WHITEHAVEN COAL Q4 FY24 “June 2024 Quarterly Production Report”

INVESTOR CALL TRANSCRIPT

Date: 19th July 2024 Time: 10:30am

Introductory comments / Overview of Q4 FY24 June 2024 Quarterly Production Report

“Paul Flynn”:

Good morning everybody, and thanks very much for taking the time to dial in to the June 2024 quarterly production report for Whitehaven, last quarter of the year. But also first quarter, if you like, of our ownership of our Queensland operations. So, little bit of a change in terms of the structure of our report as you can see, and so I'll go through that in the normal fashion, and then we'll find ourselves at the Q&A session, which I'm looking forward to lots of different questions about the various parts of the business.

In summary, I think it's been a very good quarter for us. Very pleased with the results that we've been able to achieve both in New South Wales and also in our first three months of ownership of our Queensland assets. So, strong Queensland production has been very good across both sites. The acquisition completed on the 2nd of April, certainly very positive. And transition has gone exceedingly well, and the integration process continues at a pace.

Volume-wise, we've done very well, we think, across the first quarter of our ownership, coming in with ROM production at 4.8 million tonnes in the guidance that we gave. Queensland sales at 3.2 million tonnes reflects some slippage, which will fall into the September quarter. And I'll get to that a little bit later. That's primarily focused on Daunia, so I'll explain that a little bit further. Average coal price for the quarter at $271 Aussie was achieved from the Queensland operations for the quarter. As you'll know, largely an inherited position from the book that we've acquired.

Over to New South Wales just quickly, at a high level. Also, quarter production has gone very well. ROM production there at the managed level, 4.9 million tonnes across the operations, totaling out for the year for New South Wales, 19.7 million tonnes, which is well within our range of guidance as well. New South Wales equity sales of produced coal, 3.3 million tonnes for the quarter, 13.2 for the full year 24, also within our guidance range. Average coal price achieved, Aussie $207 per tonne for the quarter and $217 Aussie per tonne for the full year. And of course, a couple of movements there in terms of the operational components in our mix. Vickery tonnes have come out for the first time now in the month of June as budget and plan, which is very good. And the completion of mining at Werris Creek in April was obviously a milestone as well.

Flipping over to the group performance quickly, safety performance has been excellent in New South Wales. Been really good at continuing the positive trends that we've been exhibiting over the last few periods, and down to 3.3, our TRIFR in New South Wales, which is quite incredible considering the operations is a blend of open cut and underground. So, 30% improvement on FY23. Terrific performance from our team. The TRIFR for Queensland is 6.6, and so we think there's clearly upside here for improvement as we integrate the assets into our broader group.

Managed ROM coal production at 9.7 for the quarter, certainly very good. That's full year of New South Wales, one quarter of Queensland, reaching 24.5 in total for the year. Sales does the same thing, 6.5 for the quarter, 16.4 for the full year on an equity basis. Revenues, 59% metallurgical coal, 41% thermal. That mix is slightly up from what we expect from the aggregate of these north and south, or New South Wales and Queensland, together. But I'll speak to that a little bit soon. And obviously, we've experienced some bumpiness in terms of train pathing at Daunia, so I'll get to that in a minute. Rounded out the balance sheet, net debt is 1.3 billion Aussie at 30 June, reflecting our prudent capital management.

Now the table of results I have flicked over onto page two, it's given to you. So, the ROM totals for the quarter, which I've already stated some of them. And just to remind everybody that the equity balance is of course all of Queensland and essentially 80% of the management of the managed tonnes of New South Wales. Just to remind everybody because the numbers, if you're not familiar with them, takes a little bit of reconciling to go through them. Managed ROM total, 9.7 versus 4.4 at the ROM managed level across the whole business, saleable coal production at 8.3 versus 3.9. These all reflect a slightly greater than doubling of the volumes across what you would've seen historically for the business. And again, the equity tonnes itself, 100% of Queensland and essentially, rule of thumb, 80% of what you see at the managed level in New South Wales. So, 8.75 in the equity ROM coal production tonnes for the period, for this quarter, versus 3.5 for the previous quarter.

And that trend follows down in this table as you go down. Queensland, of course, is on 100% basis, as you can see in the table, at 4.8 for our ROM coal production, the 3.98 for saleable coal production, the sales at 3.2, as previously stated, and our managed coal stocks in Queensland at 1.56 million tonnes for the year end. New South Wales numbers, I've also mentioned there as well. I know it'll take a little bit of time just to work out the difference between equity and also managed, but that table should be very useful for you.

Over onto Queensland operations, as I say, strong quarter, very pleased with the production results for the quarter. So, I think a safe and smooth transition into our hands, I have to say, for these two operations, which is very pleasing from our perspective. Volumes at 4.8 million tonnes is certainly very, very positive. The saleable coal production, as I say, 4 million tonnes, with sales at 3.2. Now, sales have been affected in this quarter at Daunia, and the cause of that largely is the allocation of pathways to Daunia by the rail service provider out of, essentially, the bundled package where Daunia was previously managed. Obviously, in the ownership of its previous owner, it was run as part of a portfolio. And the separation of those pathways out and allocated to us did take some time, and so we have sales which have slipped into the September quarter.

Now we have brought into service one of the competitors to augment the amount of haulage capacity we have at Daunia, so that has helped. And we see that as normalising as we continue forward, but there has been some slippage into the September quarter which we have to acknowledge. Stock positions as a result in Queensland are pretty healthy. So again, production-wise, we're very pleased with both sites. Daunia at 1.3 million tonnes is probably a little bit lower than what actually is inherently reflected there, just because we were cautious not to load too much product coal onto the stockpile if we were struggling to get the allocated pathways necessary.

So, we did actually turn our focus a little bit away from coal production onto overburden removal. So, even despite that, the total's at 1.3, a very good total, and certainly reflective of the production averages that we've given you when we announced the deal. Blackwater also, done very well in that regard, 3.6 million tonnes for ROM coal production, saleable coal production at 3 million tonnes, and sales of 2.3 million tonnes. Again, reflected a very good transition, and I think steers everybody quite clearly to what the productive capacity of these assets are. And we all acknowledge that June quarter in Queensland is typified by decent weather, and so production in the June quarter does generally do pretty well. But I think this point's a very good positive sign in terms of what these assets can do.

I know there's some curiosity about how the sell-down process for Blackwater is going. I can say to you that that is going well, and we feel pretty good about that process. And I know we would like some more information about that now, but it is coming to the important stages of that process now. Bidders are well engaged, we're very positive about what we see out of that. So, just stay tuned for the next month or two as that progresses to something that is solidified.

New South Wales operations, as I said, done well during the quarter. So, very nicely, open cut's done nicely, and Narrabri has certainly shown very good signs of improvement there, as you can see. 4.9 million tonnes was excellent, 13% up quarter on quarter, and saleable coal production at 4.3 was also higher by 11%. Stocks are healthy at 1.1, or healthier than where they were. So, if I just go to the mines quickly, Maules Creek consistently has performed well during the course of the year, so that's nice to see. 2.6 million tonne for the quarter, a little bit less than the March quarter, but certainly a consistent performance from Maules Creek across the year. Rounding out at 11.4, which was very solid, and 20% up on, obviously, a difficult year for last year. AHS has come to conclusion there, and we have transitioned to 100% in-pit dumping at the site, which is positive.

Narrabri, as I say, has done well. So, 1.5 million tonnes, that's quite a step up from where we were with a difficult quarter in March, and on an annualised basis, gives you a better indication of where this is trending. So, the improvements have been very positive to see. And so, even though at 4.8 million tonnes for the year, was just under the guidance of where we were as a site at 5.1, we still see that as a very positive trend. And the improvements that have been made there are continuing into this new year, so that certainly is trending in the right direction. Gunnedah Open Cuts, if you're not familiar with the GOC acronym, Gunnedah Open Cuts has also done well during the course of the period, 3.5 million tonnes, broadly in line with last year.

Obviously Werris Creek has come to a conclusion, so made very little contribution during the course of the production totals for this quarter. But Tarrawonga itself has done 600,000 tonnes in the June quarter, which was very good. And obviously we've got 100,000 tonnes out of Vickery, in line with our plan which has emerged in June of this year, and so that's pointing in a very good direction. So, the quarter itself for New South Wales, I have to say, positive.

Over to equity coal sales and realised pricing, I know there'll be lots of interest in that. As I mentioned earlier, the split between the products at 59-41%, that's not indicative of where we think this goes and where we know it will go. This is obviously a revenue measure, and so is affected by price and volume. And so, I just want to draw a little bit of that out for you, and a couple of key stats here in the next paragraph in this report.

Now, the split between the products, between the primary coking products, between the hard coke and the semi-hard, 55% is low relative to where it is ordinarily through a production year. This is just one quarter's data of course, and we shouldn't infer too much, but that is what's popped out, obviously, in the course of the production split in this period. And so 55-45, the primary coking products, versus the PCI and semi-soft bundled into the 45. As we've guided you before, that should be 65 to 70 in an ordinary year, and this is just a timing difference in the first quarter of our ownership. So, I shouldn't be concerned too much about that. And as I said before, the Daunia sales were lower, affecting the revenue total split, because of the pathing issue that I mentioned earlier. So, the rail service provider's obviously working with us to try and recover the ground that we have lost in terms of pathways that we should've been able to achieve during this quarter, and they'll fall into the September quarter. So, two dimensions there that need to be taken into account.

But otherwise, sales have gone well, product qualities have gone well, and we've given you also the realisations for the products there in terms of the two product groups there. So, if go to the hard coke and semi-hard, 81% of the PLV hard coking price, for everyone's reference, so that will be a good thing for people to be able to use going forward. And in this market, PCI and semi-soft is achieving about 66% of the PLV hard coke price. Again, another metric that will be useful for you to use as you're modelling out the product. We know that that part of the market is heavily influenced by Russian supply into the semi-soft and the PCI market, so it is lower than you would historically expect from a realisation perspective through a cycle. Normally that's around the 75% of the PLV hard coke, as we've noted below.

And the primary hard products that we're selling both out of Daunia and also Blackwater will get between 85 and 90, if you reflect historically on how the realisations work. Again, because Daunia, being the better product quality of the group from Queensland, less represented in this quarter than we otherwise would've because of these pathing issues. That obviously has affected the revenue split in this quarter, which you should see normalise to the 65-70% as I mentioned earlier. New South Wales operations, again, $207 realised in Aussie dollar terms. Good result. $137 for the quarter versus 136, the average of gC NEWC during the quarter. And across the year, we did a little better than that again. We realised $140 US versus the 136 for the year taken as a whole. So, pretty good situation there.

The market outlook itself, look, both sides of our business now. We are exposed to what we see as two structurally constrained supply dynamics here, certainly in the met coal side of things. Recent news has obviously highlighted constraints in supply. And on the thermal side, we also see similar sort of changes coming on as well. So we feel good about the outlook, in terms of better pricing in the future, and certainly see a muted supply response to what is already good, very good pricing even today at 230, 235 for the hard coke and the 135 for the Aussie. I mean, very good pricing, but very muted supply response that could respond and take advantage of that. So, that certainly will put upward pressure on coal prices going forward.

Over the page to production costs, we've come in a dollar over the upper end of our guidance, 114. This is unaudited, but we feel pretty confident about those numbers. Unit costs at Queensland, obviously we've only had a couple of months of ownership here, and after a few weeks since the close, we'll bring those finalised numbers to you with the FY24 results in four weeks' time in August. At the same time, we'll give you, obviously, the full year guidance for FY25. New South Wales domestic coal reservation scheme, thought we'd note, as that sounds glorious as a scheme, it's actually a scam. [inaudible 00:14:48] about a million tonnes, sadly, devoted to that endeavour over the last five quarters. That has come to a conclusion, so that is good. Nice to see the back of that. At the same time, obviously 1st of July came about a change in the royalty rates in New South Wales. So, for everyone's calculation, open cuts at 10.8, underground at 9.8.

Development projects, I'll just call out the highlight of our spend during that period. Really, it's Vickery related, so early mining at Vickery, $31 million went into that, setting it up. As I say, on time and budget, doing very well, and tonnes have emerged in June as expected and on time. Narrabri Stage 3 continues to move its way through the various stages of activist engagement. And having defeated this case against the Narrabri Stage 3 EPBC approval, there is a further step required here, which is the activists have sought leave to appeal to the High Court. We don't think this has any merit over and above what has already been knocked down twice convincingly in the two previous court appearances of this case. And we expect a resolution, or this consideration of leave to be granted or not, we think that's low likelihood to be adjudicated in the next month or so. So stay tuned for some movement there.

Winchester South, of course, is going through its various land court preparation processes as everybody knows. Anybody who's objected during the course of the exhibition period for the EIS has an opportunity to go to Land Court. That is the way of the Queensland process. So we're in the prep stages there both legally and otherwise to make sure we defend our project.

Just looking at the page. Finally, just to wrap up the guidance here. As far as guidance goes, wrong guidance came into our group guidance well, which is good. Managed coal sales within guidance, equity coal sales within guidance, we've come in unaudited about a dollar over the top of our guidance due to inflation and left tonnes from Narrabri than we otherwise would've liked. And as we've been managing our capital spend, as we alluded to in previous quarters, we were trending towards the bottom end of our guidance. And we've come in around the 380, which is under the bottom of capital guidance for the year. Again, will be confirmed with the closure of the books off and the auditing process with the full year results.

So overall, very good quarter. We're very pleased with both ends of this. New South Wales has done very well in closing out the year. First quarter of Queensland certainly a pretty handy and safe and seamless transition into our hands for both Blackwater and Daunia. We will be giving guidance to you as we close out the full year financials on the 22nd of August. And of course, we've highlighted in the March report in terms of the format of which that guidance will take.

So with that, thanks for your attention. Hope you stay on for a bit of Q&A and I'll hand it to the operators to get the Q&A started. And again, apologies for the technical list. Just drop the line there during the course of the discussion. Thank you.

Question and answers:

Moderator:

Thank you. Sell-side analyst. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you're on a speakerphone, please pick up the handset to ask your question. Your first question comes from Rahul Anand from Morgan Stanley. Please go ahead.

Rahul Anand:

Good morning Paul and teams. Thanks for the call. Thank you for clarifying that you're expecting to go back to the 65/35 split in the Queensland assets in terms of semi soft products. That's helpful. I just wanted to understand perhaps two things as a follow on from that comment. When roughly do you envision getting there? And then how does the coal quality look like over the next five years, I guess? Is there any variability in the coal coming out of those mines that we need to be aware of in terms of the pricing side of things? That's the first one and I'll come back with a second. Thanks.

Paul Flynn:

Yep. Yeah, thanks Rahul. And as you know, I've got Ian and Kevin here with me as well, so they can jump in and assist with answers to questions along the way. But there's nothing unusual I would've said to draw out of the coal split other than the fact that this is just what we've inherited in terms of timing of sales of the fourth and through the quarter. The sales that we've booked in this quarter really had nothing to do with our control of it. The operational dimensions of the performance line we can take ownership for, because that's been under our stewardship, but the book of sales and the timing of when PCI is delivered versus the hard coke that was just entrain, as it is. And as you know, there's been a fair queue of fuel boats off the coast looking to be loaded so the timing of them even coming into the port has been a challenge.

And there are quite a few sales in the book which have been caught up, where there've been co-shipper related activities there, where we've delivered one part of the hold and another shipper has contributed another piece from a blending perspective. And that also has influenced when that particular coal quality was delivered as opposed to another. And so look, there's nothing too much to infer from any of that over a year. We shouldn't be gravitating back to our 65/70 split of the primary coking products versus the secondary, if I can them that. And as I say, I'm putting the hard coke and the semi-hard in the primary bucket, and obviously the semi-soft and the PCI in the secondary bucket, but nothing you should infer from that. The 65 to 70% across a year we're happy with that split. And this is just short term. Obviously, if we had put, as I said, more the Daunia tonnes in there, and this is what I'm trying to explain there is just we've had less than the necessary and contracted pathways allocated to Daunia than we would've liked and we're contractually entitled too, I might add.

But there was a bit of a glitch in terms of the, if you like, the segregation of Daunia out of the previous owner's contractual and portfolio managed position set up as a standalone allocation to us. There was a glitch in that, and so we received less pathways than we were due. And so we've been working with them closely to make sure that that's recovered as quickly as possible. And so some sales have slipped into the September quarter, but Daunia is, coming back to the point I was making about realisations, Daunia obviously is the higher end of those products, and so that has influenced the split of revenue in this particular quarter. So we will see more of that fall into Q1 of the new financial year. Does that help?

Rahul Anand:

Okay. So does that then suggest, Paul, that your stocks that currently sit in the Queensland assets are probably quite heavy on the primary product versus the secondary?

Paul Flynn:

Yeah. Yeah. Well, the product stocks themselves are healthy for two reasons. Firstly, Daunia because of that issue, I've just spent some time discussing. And then secondly, we've actually got some healthy stocks at Blackwater as well. Nothing sales related in terms of the logistics movement. That is obviously on a separate line and moving well and no problems there. But we have built some stocks ahead of a planned shutdown in the September quarter for the CHPP just to hold a bit more stock back. So both stocks levels are good for those two reasons.

Rahul Anand:

Okay, so the production splits are at 65/35 already then, it sounds like. It's just that the sales book has been skewed and that's what's caused your revenue differential, I guess. And then the second part of my question was just around the coal quality and if it changes in the foreseeable future. You've had the keys for about a quarter now. Any update there?

Paul Flynn:

Nothing changed from our assumptions there at all, Rahul. No, we're quite happy with what we're seeing there, so that's all quite reassuring.

Rahul Anand:

Perfect. Okay. Look, my second and final question is around Narrabri Stage 3. You've called it out in the release today as well that it seems to be progressing in the right direction. I guess my question was more around from a top-down perspective for the group in order to... Once you have made the Blackwater sale and once you've got the cash through the door, I guess you're going to have two ways to deploy that capital. One's going to be your Narrabri Stage 3, but then the other is perhaps to build Vickery full scale.

Given how Narrabri has performed in the past two years, do you think that still takes precedence over that Vickery development or do you think you go down Vickery before going down an expansion at Narrabri and maybe just keep it at a lower production setting or something of that nature that you can do there?

Paul Flynn:

Yeah, look, it's a good question. It's a good question and probably requires a little bit more time than we have here, Rahul, but it is a very good question. I'll try to answer as best I can within the time constraints that we've got. In terms of Narrabri's performance, we've talked about it obviously being disappointing in this year. And so we've talked about a close examination of the capital involved in Narrabri Stage 3, and you can see that we've wound that back considerably from where we've been in the past and where we come out with our guidance for that as well as part of FY25 guidance on the 22nd of August, you'll see a further moderation in terms of how capital will be allocated to Narrabri.

Now we think Narrabri is improving nicely, don't get me wrong. But that's good. But we certainly have taken the opportunity with the advent of the Queensland business arriving into the portfolio to examine what is the best use of capital across the entire book. And that includes Narrabri and that includes Vickery as you've noted. So I'm not going to answer the question here, but what I'm saying is that from an expectation perspective, our view is that there'll be no immediate requirement to purchase a replacement longwall over the next few years. And so I know that we've talked about that in the past being part of stage three, but of course these delays that we've experienced and the operational performance does contribute to a reassessment of what you think that the appropriate allocation of capital is given the performance of the site.

Rahul Anand:

Okay, that's excellent. That does answer a lot of what I was asking. Look, I had one more question around cost, but I'll leave that to someone else or queue up again. Thank you.

Paul Flynn:

Okay. Thank you.

Moderator:

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

Lachlan Shaw:

Yeah. Morning Paul. Thanks for your time. So just a quick clarification on Daunia. So you're suggesting that the catch up on rail is more September quarter rather than December half? Is that the way we should think about it?

Paul Flynn:

Say that again?

Lachlan Shaw:

Sorry, just the catch up on rail out of Daunia, is that a September quarter issue or is it more of a December half, two quarter issue?

Paul Flynn:

Yeah, look, I'd like to see as much as we can in September, but I think it'd be difficult for us to say that there might not be some slippage into the December quarter. I think obviously we don't control all of that. We have taken steps obviously to bring in a competitor into this to obviously give the encumbered a bit of a hurry-up, but it's two dimensions here. So it's not just the rail paths, and that is the primary issue. So it's the below rail piece of it that has been the primary issue.

Then it's obviously the number of trains turning up when you do have paths. And so I think September we'll see the bulk of it addressed, but I wouldn't say that there wouldn't be a little bit of slippage into the December quarter. I think it's a little early to be calling that one.

Lachlan Shaw:

Yeah, okay. Got it. Understood. Thank you. And then just my second question quickly, so just maybe for Queensland overall, you've got fairly healthy inventories right now. Could you maybe comment, and not withstanding the maintenance issues that you're sort of getting prepared for, could you comment on the inventory? Is that where you see it in steady state? And then I guess related to that, just any insight. You've had the keys at Blackwater now for a quarter. Any insight there in terms of the pre-stripping and what shape that's in? Thank you. Yep.

Paul Flynn:

Yep. Yeah, look, the stock levels I'd say a little bit higher than what we'd otherwise see. Lachy, I would expect that to come down a little bit, both in the case of Daunia, obviously for the reasons we just described and also because we do have a shut coming next quarter at Blackwater. Look, the Blackwater railings and logistics systems been working absolutely fine, nothing to see there. So we feel very comfortable about all that. And generally the transition at Blackwater has gone very, very well. You've raised a good point about the stripping, so I've got Ian handy here. He has been very keen to have a chat about that for everybody. So I'll hand over to Ian to describe where we're at with that.

Ian Humphris:

Yeah, so Lachy, a fair bit of focus on the drill and blast aspect there. Now we've got ourselves into a balance of shot stock that allow us to keep everything running efficiently. I mean our target is to increase that, but we've transitioned over. Well, the final transition was June, July, but over the quarter transitioned the explosive supplier at Blackwater and we're seeing some very positive upside there. We've worked on increasing licence capacity and bringing the teams on board. Whitehaven brings a high level of expertise in that space, so that's all progressing. I think the other thing I'll point out re stocks, that probably people. A bit different to Whitehaven, evolved with dragline pits, the coal gets uncovered and it's fairly lumpy, it's not uncommon. A day or two can be another difference of a million tonnes plus in the pit as a strip becomes available. So you'll see a little bit of that going forwards too.

Lachlan Shaw:

Great. Okay. Thank you. I'll pass it on. I've got more to come back later. Thanks.

Paul Flynn:

Just to add to Ian's summary there, I think as we've highlighted, we knew that there's obviously an investment in stripping required here in the pit. And as Ian described, it's blasted inventories as well as just pre-strip. So we have known that for some time, and as we talked about before, we did have protections in the contract to deal with the pre-strip. So the asset was handed over to us in compliance with the strip ratio requirements of the contract. But we do think the inventories of blasted ground and overburdened advance are low for what we want in terms of the steady state operational outputs we're looking for. And so we do need to invest in that. So I think that's just worthwhile stating. And that doesn't happen overnight, of course. You'll see us doing that over the next 12 months at least.

Ian Humphris:

And that May performance in the pre-strip was the best month they've had for the year too, I should say.

Paul Flynn:

Done very well.

Ian Humphris:

Yeah.

Moderator:

Thank you. The next question, it comes from Robert Stein from Macquarie. Please go ahead.

Robert Stein:

Hello. Thank you for the opportunity. Just a question on the BHP contingent payments, how will they be treated from an accounting point of view in upcoming results? Just wondering whether there are any impact against realised pricing, whether they flow through to cash, how would they be reflected? And I've got to follow up.

Kevin Ball:

Yeah, happy to answer that question. So you need to sit down and work out what you think you're actually going to pay over the period. So we'll do that probability based assessments based on what we think coal price is going to look like and what volume's going to look like over that period. And then what happens is that you put a liability on your balance sheet for that expected payment, and in effect, that just finishes up in part of the purchase price. So it doesn't impact your realisations. Your realisations are what you send out the door in an invoice and how it comes through as an amortisation charge effectively as an amortisation charge on the mineral tenement that you've acquired.

Robert Stein:

Thank you. And in terms of capital allocation going forward with those contingent payments going out with the CAPEX expected, how should we think about allocations back to shareholders in that context?

Kevin Ball:

I think you should think about that the same way we've been saying that probably since about last September, October, which is how we've described that, is that the dividend policy or the capital allocation policy remains the same. The dividend is likely to be out of the New South Wales business rather than out of the Queensland business because the cashflow from the Queensland business will be used to retire the deferred payments to BMA, and the buyback is on hold for a couple of years, while we do that. So we think we reward shareholders with dividends out of New South Wales, and we'll have that decision in August out of the board, for the final dividend, and look forward to resuming the full suite of approaches we've got available to us in an appropriate time in the future.

Robert Stein:

Thank you. That's really good. And just, sorry, one last one, just a modelling question. When should we think about the timing of those cash outflows to BHP? Is that the end of the financial year, end of a quarter? Is it-

Kevin Ball:

They're on two points. So, for the benefits of the modellers, I'll have answer a few questions for a few people here.

The payment, the BHP or BMA, the deferred payments that aren't contingent, are due in the first week of the June quarter each year. And the payments for the contingent amounts are due in the first week of the September quarter each year.

Robert Stein:

Thank you, that's really helpful.

Moderator:

Thank you. Your next question comes from Jon Sharp, from CLSA. Please go ahead.

Jon Sharp:

Yeah, good morning, Paul and team. Thanks for taking my question. Just the first one, on the CHPP closure in September, at Blackwater, what's the planned shutdown period? And is it just normal standard maintenance, or is there something specific? Did BHP keep up the planned maintenance there? Is there extra work to do?

And how do you see it affecting sales, any unwashed product coming through? And also, is there any other CHPP shutdowns during the quarter?

Ian Humphris:

Look, it's pretty normal. It's a annual shutdown they do in July each year, as I understand it. Nothing special. It's all on track, and progressing, and should be done very shortly.

Jon Sharp:

Okay. Any time period there?

Ian Humphris:

It'll be done by the end of this month.

Jon Sharp:

Okay. And just on Narrabri, good comeback there after the issues you've had. Have you still got the washout on the face? Does it extend into the next block? Also, when's the next longwall move planned?

And also, can I just ask, do you see Narrabri ever getting back to seven million tonnes, or can we think of it more of a five to six million tonne hit now?

Ian Humphris:

Okay, I'll try and take those in order. So yes, we've still got washouts in the face, but as you've seen in this quarter, the site's ability to manage those is, we've got good, consistent production going on. That's on the back of a lot of the work we've done, in and around the chain, and flight bars, et cetera.

I think we've explained to you before, a lot of work going on, as far as longwall health, more broadly, and it's a question of trying to keep good, consistent production there steady, avoid delays.

And again, I think we talked to you about changing the maintenance regimes to have more smaller ones, et cetera. And that all appears to be working, and that's delivering that sort of constant production levels you've started to see in the quarter.

We should go into the move, December, January, so that's all being scheduled and worked through at the moment. And I think, previously, as we've indicated, that if you look at the washouts, if you're trying to put them in a sort of percentage basis, they'll be about 50% of what we've seen in this block, in the following block. Obviously, they go across, but as we progress in the subsequent blocks, they reduce in number.

Jon Sharp:

Okay. Thanks, I'll pass it on.

Moderator:

Thank you. Your next question comes from Chen Yang, from Bank of America. Please go ahead.

Chen Jiang:

Good morning, Paul and Kevin. Congrats first quarter, of operating the newly acquired Blackwater and Daunia, in Queensland. That is the state, you haven't never operated before.

Two questions from me, please. So firstly, on the Daunia transition-related railing constraints, understand, it's now resolved or improved, but given, it's your first time operating in Queensland, like rail issues or logistics from Queensland, it's kind of common, and could be a recurring issue. I'm just wondering, what has Whitehaven done, to avoid this happening again? And how does the rail allocation work for Blackwater and Daunia to Whitehaven, after BHP, from the rail operator? Thank you.

Paul Flynn:

Yep. Thanks, Chen. Yep, good questions. Look, a couple of things I'll just try to draw out. Firstly, it's worthwhile, just noting, obviously, the different rail systems that the two mines work in.

So Blackwater rail system, no problem. Feeling very good about that. We've got plenty of capacity there, for above and below, and port, so we feel very good about that. No disruptions you should see there, other than the normal things, with planned maintenance, and so on, that the service providers would normally bake into the system.

Daunia is a separate matter, because that system obviously is a very, as you know, in the central zone in the Bowen Basin, a very congested area, and does, as you rightly point out from time to time, have its issues. The issue we observed, and I can't speak to anyone else, I can just speak to our experience, and our interaction with Horizon in managing this issue, and there are obviously two pieces of their puzzle.

The below rail service, obviously, the pathways that we refer to, that we don't, haven't had sufficient of, is distinct and separate from, obviously, the haulage side of things. And so just, again, noticing that that should be part of your thinking, as well.

Now, our understanding is that historically, Daunia has just been part of the broader BMA portfolio, and so, they moved pathways through their group, as they saw fit, depending on who's got coal, who doesn't, whatever they want to do, whatever blending outcomes they wanted.

Now, with the sale of Daunia, that required Daunia's allocation, to be excised from the contractual position, that BMA had, and be set up separately, to service our needs. And we understand that there was some challenges in the technology underpinning that, that didn't allocate to us, for a series of weeks, an appropriate contractual pathway position.

And so, obviously, we've raised that with the service provider, and worked with them to try and remedy that situation. Now they have, to their credit, they've certainly responded, and we were seeing more pathways to allow us to catch up the deficit, but obviously, we weren't able to deal with all of that, within the quarter.

And so, we did bring in, a second service provider to augment the capacity, to make sure that we could sell all the tonnes, we wanted to sell. So that has assisted us in doing that, and we still are using that, quite frankly. Because we want to recover the ground that we've lost, from the pathways that we didn't get, during the second half of the quarter.

As I say, that will spill into the September quarter. But as you rightly point out, Chen, that the system up there obviously is different from what we've experienced in New South Wales. It doesn't have the equivalent of the HVCCC that we have in New South Wales. So the way of working there is different.

But we have a good relationship, obviously, with all the companies that we're using here, be that Aurizon or PN, given that we obviously use them, and we are a very large customer of theirs in New South Wales. So we are working with them to remedy this situation.

It's unfortunate, but it is a timing-related matter, and these sales are not lost. They just slip, unfortunately, into the September quarter. That's not our preference, but they've just slid into the September quarter.

Chen Jiang:

Yeah, sure, thanks for the colour. Just a follow-up, so you happy with Blackwater rail allocation, but Daunia now is allocated separately to Whitehaven, because it used to be belonged to the BMA, as a group. Is the second service provider in addition to Aurizon, a permanent solution, for Daunia's rail allocation?

Paul Flynn:

No, no. Look, I mean, just logistically, these mines are very, very far apart, Chen. So just, and they are on different rail systems, right, going to different ports, and that's the benefit of the portfolio we've got here, that obviously, what might affect one doesn't affect the other, because they're on different rail paths and different ports. So that's nice diversification, lower risk, as a result.

Fortunately. And so, as I said before, we've got plenty of above, below, and port capacity for Blackwater, no issues there at all. Happy with the way that system is working.

Yeah, the Daunia one's, to say, is different. The extra service provision that we're receiving at the moment is a temporary surge capacity arrangement. No decision has been made as to whether or not we need something like that, as a longer term proposition.

Obviously, the first port or call is to meet the immediate short needs of the site, so that we can continue to operate seamlessly, and to resolve these issues with the incumbent. And obviously, there is no opportunity to change the below rail service provision. That is a monopoly, but obviously, you could, from a haulage perspective. But obviously, we want to resolve these issues as quickly as we can, and get back to normal business.

Chen Jiang:

Sure. Thanks for the colour, Paul. I appreciate that. And then, maybe last one, I know it's still early stage, but you have been operating at Blackwater for three months, or over three months now.

Are you able to comment on the pre-stripping in the next, the additional work that BHP haven't done in the last few years, that you need to do in the next 12 to 18 months? And how should I think about cost, and especially, the yield from the additional work, and price striping? Thank you.

Paul Flynn:

Yeah, Chen, look, as we've noted along the way, there's definitely an investment required, in working capital here. We said that consistently, or since prior to even owning the assets, and that investment will continue to be made.

That investment will highlight, and for you, when we give our guidance in the new year. I mean, that will be embedded in the cost. It is a cashflow. It is a cashflow impact. As I mentioned earlier, that exercise is not something that can be achieved overnight.

It's going to have to be a consistent and diligent function of the mine plan, to deliver increased inventories, at blasted blasted inventories, but also pre-stripped inventories. And as I say, that's not done overnight. We will be investing in that over the next 12 months, for sure, and we'll call that out for you, when we give our guidance on the 22nd of August.

Chen Jiang:

Sure. Thank you, Paul. Thank you so much. I'll pass it on. Thank you.

Moderator:

Thank you. Your next question comes from Paul McTaggart, from Citigroup. Please go ahead.

Paul McTaggart:

Morning, all. So I just want to follow back, or go back, to the realised pricing. So I think you pretty well explained, Paul, the difference between the kind of primary and secondary product mixes out of Queensland, but even for your, and we talked a little about price realisations, for the secondary mix, given Russian product, et cetera.

But even for the primary products where it was 81% of the that index, the prime index, could you give us a sense of what you expect to get back for that primary product, in terms of what it should be, against the index?

My recollection was from prior guidance, it was more like 90% for prime and 85% for the, sorry, 90% hard coke mill project, 85 for the semi-type product, which would be over in the high eighties. So can you give us some clarification, please?

Paul Flynn:

Yup. Yeah, two different things there, Paul, just to call those out. Certainly, the 81%, obviously, is what the realisations currently are. The 85 to 90% that we're referring to is a historical perspective on the realisations that these products have achieved.

So, reversion back to that is what we're talking about. That's that paragraph that sits below in the report, and also, the numbers that we've given you, when we announced the deal back in the October pack. That pack, just for everyone's benefit, does have some useful information there, in terms of what the historical realisations have been, for these products.

So the 81% that we've achieved in the short term is actually in line with our expectations, but that is the blend of two things, don't forget. That is the hard coke at Daunia, and the semi-hard at Blackwater. So that is an average, across those two different products.

Now, as we've said before, the Daunia is the higher quality of the two, but it is the smaller portion of the sales mix. And so, that's what I was referring to before, in terms of the 59-41% is low, for those reasons.

The mix is different, and also, the total volume is different in this quarter, because of those logistics issues I mentioned before, at the mine, Daunia, that has the higher realisation product.

Paul McTaggart:

All right, so it sounds like you're confident that once you get the Daunia production normalised, as it sounds like it's now, you'll be back in that 85 to 90% range for that primary realisation. Is that right?

Paul Flynn:

Again, the 85 to 90% range that we've given is the historical averages. That's this historical average realisation. So to the extent that there are period on period variations, we will have to live with that. That is part of the parcel of being in the Met coal market. But we're happy that the guidance or that historical reflection remains true.

And the only one, which is the anomaly at the moment, as you know, is in the secondary products, where semi-soft, historically, has been 75%. But as you will know, Paul, that hasn't been that way for some time.

Paul McTaggart:

Yes.

Paul Flynn:

And of course, the distortion is even greater at the moment, because of the Russian influence on that part of the market.

Paul McTaggart:

And one last one, just that surge capacity that you're using at the minute, the cost of that, is that a normal level of cost, or are you getting stung for that?

Paul Flynn:

Look, obviously, surge comes at a cost greater than your contractual costs. Who bears that cost? I think that's an open question, but yes, it does come at an incrementally higher cost in the short term, but we want to move. These prices are good, we've got coal there that we need to move, we want to get it going.

Paul McTaggart:

Okay. Thanks, Paul.

Paul Flynn:

Thank you.

Moderator:

Thank you. Your next question comes from Glyn Lawcock, from Barronjoey. Please go ahead.

Glyn Lawcock:

Morning, Paul. It's obviously a good production quarter from Queensland, and you annualised it at 16 million tonnes, but if I look at the last 12 months, those two mines only did 14 million tonnes.

So is that what I'm hearing through all your commentary, You've got to catch up on inventory for stripping, et cetera. Yeah, the June quarter doesn't have maintenance, weather's good, so don't annualize it. I know you're going to give us guidance, but is that what you're sort of trying to intimate? It was only 14 million tonnes produced for the last 12 months and you've still got a lot of work to do to grow it from there.

Paul Flynn:

Are you referring to ROM, Glyn? Is that...

Glyn Lawcock:

No, that was just saleable production. Sorry.

Paul Flynn:

Saleable. Yeah. Look, all I'm saying there is that both mines have done well production wise, I think those numbers look pretty good. I do notice we have the benefit of good weather. So okay, you can put a little bit of variation into your numbers as a result of the March quarter usually has a bit more rain and cyclone activity, et cetera, et cetera. No, I'm not saying that the numbers should be a lot lower than that. No, I think we're actually at pretty consistent levels. All I'm pointing to is I think actually points to the potential of these sites, because as Ian referenced earlier, we have seen quite a few productivity improvements at Blackwater already. So site records from a productivity and dirt movements have been achieved in the short time that we've had ownership there. You may recall that we've actually added some more capacity into that total movement of dirt capacity. So we have put orders down for two new large 800 tonne diggers, one which will replace one on site that's a rented unit that hasn't been as productive as we would like. So we are putting two new units in there, so there will be an uplifting capacity there as well. Obviously, moving the dirt out of the way means there's more coal to be mined. So look, I'm just acknowledging that the quarter has been a good one, the weather has been favourable, but I'm not talking down the balance of the year as a result, that people should be making major discounts on the quarterly performance on an annualised basis.

Glyn Lawcock:

That's fine. Then could you just help me understand what is the quantum of allocation you have like in tonnage per year for the two Queensland mines for both port and rail?

Paul Flynn:

We haven't given those numbers out, Glyn, but needless to say there's no issue with Blackwater that is surplus two current run rate requirements for both above and below rail and also port. So should not be concerned about constraints there, but contractual positions for Daunia are pretty closely matched to those five-year averages. So that's an interesting position. The question is do you need more? Do you need less? What do you need? Our view obviously is we would like to ramp these mines up a bit more, Daunia in particular. So if we're currently matched to the five-year average, we may need to take on a little bit more to do that.

Glyn Lawcock:

That's available, you think?

Paul Flynn:

Well, I can see lower volumes through that system in recent times for other reasons. And so talking to other players in the marketplace, we think there's capacity available.

Glyn Lawcock:

Okay. Just a final question. Just on the Blackwater sell down, you mentioned 20%, but I think in a response to a question I asked six months ago, you said potentially up to as much as 30. Is that still the case or is it just definitely only 20% now?

Paul Flynn:

Glyn, we have interest well in excess of the 20 that we would like to sell. We have, like I say, determined and credible offers for more, and so we have some flexibility in our thinking in that regard. I don't suspect it will be more than 30. Well it won't, but the board has not made a call yet because the process has still got a little bit of way to travel, but I wouldn't exclude the possibility of up to 30.

Glyn Lawcock:

To still get the cash in the door for Christmas, what's the latest? Do you think you can close the deal to get the cash in the door by Christmas?

Paul Flynn:

Yeah. Look, again, that's not entirely under our control. As I said, we would like to see positive movements in the next month or so in this process, but then you have to go through the regulatory processes of competition clearances and FIRB and so on, and we can't control that aspect of it. I would like to see this closed out within the next two months in order to be able to see cash around the end of the financial year, but gain, it's subject to the regulatory things that we don't control.

Ian Humphris:

Calendar.

Paul Flynn:

Oh, sorry. Yeah, calendar year. Sorry. Thank you.

Glyn Lawcock:

Yeah. So within the next two months you might then still get it in your Christmas stocking.

Paul Flynn:

Yeah, that'd be nice.

Glyn Lawcock:

Yeah. All right. Thanks, Paul. Appreciate it.

Paul Flynn:

Thanks Glyn.

Moderator:

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

Lachlan Shaw:

Thanks, Paul, for taking my follow-up. So maybe just to come back a quick one on realised pricing, in particular around PCI semi-soft. Obviously, it is weak at the moment versus history, but just interested in how you think about this medium term in respect of your customer's steel mills and how they might start to tinker with responding to reduce their carbon.

Paul Flynn:

Yep. That's an interesting question. Might require a meeting actually, that one, because-

Kevin Ball:

It will require a meeting.

Paul Flynn:

That's a harder one, but look, I thought you were going in another direction rather than being the carbon footprint. Obviously, all our customers are conscious on their carbon footprint and obviously working through their various plans to decarbonize over time.

In terms of the medium timeframe you're talking about, and let's assume we're talking about the next maybe five years, 10 years, I thought you were trending more towards where does the secondary product, the interest in the secondary products go. My view of that is that I think that the interest in them increases. The reason why I say that is because the primary hard is a relatively constrained production base. There's just not much expansion potential there and we have a growing customer appetite for this stuff.

So semi-soft and the PCI's I think figure more in the mix in terms as time progresses and of course how individual customers deal with their decarbonization objectives will be many and vary depending on the different steel companies using these products. So I don't see that being the big driver for these prices. I see actually the underlying demand and the inability to bring on meaningful supply responses for that strong demand pointing to better pricing over time.

Lachlan Shaw:

Yeah, that's really interesting. Thanks, Paul. Then look, maybe just one quick one. So just small detail here. Narrabri inventory's stepped up quite a bit in the quarter. How do you think about that is that a healthy level on a go forward basis? Yeah, how do we think about that going forward?

Paul Flynn:

Yeah, it did step up, which is good. That's positive. It was actually a little skinny there obviously with the lower production. So it's really just consistent with the more consistent production that's been coming out from the mine. So yeah, that's positive. I don't see anything negative out of that at all that. That's a good thing. So the more coal we have available to us, the more liberally we can blend across the group and that's our objective. So we always want to have a bit of stock on the ground at the mine and also at the port at NCIG that allows us to optimise the blends. When we have less of one quality or another, be that the high CV or the mid CV, that is constraining, because then you don't have the flexibility to blend at will. So having a bit more stock on the ground is actually a good thing.

Lachlan Shaw:

Great. Thank you. I'll pass it on.

Moderator:

Thank you. The next question comes from Rahul Anand from Morgan Stanley. Please go ahead.

Rahul Anand:

Hi again, team. Thanks for taking the follow-up. Look, the only one I wanted to follow up really on was some comments in the release around inflationary pressures. We obviously had a year where cost performance was just above guidance and that's obviously been impacted by your production numbers this year, but you have called out continuing inflation in the market. We've seen several job losses coming about in the western part of Australia, but how are you seeing New South Wales and Queensland going into the next year in terms of inputs and labour et cetera, in terms of inflationary pressures? Thanks.

Paul Flynn:

Yeah, good question, Rahul. Look, we are still seeing inflation in the business, no doubt about that. It's probably easier to answer your question in terms of how do you feel about the outlook. You pointed out the job losses obviously in the sector on the other side of the country. For sure, that will influence things. Availability of labour is better. We're not seeing that truly reflected in the price of labour yet. I do expect that to emerge and to be a softening there. In Queensland, obviously recent activities, you've seen, job losses there as well, I suspect there'll be more of that to come. That will take the pressure out of the labour market I suspect.

So directionally, I think the labour component of inflation should moderate, but we are seeing it materials still within the business. So parts, materials, we are still seeing inflation in there and services. So that definitely is still rife, if I can say that. As I was pointing to in the release, obviously volumetrically having less of our cheapest tonnes narrowed by that is obviously influenced the cost base. I might just throw one further comment in there just on the labour side of things. Sorry, circling back to that. The prospects of same job, same pay, elevating labour costs across the industry is obviously front and centre of our concerns and we've seen seen the opening gambit of that playing out with a couple of players already. That is going to add more pressure to labour inflation.

Rahul Anand:

Understood. Thank you. That's all for me.

Moderator:

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

Chen Jiang:

Oh. Thank you, Paul, for taking my follow up question. Just a quick one on Narrabri. By looking at the fourth quarter ROM coal of 1.5 million tonnes, that is annualised at 6 million tonnes of ROM production. I'm wondering are you being able to maintain the fourth quarter annualised level given if you think Narrabri was going to deliver stability or steady of production, or can you increase further? That's my last question. Thank you.

Paul Flynn:

Thanks, Chen. Good question too. Yes, look, the run rate's much improved and very pleased with that. The only point I note is that we are seeing, obviously as I mentioned earlier, a continued improvement in that regard. So that's looking nice and consistent falling into this new year. But when we give you guidance on the 22nd of August, I do have to acknowledge here that there is a change out in this next financial year, which there wasn't in this. And so there will be some downtime associated with a change out. So a good call out. Thank you.

Chen Jiang:

Okay. Thanks, Paul.

Moderator:

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

Glyn Lawcock:

Hey, Paul. I'll keep this quick. So you've commented around CAPEX, you're going to postpone it while you integrate Queensland and you've got your payments to BMA, but you've got assets coming up for sale again. They're probably only going to come up once. You can then buy and sell down like you're doing with Blackwater. So does that mean you have no interest in the Anglo assets or do you still think it's a possibility on your plate? Thanks.

Paul Flynn:

No, we are not interested in doing anything there at all Glyn. We've got our hands full. We've got a great acquisition. We want to make sure that goes well. The sell down of our process is proceeding very well. So we've got enough to do here. So we are not participating in that process.

Glyn Lawcock:

All right. Thanks, Paul.

Paul Flynn:

Thank you. Thank you for asking.

Moderator:

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

Paul Flynn:

Again, thanks very much everybody for taking the time to dial in. A lot of ground to cover. I know my apologies for the glitch in technology, but good quarters I say. Very pleased with how the new assets are going, and all the while whilst our focus is on Queensland, new South Wales has done very well, which is terrific. If you've got any residual questions that come from that, you know where to find us and looking forward to engaging with you over the coming weeks. Thanks very much.