WHITEHAVEN COAL Q1 FY23 QUARTERLY PRODUCTION RESULTS

INVESTOR CALL TRANSCRIPT

Date: Wednesday 19 October 2022 – 10:30 am SYD time

INTRODUCTORY COMMENTS / OVERVIEW OF Q# <ENTER DESCRIPTION>

SPEAKER:

Welcome, ladies and gentlemen, to Whitehaven Coal's FY23 Q1 September 2022 Quarterly Production Investor Update call. All participants are currently on mute and following the presentation we'll open up the call for questions. You'll be able to queue for a question by pressing star one on your touchtone keypad. Thank you all for joining us today. And I'll now hand over to Mr Paul Flynn, our managing director and CEO.

PAUL FLYNN:

Good morning, everybody, and thanks very much for taking the time to dial into the September quarter for 2022, our production report. I'm joined here by Ian Humphris and also Kylie FitzGerald. We'll get to some questions, I'm sure, once I've gone through a brief run-through of our quarterly report, which was released this morning for you. So the highlights for us, obviously, a nice number in terms of our average price received for coal during this quarter at $581, that's obviously a record for us. The quarter itself, run of mine production at a managed level was 4 million tonnes. That's down on what we forecast, obviously, with a very big quarter. September quarter generally, total equity coal sales at 2.9 million tonnes is 32% down. Also managed coal, sales of produced coal at 3.74 for the quarter also. Obviously, with that pricing backdrop, the business has been significantly cash generative and we're in a strong position there with 1.9 billion in the bank and the quarter itself generated 1.55 billion for the quarter. The buyback has proceeded very well and we're almost completed that the first initial trust, the 10%, so there's only about 320,000 shares remaining to be purchased once the trading window opens back up again.

Over to the body of the report, our safety performance has been very good, which is nice to see. It's always pleasing to see these results, we're definitely doing well year to date, but I think on a rolling basis we're also doing well. Again, our TRIFR at 4.5 is very positive. But I always get cautious with these, you need to keep up the effort to make sure that these numbers aren't decreasing over time. I'm over on the overview, and certainly this quarter has been an interesting one. Weather affected it, I'm sure everybody's well aware of, and I'm sure will be a feature of the Q&A part of the call today. So the open cuts definitely have been affected by that, and we've lost some time there as we've noted in the production report for you. Having said that, Narrabri has been unaffected largely by the weather and has produced very strongly. And I'll get to that more in the body of the report, but certainly from the open cuts perspective, we certainly experienced some limitations to access across Maules Creek in particular, Tarrawonga as well. Although Tarrawonga's access has been largely an issue with haulage down to our Gunnedah CHPP, which has curtailed shifting during the course of the quarter. And Maules Creek has suffered access, as I say, and not just access, but then also processing capacity also, whilst limited number of people were able to be on site. Sales attracted, broadly, the production for that period and you can see just from the spitted sales in this period were 92% thermal, 8% metallurgical coal, which I think you're going to see continue during the course of this year. The managed production sales and stock volumes there you can see, as I say, managed from coal at 4 million tonnes versus a big quarter, the preceding quarter of June at 6.36, saleable coal production, 4.2 versus five, the managed sales of produced coals, I mentioned 3.7 versus 5.4. Our stocks at the period, we have drawn down slightly quarter on quarter at two versus 2.38 for this period. The equity numbers are then following there after. Moving on to the mines, I'll go to Maules Creek. Maules has definitely been weather affected at 1.83 versus 3.1 for the previous quarter. Saleable coal production, as you can see there, at just under two versus 2.56. And then our stocks we have drawn down, you can see there, from a million down to 371kt. Yes, generally, it's been a little bit bumpy, as I mentioned there earlier, just with weather affected areas. We were planning to produce less tonnes in this quarter in any event, and that's certainly part of the mining sequence. But certainly, the rain fall as we've mentioned there, at 308 millilitres has been quite significant during the period. And as you would've seen in various news reports across the media, there has been some flooding, not as severe as what we saw back in December, which is great. But the combination of some less severe flooding, access issues associated with that, absenteeism and normal winter weather effects, and that is fog, and then noise related delays certainly has caused the September quarter to be lower than what we would've otherwise preferred. As I say, September quarter saleable coal production at 2 million tonnes, 24% below the previous quarter, which was obviously a big one by comparison. And those coal stocks have been drawn down, as I mentioned. Narrabri has been performing very well. So that's been pretty positive off the back of a good year last year, we've rolled around through the change out and we're now into 110B in good form, and we have been producing quite nicely there at 1.6 versus 1.48. The saleable coal production follows that very closely at 1.46 versus 1.52. And then coal stocks, we've got significant coal stocks there based on that ramp up of over budget performance, if you like, at 690,000 tonnes versus 270kt the previous quarter. So that's been very positive, and as I say, unaffected by weather more generally. And certainly, even though there've been plenty of rain, we haven't had any issues with the rail since the first two weeks of July, and that's a commentary which applies to all of our mines obviously. Most of you all have been aware that rain in the Hunter Valley affected haulage down to the port in the first two weeks of July, which is obviously included in this period. So we're very pleased the way in which 110 has gone, both 110A and then the step around of 110B. Saleable coal production, 1.5 for the quarter, is in line with the previous quarter. So a good result there and Narrabri continuing to do well. If counted our ops, obviously, being the combination of the two open cuts has been more affected by weather. So I might just jump into the individual mines there and comment on those briefly. Tarrawonga at 352 versus that big run home in June of a million tonnes. Certainly, September of the previous corresponding year was more in line with what you would see in the early stages of the new year at Tarrawonga. But we certainly had issues from the weather and the issues at the mine hasn't been so much access, not so much as Maules, but it's been more about road haulage down from the mine to the CHPP. So many of you who've been along that road will note that it is relatively low lying, that road, the Blue Vale Road, it does tend to go under water a little bit, and it has done in this instance. So we've lost some time in terms of getting coal down to the CHPP in this period. Coal stocks are, as a result, starting to trend up there at 700,000 tonnes reflecting, but there's small draw down. But we certainly would've wanted to pull that down much more during this period. But as I say, with that haulage impact that we've had as a result of weather we're a little bit behind in wanting to do that in this period. Werris, surprisingly, has actually been the least affected, if you like, of the open cuts, and which is a good thing generally. Well, historically, Werris has been the one who got wet weather first, and in this period it certainly hasn't been the case. But 214,000 tonnes, consistent with the previous corresponding period, well off, obviously, what was a very large run to the finish line in June of nearly 690. So a decent result there from Werris, given the weather gyrations that we've had across this quarter.

Moving along to just the realisations, I'm sure there'll be plenty of interest in that. Obviously, the prices have been very good, as you can see quoted there, both the gC NEWC, semi-soft I'm sure there'll be some questions about that. But you can see our prices generally, we've... In a flat market, as we generally say in a flat market, we should be able to achieve gC NEWC on average. And in this period, without any non gC NEWC sales in this quarter we've received, well, we've realised 1% discount to the average of gC NEWC. Now, that gC NEWC obviously has been a consistent record over the period of the quarter, which has been very good. And so, a good result in terms of realisations as a result. In the case of the JSM quarterly, you can see the realisations actually being 8% above. But that is more broadly a product to the fact that we've got a declining index there. And so, those prices, obviously, well below gC NEWC, as I'm sure will be the topic of the Q&A and has been in the last quarter as well, and when we released our full year results. So, interest in semi-soft, from our part, that's not particularly exciting, as we've been talking about for a number of years now, and we expect that to be the case until such time that the steel industry gets back into a little bit of form overall. So overall, the prices have been excellent through that period, 581, as we mentioned, for the average. And so, USD415 average for that period has been great. Now, metallurgical coal at $256 US during that same period. I did mention there the mine to split metallurgical coal and we do see that as continuing throughout the course of the year. And I think that most people would realise that any semi-soft that have been in the market, given this price disparity between the gC NEWC price and JSM quarterly will assume that that coal has migrated to the extent it can into the thermal coal market, which has been happening for some time, and I know announcements have been happening for further time. But even given that, we are generally servicing the name customers that we want to continue from the semi-soft perspective. But otherwise, moving the balance of any semi-soft capacity into the thermal market.

So, as you know, the prices have been good, and we've had three consecutive months where we've had very strong prices, in fact, historical prices there, and you can see quoted the 434, the 417 and 411 looking back through the quarter. And so, it gives us that average for the September quarter of 421, which has been very positive. Energy security is on the front of mind for all our customers. And of course the evolution of sanctions with Russian coal is certainly influencing that to some degree. We think that Europe is in a reasonable position as far as stocks go ahead of winter, and you're seeing some of that play out in terms of disparity between the API 4 and certainly gC NEWC pricing. But the challenge, of course, isn't just in the coal space. The challenge for Europe is actually right across the energy complex in gas and oil, and we think that whilst they can navigate their way through winter in this particular period, mines are quickly turning to where they're going to get their energy, be that across those three forms, oil, gas, and coal, in the winter for the new year. And so, I think that will certainly be a challenge overall. We do note that with weather, absenteeism, COVID related issues as well, obviously, still lingering, that total exports out of Newcastle have been down, down by some good measure, which is obviously one of the influences that is keeping the market relatively tight. But that is quite a material change in terms of period-on-period export through the port. So we do note that not just ourselves, but our peers are very tight on supply, and obviously, that's adding further upward pressure to the prices even in this otherwise shoulder period that we're in now ahead of the northern winter. From a logistics perspective, you'll see our commentary there. Of course, there's been some flooding, as I mentioned, in the first two weeks of July, which we generally recovered from, from a sales perspective, by the end of August. But obviously, we've had further wet weather since that time, and so that continues to play a role in things going forward.

Development projects, whilst this probably hasn't evolved too much, so the commentary here is largely what you would've seen in the past, I'll just quickly recap on that. Narrabri stage three having been approved at the state level has been caught up in a broader federal action, which has tidied up, I think, or sort of tangled up 19 different projects, not just coal, of course, which is going to cause some delays, we believe, in terms of clearing the EPBC hurdles, which are the next step for us from a Narrabri stage three perspective. There's nothing material that affects us in the short term with that, it's just another, you know, layer of lawfare which we need to work our way through. But that's not unexpected in that regard. From a Vickery perspective, nothing further change from our perspective there from what we previously commented on. But as we have worked our way through more detailed costings in terms of project capital, given this is an inflationary environment, we are looking at, as we've commented there in the last paragraph of our report, we are looking at a staged commencement of Vickery. And we'll have more to say once we've got through what we think is the various scenarios that we could play out with a small version of Vickery leading into a subsequent decision at a later date for a bigger version. Winchester South itself, again, not too much of a change there in that sense. We are waiting for the second exhibition period to commence. Our expectation is that'll only be a four week period on the basis of what the government has previously told us there, but we're expecting within the next few weeks for that exhibition period to open, and therefore, hopefully close before the calendar year closes itself. From a guidance perspective, whilst we certainly have witnessed all these impacts of weathers, which I've mentioned repeatedly, we still think we're well within our guidance, but Maules is certainly, with the weather we've experienced to date, tracking is certainly lower within its range, but Narrabri is certainly performing well in excess of what our expectations were in that regard, and so it'll certainly be at the top of its range, if not a little bit better than that, which is very positive to see. We have made allowances, many people have questioned us before in terms of extra weather days in our forecasting and budgets for this year based on what we experienced last. And we are generally expecting some more rain in this quarter, as everyone can see. But generally, we're also expecting that to taper in the third and fourth quarter. So, at this point in time, we're happy to stay with the guidance we've previously given you. So, with that and Q1 down, it's been, you know, it's been an up-and-down sort of period. As I say, sales have been good, prices have been good, volume's a little down based on weather. But we're in a reasonable position for the second, third, and fourth quarters for this year. So, with that, I'll hand back to our operator and we can open up the Q&A session.

SPEAKER:

Thank you for that presentation, and now is your chance to queue for a question. I see some of you have already queued for a question, so remain in the queue, but for those who haven't, you can press star one on your telephone keypad to join.

QUESTION AND ANSWERS:

Our first question comes through from Rahul Anand from Morgan Stanley. Please go ahead, Rahul.

RAHUL ANAND:

Hi Paul, Kevin, and team. Thanks for the opportunity. Just wanted to perhaps start with the guidance side of things. I mean, if you can help us understand some of the critical items in terms of meeting the guidance and sort of what type of weather impacts do you have factored into that guidance for the remaining three quarters? And just as a follow-up on that, you've got take or pay in terms of your infrastructure. I just wanted to understand if there's any sort of impact on your annual unit costs on the back of this. That's the first one, I'll come back with another one. Thanks.

PAUL FLYNN:

Yeah, thanks, Rahul. Yeah, look, from the configuration in our guidance, you can see the beginning of the year, if I reflect back on how we pitched that for investors is that we've widened it out based on our experience with weather in the past year. And the other factor I mentioned at the time was not just weather but was labour availability also being the two main drivers of that wider range that we'd given. So we definitely received, you know, the variable weather, as I've already mentioned during the course of the presentation, and we're watching that forecast very closely in that regard. Now, we have increased the number of weather days that we've allowed at the sites for the full year. And so, that's extra allowance for time lost as a result of that. And we think that was the right thing to do based on what we saw last year. But relatedly, the cost guidance was also wide based upon on the expectation of those two variables playing out in this new year. So, obviously, if you reach the top of guidance from a production perspective, you're more likely to be at the lower end of guidance from a cost perspective. Narrabri obviously doing very well, being our cheapest tonnes in our business, is obviously very helpful. And, of course, weather in the first quarter in this year, if you're going to have weather, is better than weather in the second quarter, as we did last year, gives you less time, obviously, to make up any lost production when you only have six months remaining as opposed to nine months remaining. So at this point in time, we're happy with the guidance to leave it the way it is. We're acknowledging that Maules, obviously, hasn't been able to produce all the tonnes we would have liked. But that's offset, obviously, to a good degree by Narrabri doing very well at the moment.

RAHUL ANAND:

OK, perfect, and, Paul, in terms of your thermal coal and semi-soft mix. Obviously, semi-soft's gone to 8%, which is good given the current environment, but is that the absolute minimum in terms of what you can hit? I presume you've got some contracts in place. And then in the future, should the pricing dynamic change? Is it going to be easy to revert back to higher semi-soft coal sales?

PAUL FLYNN:

Yeah, thanks, Rahul. Yeah, look at 8%, I expect it might be marginally off that overall for the year, but not a whole lot. It's going to be zero. We've got customers there who we want to keep in good stead throughout the year. Now, that does mean we're going to lose, we are going to leave a little bit of money on the table, we understand that. And but we've got, you know, important large steelmaking customers. It's important to have them through the cycle. They understand that investment in them. I was in Japan last week talking to one of them in particular. They understand that investment in them in selling them coal at a time we could otherwise, they know very well, move that into the thermal market. I think that's an important investment in the relationship to make. So, slightly less, I think, across the year, but that's not going to go to zero.

And in terms of being able to swing back into the market as the market changes, I think that's the purpose of keeping the door open. There'll be growth just with our existing customers having invested in that relationship during a period when we could otherwise have switched out. And then general demand we expect would, as prices reset, would be a product of general demand going up and then moving back into the market, given the quality of semi-soft we've got, I don't think that would be too much of a problem.

RAHUL ANAND:

OK, and a sneaky final third question. In terms of Vickery, you've talked about the two-staged approach. Is there a possibility of providing a bit more colour there in terms of what type of throughput you're thinking? Is it purely just replacement for the Gunnedah mines, or is that going to be more like a 4.5 million tonne start like you had the previous approval for? And then you wanna do the second stage later and then continue in your, you know, conversations with potential clients, have you found anyone who's ready for that offtake and perhaps looking to invest in the project as well? Thanks.

PAUL FLYNN:

Yep, three questions usually means a meeting, Rahul. But yeah, it's a good question, thankfully, your last one. So, look, we're not thinking the 4.5 million tonnes, no. So, don't think along those lines. What we're thinking is that there's, at these pricing yearly we can bring on tonnes the better, of course, and we do have spare capacity at our CHPP in Gunnedah. So we're talking quite limited tonnes, you know, a million tonnes, maybe max 1.5 tonnes. But I think if you're going to start factoring into your thoughts anything here, think about a million tonnes would be the right answer. Trucked, obviously, down Blue Vale Road down to the Gunnedah CHPP. We think we can manage that, and at these prices we think we can take quite a decent amount of money off the table there, and that would assist in the de-risking overall of the Vickery proposition in its full form. We do have very good interest in the coal, and having made two trips to Japan in the last three months, that has been the topic of lots of conversation with customers. As you would know, and we've talked about repeatedly, there's a lot of anxiety about the physical shortage of coal. And in Japan in particular, the impact of that hasn't been fully played out because they are still taking Russian coal and will honour contracts until the end of March, we're told. But there will be no renewal, we're also told, then after. So, it's not as urgent for them in terms of consideration of the physical supply constraints, whereas Taiwan has already stopped taking Russian coal, but they have been very, very aggressive in the market and tidied up next year's volume, we think, pretty well probably, and stole a bit of a march on some of the other markets in terms of tightening up their supply for next year. So that's how we're thinking about Vickery small, we are exploring with individual customers ways in which they might support Vickery. And but that will keep going on and I think we'll say a little bit more about what we think about our plan of attack here with the half year numbers when we put those out.

RAHUL ANAND:

Perfect, that's all from me. Thank you very much. Very helpful.

SPEAKER:

Thank you, Rahul. Our next question comes through from Peter O'Connor from Shaw and Partners. Please go ahead, Peter.

PETER O'CONNOR:

Paul. Just want to put out there on the public record, Narrabri being the lowest cost in the group. Kudos to the team and Ian for getting there, so well done for staying the course. Last question on Vickery and the interest in Asia. So, is the interest in high CV products for thermal generation, or is it the semi-soft, because there seems to be this disconnect between semi-soft interest and pricing short term, versus potentially long term? First question.

PAUL FLYNN:

Yeah, thanks for that. We're very pleased at how Narrabri is going. Ian's nodding his head here in agreement. Very nice to see it doing what it should be doing and doing better, in fact, than what we'd planned for this year. So let's see that continue during the balance of the year, we know it's early. The interest in Vickery is definitely high CV thermal, definitely. So that's definitely in short supply, as we all know and so customers are getting quite concerned about that. So there's definitely, as we've talked about for a while, an opportunity to extend those conversations to something more meaningful, which we will be doing over the next three to six months, and it's not the semi-soft that people are focused on.

PETER:

So Paul, does that make this a thermal coal project? So when you're rethinking the staging process, do we think about not as a 50/50 or thereabouts, but a 90/10 or something, (CROSSTALK) component to maximise returns?

PAUL FLYNN:

Yeah, it's a good question Peter. Look, I think we should long-term consider that the (INAUDIBLE) is an important piece of the puzzle there, because as you all know and we know that some point here the steel market will revert back to its normal position and pricing for semi-soft will be interesting. But as you well know, over the last three years, this is not just the recent inversion of pricing, but in the last three years, the incremental price that we could otherwise achieve for semi-soft hasn't been compelling relative to the premiums that we've been able to achieve on the thermal. Now that in some ways is, is a sign of success or victims, our own success in some way in terms of negotiating up those premiums on that quality, you know thermal premium. But, it is what it is. But I don't think we should be abandoning semi-soft as a feature of the Vickery proposition over time, in the same way that Maules will benefit from that over time. The semi-soft, that Vickery is incrementally better than Maules. So that will be interesting once that comes to the market, but is in the shorter-term, I think we're all recognising there's going to be some good proportion of thermal emanating from Vickery.

PETER:

And staying with Vickery and thinking about the stage development process. And we talked a lot about this at the dinner just recently, is this the new model Paul, for coal developments, self-funding stage projects and it makes complete sense with Vickery given the Gunnedah Prep Plant. How do I think about that model? Is that the new industry model, or the new Whitehaven model and if that is the case, how do we think about Winchester South where it doesn't have that ability down the road you can truck stuff down the Road to?

PAUL FLYNN:

Yeah, well I've struggled to characterise it as a model Peter, when your sample is a product, project of one, you know, sort of you know, I totally know where you're going. So the question's relevant. But I think our circumstance in the way we're talking about it now in the staged introduction to a Vickery development, it's really a product of our circumstances rather than something that you should apply a blanket to or that would be equally applicable to Winchester South, for instance. You know, for right or wrong, you know, funding for Vickery is going to be skinny on the ground and it's perceived as a thermal mine for right or wrong. I'm not going to get into that argument right now. But in the case of Winchester South, obviously, it's clearly a met coal mine that has a secondary thermal product and funding will be available for that. So the staged approach that we're talking about here with Vickery is a product of circumstances. We do have some surplus take or pay, we have surplus processing capacity down the road. We've got very high pricing in the market. So we want to bring something on sooner rather than later. And then at the same time, we can go through the necessary work to make sure that we know exactly, you know, to the extent possible, what the CapEx cost is going to be to develop the bigger version in this inflationary environment. So that, it's all of those circumstances conspiring to push you down that path. Whereas I do think Winchester South will be quite different.

PETER:

Last one is the Narrabri long wall change in what date, month or quarter?

SPEAKER:

It'll be late Q3 into Q4, Peter.

PETER:

Thanks.

SPEAKER:

Thank you, Peter. Our next question comes through from Alex Ren Credit Suisse. Please go ahead, Alex.

ALEX:

Morning Paul, Ian two from me on that buyback, that proposed buyback expansion. First one is that, is there any split between the proposed, you know, on and off market buybacks? Is that a 50/50, I'm just wondering since the off market will have to go a 75% pass rate, right? So if that's not approved, how much can you still do with the on market program? And the next one is, I've just punched in a couple of numbers, 240 million shares in aggregate at say, an average buyback price of 10 bucks. That's you know, 2.4 billion. So if both resolutions get approved, that basically, is that basically implying you're preparing to go over the 50% NPAT capital management policy, and would there then be, you know, still be room for any dividends, that's it.

PAUL FLYNN:

Yeah, thanks, Alex. Yeah, good questions. If you were trying to analyse that all within a given financial year, I think it probably, your conclusion would probably be right. But we're not planning to do that obviously, because the approval is in October, end of October. And obviously that approval extends for a further 12 months from the time of that approval. I think shareholders have been very supportive, all the feedback we've got, they've been very supportive of the buyback proposition, not just the 10% that we've almost finished as we speak. But obviously of the resolution that we've tabled before shareholders for our meeting next week. So I'm expecting that to be approved. Now your question about the split is a good one in the sense that as you know, there's certain administrative requirements that are required in order to conduct an off market, not the least of which is obviously tax rulings and so on, which need to be in hand before you do that. And then there's the simple matter also of having available franking credits sufficient to be able to do that, now we've paid a dividend recently, that's fully franked. We've obviously got a tax bill to pay in a very short order and then instalments then after and that will top up the franking credit balance nicely for us. And then the other balancing act there is the fact that because the share price has moved considerably in the right direction, the balance of capital per share is actually as a proportion of the share price that you might start the buyback on, has decreased in the right direction. And that enables you to conduct the off market sooner in a sense than you might otherwise have contemplated. And so the split between the two isn't fixed because it does change based on those dynamics I've just mentioned, but they're all positive things. So there's nothing concerning about that in that area. But you do need to have a, the ministry side of things done with the tax office, that needs to be blessed formally. And then you obviously do need to have the available franking credits if you're going to bring it forward, so the timing of instalments as someone's become influential. So hopefully that's, that helps you understand that. But yes, the numbers, you've recognised they're substantial numbers obviously, but that is over the next 12 months, not within the financial year in terms of how you've configured the payout ratio.

ALEX:

Got it, got it. I understood. I'm sorry, if I could squeeze in one more quickly on the market outlook. I think relief knows that both Asia and Europe is now adequately stocked, does that mean that customer inquiries nowadays are quite down? And if so, when do you expect the tendering activities to pick up again?

PAUL FLYNN:

Yeah, good question. Yeah, look that definitely, in terms of this period normally is the shoulder period. So you normally see people work themselves out for the upcoming winter season and then you see a subdued period. It probably was late arriving, I'd have to say, a little bit, that subdued period, but I think we're seeing it now. But all the directional tightness we think, on the other side of, or in Q3, Q4 from our perspective, looked very, very good. So we're certainly positive that you'll see customers back into the market as they start to draw down their stocks during the winter. And so that seems to be playing out as we expected, although I do say the shoulder seems to be arriving a little bit later than we would otherwise expected to see. But I think that's just because of, you know, the mad rush of purchasing that occurred in the Northern hemisphere, trying to fill up stockpiles and energy reservoirs, will generally be no cash, ahead of those deadlines that they had imposed and ahead of obviously, the impending colder period of winter.

ALEX:

Great, very helpful. Thank you very much Dean. That's it from me, cheers.

SPEAKER:

Thank you, Alex. Our next question comes through from Glyn Lawcock from Barrenjoey. Please go ahead Glyn.

GLYN:

Oh, good morning Paul. Paul, just two from me. Firstly, you talk, you keep talking about absenteeism, labour shortages, I mean, could you maybe just help me understand how, are we starting to see that turn around? And what are you doing to counteract this? A lot of these issues on the labour front. Thanks.

PAUL FLYNN:

Yeah, thanks, Glyn. Yeah you know, I certainly am harping on it a bit, I know that. But that's because it's not turning around in the way that we would like it to. And what are we doing to try and counter that? Well, we certainly, as we've discussed, I think already we're offering certain retention initiatives for our people to slow down the turnover. I think that's hit the mark in that sense. So I think that's attractive, whether or not we're able to hold at the levels we're paying or need to change that little as the market evolves, it will be yet to be determined. But at least those retention payments paid on a quarterly basis in arrears seem to have an effect. Trades are hard to find, there's no doubt about that. So we're looking at different roster patterns and including fly-in, fly-out arrangements from certain markets to be able to bring the people in necessary to do that. So you're having to be a little bit more inventive, Glyn, about how you attract these people in there. Now there's, there's the attendant matters that go with that by bringing people in on different roster structures and different pay rates versus other people who were there already, so which we're having to deal with, which need to be ironed out. Just to make sure you've got a harmonious workplace. But yeah I mean, these are real things. I mean, the shortages, everyone keeps, I think forgetting that, you know, the government's building an airport, you know, western Sydney, you know, you've got snowy going on at a pace, you've got tunnelling projects all still going on and all these people are soaking up skills that we need as well. And we know that even though the doors are open from a borders perspective, there's not the inflow of people we would expect from an expat perspective into the country. And just on that topic, we are very much focusing on higher skills areas in particular, offshore people are coming in to fill many of the roles at a more senior technical level across our mines. So there's a range of things that we're doing there in order to combat that. But it is a feature not just for us, I know that all our suppliers are battling with the same things. And so when we say absenteeism and labour shortages more generally, it's not just on our payroll. It's our suppliers too.

GLYN:

Yep, OK. Yeah, no, I understand. And then just, I think the last outing you talked about, some of your Japanese customers offering you a $15 a tonne premium for certainty of delivery. I guess just trying to make sure you don't forget them. Is that something that's spreading across other customers, you know people willing to pay, you know, the premiums on top of premiums to make sure they get the coal?

PAUL FLYNN:

Yep, that's certainly not all customers are engaging that. And certainly, but we're not offering longer-terms to everybody either, Glyn for that matter. So, but where we are offering longer-terms, those types of premiums are being seen.

GLYN:

OK, so that's over and above the ash and the energy, just to make sure, yep.

PAUL FLYNN:

Yeah, we don't call it the price of certainty, but we just...

GLYN:

Fair enough and look just can I squeeze in a quick one? This'll be quick. Just Vickery, how quickly could you get a million tonnes up, do you think? Are we talking 12 months, 18 months or sooner?

PAUL FLYNN:

Look, I think that one I'll probably pass on, just because I think we still need a few more months to bottom this out. There's approvals related nuances which need to be sorted out. Once we're fully approved, there are some minor wrinkles in that that would need to be, but it's at a very low level. So we're not talking about anything too intrusive and then just making sure we understand the economics of that. So I think it'd be better for us just to hang off in giving some more clarity on that until the half year numbers.

But it's looking positive, and I think, it would be a nice way to take advantage of this good pricing environment to be putting some tonnes on early. I mean, most of the pieces of the puzzle were essentially there, are things we could outsource. So whether it be truck haulage down to Gunnedah, even the mining aspects itself, that's also possible to be done by somebody else. Obviously, there's a box cut to be dug out, but that would be capital we would otherwise spend anyway, on the site. And then there's you know, crushing, screening type mobile equipment that you might bring in the short-term. So all that needs to be sorted through, costs needs to be worked out. So I think probably the next three months will be necessary to give everyone a clearer picture rather than just forecasting something right now.

GLYN:

So it sounds like you make a decision early in the calendar year, then you've got to do the box cut, get equipment mobile. So you'd probably be, wouldn't be this fiscal year, most likely?

PAUL FLYNN:

Not this fiscal year, for sure, yep.

GLYN:

Alright, thanks very much.

PAUL FLYNN:

Thank you.

SPEAKER:

Thank you, Glyn. Our next question comes through from JC Evanson from Eucalyptus Resources. Please go ahead.

JC:

Good morning, Paul. Very impressive cash generation this quarter. Just a couple from me. On this phased Vickery approach as you said, you need a few more months to kind of finalise everything. But the capital that will be required for this stage one, do you envision that coming from Whitehaven, or is that dependent on collaborating with your customers for that capital to be invested?

PAUL FLYNN:

Yeah, thanks, JC. Yeah look, I think we would assume that capital is out. It's pretty modest in the small version, I have to say, it's pretty modest. What I was referencing there earlier in terms of various pieces of the puzzle, we would outsource most of these. Whilst if it's not the longer-term arrangement, then we would try and do that on a short-term contracting basis, be that trucking or even the box cut excavation itself, say for instance, is certainly an alternative there. Crushing screening type equipment that's not part of the longer-term puzzle. We would also do that on a short-term basis. The box cut itself you know, that is the cost we would otherwise have to incur. We only wanna do that once for the project overall. So there's a few dollars involved in that cause it's a reasonable sized hole. But, generally it's pretty modest but out of cash flows.

JC:

Got it, and I imagine there's some lumpiness to cash taxes given, that explain how impressive the cash generation is this quarter. But with that said, it looks like it's over a dollar seven day on the new share count of free cash flow. So I'm understanding the AGM is next week. In the event that as you said, you expect the resolutions to be passed, is it your view to recommend to the board a buyback before the February board meeting when you announced the inaugural buyback this year, or is it something that you would look to do now, given the valuation on the stock? And to be clear, the reason I ask is 'cause I know that in the domestic market, the speed and pace of this buyback has been something very new for your domestic shareholders?

PAUL FLYNN:

Yeah, yeah, yeah thanks JC. Yeah look, you're quite right, the lumpiness of cash taxes is something that is a feature right now. You may recall we highlighted that the full year numbers there's about 550 in tax. Somewhere in that order that we were estimating to be paid, tax returns obviously need to be filed, and final numbers nailed down. But that's the case. Yeah, we'll lodge that return shortly and then I'm sure the tax man will be looking for that 550 pretty quickly then after. But we'll be in a quarterly regime then after, based on you know, this year's numbers. And so cash generation on a quarterly basis going forward will more normally be on a net of tax basis. So that'll be easier for people to work their way through. On the buyback though, look, once the AGMs out of the way, we intend to be back initiating that plan straight away. So no, it won't be on the anniversary of the initial tranche one commencement, it'll be straight after the AGM.

JC:

Thank you, and I think a lot of people are very happy to hear that. And last one from me. On the marketing side. Some of your peers have done fixed price on your contract, while Whitehaven has opted for an index plus premium approach. Could you maybe just touch on, is that something that's a preference of your customers versus who your peers are selling to? And just given these very elevated prices and obviously if they go higher, fixed price doesn't look that smart. Would you, likely to be open to partaking in fixed pricing of contract discussions that typically happen in the first calendar quarter of the year coming up?

PAUL FLYNN:

Yeah look, we generally, as you know, have taken an at the market type approach that rather than fixing things in. We have an element of fixed pricing in the businesses as you'll know. Korean sales, say for instance, are fixed for 12 months and obviously the semi-soft, our quarterly based prices, albeit that at very low percentage of total volume at the moment. Had we fixed prices in during the course of, you know, the last 12 months, I think there'd be a lot of upset shareholders right now. So at the market is generally our preference here and I think that the market price, the underlying GCG price, we feel it's going to be very well supported, we don't see it migrating down in the same way that you see in other more deeper ends of the quality curve, i.e. the low quality curve is a deeper pool. And so we think it's better to stay with the market and negotiate those premiums at as high as we can.

JC:

Thanks Paul, hand it off.

SPEAKER:

Thank you JC. Our next question comes through from Chen Jiang, Bank of America, please go ahead.

CHEN:

Hi, good morning Paul. Thanks for taking my questions. Well, most of my questions have been asked, I guess a few follow up, please. In addition to weather, I'm just wondering how much, you know, the planned mine sequencing also contribute to the weak production for your open-cut mine. How much impact is due to weather and how much due to mine sequencing? And how should we think that you know, the plan the low volumes for the rest of FY23? Thank you.

PAUL FLYNN:

Yeah, thanks Chen. Yeah look, I don't have a proportion of that to split out for you, but I would say that, you know, we always planned to have a relatively modest first quarter. We always, that was just part of the plan. I mean, you can see from the volumes in June, there was a pretty significant run to close out the financial year and that always involved some resetting in the new year. There's no doubt about that. We would like that to be less of a feature of our business, I have to say, going forward. And the weather impacts, you can measure that in the hundreds of thousands of tonnes not in big volumes. Most of it was planned. The caution I would just add to that though, is that obviously even though the Bureau of Meteorology is saying that they expect this La Nina period to be shorter, you know, we are very cautious on that and watching the weather forecast very closely, because it's not just about floods and things, it's actually just about lost productivity. You know, we have lots of water laying around in our mines and our dams and we know the Hunter Valley does the same, has the same. So, it's not about floods and just cutting access, we're just cautious about more water, given that we're, you know, it's only in very limited circumstances that we can discharge water off site. So, we're concerned about the productivity impacts of the weather forecast and we'll be very pleased if the BOM is right and that the La Nina impact is going to be a shorter period than last year.

CHEN:

Yeah, thanks, Paul. Where the impact, you know, flooding access road to your open mine, et cetera, will that impact your thermal coal quality? You know, why you haven't continued to deliver the 100% of thermal high CV thermal coal?

PAUL FLYNN:

No, the weather impacts not so much in that regard there as I say, there's, we'd like to have more tonnes out of Maules, there's no doubt about that, for blending purposes. But yeah, Narrabri is outperforming of course and so that's very positive. And during the course of the year, we will have mid CV fails, we always do have some, so you can't avoid that completely. So this quarter was very good. You will see some emerge in Q2 and three. But the weather's not the biggest issue associated that is, it's actually blending opportunities and availability of high CV coal to blend with.

CHEN:

Right, thanks Paul. May I have a last question, please? Have you heard or seen any force majeure being declared from New South Wales coal producers to fulfil their contracts due to weather?

PAUL FLYNN:

Nothing that we've seen to date. No, it hasn't been that bad Chen.

CHEN:

Alright, yeah thanks Paul, thanks for that. I'll pass down, thank you.

SPEAKER:

Thank you Chen. We'll give the audience one more opportunity to ask a question by pressing star one on a telephone keypad. We'll pause a brief moment to see if any further questions come through. And as we have no further questions, I'll hand back over. Sorry, my apologies, we've had one more question come through from Veta (UNKNOWN), private investor, please go ahead Veta. Veta your line's been opened, if you'd like to ask a question, now's your chance.

We didn't get any audio from Veta. I'll hand back over to Paul and the team.

PAUL FLYNN:

Very good, thanks very much, everybody for dialling in this morning. I know everyone's got things to do, so we've given you a little bit of time back. But if you've got any further questions, you need to follow up. You know where to find myself, Kev and Kylie. And so, look forward to engaging with you all in the follow-up to the quarter's release. Thank you very much.

SPEAKER:

Thank you for joining the Whitehaven Coals FY23 Q1 September 2022 Quarterly Production Investor Update call, all participant lines may disconnect.