Investor and Analyst conference call notes

Operator: Welcome to Yancoal Australia first quarter 2024 report conference call. At this time all participants are in a listen-only mode. After the speaker's presentation there will be a question-and-answer session. To ask questions during the session you need to press star one one on your telephone. You will then hear automated message about saying your hand is raised.

You may also submit written questions by the ask questions column on the webcast portal. Please be advised that today's conference is being recorded. I would now like to hand the call over to Mr David Moult, Chief Executive Officer, thank you. Please go ahead.

David Moult: Thank you Desmond, and thank you to everyone on the call, for joining this briefing on Yancoal's first quarter production report for 2024. I am joined on the call by several members of the Yancoal executive team including our Chief Financial Officer, Kevin Su; Executive General Manager, Marketing, Mark Salem; and our Executive General Manager, Environment and External Affairs, Mark Jacobs.

I will give a summary of the first quarter activities, then open the call to a question-and-answer session. My comments are based on the quarterly production report published to the Australia Securities Exchange and the Stock Exchange of Hong Kong yesterday, 18 April. There is no presentation pack for this conference call, the Yancoal website holds past presentations for any participants who require additional information on the company.

We have started the year well and will look to build on the first quarter performance. I'd like to acknowledge the dedicated people at all of our mine sites who have driven our performance this quarter. The total recordable injury frequency rate, which is 5.9 at the end of March, remains well below the industry average of 8.4. Continued support from everyone for our safety initiatives is a key factor in the overall success of the Company.

In the first quarter, our cash balance increased by AUD$260 million. This increase in cash is after payment of all our operating capital and corporate costs, including our monthly tax payments. At the end of the quarter, we held almost AUD$1.7 billion. We will pay the fully franked 2023 final dividend of AUD$429 million at the end of April from that cash balance.

After the dividend payment we will still hold more than AUD$1.2 billion, equivalent to over 15% of our current market capitalisation. The cash accumulation was driven by a realised coal price of AUD$180 per tonne. The realised price was roughly double the cash operating costs we are targeting this year, and as such we have continued to generate strong operating margins.

Coal markets, and particularly thermal coal markets, faced declining conditions in recent months. Demand was soft due to the warm northern hemisphere winter, and the soft global economy. At the same time, supply was elevated by export recovery from Australia, Indonesia and other regions. In the context of these factors, we view the modest decline in coal industries over recent months as a positive outcome. It suggests to us, coal markets are relatively balanced and remain subject to short-term drivers and trader sentiment.

8.8 million tonnes of attributable saleable production represents an increase of almost 50% on the same period last year. Effective execution of our mine recovery plans through 2023 has re-established our production profile over the past 12 months. As we anticipated, first quarter production was lower than the preceding quarter. The holiday period and seasonal rainfall typically impact the operations at this time of year.
8.3 million tonnes of attributable sales lagged our attributable production by 0.5 million tonnes. The timing of shipments and reduced trade into China during the lunar new year period influenced the sales volume.

Production and sales tend to swing quarter by quarter, but we expect them to balance out over the course of the year. As indicated previously, we project our 2024 production profile will be weighted towards the second half. The 2024 production guidance issued in February is unchanged. We are targeting 35 to 39 million tonnes of attributable saleable production at a cash operating cost of A$89 to A$97 per tonne.

Our large-scale, low-cost coal production profile is well suited to the current coal market conditions. Having no interest-bearing loans, a large net cash position, and robust operating margins gives us the capacity to act, should suitable growth opportunities arise. If such an event materialises, we will inform the market. In the meantime, we are focussed on consolidating the production recovery delivered last year. Closely managing our controllable cost elements and maintaining our position as a leading, large-scale low-cost producer of export quality coal.

That concludes the summary of Yancoal's first quarter performance. We will now move to the question-and-answer session, starting with questions from the phone then moving onto questions submitted by the webcast. I will now hand back to Desmond who will initiate the process for the question-and-answer session, by in the first instance the phone. Thank you.

Operator: Thank you. As a reminder, to ask a question on the phone, please press star one one. There are currently no questions from the phone line, please continue.

Brendan Fitzpatrick: Thank you Desmond, it's Brendan Fitzpatrick from the Investor Relations Team speaking. We've got several questions coming through on the webcast platform, there are some overlapping topics amongst the questions already submitted, so I'll moderate or combine the questions to give a flow to the dialogue. I'll start with the questions coming through on the topics of productions and costs. Perhaps if we could recap that expectation for 2024, in terms of our production guidance and costs?

David Mount: Thanks Brendan. Just to remind everybody on the call and investors, our production guidance is unchanged and that is 35 to 39 million tonnes of attributable saleable production, and our cash operating cost guidance is unchanged at A$89 to A$97 per tonne.

Brendan Fitzpatrick: There's a specific question, asking if we had any comment on the operating cash costs for the first quarter period?

David Mount: We don't normally issue guidance quarter by quarter on costs. The guidance we are sticking with at the moment is that we're still on track as we'd planned to be this year, to be within our guidance range of A$89 to A$97 per tonne.

Brendan Fitzpatrick: Thank you David. As per normal, we'll provide the cash operating costs for the half at the end of the first half period.

Looking at the concept of capital management, there's several topics related to this theme. One of the questions coming through, is there any expectation at this point for the dividend for the first half?

Kevin Su: Thanks David, Thanks Brendan. Based on the parameters set out in Yancoal's Constitution, we have in recent years been distributing a dividend every half year. We have no intention to change those parameters, which is 50% free cash flow, or 50% NPAT, whichever is the higher; and then finally, subject to the Board's discretion.

Brendan Fitzpatrick: There's an extension to that question. Is there any scenario where the distribution could be higher than the 50%, given that at times in the past it has happened, on occasion?

Kevin Su: It happened in the past, after Yancoal gave consideration to different capital management priorities. The Company believes rewarding shareholders is an important thing to do, which means we may, from time to time, elect to distribute more than 50%.

As I said, it's very much dependent on the capital management priorities at the Board level. From a management perspective, we will propose what we believe is reasonable to the Board.

David Mount: I think just to add to the end of Kevin's comment there, we deal with each circumstance at the time that we're setting dividends. Recommendations are put to the Board depending on what is happening, both within the Company and outside of it, and the Board will typically make that decision on a six-monthly basis.

Brendan Fitzpatrick: There is another question regarding the concept of capital management and allocation of the cash resources. Has an on-market buyback, or alternatively a share split been considered? Or are they possible at some future point?

Kevin Su: At the current moment from management's perspective, we feel an on-market share buyback, probably is not appropriate. I think everyone would appreciate the fact Yancoal is a part of Hong Kong index but we're still not a part of ASX 200 or 300, which requires a free float above 30%. Currently we have about 28.4%, so it's quite important for us to make sure Yancoal continues to improve its free float ratio, from that perspective an on market buyback probably is contrary to that.

Brendan Fitzpatrick: Desmond, could I come back to you and check if we have any questions standing by on the phoneline please?

Operator: Yes we do. We have a question through on the line of Angus McGeoch from Barrenjoey. Please go ahead.

Angus McGeoch (Barrenjoey): Thank you, and morning guys. Congratulations on your quarterly - and I think particularly impressive, the uplift from a year-on-year perspective. Just a couple of observations and hoping to get your comments. Your production is annualising at around 35 million tonnes, so that seems nicely in line with the lower end of the guidance.

Could you provide some quick comments around how we should think about the sequencing over the next three quarters, and your confidence into year-end that that ongoing ramp up in output is in line with expectations? Secondly, how that translates to the cost outlook. Doing some basic numbers on cash versus sales and it seems like there's a fair bit of room to move lower, for your cost profile. Making sure that that's all still in line with expectations that you're going to see those volumes ramp up and costs come off at the same time. Any further thoughts you might have?

I see that they've adjusted the weather outlook back in Australia again and it seems like they're expecting wetter conditions again this year. Should that play out, how do you feel with respect for all the work that you've done in recent times, in reconditioning the mines? Should you get a bit of wet weather will that impact your guidance expectations?

David Mount: Thanks Angus, thanks for those questions, it's good to hear from you this morning. We have said on a couple of occasions now that production would be back-end loaded, but we're actually tracking to plan. We don't see anything at the moment that indicates we're not achieving what we want to achieve, and I think what you'll see quarter-on-quarter as we're going through the year, we will be picking up those tonnes and getting ourselves into a good position within our guidance position. I have no concerns at the moment. I'll jump off costs a minute and just talk about weather, because we've had a little bit of rain recently. But the good thing is that all that work we put in last year, the extra investment in pumping capacity, the extra investment in storage capacity on all our sites, has put us in a very good place. We're in a position now where, yes, we still get some impact when it's raining. We'll never get away from some impact because it's just by the nature of the big trucks and the big open cuts.

However, recovery has been extremely quick and I would expect, if we get rain later this year, again we will be able to manage that water in a way which will reduce any impact on the operations. We're still not expecting it to be a wet, wet year. We're expecting it to be a more normal year, I suppose is the best way to put it. But with weather, like everything else, the forecasters change their mind month by month.

But we're not expecting any major issues with water, and we've certainly got the mines in a state now where they can deal with it a lot better than they could in prior years.

On the costs, we're still confident we're well in our guidance range and I think on the back of what I said about production, you'll see costs as we release them at the half-year, reflecting how our production profile is growing as we go through the year.

No major concerns from me at the moment, a lot of focus from our management team is on cost reduction. A lot of focus is on making sure that we are as cost-efficient as we can across all our operations, and it's always nice to be able to sit here and say that we want to be the lowest-cost producer in Australia. That's always our aim, and it's not changed in recent times. Fairly confident at the moment that we're on track with everything, Angus.

Angus McGeoch (Barrenjoey): That's great to hear David, and just one last question, around current stockpiles. I see Moolarben's stockpiles are up, and I might be looking in the wrong place, but I can't see current stockpiles across the group. Are you pretty happy with where stockpiles are right now? How do they fit from an historical perspective?

David Mount: Our site stockpiles are a bit higher than normal. Most of it sits at Moolarben. Moolarben, if you remember, when we gave our last summary we had an issue in the last quarter with the rail line, which is the one that services the three big mines that sit in Mudgee, or the Mudgee area. There was a major derailment there, it wasn't one of our trains, but it impacted us the same as it did the other two operations.

As a result of that, we ended the year with very, very large stockpiles at Moolarben. We've done a lot, both with our rail providers, and we've done a lot onsite to move coal around. We've altered maintenance periods to coal preparation plants and we're managing those stocks very well. We're actually hitting some record performances now, on that railway.

If you look at last month's performance, it was running well above what we anticipated, if you put it on an annualised basis. While we're not currently concerned, we've had a very, very tight focus on that area during the last few months. It all goes back to that period in December when that rail line was quite badly impacted.

Angus McGeoch (Barrenjoey): Got it, great. Thanks David, appreciate it.

David Mount: Thanks Angus.

Brendan Fitzpatrick: Are there any further questions on the phone line please?

Operator: As a reminder, you can press star one one if you would like to ask questions.

Brendan Fitzpatrick: Sticking on that topic of production, there's a specific question coming through with regards to the Mount Thorley Warkworth operation, an observation made that the production in the first quarter was lower than in the fourth quarter, decreasing by over 30%.

David Mount: AT MTW we experienced temporary weather-related delays and unplanned truck maintenance. We had a lot of coal stockpiled and got it out as quick as we could. We're working through it and the mine is working very well, it's operating to its expectations, and we'd expect as we go through the year that we will release more coal, and you will start to see those tonnage figures coming back and lifting quarter-on-quarter as we go through.

Brendan Fitzpatrick: A quick reminder to everyone they may submit questions via the webcast, I'll continue to read those out on your behalf. Returning to the topic of capital management. There's the observation that we're carrying a significant cash balance at this point. Is M&A an active consideration for the company at this point in time?

David Mount: We're always looking, we're always evaluating in that space, we're always looking for opportunities. I think being in a position where we have cash available puts us in a very strong position, if those opportunities arise. When it comes to M&A there are no transactions at the moment on anything that is out there. We continue to look and I'm very keen to keep ourselves in a very strong position if those opportunities arise.

Brendan Fitzpatrick: An extension to that concept of M&A, Yancoal was reported in the media as being a participant in the asset sale by BHP last year. Is there any comment on the role of FIRB and Yancoal's capacity to act in the M&A space?

David Mount: Yes we have looked at various assets and we don't anticipate any FIRB issues in the coal space. We have ongoing dialogue with FIRB. We don't see any major issues within the Australian FIRB approval system. I think it's fair to say there's a lot happening now between China and Australia, and while we don't comment on bilateral relations, I think the setting is good for Yancoal.

Brendan Fitzpatrick: We've covered most of the topics coming through on the webcast again, please continue to submit questions if there's anything you'd like to discuss. Typically, we have several questions on the topic of coal markets. There's nothing specific coming through at this time, but perhaps we'll take the opportunity to get a few comments on what we've experienced in the coal markets over the past quarter and whether we see any significant trends that could emerge through the remainder of the year.

Mark Salem: Mark Salem speaking. During the quarter - we entered the quarter again experiencing what was a mild northern hemisphere winter. On top of that, a few of our major markets had disruptions, in particular Japan, where they had the earthquake in the Hokuriku area, as well as some power plant maintenance issues.

That caused a bit of a subdued demand period with supply coming strongly, as David mentioned, from Australia as well as Indonesia and some other markets. We did see the prices decline over the quarter. In terms of moving forward, the feedback that we're getting is that Japan's demand should be coming back, especially in the second half of the year, quite strongly. If we maintain a relatively good supply position, that will sit us well for our quality of coal that we sell into that market.

China is also one of our biggest markets and naturally, with the lifting of the ban we've increased our sales into that Chinese market. China is still providing us better returns for that quality of coal that we supplied, in comparison to other markets in Southeast Asia and India.

Our focus is definitely on that Asian market. The Chinese market is relatively stable in terms of year-on-year imports, and our position in that regard. As David said, I think we're looking to a balanced market for the rest of the year.

Brendan Fitzpatrick: Thank you Mark. I'm not showing any further questions on the webcast at this point in time. Desmond, I'll come back to you for one final check for any questions coming through from the phoneline?

Operator: There are currently no questions from the phoneline as well, please continue.

Brendan Fitzpatrick: Given we've addressed all the questions at this point, David, I'll hand back to you to make some closing remarks.

David Mount: Thank you, and as always I'd just like to thank everybody for finding time this morning to join us on this first quarter's call. Yancoal's looking forward to a good year this year. All the signs and indications we're getting from our operations are good, and we're not expecting – even though we did talk a little bit about weather earlier on, the sort of conditions that we've had in the past.

I think we're getting back to more normality, and as Mark's just been explaining, with our – with one of our largest customers, the Chinese market, back in our mix we seem to have a very balanced market at this moment in time. We're confident this year's going to be a good year, we look forward to your involvement in our future briefings. I wish you all the best this morning and thank you for joining us on this call.

Brendan Fitzpatrick: Thank you David. Desmond, could you please conclude the call.

Operator: This concludes today's conference call, thank you for participating. You may now disconnect.