WHITEHAVEN COAL H1 FY24 Half Year Financial Results

INVESTOR CALL TRANSCRIPT

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Introductory comments / Overview of H1 FY24 Financial results

Paul Flynn:

Good morning, everybody. Thanks very much for taking the time to dial in today to the half year results for financial year '24. As usual, I'm joined by a couple of my colleagues here on the leadership team here, Kevin Ball, our CFO and Ian Humphris, our EGM of operations. And I've also got here, of course Kylie and Keryn from our investor relations team. Kevin, and I'll go through the presentation, as we normally do and then we'll move over to Q&A for questions.

Flicking the page let's go to our disclaimer. Of course, there are some forward-looking statements included in this pack. I'll draw your attention to that important statement. Over to the half, I'll just go through the highlights as we usually do. There's been a solid result from us as you saw with the quarters that we've released over the last two quarters first half of the year. And consistent performance from our open cut operations, resilient thermal coal pricing, which has been very positive.

The realised coal prices for the period $220 Aussie was a very good result. Gives rise to revenues of $1.6 million for the half. We have maintained of course a strong balance sheet in anticipation of the transformational acquisition of Daunia and Blackwater, which I'll talk about a little bit further. That clearly was the highlight for six months in terms of the news flow from Whitehaven with our October announcement. We are on track for the 2nd of April in terms of completion.

In this pack, it'll obviously give you insight into the cost associated with the transition and transaction related costs, a total of $164 million. The tax effect of that is $115 million. Our underlying EBITDA for the period was $623 million for the half and our underlying NPAT at $372m for the half. Safety performance has been very positive. Our TRIFR just dipping under the four now, which is very, very good to see. More effort required. And zero enforceable actions from an environmental perspective during the course of the period.

Now our balance sheet is in good shape, $1.5 billion in cash at the 1st of December obviously we can update you a little bit more on how that's tracking. A $1.1 billion facility was put in place, US dollars that is, during the course of this period obviously to underpin the settlement of the transaction, as I say expected early April.

From a return perspective during this quarter we were 18 of the top 100 I think, which is a good place to be, 18.5% return from a TSR perspective over the period. And the board has declared a fully franked dividend of 7 cents per share in the half. Obviously those numbers, the dividend number in particular is focused on the fact that we have obviously cash outgoings planned shortly with the settlement of this important strategic transaction, but it's nice to be able to deliver a fully franked dividend for the first half of the year.

As I mentioned, obviously the highlight for the period was the announcement about the transaction that we are to acquire Daunia and Blackwater and that is proceeding very well. I won't go through the rationale and recap on the transaction here because I know we've spoken to many of you about this, but there is on this slide a quick summary of the important rationale in terms of why we're moving in this direction.

The feedback from our shareholders has been during this time overwhelmingly positive, which has been very good. Not just about the strategic direction of it, but very positive in terms of price that we paid and of course the structure of the transaction as well has been very, very well received by the shareholders since the announcement in October. I think that's been very, very positive and nice to see that sort of reaction.

We believe we're on track for the 2nd of April as I say. A number of the regulatory hurdles required have been concluded already. And so that gives us line of sight and good confidence that the 2nd of April is actually the right date to be figuring on the settlement of the transaction. The efforts going into the transition team and the overall efforts are enormous. But we're in a good position from an IT perspective, from a business planning perspective, from an employment perspective.

We did have to offer a role to all the people across these two sites. We've got 95% acceptance at the moment, which is a very, very good result. The IT build is going well and nearing completion in terms of the build phase and moving into the testing phase now. Important contracts and so on have been successfully worked through and novated over to Whitehaven. And the operational readiness and business continuity plan potential for that transition are well in hand. And we'll be moving forward over the next seven weeks to the anticipated settlement date.

I'll just move over to Whitehaven's coal markets and a quick reflection on that. In terms of our business as it stands today, you can see obviously half our businesses in Japan. And that will remain an important feature of our business even after the transaction has concluded, given that we will be expanding relationships with existing customers with new products after the transaction.

But in terms of our current business today, 52% is in Japan. As I've said before, South Korea and Taiwan always duking it out for either second or third place in the rankings there. But the mover and shaker in terms of our sales mix has obviously been Malaysia being a double over year-on-year. And so now at 11% that's actually turned into a very good market for us, which is very positive to see. Split between met and thermal, 90% thermal, 10% met from our existing business.

A quick reminder here that Whitehaven does sell the very high quality thermal product that we've come to be known for. And our quick comparison across other jurisdictions and Australia as a whole. From our perspective, the average energy content of ourselves in H1 at 6,100 kcal, it points to a very strong quality that we have and the pricing that we receive as a result of that.

The Vickery project, which I'll speak to a little bit later on, will come on and improve that as well because the product there in Vickery is better again. Not just from the average of the country but the average of Whitehaven's existing portfolio. And just again another reminder into the central nature of the part that we play in the energy world. You can see our key markets there in terms of Japan, Taiwan and Korea updated in terms of our contribution to their daily energy needs in each of these jurisdictions.

There's a couple hundred million people involved in this equation. And more now that Malaysia has joined the tables here in terms of what our contribution is on a daily basis. 17 minutes in Malaysia I think is reflective of the fact that that volume into Malaysia has doubled year-on-year and the market is a very good one for us in terms of pricing as well. It's a Japan-like pricing environment that we're operating within there, which is very pleasing for us to see that expansion and diversification into other markets.

Flipping over, as we transform with the Daunia and Blackwater transaction, you'll see that we are going to spread our wings further obviously into metallurgical coal. And that is one of the overarching objectives of that transaction, to promote a better business. But our customer mix doesn't really change that much. There are a couple of call-outs that I will make just in terms of the difference in terms of the markets jurisdictions.

The Indian presence actually reverts pretty much to a particular, a proportion that we've experienced in more recent years, but that has dwindled off as many as you know as the sanctions imposed on Russian coal, moved Russian coal out of certain markets. And for us, the Indian market was the key point of pressure in that regard. And Russian coal being offered into India and China at lower prices obviously meant that our sales into the India market had decreased. But that we expect that to jump up again as a result of the metallurgical coal that we would sell or that is already being sold from these two mines into India and that we will obviously take over once completions occurred.

And everybody knows that historically we've not been a player in the Chinese market, there will be a small presence in the Chinese market that does come as part of this. But it is a relatively small piece of the puzzle for us as an organisation. And so largely markets that we've been dealing with in the past. And based on the price spread between the PLV hard coke and the high CV market today, we anticipate the spread of revenue to be about 70% met coal, 30% thermal.

The backdrop of that dynamic is important to note again just in terms of supply-demand dynamics in the market. You can see here based on the commodity insight numbers, which I know is gaining further momentum in the market in terms of their advisory work in this coal space, they're certainly projecting growth in the market and thermal coal market over time out to 2040 some 28%. But there's also at the same time a decline in the available supply.

Just as we all know, it's difficult to bring new mines on and that mines that are already on foot and producing do dwindle and exhaust their reserves over time. A 23% decline over that same period. This is the high CV market in particular that we're focused on here. And so that does point to a very solid backdrop from our perspective in terms of continued solid high CV thermal coal pricing in this outlook period.

The same picture for slightly different dynamics, but the same picture presents itself also in terms of the metallurgical coal market. This is the metallurgical coal market as a whole, but you can see growth there over the outlook period as well. Some 74 million tonnes shortfall created as a result of the inherent growth and the decline in some mines as they run off their lives.

Key dynamics here is obviously China buying Australian hard coke again, but India emerging very strongly in the marketplace. We've seen India growing over time, but you can see it seems to have hit its straps in a way that is certainly drawing in available capacity out of the hard coke market. And we expect that to continue as they continue to try and fulfil their objectives here in increasing their steel production as their needs domestically continue to increase. A very strong backdrop from our perspective, which will underpin good pricing over the outlook period.

There's a summary of those external market drivers here. Supply-demand dynamic, as I mentioned, the underlying supply-demand tightness is going to play out with decent pricing. In the last six months, we've seen a relatively subdued pricing or demand for the thermal side of our business. Having said that, the pricing despite that shoulder period, which you saw in December in particular, was actually very encouraging. That structural shortfall I think in thermal and metallurgical coal will continue to play out. And as I say, the hard coke demand continues to impress, although the semi-soft market particularly influenced by the Russian coal flowing around and being offered at cheap prices is causing quite a large separation between the prime hard coke numbers and the semi-soft pricing and also the high vol PCI.

On the pricing side of things, we've seen $141 /t as the average for the US dollar for GC Nuke during the period. Metallurgical coal has been very good, 298, so nearly US $300 / t average over the period as well. Our realised pricing as I mentioned earlier for Whitehaven's thermal coal at $220 Aussie has been very positive for us.

On the cost side, labour has moderated to some degree although, and I'm talking about availability rather than actually pricing as the pricing I think of labour, there's a little bit more time before we see a moderation in that. Electricity prices have gone up substantially during this time. Diesel costs stabilised, although that continues to move around and the safeguard mechanism costs will be increasing over time.

Now we've covered off the external, let's go quickly just to the first half results. Safety, as I say, our TRIFR just under four now. Tremendous result from our team to continue to deliver real structural improvements here in our business that see our TRIFR rate declining, continuing to decline, that's a 16% improvement. Very pleased to see that. And as mentioned earlier, the environmental side of our business also continuing to be well managed.

More effort required of course to try and continue to squeeze out further improvement here. Particularly with the enlarged business after the settlement of the transaction, our focus is to make sure that we take over those two mines in a safe way and that the safety improvement that we've seen in our business continues to wash over their business as well.

Financial results, again, just a quick recap, 10.3 million tonnes for the six months ROM production. Aussie $220 per tonne in terms of realised coal prices, revenue $1.6b. And our unit cost at 1-1-1, $111 per tonne for the first six months of the year. We have broken out some acquisition costs for you as well. You can see here the underlying EBITDA, as I mentioned to you before, $623m. The statutory impact at $258 million and the tax effect of those transaction costs gets you back to that underlying impact number I mentioned earlier of $372m.

Just quickly over to the business, I won't labour this given that we've seen the quarterly reports that have gone out. In any event, 10.3 million tonnes for the first half of the year for the business was actually a pretty solid result with obviously the open cuts doing well and Narrabri underperforming as it deals with some geological issues in panel 203.

A quick look at the sites. Maules has done well and we're very pleased with the run rate for the first half of the year. There are 6 million tonnes for it, so that's very positive from our perspective. The news here, some people may have seen already. We have made the decision to conclude the trial of AHS at Maules Creek and so we will move back to a fully manned frame of operation there in Q3, so the March quarter. And expect productivity improvements to move now that we're predominantly focused on in pit dumping and will be completely in pit dumping very shortly. But that is tracking towards top end of its range from a guidance perspective. Maules Creek going well, but we have made that call just to move out of that trial phase of AHS and move on in a manned form.

As I mentioned earlier that Gunnedah Open Cuts doing well. Tarrawonga's done a solid job in the first half and Werris as well. Werris will be finishing up though at the end of the quarter and so that will be a point to mark just in terms of the transition of the business. But it is tracking along well to that end date and remaining sales out of Werris, we'll see those in the Q4 period as we wrap up the financial year.

The Vickery early mining project is going well on time and budget, so that's very positive. First coal, you'll see that in Q4. You'll see some small amounts of coal coming out there as expected, so that's very positive to see and we'll see the benefit of that obviously will spill into the new FY25.

Narrabri as I mentioned and we talked about before in the quarter, obviously there's some operational challenges there with geological conditions in panel 203 as we're in the panel that obviously borders the wash out of the coal sea on that eastern flank. And so that continues at a slow pace. We revised our guidance for Narrabri specifically, although we held our guidance for the group as a whole when we revised this back in the quarter. And in order to underpin that guidance range, we've assumed a replica essentially of the first half performance at Narrabri. And we know we're heading into some better terrain there in terms of the balance of the panel 203. We feel that that's the right position for Narrabri's guidance even though the overall guidance for the company remains the same from a ROM production perspective.

I'll skip over this slide because I think you've all seen that one plenty of times before. With that I'll hand over to Kevin and we can go through the financial results for the first half. Kevin.

Kevin Ball:

Thanks, Paul. What you see here is the five-year graphs. And I think first half underlying EBITDA are $623 million is a pretty strong result. What they do show on this graph is really how strong FY22 and '23 were with realised prices well above where we currently are. Really great results. I think this is a more sustainable level of performance out of the Whitehaven coal New South Wales business, if I can call it that. Delivered $1.6 billion in revenue, underlying EBITDA

$623m, underlying NPAT of $372m. The cash generated from operation in the first half was $523m and we finished the year with $1.6 billion in cash and $1.5 billion in net cash.

And we'll talk a little bit more about what cash we're holding at the current moment, because as I said at the quarterly, the unwind of the receivables in that first half has delivered some more cash in the first quarter. EBITDA margin, a 46% EBITDA margin is something that I'm quite pleased with. Coal price better than gC Newc average for the period. Average cost of sales up and we'll talk about that in a minute, which is really around the volumetric impact of Narrabri. And it's lower than last year, but I don't think anyone's terribly surprised by that given the fact that coal prices have come off from their highs of the Ukraine.

If we look at the EBITDA movement, again what you see here is we made $2.6 billion in the first half of fiscal year '23. Compare that to the first half of fiscal year '24, and about $2 billion of that decrease comes out of price. $35m benefit from sales volume. We sold a little bit more in the first half relative to FY23 and costs were up on this from I think it's $96/t to $111/t. $623m, a good result and we'll go on the cost in a little more detail. If we turn the page to the next one, Paul.

You can see from the chart the costs have moved from $96 a tonne in half one '23, there's a little bit of a blend mix here. There's a bit more Tarrawonga in this product. There's a little bit more Maules in the open cut. And Narrabri hasn't delivered the tonnes that we thought that would've delivered in the current year. And because it's proportionately less, it helps to drive costs higher for the group. $4 in the open cuts reflects higher diesel prices mainly and together with increased labour costs. And again, you can see the safeguards mechanism there coming in a dollar a tonne to get us to $111.

As we say, you can calculate this is the whole of company cost. This is not a mine cost. We're a little bit different from others in the market. But you can calculate this off the face of the P&L and we've done that for the last 10 years. Let's go to cash because I think cash is where people are going to focus here. At 30 June '23 we held about $2.6 billion. We generated $500 million in cash from operations. And again, we've had a bit of an unwind out of the receivables at 31 December.

We settled the tax. There's no surprise in that conversation. We paid $927 million to the federal government and they happily took it. And we spent about $360 million including the US $100 million deposit to BMA for the acquisition of Daunia and Blackwater. Again, we paid out the dividend at the end of the year. And I think there's a slight top up there and about roundings on a buyback.

All in all, we finished the period at $1.5 billion in net cash. On top of that we've got about $100 million in financing, finance leases and ECA facility. Our gross cash at the end of that period was about $1.6 billion. And today we are holding circa $1.9 billion in cash because of that unwind and the cash generated in the first six weeks of the business. Hopefully that'll help explain some other comments we'll make later in this about net cash and liquidity and how we plan on solving, et cetera.

With the balance sheet in rude strength in repaying all that senior bank debt in FY22, we bid on those BMA assets. And our view on how we settled that is we have a cash balance today - US cash today is about US$1.15 billion. We're holding a US$1.1 billion facility with finances that we announced in late December to the market. We are really well positioned here to settle this transaction and have adequate liquidity to move through this process.

Our expectation is we'll continue to generate cash through the back half of this year and these assets are highly accretive in a transaction and they come with quite strong stock positions to start with. We're really pleased with the support from the range of financiers. We were substantially oversubscribed on that. And we are taking the time and the opportunity to reposition and open discussions with the range of financiers along the way. Because I think this transaction does transform Whitehaven from being a predominantly thermal business to being a predominantly met coal business and that does change the appetite for credit providers.

Onto the next stage. This one I don't propose to talk a lot about. This has been well canvased in all of our presentations to people. We do run a business that's all about maintaining a balance sheet in rude health, maintaining the business so the business can continue to operate and providing returns to shareholders.

We've said through the acquisition of Daunia and Blackwater that the buyback will remain on hold and that's our expectation through this. We also expect to see dividends continue to come from the existing business to shareholders. And once that vendor finance is retired, then I'm expecting to see quite strong cash flows flowing through to the shareholders of Whitehaven Coal.

And as Paul said earlier, the beauty of this transaction is that this transaction doubles the size of the business without tapping equity holders. FY24 guidance, Paul, I'm going to turn back to you.

Paul Flynn:

Thanks, Kevin. Just a quick recap on the guidance as everyone saw unchanged from what our previous statements were. You saw back at the quarter, we refined the guidance on Narrabri, specifically just at a mine level given the challenges that's been experiencing in this panel. Our overall guidance from a ROM perspective remains the same. We pointed to the fact that Maules Creek and the open cuts generally are pointing to the top end of their guidance, which is we're very positive to say.

But with Narrabri underrepresented in the overall weighted average mix, the costs is trending towards the top end of our range there. And you can see the $111/t that we printed for the first half is towards the top end of that range. And as we've assumed Narrabri to duplicate the run rate of the first half into the second, that requires staying at around the upper end of that cost range for the full year guidance, but within our guidance overall.

CapEx, look, CapEx we're just the business is so busy execution. I think just on that gap you can see the $171m, the first half versus the $400 to $450m that we've given you as part of the Q2 revision. Look, I think it's going to struggle to get to the bottom end of that even at this point in time. There's just a lot of work on. And with all that tightness in the market, tightness in suppliers, tightness in delivery of gear, I can see some of that slipping into the new year quite frankly.

But our guidance remains the same as we previously published and looking forward to executing this second half to make sure we deliver on the balance of our targets. Our focus is for this year, no changes in terms of this of course, the safe management of our business, the environmental compliance is a must. We want to continue to drive our guidance as I say and deliver on the targets we've set here. Early mining for Vickery is going very well, so very pleased with that. And look forward to that making a bigger contribution next year given that Werris is rolling off.

And we'll continue to push for our approvals. And I know we didn't mention that the Winchester South approval at the state level during the course of this presentation today, but obviously that's very positive to see that. Another important step forward to see that piece of the puzzle come together, particularly given that Daunia is adjacent there. The opportunity there is very exciting.

The transition effort for the completion of the transaction as Kevin's outlined, we feel very confident about our financial position to make sure there's a seamless transition through completion. We are expecting that to be the 2nd of April as I mentioned, that the competition and regulatory requirements are all solving themselves, which is good. Anticipation is that we'll be able to settle that on the 2nd, but for some other peculiarity of some bureaucracy somewhere. But otherwise they all look in hand. The safe transition into these operations is obviously front of mind for us and the operational readiness planning that we've got going on the business now, including business continuity plans is an important focus during this period.

We have obviously mentioned that we are opening the door, have opened the door, to a sell down of up to 20% of the Blackwater asset, the inbound interest in that asset given the long history, the well-established nature of that coal quality in the market has brought a very strong inbound interest level into the company. We are looking at that. A process is ongoing now that that's been launched. That's very positive.

As Kevin says, we've gone through the capital allocation side of things will continue to remain a prudent and strong balance sheet is not just as we move through completion and then into the settlement, the cost and so on later in the year. The dividend declared today is a very good result. It is obviously as people can back solve, that's basically 20% of the thermal business. As we said, we will be funding dividends from that during the course of the next two years as the metallurgical coal business repays the vendor finance. That's nice to be able to ensure that we continue the dividend paying to our shareholders.

And from our perspective, I just want to round out our comments and just thanking all our employees and contractors and advisors and so on for all the effort that's gone into this last six months. I think our employees have put a huge effort in our board and the support we've been getting from that in order to drive this transformational period for the company, is greatly appreciated. And we very much appreciate the continued support of our longstanding shareholders in supporting the company through this journey. With that, I'll hand back to the operator, we'll get the Q&A started. Thank you.

Question and answers:

Operator:

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

Your first question comes from Chen Jiang with Bank of America. Please go ahead.

Chen Jiang:

Good morning, Paul and Kevin. Thank you for taking my question. Maybe first question to Kevin, please. For that transaction phase reported today, 92 million you excluded from underline. Is that transaction cost including the stamp duty in total of US 276 million announced in October last year?

Kevin Ball:

No, because from an accounting perspective, the stamp duty arises on completion of the transaction in the estimate. And that stamp duty then gets settled with the Queensland State Revenue Department over the next three to six months as we've worked through what the final allocations are. And I don't think it'll end up being that same number you've got there, but we'll give you a better number and a better guidance as we move through this. I think you just need to... We'll work the number out over that June quarter, but I expect it'll be lower than that, Chen.

Chen Jiang:

Right. Thanks for that, Kevin, but that 92 million you reported today, that was the transaction cost you mentioned in October last year.

Kevin Ball:

It's a portion of the transaction cost.

Chen Jiang:

A portion. Okay. Right. Okay. And I guess as you mentioned, it's a portion of the transaction cost, I guess the rest of the transaction cost plus stamp duty – are you going to report it a significant item like today or include it in your underlying? Thank you.

Kevin Ball:

We'll break it out of underlying so you can see the impact. I mean, what we're trying to show you is how the New South Wales business is actually performing, which is really where people are interested in from the dividends perspective moving forward. And where we've got costs that are coming through the financials as a result of this transaction, we just want to highlight them and be transparent about it, Chen.

Chen Jiang:

Yeah, sure, sure understand. I understand. Thanks for that, Kevin. Second question to Paul please will focus on the sale of 20% of Blackwater stake to a global steel producer. And well, Daunia is not mentioned in the presentation and also to recall the conversation on your quarterly reporting in January. Is that fair to assume you'll keep Daunia at 100% of ownership?

Paul Flynn:

Yeah. Thanks, Chen. I think just to recap the last announcements we made around this, we specifically mentioned that Blackwater would be the point of focus for us from a sell down perspective. And as I mentioned before, the clear focus on that is just the inbound interest on that, given that the well established position it has in the market.

You've got lots of people, consuming parties who are reliant on that quality and would like to secure that into the future. We're looking to leverage that interest level in the Blackwater asset. And as we talked about at the quarter, in terms of Daunia in particular, it's very nice to see Winchester South receiving its state-based approval. I mean the federal approval obviously needs to be continued to be pursued. But in terms of Daunia, the future of Daunia involves Winchester South as well. It'll take a little bit of time to plan out beyond the conceptual how those two assets come together.

We're going to take that time to do that rather than rush into something now and then try and back-solve a Winchester South solution into that at a later point with the then joint venture partner. And so our focus is really just to focus on Blackwater, get that process concluded, move forward. And we can look at Daunia at a future date in a more orderly fashion once we, as I say, plan out what the integration approach looks like for those two sites.

Kevin Ball:

And I'll probably add to that, Paul, by saying that the Blackwater asset has a multi-decade life. The Daunia life as it currently stands, runs to the late 2030s I think. But the consideration of Daunia and Winchester South gives you two assets that are multi-decade in life. And that's really worth trying to work out how this thing looks like.

Paul Flynn:

Yeah, I mean just the simple answer there is there's no point in forming a joint venture on Daunia alone when you know that Winchester South has to be integrated into it. You're better off forming a joint venture if that's what you want to do after you have laid out the plan for that integration. And so that's why it's Blackwater first, Daunia at a later date will be considered.

Chen Jiang:

Sure, sure. Thanks, Paul and Kevin, that is very clear. Thanks for the colour. And then for the Blackwater JV partners, would you please remind us, what are you looking for? Is financial your focus such as are you looking for partners who will provide the highest multiple of EBITDA or the premium over what you are going to pay for BHP? Or strategically you are looking for JV, as Kevin mentioned, Blackwater is a long life? Or strategically you are looking for JV who can provide Whitehaven the best long-term off-take agreement. If it's financial focus, then what's your selection criteria? Thank you.

Paul Flynn:

Yeah, Chen, I think you've summarised it pretty well there. I think all those dimensions are important to us. The financial component, we won't be selling it for less than what we paid it for. In fact, we've done all the work so we feel a return is due on that. The parties who are inbound looking at this are well aware of what we paid.

But look, I think you've got to look at the qualitative dimensions, this as well, not just the financial return. End using, large scale, well-recognised steel makers are the answer to our question here. Forming partnerships, long-term over time you've seen has been very good for our business overall. And to strategically position ourselves over the coming decades with the consuming parties in the supply chain is really the right model for us. It endorses the quality, it endorses the project, endorses the life of the project. Obviously it's going to endorse the price that we paid of course, because coal prices, long-term coal prices have gone up since the time that we bought this asset for a start or agreed to buy it. The blend of all those attributes together is what we're looking to solidify in term of long-term joint venture arrangement.

Kevin Ball:

And the other point I'd make to you, Chen, is that that graph we show you where there's a long term structural shortfall in net coal, that's the same thing that seal manufacturers are observing. Access and security to supplier's a key motivator for participants in this process.

Chen Jiang:

Sure, sure. Understand, Paul and Kevin. Maybe last question just in regards to your coal sales. Paul, you mentioned your coal sales to Malaysia has doubled in the last six months. And in the pie chart, it's interesting to say you had a 5% sale to Europe and even 1% to Indonesia, which is a major coal supporting country. I guess your sale to Europe and Indonesia would be temporary, but can you maintain the sales to Malaysia going forward? Thank you.

Paul Flynn:

Yeah, thanks, Chen. I think you have taken your three questions. We better hand it on to someone else. But quickly, Malaysia is a long-term contract here. That's multi-year arrangements there, very, very positive. They've got brand new power stations there, ultra to the critical power stations matched beautifully with Maules Creek coal in particular, and Vickery then after.

As you say, nickel smelting sales into Indonesia actually has been a feature of our business for quite some years. But the more the European exposure that you referenced there is, it will go over several years, but that will come and go I suspect over time. But I think that that will be replaced by coal out of Daunia and Blackwater. And I think there will be penetration into Europe over time from metallurgical coal perspective.

Chen Jiang:

Thank you, Paul. I'll pass it on. Thank you.

Operator:

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

Paul Young:

Morning, Paul and Kevin. I hope you're well. Kevin, a question on the capital allocation framework slide again and a question regarding your leverage target of 0.5 to 1.5. I'm still struggling to sort of work through how projects might be re-sequenced between thermal and met coal. And can you do all the projects that you outlined when you were just a thermal coal company? And maybe the question is around on your coal price deck, both met and thermal, can you do all the projects and the sequencing you want to and stay under the 1.5 times leverage ceiling? Thanks.

Kevin Ball:

I think the short answer to that is yeah, Paul, because what we're going to end up doing is reprioritising timing. We said we'd take a pause on Vickery, big Vickery. Vickery as it comes will replace tonnes lost out of Werris Creek, Rocklea, and Sunnyside at a time. That just basically keeps us steady in the Gunnedah Basin and helps to absorb take or pay.

I think Winchester South gets pushed back a touch because we're going to have to do that integration period, integration assessment with Daunia. And together, I mean when I run the model I see EBITDA out of both of these businesses that's going to be with a two, if not a three in front of it in years to come.

I think the beauty of this acquisition is it gives us a scale, diversification to different markets, different lever and drivers of that, a much stronger cash flows in years to come. And so our ability to execute on projects. And these are two well-developed assets that have got all the capital installed to deliver the tonnes that are there really. The cash comes out of that, comes to shareholders or goes to projects if those projects deliver better return then going to shareholders. I think on my modelling, I'm in pretty good shape is the way I'd say it to you, Paul.

Paul Young:

Okay. All right. Thanks, Kevin. That's the project update that we all wanted, so thank you. Then I guess the next question is around Narrabri and the lease versus buy decision on the long wall. Can you just step through again the timing around that decision and the sequencing around that CapEx? Thanks.

Kevin Ball:

Yeah. Look, I think Paul and Ian have both talked about whether it was quarterlies or halves. Narrabri's underperformance in the first is pushing out any timetable we need for commitment to a long wall at Narrabri. And clearly, our commitment to that is to source a long wall out of... It's probably going to come out China with European controls and European supplies. And we're expecting to see facilities provided by a range of people in that process for Narrabri, given that our joint venture partners are Asian, our product goes to Asia. And we have a good relationship anyway with the suppliers of the legs that are already in the existing wall.

I think we'll work our way through that. I would expect that it's going to slide right if that's the case. And we'll give you an update I think when we get back through the back end of this year and give you guidance for next year. That's as much as I'd want to say on that one at the moment.

Paul Flynn:

No immediate commitments required there at all.

Paul Young:

No. Yeah. Okay. All right. But the bottom line here, guys, is that the thermal CapEx, to your point, Paul, around maybe coming on this on CapEx guidance, but everything sliding to the right it seems.

Paul Flynn:

Yeah, that's right. I think just in terms of reprioritisation, we always said when we announced the transaction we'd have a look at everything. We revised the guidance down in the last quarter, but just in the execution capability, we're just not spending the money, which is no bad thing on the various projects. And the one you've obviously highlighted in Narrabri, as Kevin summarised is a product of the slower transition through this panel, there's no need to make any commitments on a replacement wall anytime soon. We'll work through that and we'll say more at the year-end about what we think the timing for that looks like.

Paul Young:

Yeah. Okay. All right. Thanks, gents. That's it.

Operator:

Thank you. Your next question comes from Adam Martin with E&P. Please go ahead.

Adam Martin:

Yeah. Morning, Paul, Kevin. Just Kevin, first clarification question. Could you just talk about additional debt facilities? Did I get that right? And what's your quants and timing there, you're thinking please?

Kevin Ball:

I think we've put a US$1.1 billion US facility in place in the met coal side of the business, which was really well oversubscribed. As I said, today we're holding US$1.15 billion in cash together with another 100-odd million of Aussie in cash. We're making cash through this process and we've got a program and plan on how this gets settled. I think we're really, from a balance sheet perspective through this transaction, it's playing out the way we expect it to play out.

What we're going to get is two pretty good businesses with a good supply of inventories at the time of the sale is our expectation. We're expecting these businesses to continually or to continue the sales program they've been running for a while. Additional debt facilities, I think that might've been a Glynn question back in the quarterly. We will work our way through those things, but at this point we're well set to settle this transaction and anything else that comes along, it's not going to be material.

Adam Martin:
Yeah. Yeah. Okay, second question, just-

Paul Flynn:

A further comment, just on Kevin's earlier remarks, just about new relationships. Obviously as we're transitioning to a met coal focused business and the success of the refinancing, or the takeout of the bridge and the US$1.1b facility put in place, we brought a range of new parties who want to actually have a position in providing credit to the business. And I think the exploration of that over time will be a very positive thing for us as we can cultivate new people who otherwise couldn't actually be engaged with the business in the past. So I think we'll be able to broaden those relationships out in the future, but that's a future-state comment rather than something that we need to do anytime soon.

Kevin Ball:

And if I can add to that, Adam, I'd say this to you, the program of that funding is lending itself towards refinancing that within the term of the five years. And I would've expected, my expectation is that Whitehaven Coal in its expanded form has ready access to a range of debt capital markets out of US and traditional bond sources. So I think the opportunities will emerge and are emerging, but all of that will become relatively clear over this next 12 months and two years.

But needless to say, at the moment we're well-funded to close this and plenty of liquidity to get through this program and it's playing out the way we thought it was going to play out.

Adam Martin:

Yep. No, that makes sense. That's more medium term. The second question, Paul, is just the comments you made about improved labour supply. You made the comment that not necessarily improve rates yet. Can you just flesh that out a bit more and any sort of differences you're thinking about New South Wales operations versus what you might experience in Queensland?

Paul Flynn:

Yeah, thanks, Adam. Look, the decision obviously to move back demand at AHS obviously was influenced by the fact that we do have labour available to us. That has improved. So, we are seeing improvements in that regard. I've said that I'm not seeing changes in the cost of labour. I think that's still actually, the inflation component of that, is still in there. So, I can see that through out-of-cycle adjustments and things to pay rates and things, is definitely still there.

The inflation on the labour side, I don't think has moderated, but we are seeing greater access to the skills that we need to be able to make sure that, say for instance, that transition to AHS, we're able to make sure that all the people go back in the equipment and in a seamless fashion.

We've still got shortages around the business in some areas, there's no doubt about that. Underground in particular is still tight, but that's a smaller market, as you know. And so no moderation of cost pressures on labour associated with the underground, I have to say, or services associated with the underground, which have a high labour component, but at least access to labour is improving. Now, over time, you would expect if there's better access to labour, the cost of labour would moderate. You'd hope that's the case, but it's not happening yet, is what I'm saying.

Adam Martin:

Okay, that's great. That's all for me. Thank you.

Operator:

Thank you. Your next question comes from Chris Drew with Jefferies. Please go ahead.

Chris Drew:

Morning, Paul and Kevin and team. Thanks for the call this morning, and thanks Kevin, for the clarity on the current cash position. Just drilling a little bit more into that completion process you've flagged. There's the transaction costs which have gone out, and the half 66 million or so. Is the balance of what's remaining now largely the stamp duty, or are there other transaction costs that we should expect to see come through around completion? Thanks.

Kevin Ball:

Yeah, no, that's a really good question, Chris. Like most of these transactions, stamp duty gets paid after you finalise what the value is. And that generally doesn't happen on completion. It takes a little bit of time to work through, and there's a discussion with the relevant revenue authorities in the state as well. There are some deals I've heard where stamp duty hasn't been paid five or six years later, that's not us. But I'm thinking we're three to six months after the event has settled, within that period.

The majority of the transaction costs we picked up in that, have been around the bridge and the cost that we've occurred to date in transition. There'll be a little bit more of that and there'll be the success fees to various investment bankers and some of the costs involved in the financing that's coming. So, there'll be some more money coming through in the half-year results as we settle that on the 2nd of April. But they're all factored in, they're understood how they play out. And again, we're effectively doubling the size of the business in a different jurisdiction. So, we're building systems and capabilities in Queensland and in New South Wales to deal with that. So, the spend is likely to take place again, spread out, but decreasing as we go towards the end of calendar year '24. That's my expectation.

Chris Drew:

Yeah, great. Thanks, Kevin. And perhaps just a question on the black water process, would you like to give us any colour on potential timeframe for that process at this stage? Should we be thinking the June half, or likely later in the year? Thanks.

Kevin Ball:

I think I'd say to you that we've got a heap on our plates. That's what I'd say to you. And we're running multiple processes. Our timetable for that is to have something advanced in the first half. My expectation is by the time I get this thing settled; it'll be well done in calendar year '24. So, give myself calendar year '24 to give you a final details.

But the other way I'd describe it a bit colloquial, is we bought the loaf, we're selling a slice, we expect to get a better price for the slice than the loaf. And the interest that we're seeing, is from people who are trying to make sure that they've got access to material for the next two, three, four, five decades.

Paul Flynn:

Settlement in the second half of the calendar year.

Kevin Ball:

Settlement in the second half of the calendar year would be by my expectation.

Paul Flynn:

Yeah.

Chris Drew:

Great. Thanks very much, guys.

Operator:

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

Glyn Lawcock:

Oh, good morning, Paul and Kevin.

Look, I know you haven't officially taken ownership of the assets yet, but just wondering if, obviously you've been watching, you're up there on-site offering employment contracts, et cetera, but can you make any comment, firstly around your customers? Are they all existing ones rolling over? Because I mean, obviously you take the asset and you've got to put everything back in place, so I assume all the customers staying.

Then secondly, any comment you can make on realised pricing that you're seeing in those assets? Clearly, you're not getting the 300-plus PLV, that you keep talking about the PLV market, but just wondering what actually are you realising in those assets, or you don't know at the moment? Thanks.

Paul Flynn:

Thanks, Glyn. Yeah, look, customer wise, these assets are both well sold. Historically they're about 80% sold, and so that continues on. So, we are inheriting a book of business here that is well established, well sold, and we'll just administer that. That's positive. There are some arrangements in place for us to work together if renewals come up during the balance of the next seven weeks. So, we'll work with the vendors on that.

But we don't have a book of business that needs to be flushed out in the market quickly. It's a very orderly transition in that regard. In fact, the marketing side of things is probably one of the least problematic areas for us in terms of transition. A lot of these customers are people we know well, and so it's just that we're now selling them a different product than what we've historically sold to them. So the deepening of those relationships is a very positive thing for us, and makes for an easier transition.

From a realisation perspective, we've given you realisations for that in the deck that we published previously. I haven't got that right in front of me, Glyn, but you'll be able to get that. The indicative realisations that we found through the due diligence phase were actually slightly better than what our assumptions were, and they're incorporated in the deck that we gave you when we announced the deal.

Glyn Lawcock:

Yeah, no, I appreciate that, Paul. I've got all those numbers in front of me. I just, when you look at PLV at 300-plus and semi-soft at 150 and PCI at 170, it would suggest those discounts today are far greater than what was in the document average from '19 to '22. So, I'm just trying to piece where it is right this minute, that was all.

Paul Flynn:

I think the realisations, proportionally, from the semi-soft to the PLV, they were pretty wide when we gave that guidance, and the average numbers that we gave there then, weren't far away from the proportion representation that those two types represent today.

Glyn Lawcock:

Okay. And then maybe just a final question, just on the sell down. I know there's many ways to value an asset, but a very quick one is, you paid $185 a tonne US for saleable production, average over the next couple of years. Is that if you think about Blackwater versus Daunia, Daunia's probably got slightly better quality, lower costs, Blackwater's longer life, bigger. Would you expect, is the value attributable, if on $185 a tonne of purchase price for everything, is Blackwater on the higher side or the lower side of that acquisition price, if you think of it that way?

Paul Flynn:

Well, I don't think of it that way, so I won't answer it in a way that answers your question. I'll answer it in a way that reflects how we think about it.

Look, I think as we outlined when we said, when we committed to buying these two assets, they are vastly different, as you are pointing to Glyn. So no doubt about that. Obviously the upside for us on Daunia is relatively limited from an output perspective, but really interesting from our perspective because of what sits next door, and that's why the Daunia process would happen later. That's why we need to take the time to study this integration of the assets, and turn what's a 16-year life asset into a 50-year life asset. So, that's the upside there.

Blackwater, as we always said when we announced this, it's a bigger and more complex piece, no doubt about it, that actually, it represents greater upside proportionately to what it is today. There's lots of opportunity there, both cost reductions, volume upside, and the five-year averages we gave when we announced the deal, they are an average of that five-year period. So, you'll start modestly in terms of that, and then you'll ramp up over time. But upside-wise, I actually think the Blackwater site has the greater potential. That's before you even talk about extension into the southern areas at South Blackwater.

So, from our perspective, the people who are inbound, talking to us about the opportunity to join forces with us there, I think they get that. Because, firstly, most of them are people who already buy the coal and understand it very well. Secondly, they understand the history and they understand the upside potential of the further expansion of the life over time. And I think they'd like to secure a meaningful position there that gives them an option to ride that as the transition to lower carbon technologies take time and those things aren't speeding up as lots of people would like to imagine, they're actually taking more time. That's probably natural. But the inbound interest is all about securing their piece of that over time so they have surety supply as this transition takes place over the many decades ahead.

Glyn Lawcock:

All right, cool. Thanks very much for your comments. Appreciate it.

Paul Flynn:

Thanks, Glyn.

Operator:

Thank you. Your next question comes from Lachlan Shaw with UBS. Please go ahead.

Lachlan Shaw:

Morning, Paul and Kevin. Thanks very much. Just a couple from me. So firstly, just quickly on the costs, running top of the range, just interested how much of that is the volumes at Narrabri, versus how much is actually dollar spend, maintaining a pretty high and sticky level?

Kevin Ball:

Well, out of Narrabri, it's volumetric. Narrabri's gross costs really don't change that much at an FOR level, free on rail. It's really about how much volume comes out of the place and the performance in the first half is below what we expected, and that's the 10- buck driver in there. The diesel price has been reasonably strong. I mean you've seen crack spreads in Singapore, refining spreads are growing, and you've seen an Aussie that's been hugely volatile, started at 68, got to 63 when we paid the deposit, got back to 66 at the end of the period. So, it's that conversation, Lachie.

If Narrabri gets its volume going better, it contributes a lower cost to ours and drives down our average by giving us lower cost in the proportionate mix. When it doesn't deliver, it increases its unit cost and then has a volumetric effect of not delivering that volume into the total tonnes.

On top of that, I'd probably say to you that we sold coal over the period, which was at a premium to gC Newc. We've been running pretty much a wash-all strategy at Tarrawonga and Maules Creek, and that's really, the marketing guys love it, because the coal just walks out the front door, because it's just beautiful to burn. And the operational guys go, "Just more work for us." But that's the tension in the business.

That strategy, with prices coming back, starts to get under review, because you're now looking at spreads between different grades, and does that wash-all strategy make sense? It made sense in a $400 market. Does it make sense in a one $130 market? Don't know. Need to work our way through that issue.

Lachlan Shaw:

Got it. Okay. And then a quick follow-on in terms of costs, any comment on “same job, same pay”, from your point of view?

Kevin Ball:

It's not cost reduction.

Lachlan Shaw:

Okay. Makes sense. All right, moving on. Just capital allocation and returns. Is it the case we should be thinking that the potential for buyback is minimised or maybe shelved for the time being, given the trailing nature of payments to BHP for the Blackwater / Daunia assets?

Paul Flynn:

Yeah, that's right, Lachie. We've said from the outset with the announcement of the transaction that there'd be a two-year pause on buyback activity whilst the vendor finance was on foot. I mean, the timeline of that doesn't change, but if we find ourselves in a position where there's an abundance of cash, let's assume coal prices go for a run, say for instance, then you can review that time. But the baseline parameters here in terms of capital allocation, the thermal business would pay the dividends. The met coal business would address the vendor finance. The buyback would be off the table until such time the vendor finance was gone.

Lachlan Shaw:

Understood. Last one from me before passing on quickly, just on thermal coal markets. JKT imports were down 13% year-on-year last year on increased gas nuclear renewables. Just interested how you're seeing things. You've got the chart in the deck in terms of growing deficit, but just interested in how you're seeing things, given something of a little bit of a renaissance around nuclear capacity in Asia. Thanks.

Paul Flynn:

Yeah, a little bit. The Japanese would like to, obviously, get more of their fleet up and running from a nuke perspective, and that would be a good thing for them, I think. That would be positive. But all these jurisdictions are carrying more fuel than what they had. From our perspective, just at a micro level, from a Whitehaven perspective most importantly, from our shareholders' perspective, our customers are taking all their tonnes. So, there's no change in behaviour there that we perceive from a volume perspective in the market.

I think, given that everyone's carried more fuel in all its forms through the year, and drawing down on that surplus has been very modest during the course of the 12 months, it's actually, it's been quite heartening to see the resilience of coal prices during that time. Especially during the shoulder period where you're still doing US$120, US$130/t, which I thought was very, very encouraging, and I think really points to the future price dynamics going forward, that there's a lot of resilience in the system there, at around that level.

We've been talking about different outlooks for thermal coal prices and I can see various commentators revising their numbers upwards in that regard. But I think it points to stronger prices for longer, given that supply-demand constraint, particularly in the high CV market that we play in.

Lachlan Shaw:

Understood. Thank you, I'll pass it on.

Operator:

Thank you. That concludes our question-and-answer session. I'll now hand back to Mr. Flynn for closing remarks.

Paul Flynn:

Thanks everybody. Really appreciate everybody taking the time to dial in. I know everyone's got a busy day, so we'll move on. But if there's any further questions, you know where to find us, and looking forward to meeting with many of you over the coming weeks as we talk further about the results for the first half and the transaction going forward. Thank you.