Investor and Analyst conference call notes

Operator: Good day. Thank you for standing by. Welcome to Yancoal Australia's fourth quarter report conference call. Please be advised that today's conference is being recorded. I would now like to hand the conference over to your first speaker today, Brendan Fitzpatrick, Investor Relations Manager. Please go ahead.

Brendan Fitzpatrick: Thank you, Maggie, and thank you to everyone on the call for joining this briefing on Yancoal's fourth quarter production report for 2023. Typically, our CEO, David Moult, provides a summary of the production report. However, David's not available to join us today.

Instead, Kevin Su, our Chief Financial Officer, Mike Wells, our Executive General Manager Finance, and Mark Salem, our Executive General Manager Marketing, will summarise the fourth quarter activities. We will then open the call to a question and answer session.

Please note, the commentary provided today is based on the production report published to the Australian Securities Exchange and the Stock Exchange of Hong Kong, yesterday, 18 January. There is no presentation pack for this conference call. The Yancoal website holds past presentations for any participants that require additional information on the Company. Kevin, could I invite you to provide initial comments on the quarterly?

Kevin Su: Thanks, Brendan. Good morning, everyone. 2023 was a year in which Yancoal re-established its operational profile and delivered on its production guidance. Yancoal's operational and financial performance is made possible by our people. The total recordable injury frequency rate, which was 5.3 at the end of December, was well below the industry weighted average of 8.3.

Continued support from all people on Yancoal mine sites for safety initiatives is a key factor in the Company's overall success. I want to recognise everyone involved in delivering this excellent safety performance.

Turning to the financial performance, we close out the year with another robust quarter. We added A$477 million to our cash position through the December quarter. This increase to the cash balance is after all operating costs, corporate overheads, capital expenditure and monthly progressive tax payments. It is the clearest indication of Yancoal's performance.

We finish the year debt free and with A$1.4 billion in the bank. Please bear in mind, this cash position is after we returned over A$1.4 billion to shareholders as a fully franked dividend during the year. Yancoal starts 2024 in a very strong financial position and with great operational momentum. I will ask Mike to provide further comments on our operational performance.

Michael Wells: Thank you, Kevin. Good morning, everyone. The good weather continued for most of the December quarter, and we were able to deliver increased production for a fourth successive quarter. Total ROM coal production for the quarter of 18.1 million tonnes was up 12% and saleable coal production increased to 12.9 million tonnes. These production volumes were the best quarterly performance we've recorded in the past three years.

As Kevin mentioned, we hit our production guidance for the year – 33.4 million tonnes of attributable saleable coal was in the middle of our 31 to 36 million tonne range for 2023. Throughout the year, we've discussed our need to prioritise pre-strip and overburden removal activities at most of our mines to facilitate better productivity and output in the subsequent quarters. This effort has proven effective, with the production rate during the fourth quarter similar to levels we've achieved in prior years.

We are focused on maintaining production around this fourth quarter rate through 2024, noting there will always be some varying in production throughout the year due to the timing of longwall moves, mine sequencing, maintenance schedules and other variables.

We haven't reported our full year operating cash costs, and as is usually the case, we'll report these in our 2023 financial results to be released in February. We expect that when we report, they will fall around the middle of our 2023 guidance range of A$92 to A$102 per tonne.

We will also report our attributable capital expenditure in the 2023 results. The timing of expenditure slipped late in the year so the total will likely be at the low end of our A$600 million to A$750 million guidance range, with some capital expenditure activities carried over into 2024. I will now hand over to Mark to provide comments on the coal markets.

Mark Salem: Thanks, Mike, and good morning, everybody. No. The positive cash generation that Kevin described earlier is definitely linked to the increase in production that Mike has just explained, and of course, a realised coal price that was consistent with the prior quarter. Our realised prices for December quarter were A$180 per tonne for thermal coal and A$292 per tonne for metallurgical coal. The overall realised coal price of A$196 per tonne was just 1% below the September quarterly price.

Our sales volumes exceeded the production volume during the quarter. We realised this towards the end of Q3 and our sales team took initiative to increase and advance sales to ensure a drawdown in stocks and provide the Company the opportunity to optimise sales for the period.

Thermal coal markets appeared to be well balanced for much of the December quarter. Looking at the demand factors, we could see the North Asia and European had a mild start to winter and generally carried good stock levels. It was a similar situation in China, but it's worth noting that the overall Chinese thermal coal input increased by approximately 45% in 2023 compared to 2022. In contrast to these regions, there was incremental demand from India, after a week of monsoon season resulted in lower hydrogeneration. In Vietnam, as a result of the increased economic activity, demand remained strong.

Turning to the supply factors, Australia exports increased through the year with the country's total exports up 22% from 2022. However, there was a derailment in New South Wales during December that affected exports, but the disruption was only short term. In Indonesia, a week of monsoon season resulted in less disruption to mining activities in the December quarter and its total exports for the year increased 12% compared to 2022.

However, the situation was different in Russia where exports fell 15% year on year after the imposition of an increased export duties. Elsewhere, South Africa exports remained somewhat restricted due to infrastructure constraints.

In the metallurgical coal markets, soft economic conditions in North Asia and Europe depressed steel demand and some steel producers elected to bring forward maintenance activity, so consequently coal demand declined. Demand from India and Vietnam during this period was less impacted, but overall conditions for the metallurgic coal market were weak during the period with cyclone disruptions to exports from Queensland only creating a temporary supply shortfall.

Across the thermal coal and metallurgical coal markets, supply and demand appear relatively well balanced and subject to the influence of short term factors. That concludes the market update and I'll pass back to you, Brendan, for the next stage of the call.

Brendan Fitzpatrick: Kevin, Mike, Mark, thank you for those insights. We will now move on to the question and answer session.

Operator: Thank you, Brendan. Just a reminder, as we're conducting the Q&A session, please press star, one, one on your telephone and queue up for Q&A. Hi, Brendan. We have no questions queued up at the moment. Do you want to do the web questions first?

Brendan Fitzpatrick: Thank you, Maggie. Yes, I'll move to the webcast questions, and we'll return to you for people that submit questions via the phone lines. As a reminder to anyone on the call via the webcast, if you submit the questions in a written format, I'll be able to read them out on your behalf for our management team to respond. One of the first questions we have on the webcast comes from Song Wei. The question relates to our production guidance and outlook for the 2024 year. I'll hand over to Kevin to make some comments.

Kevin Su: Thanks, Mr Song. As you know, Yancoal hasn't publicly announced any 2024 production guidance, cost guidance or CapEx guidance yet so we will appreciate your patience for the Company to finish everything in due course. But as you have probably noticed, during the presentation, Mike has made the point that Yancoal has focused on maintaining the production level around the fourth quarter rate, so hopefully this will give some initial indication – just a rough idea, but still, we would appreciate your patience to wait for the 2023 annual accounts and that we'll receive guidance coming from the Company, please. Thank you.

Brendan Fitzpatrick: Thank you. That's right, Kevin. As indicated, our standard practice is to provide guidance for the current calendar year in the financial results that we release in February, and we'll be following that usual practice. We have a question coming through from Sara Chan at Morgan Stanley.

Sara's asking for insight into Yancoal's average sales price in 1Q and possibly 2Q. Mark, perhaps I could ask you to provide what limited comments we are able to make on the pricing realisation for the current quarter and future quarter given that we typically don't provide a lot of specific detail in this area?

Mark Salem: Yes. Thanks, Brendan. Thank you for that question. No. I suppose it's a bit preliminary to predict what prices we'll actually experience in Q1, Q2. Naturally, a lot of our coal sales are based on indices and the movement in those indices, as we've seen over the periods, have been very volatile in relation to impacts on issues such as the Russian Ukraine crisis, weather conditions, et cetera.

But generally, as we've explained, at the end of Q4, we saw of a relatively balanced market. We're not seeing anything substantially different coming into Q1. It's just going to be a function of unexpected circumstances that could impact the pricing.

Brendan Fitzpatrick: We have a question submitted by Gerard O'Connor. Gerard has asked how we see the future of coal mining in terms of the years of production for Yancoal and the mine life expectancy of the different operations.

In regard to this, what we have said previously, Gerard, is we detail the reserves and resources position each year. That information is usually made available around the time of the financial results in February. The mine life is related to the production profile. You can see the production parameters coming through in the quarterly report we just provided.

There will always be some natural variation as the mine production as schedule advance over time, but rough indications are most of the mines operate for around 15 to 20 horizon. That roughly aligns with the normal period we tend to encounter with market discussions around transition in the energy markets, migration towards net zero targets, domestically and abroad.

So, in a very broad context, our mine lives naturally align with the transition profile. Yancoal recognises there is a transition in the energy markets and we're certainly looking to those forward horizons where we will manage the mine life profile, the end of life periods, and potentially transition into new activities; as and when something suitable is available in that regard, we'll be informing the market.

The question coming through from the webcast – a follow up from Sara Chan at Morgan Stanley – do we see any change in our export markets mix in 2024 compared to 2023, and does Yancoal's marketing group focus on any particular country? Mark, are you able to provide some comments on our export mix for the outward year and our focus for country specific mix.

Mark Salem: Sure. Thanks, Brendan. Thanks, Sara. In terms of, do I foresee any change in our market mix from 2023 to 2024, the short answer to that question is in 2023, we saw China resume imports from Australia and China then has become a major portion of our sales. But that also reflects our quality mix and our product mix. So, going into 2024, because our product mix is very similar to 2023, we're not expecting any change.

Our dominant markets will continue to be China, Japan, Korea, Taiwan, and Thailand, and that's a reflection of not only our diversified customer mix, it's also a reflection of our product mix. Thank you, Brendan.

Brendan Fitzpatrick: Thank you, Mark. Another question coming through from the webcast from Zhou Ting. The question is, why was the sales volume in the fourth quarter larger than the production volume, and subsequently, what is the effect on sales and profits of providing coals to the local electricity market? Mark, could we again turn to you for comments on these two topics?

Mark Salem: Yes. Thanks, Brendan. In terms of our sales, we try to align our sales with production. As I stated, coming towards the end of Q3, we saw production improvements. Because 2023 was a recovery year after all the floods in 2022. We saw production improvements commencing at the end of Q3.

Therefore, from a sales point of view in terms of our scheduling and our activities to secure more sales as well as to bring forward term contract positions, we were able to achieve that and with our sales exceeding our production levels, and because we also had the stocks available at the end of Q3 to accommodate that position, which then contributed positively to the overall sales performance.

In terms of the New South Wales directive, we are still performing, under government policy, our required levels. That policy will be in place until June 2024 and we will continue to honour our obligations in that regard. Thank you.

Brendan Fitzpatrick: Thank you, Mark. Its worth noting in that domestic sales, we've provided the comment in the quarterly production report that domestic sales for the quarter were 0.22 million tonnes compared to the 10 million tonnes of attributable sales we have, so it's a very small component of the sales mix that we're carrying. The webcast questions have all been conducted at this time.

We appreciate the time people have made available to us. I don't see any questions coming through on the webcast. Perhaps if I could turn back to Kevin one more time just for a closing comment to reiterate some of those key messages that we delivered at the start of the conference call?

Kevin Su: We highly appreciate all your support to Yancoal. We recognise this very strong performance for the fourth quarter, and we will keep the momentum and we will make sure we deliver the best quality of management to this Company. Thank you.

Brendan Fitzpatrick: Thank you, Kevin. Thank you to all the management team for the support this morning. Of course, once again, thank you to all the people who made their time available joining us on this review of Yancoal's fourth quarter 2023 performance. Maggie, could I please hand back to you to close the conference call?

Operator: Thank you, Brendan. This concludes today's conference call. Thank you, all, for participating. You may now disconnect. Have a great day, everyone.