.

Peter Williams: (Shaw and Partners, Analyst)

Thanks for the update, team. Just a couple of quick ones. What's the expected ratio of met versus thermal coal you're expecting from the Vickery box cut and the larger project moving forward?

Paul Flynn:

That's one I'm glad you've divided into two pieces, thanks, Peter. In the early days we're not expecting much in the way of semi-soft. We may split out a little bit just to give a couple of customers a taste test, but by and large we're assuming that that all goes into the thermal market, very good quality as it is and blended across our business, which is very good. But we will make sure that new customers have an opportunity to sample the thermal coal as well.

Overall, for the project as a whole, you can do 60% (semi-soft) at Vickery potentially. I say potentially, technically you can, potentially because it depends on what the market wants. It's like Maules Creek, you obviously have the flexibility of being able to move that coal from one to the other quite seamlessly.

Vickery will have the stronger coping properties, but it will also have the benefit of being able to move from one side to the other, depending on the spread between those two prices. But it can technically go up to 60%.

Peter Williams: (Shaw and Partners, Analyst)

Great, thanks. I was going to mention the report, but with the net cash position being so high where is the Company at with refinancing the current revolver line, which I think matures in July this year?

Kevin Ball:

In the middle of that process now.

Peter Williams: (Shaw and Partners, Analyst)

It still hasn't been finalised, I take it.

Kevin Ball:

No, it's just in the middle of that process now.

Peter Williams: (Shaw and Partners, Analyst)

All right, thanks very much.

Kevin Ball:

As you point out, the cash position, it's not refinancing a debt position; it's refinancing a facility, would be the way I would say. We've no expectations to redraw, so it's just in the process of being done.

Paul Flynn:

We'll finalise that in the next few months.

Peter Williams: (Shaw and Partners, Analyst)

Right, thanks.

Operator:

Thank you, our next question is from Chen Jiang from BofA. Go ahead please, Chen.

Chen Jiang: (Bank of America, Analyst)

Good morning, Paul. A few questions from me please. Firstly just on Vickery, I'm just wondering what's the scenario or your backup plan if the full-scale cannot go ahead. I have a few after this, thank you.

Paul Flynn:

Thanks, Chen. I'm not quite sure what the scenario would be that you're entertaining there, that the bigger version doesn't go ahead. From all of what we see, it looks very good to us, it's going to be a good benefit to our business more generally.

The market's definitely short, so I think there's no concerns on our part of selling the coal. It would really just be the economics of it and we're well down the path of looking at that already. I suppose as I mentioned earlier, the key thing for me is just that we are in an inflationary environment.

Although some suppliers are actually telling us that that's starting to moderate, we're just not seeing that yet. So when we do bring the bigger version to the Board, it will be basically with two checkpoints. It will be the Board to look at it and bless it from a project perspective, subject to a contingency.

That contingency would be inflationary impacts on CapEx. So even though the project itself we would include contingency risk in it anyway, in the underlying capital assessment, we do feel it would be prudent because of the market we're in to have a separate checkpoint for a margin on top of that, so that the Board can consider that again.

But as I mentioned earlier, because of the market the way it is, unless you've actually got an approval from your Board in hand, people aren't devoting the resources in a tight market to actually do the work, to put in proper estimates of what it would say, for instance, what it would to build say the prep plant, or to do the bulk earthworks contract, or to build the rail corridor infrastructure.

So people are wanting to see a Board-backed commitment before they start deploying the quite extensive investments on their part, to actually build their estimates up to something they'd stand behind. But in terms of - I think it's really just a matter of time before the Board has that type of quality information in front of it before they would feel comfortable about pushing the button.

So if you said by the end of this calendar year, we'd put that in front of our Board, it will probably take six months to go through the tendering process to get definitive numbers. So you're talking about some time next year, about this time next year, before you actually start - we could put to the Board definitive numbers that we could rely on. I'm referring to the capital numbers that we could rely on. The OpEx side of things I think we understand pretty well.

Chen Jiang: (Bank of America, Analyst)

Right, thanks for that, Paul. It seems like you are very confident this project will go ahead. Is pending for approval from the Board the only obstacle you are facing?

Paul Flynn:

Yes, Chen, I'll just make a couple of comments. The underlying physical demand in the market looks very good to us, so even though - it comes back to the point that one of the previous questions was focusing on, just about price decks. We are keen to see a few more of the analysts who produce pricing decks continue to do their work, because we do see that long-term coal price rising over time and we are seeing more commentators give that further weight.

I think the benefit of the time that we have in front of us just to define the CapEx will see those people start to feel more comfortable about long-term prices being on the northside of US$100, rather than much lower than that in the past. Really that's just a function of physical constraints in the supply side.

There's very little that can come on from a supply perspective and certainly nothing that looks like Vickery, nothing that looks like that at 6,400. We've got customers who are building new power stations that need our coal, so we feel very good about that side of things.

That's not to say the Board doesn't have complete discretion to approve or not, that absolutely is at the Board's discretion. But in terms of the underlying case and the broader benefit opportunity to our business overall, I think we shouldn't lose sight of that, because having Vickery coal at our disposal for blending purposes is another big piece of where the value equation comes from that investment.

Chen Jiang: (Bank of America, Analyst)

Great, good to hear, thanks for that, Paul. Another question, just a follow-up on Maules Creek fleet, congestion from in-pit dumping, managing your manned and autonomous fleet. Hopefully this is a one-off one quarter disruption. Just wondering, are you comfortable with the current operation or mine plan at Maules Creek? What has been done on that to prevent this happening again? Thank you.

Paul Flynn:

Thanks, Chen. I just want to go back over some of the comments I made a little bit earlier, just so perhaps I need to be a little bit clearer there. I was asked before a little bit about AHS, had something changed. The thing that changed is we've found a way to give the AHS system another 12 months to try and push it over the edge and commercialise the system. That comes with, as I said, a productivity penalty that we're accepting of at the moment, given that we think we're close to the end of this journey.

But there is a physical timeline that we really couldn't persevere past and that is basically in 12 months' time. At the very outset 18, but 12 months' time is where we're shooting for. That is keeping those fleets separate does come at a cost, so there is a production outcome penalty that you have to pay there. I know where your question's going and I'm sure everybody else is trying to angle for how does next year look like.

It's nowhere near what it is this year, because we've suffered obviously in the first half of being well behind the eight ball with the bad weather. So the penalty from keeping those fleets separate for another 12 months isn't anywhere near what we've suffered in this year, of course. But we will have to take that into consideration when we're drawing the budget up and our guidance for next year.

Chen Jiang: (Bank of America, Analyst)

Great, thank you very much, Paul. That's it from me, thank you, I'll pass it on.

Operator:

Thank you, our next question is from Caleb at Goldman Sachs. Go ahead please, Caleb.

Paul Young: (Goldman Sachs, Analyst)

Good morning, Paul and Kevin, it's actually Paul Young here. Thanks for taking the questions. Paul, first question is on Narrabri. You're just weeks away now from seeing that step change in production for mining in the shallower southern ground. Can you maybe just throw some numbers out there, or just remind us of what the production of unit costs benefits you expect from switching across to the southern panels?

Paul Flynn:

Thanks, Paul. Yes, weeks away, well, we like to say this is only weeks away, but the end of May anyway, it's not that far away. But there is a lot of anticipation on our side, no doubt, about moving into shallower ground and more benign mining conditions, for sure.

There's a number of different factors that go in there, but operating the shallow ground, a less intensive roof holding pattern, as we've talked about many, many times with you, about operating the deeper ground versus the shallow. The productivity benefits from operating in an area where we've had less weight in the roof is certainly going to see a big change.

We've estimated the aspects - well if you reflect back on the equally shallow panels in the northern side of our mine and you go and have a look at the costs associated with that - and we'll have to take inflation into account, of course. But if you look at that and where we're expecting to go based on our current run rate, we're expecting about A$15, that's what we're thinking the benefit is, it's quite significant.

That of course means that you're pushing at the run rates that we achieved in those equivalently shallow northern panels. Now if you don't do those volumes, of course, then you've got less tonnes to spread your fixed costs over. But that's where we think it goes at an equivalent run rate in those panels.

Paul Young: (Goldman Sachs, Analyst)

Thanks, Paul, that's helpful to hear those numbers again. The second question is on Vickery and a bit to work through there, so thanks for all the information.

Just a question on unit costs of the starter project. I presume you close Werris Creek and you don't wash the coal there, so a bit of a benefit there. But then you're diluting the fixed costs as you point out, at Gunnedah. So is there any sense of what the unit cost will be across - maybe the best way of looking at it is across an average of Gunnedah and Vickery.

Paul Flynn:

We haven't given any guidance on that, Paul. Obviously, the small version of Vickery with its CapEx-light footprint is obviously not the best manifestation of what we believe Vickery to be, of course. Because part of the benefit of the bigger Vickery will be using a modern prep plant without road haulage down the road and using a train loop straight into the project. So there are lots of savings there in that regard.

It's certainly going to be cash flow positive, putting the CapEx aside, of course and a large portion of the CapEx I mentioned is related to the bigger project. So we think it's a really good way of using up that take-or-pay, using up that process capacity at the plant. Keeping the people which is really important given we've been talking about labour shortages and so on and using equipment that we've got in the business already to be redeployed.

Paul Young: (Goldman Sachs, Analyst)

Absolutely, Paul. It's super-sensible, no doubt about it. Just on that moving equipment, when you move it across from Werris Creek, what's the dollar amount or replacement CapEx on that equipment coming across? Just trying to get a sense of what the savings could be with the larger project on mining fleet and excavators, et cetera.

Paul Flynn:

Paul, I wouldn't say that the dollars are huge, here the dollars wouldn't be huge. We're going to throw some money at them to give them a birthday and the benefit is not having to buy new, because we've got it already.

So the birthday is cheaper than buying a new one and of course not all that gear that we've got at Werris is going to be calibrated for the bigger version anyway. But to be able to give it a birthday and use it without any further CapEx is very positive for us.

Paul Young: (Goldman Sachs, Analyst)

Absolutely. Then when you assess the larger project, Paul and you put the economic outcomes to the Board, I know you mentioned some of the assumptions you might be using and then one of those discussion points is around long-term price and where that's heading. But at this point what long-term price will you use when you look at that project? Then I guess from that perspective, does it need an IRR hurdle target as a minimum to get approved?

Paul Flynn:

Yes, well, it surely should. There's no doubt we'd have to have an IRR minimum hurdle. Paul, as you know, we're fully equity funded today, so the hurdle that any project that's funded on that basis is significant and this will be. It'll have to cross that hurdle as well.

So I think for sure - and I don't want to be - I'll be damned if I do and damned if I don't giving numbers here on long-term coal prices, but we think for sure it's well over US$100 and we'll wait. There's work going on as we speak which will pan out over the next quarter or two that we'll be able to point to objective work from other people that underpin that, from commentators.

Because if we come out with our own bespoke numbers, of course, everyone's going to say you're just self-interested. So we would rather rely on external data points that we can point to to support our own views. We do have views but I'd rather rely on arm's length sources for that data.

But I think it's well north of US$100. There's no notion - I can't imagine a world where it’s less than US$100 long term, given that there's no supply and the demand is very good. With new power stations to come on in very mature jurisdictions, let alone emerging. The issue is the supply constraints, not the demand.

Paul Young: (Goldman Sachs, Analyst)

Point taken, Paul. May I ask a fourth question? I know you'll say it constitutes the meeting, so I'll just get that out there ahead of you in that case. On Vickery and when you assess that, does this compete - will Vickery actually compete with potential M&A? Or are they completely separate decisions?

Paul Flynn:

Sorry, which ones? Say again.

Paul Young: (Goldman Sachs, Analyst)

Will Vickery, the larger project, when you put that to the Board, will it compete for capital with potential acquisitions? Or is that a completely separate decision?

Paul Flynn:

All of them have to compete, yes, on the same page. Vickery obviously is something we can do at our choosing, as I mentioned earlier. M&A happens when others want to sell. But the buyback's relevant, obviously has to be in that dynamic, in that discussion. So it will have to compete.

As I say, I'm dropping a few breadcrumbs here in terms of how we think about Vickery, because Vickery is not just a standalone investment itself, it's what we can do with that coal across our business. I'm sure you've seen us talk about that, the benefits of lending across the business.

If you take even the 5,500 spread today and if you can drag some coal out of that market into a superior market, the margin difference in that spread is enormous. So Vickery at 5400 gives you a lot of lending horsepower.

Paul Young: (Goldman Sachs, Analyst)

No, I've seen that slide, it looks pretty compelling as well. That's it from me, Paul, thanks very much.

Operator:

Thank you, Paul, we have one last question and that is from Chen at BofA. Go ahead please, Chen, with your last question.

Chen Jiang: (Bank of America, Analyst)

Thank you, just a follow-up question please to Kevin on the pace of buyback. Thanks for providing the granularity of your buyback in the quarterly. By looking at the total number of shares bought back, March quarter is roughly speaking 60% less versus the December quarter from the total number of shares bought back perspective. I'm just wondering, Kevin, are you happy with the buyback pace in March quarter? Or do you think December quarter is a good indicator going forward? Thank you.

Kevin Ball:

I think you should be able to do your maths based on what we've set out on capital allocation, Chen. I think between - so the December quarter was - we received approval from the shareholders in the October meeting. We pushed through that.

We came into the March quarter, coal prices were softening over January and February and we naturally aligned that to where we thought the number might finish for NPAT for fiscal year 2023. We know roughly where we're going to finish for fiscal year 2023, so we know how to close this thing out.

Paul Flynn:

I think it's just a product of the difference in the first half to second half NPAT duration. You can see it was much higher in the first half and still very good in the second.

Kevin Ball:

Yes.

Chen Jiang: (Bank of America, Analyst)

All right, thank you. Thanks Kevin, thanks Paul, that's it from me, thank you.

Kevin Ball:

Thank you.

Operator: Thank you, Paul and we don't have any further questions, thank you.

Paul Flynn:

Thank you very much, everybody, once again for taking the time and dialling in. Look forward to catching up with you all in due course. Any questions, you know where to find us. Thank you very much. Thanks, operator.

Operator:

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

End of Transcript