Investor and Analyst conference call notes

Operator: Good day and thank you for standing by. Welcome to Yancoal's Second Quarter 2024 Production Report conference call. At this time all participants are in the listen only mode. After the speaker's presentation, there will be a question-and-answer session.

I would now like to hand the conference over to your first speaker today, Investor Relations Manager, Brendan Fitzpatrick. Please go ahead.

Brendan Fitzpatrick: Thank you Maggie and thank you to everyone on the call for joining us for this briefing of Yancoal's Second Quarter Production Report for 2024. Typically, our CEO, David Moult, provides a summary of the quarterly production report, however David is 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 second quarter activities.

We will then open the call to question and answers. The commentary provided is based on the production report published to the Australian Securities Exchange and the Stock Exchange of Hong Kong yesterday evening 18 July. There is no presentation pack for this 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.

Kevin Su: Thank you Brendan. Yancoal has consolidated the operational recovery that started at the beginning of 2023. The 18% increase in attributable saleable production compared to the first half 2023, reaffirms the strong recovery achieved over the past 12 months.

Yancoal's operational and financial performance is made possible by our people. The total recordable injury frequency rate increased to 7.0 and although it remains below the comparable industry weighted average of 8.7, we are committed to reversing the recent trend through reinvigoration of programs that delivered the favourable trend in 2023.

Turning to the financial performance. We finished the half year with another robust quarter. We added $380 million to our cash position through the June quarter. This increase to the cash balance is after all operating costs, corporate overheads, capital expenditure and the monthly progressive tax payments. At the end of June, we were debt free and held $1.55 billion in the bank.

This cash position is after we returned over $429 million to shareholders as fully franked dividends in April. Our financial performance is closely linked to our average realised coal price of AU$181 per tonne in the June quarter, consistent with the March quarter price. This price combines with our scale of production and the competitive cash costs drives our business.

Our 2024 production guidance is unchanged and like last year we expect the production volumes to increase in the second half. I will now ask Mike to provide further comments on the operational performance please.

Michael Wells: Thank you Kevin. The Australian Bureau of Meteorology moved to a La Nina weather pattern watch during May and we saw above average rainfall in parts of eastern Australia during the quarter, impacting our operations. Our sites are now much better positioned to deal with adverse weather impacts however we still need to suspend operations at times to ensure site safety and avoid damage to assets.

In New South Wales, Moolarben and MTW managed to offset some of the production losses through changes to the mine schedule, including prioritisation of coal extraction and shorter haul cycles. Our total ROM coal for the six months was up 7% to 27.9 million tonnes and the saleable coal production increased 16% to 21.6 million tonnes.

Our attributable share of saleable coal production of 17 million tonnes, was an increase of 18% and annualises around the low end of our guidance but as Kevin mentioned we expect increased production in the second half. Our operational performance in the third and fourth quarters of last year demonstrated what our high-quality suite of assets can deliver.

There will always be some variance in production through the year, due to longwall moves, maintenance schedules and other variables. We haven’t reported our operating cash costs for the half year. As is usually the case, we will report these in the first half 2024 financial results, to be released next month.

Given the production profile is weighted to the second half, it is logical to anticipate a higher per tonne operating cash costs in the first half, followed by a lower per tonne cost in the second half. I will now hand over to Mark, to comment on the coal markets.

Mark Salem: Thanks Mike, good morning, everybody. Kevin touched on our overall average realised price of $181 per tonne which was 1% up from the March quarter. Our realised prices by product stream for the June quarter were $163 per tonne for thermal coal and $318 per tonne for metallurgical coal.

Our attributable sales for the period of 8.6 million tonnes and the sales volume split was consistent with our usual profile being 88% thermal coal and 12% metallurgical. Once again, the thermal coal markets appear well balanced for much of the June quarter. We observed good levels of demand but our major end users in Japan and Korea for example, are holding relatively high stock levels.

Some buyers shifted away from Russian supply after the US applied further sanctions which resulted in a redistribution of cargoes across international markets. China sourced additional imports to counter temporary supply interruptions caused from safety inspections, but by the end of the quarter rainfall increased bolstering hydro power generation and alleviating the need for additional imports.

Indian demand continues to rise on residential and industrial power requirements, as it has yet to see the seasonal uplift in hydro generation.

Turning to supply factors, Indonesia had weather interruptions impacting smaller mines, but its primary operations performed well. Indonesia's exports were up 30% in the first five months of the year, compared to 2023.

It is a similar story in Australia where exports were up 12% in the first five months of the year, despite some rain disruptions. Also exports from the USA remained consistent, despite the Baltimore bridge collapse. Colombia also had steady export levels. The one exception was South Africa, where infrastructure constraints impacted the export volumes.

In the metallurgical coal markets, reduced supply was countered by reduced demand due to an overall softening of the steel market. Similar to the thermal coal market, sanctions on Russia have led to a redistribution of metallurgical coal cargoes across regional markets. India had been a positive driver in prior periods, but demand was lower during the quarter. It may pick up after the election and monsoon seasons have concluded.

Japanese imports of metallurgical coal remain weak on the back of soft demand from the automotive industry. Demand from China was also lower despite good sentiment and stimulus factors. Like thermal coal markets, indices fluctuated during the quarter, but the averages have remained very similar to the prior quarter.

Consistent with our view over the past year, international coal markets appear relatively balanced and susceptible to short term factors influencing supply and demand or trader sentiment. Thank you for listening and I will now pass back to Brendan.

Brendan Fitzpatrick: Kevin, Mike and Mark thank you for those insights. I think we should now move on to the question-and-answer session, starting with questions from the phone line then moving onto questions submitted via the webcast. Maggie, could I please ask you to initiate the process for questions via the phone.

Operator: Thank you Brendan. Our first question comes from Wayne Fung from CMB International Securities.

Wayne Fung: (CMB International Securities, Analyst) Hi, thanks management for taking my question. My question is about the production volumes. We have some decline in the volume in the second quarter. Was the decline impacted more by the weather or other operational factors, such as the longwall move, wash plant and truck availability et cetera. Which factor played a more important role? What should we expect for them in the third quarter? Thanks.

Kevin Su: Thank you Wayne, this is Kevin from Yancoal. Actually, if you look at our announcement, we have a split of the explanation by different mines. For Moolarben we mentioned the underground move and we also talk about the weather issue, blasting issue and then equipment utilisation issues in HVO. I think all different mines have different reasons, it's very much listed in the announcement already, if you can refer to that section please. Thank you Wayne.

Wayne Fung: (CMB International Securities, Analyst) Okay, thanks Kevin.

Operator: Our next question comes from Sara Chan of Morgan Stanley.

Sara Chan: (Morgan Stanley, Analyst) Hi, thanks for the call, thanks for the run through on the results and again another very impressive quarter. A quick question from me is, can I have some colour about your export market split roughly for the quarter? You've mentioned China demand has slowed down because of the increased hydro domestically. Then India has been ticking up. For the overall mix for the market, any notable changes on the quarter-on-quarter basis or on year-on-year basis across various markets in terms of the splits? Like traditional market Japan, Korea, China obviously. Thank you.

Mark Salem: Thank you Sara. It's Mark Salem, EGM Marketing speaking. We don't normally report on sales distribution on a quarterly basis, but I can suggest our year-on-year our sales distribution should be very similar to 2023.

Sara Chan: (Morgan Stanley, Analyst) Understood, thank you. Can I have one more question? On the M&A front which has a lot of investors focusing on a lot. Just to hear any updates, any latest thoughts on the management strategy or the sense on acquisition? Thank you.

Kevin Su: Thanks Sara, this is Kevin. From the Company perspective, we have made very consistent disclosure and communication to the market by our Board and our CEO. Yancoal is very much interested in diversification however we are not in a position to give comments on any particular transactions, as you would appreciate. Thanks.

Sara Chan: (Morgan Stanley, Analyst) Yes, I think that's it from me, thank you Kevin.

Kevin Su: Thank you Sara.

Operator: Thank you. Our next question comes from Lawrence Lau of BOCI.

Lawrence Lau: (BOCI, Analyst) Hi, thank you for taking my question. I just have a simple question regarding your one small mine Stratford Duralie. I think in your announcement you are going to shut down this mine. I just wonder, do you have to make any impairment against this mine? Thank you.

Kevin Su: Thanks Lawrence, it's a good question. For Stratford Duralie, Yancoal has been gradually depreciating the assets, so we do not have any impairment risk regarding closure of the mine. Thanks Lawrence.

Lawrence Lau: (BOCI, Analyst) Thank you.

Operator: Thank you. I see no further questions from the audio. Now I will go back to Brendan for the webcast questions. Thank you.

Brendan Fitzpatrick: Thank you Maggie. I note that we have several questions coming through on the webcast. Some of them are similar in nature and some of them have been already or partially addressed by the questions already conducted on the call. I will amalgamate, or combine questions, or rephrase them accordingly.

Looking at the question list, there are several questions related to the large cash balance we're carrying now. Could we have a comment from you Kevin on our intentions for the cash reserves? Any commentary perhaps around buybacks, acquisitions, dividend allocations and how the Company will approach that topic.

Kevin Su: Thanks Brendan. Yes, it is quite a significant cash balance of $1.55 billion currently on Yancoal's book. I think Yancoal has been very consistent in communicating with investors and the market about our intention to further grow the business. We can be very clear -, in the current circumstances, Yancoal is unlikely to conduct any share buyback. This has been communicated previously as well.

As for any opportunities, yes, we are interested in any growth and diversification opportunities as I just explained to Sara Chan earlier. About the dividends, our Board has a framework of 50% of free cash flow or 50% of NPAT, whichever is higher. This has been consistently communicated by the management team as well. But I just want to make this very clear, this is subject to our Board's discretion, and balancing the growth opportunities and other capital requirements. Thank you.

Brendan Fitzpatrick: Thank you Kevin. On the topic of dividend, we have some questions related to the timing of dividend payments in relation to when they get disclosed. Also, whether there's a potential for the payout ratio to change in the future? Perhaps you could comment on those specific elements related to dividends.

Kevin Su: Sure, if I understand this correctly, there are two different questions. The first one about the date. Yancoal is dual listed in both ASX and Hong Kong stock exchanges which means the distribution of our dividends is more complicated than compared with normal ASX companies.

Over all those years, I think Yancoal has been very skilful in managing such tax issues. In the future we do appreciate we might be able to improve our distribution window which means we might be able to reduce timing of the distribution date. The Company will be working on that.

From the payout ratio perspective, we believe the current payout ratio is adequate but once again, this is subject to a Board decision, and this will be from time to time discussed at the Board level. Thank you.

Brendan Fitzpatrick: Thank you Kevin. Previously on the phone lines, we had a question related to the first half and particularly the second quarter production profile. I see a question coming through asking what comment do we have on the production costs?

Also, what outlook do we have for the production going into the second half in relation to the guidance we've provided to the market at this point in time? Mike, perhaps I could ask you to expand on the commentary you offered earlier in the call.

Michael Wells: Yes, thanks Brendan. For 2024 the timing of the coal release throughout the year is likely very similar to that that was achieved in 2023. By that I mean that there was an expectation at the start of the year that there'd be greater coal production volumes in the second half of the year, due to the nature of where the pits are at and the sequencing of the mines.

That is still very much the case in the current year and so our production in the first half of this year was 18% up on the first half last year in total. We are targeting a strong second half performance, similar to what was achieved last year. We're still comfortable that we will achieve our market guidance.

With regards to costs, again very similar to last year. Our costs are very much linked to production volumes. So, with the volume increase relative to last year, we'd expect to see a cost reduction. Then as commented on during the prepared comments, we would expect a strong cost performance in the second half when those volumes recover.

Brendan Fitzpatrick: Thank you Mike. I see an additional question related to the production profile. It looks to be about production beyond the current year, asking about the growth potential of the assets currently on hand.

Whilst we don't typically comment on the production forecast beyond the current calendar year, what we have acknowledged in the past is that when the operations are running at close to the operational capacity and the mining licence limits, we see output around the level that the Company achieved in the third and particularly fourth quarter last year.

That gives a sense of what the assets are capable of, and links into the comments Mike just provided. Looking longer term, we have no specific expansion or growth projects underway right now. If there is an expansion or a change in the production profile from any particular asset, we would of course inform the market at the point in time when such a plan is put into place.

We've got a series of questions coming through, related to our free float and people noting that it's around the 30% level now. They are asking how that fits in with potential index inclusion and what scenarios could potentially play out with regards to the free float going forward. Kevin, perhaps you could comment on this topic.

Kevin Su: Yes, thanks Brendan. It's a very good question. For Yancoal's free float we are getting very close to 30% and this has benefited from the recent sell down from the second largest shareholder in Cinda International. From a Company perspective, we are not able to further comment on any particular shareholders' intention to further sell down or invest in more Yancoal shares.

However, we notice it's so close to the 30% that we are reasonably confident eventually the 30% will be achieved. As for the index inclusion, this is very much subject to S&P's Index evaluation process, and they assess the free float of each Company. We, from a Company perspective would just need to be patient and wait and see. Thanks.

Brendan Fitzpatrick: Thanks Kevin. Maggie, could I go back to you for a moment and see if we have any additional questions coming through from the phone lines?

Operator: Next, we have Angus McGeoch from Barrenjoey-Forsyth Barr.

Angus McGeoch: (Barrenjoey-Forsyth Barr, Analyst) Thanks very much and congrats on the first half guys. Two questions from my perspective. Just inventories at mine sites. Are they back to the levels that are optimised from your perspective?

Following up on the free float question, can you just confirm that management's holding isn't included in the free float calculation? I know you reference Yankuang, Cinda and management in your release.

Just making sure that that's how we should think about that free float calculation, based on what you know.

Brendan Fitzpatrick: Thanks Angus. Perhaps I'll start with Mark on the inventory position.

Mark Salem: I can comfortably say Angus that our inventory, especially from a product stock point of view, are down. They did build up after the big derailment that occurred at the end of last year, but we've now been able to manage those back to normal operational levels.

That's reflected in terms of our sales profile in the 2Q Report. Thank you.

Brendan Fitzpatrick: Thanks Mark. Kevin, additional comments on the free float.

Kevin Su: Yes, thanks Angus. About management holding shares, especially in the employee share scheme via the trust, from a management perspective, we currently consider them as connected parties holding the shares but as I mentioned previously, this is subject to how S&P calculates the free float under their own definition.

Angus McGeoch: (Barrenjoey-Forsyth Barr, Analyst) Okay got it, thanks Kevin. One last question on your production. Looking at data from last year, I note you had a very big last quarter. That 10 million tonnes of attributable, is that something that you think's possible once you get the mines working in line with your own expectations? Is that a number that we think's possible over the course of the year or is that very much seasonally impacted?

Brendan Fitzpatrick: Angus, Brendan here. What we've said previously is that the mines can produce at that 10 million tonne level within any given quarter, as we did last year. But to sustain that run rate continually over a 12-month period, you'd need to factor in longwall moves, maintenance cycles, inevitably some wet weather or infrastructure delays.

Therefore, to sustain it continually for a 12-month period is somewhat overly optimistic I would suggest.

Angus McGeoch: (Barrenjoey-Forsyth Barr, Analyst) Okay got it, thanks guys. Thanks very much.

Brendan Fitzpatrick: Okay continuing with the webcast submitted questions. There's a question coming through in relation to environmental rehabilitation of closed mines, with a particular focus on the ones around Gloucester. Perhaps I'll link that with another question which relates to the pump hydro study and what we can say on that potential project, going forwards. I'll hand across to Mark Jacobs our EGM Environment & External Affairs.

Mark Jacobs: Thank you Brendan. As stated in the announcement, the last coal out of Stratford was during June of 2024. Both Stratford and Duralie are now in closure. Closure activities are progressing at both of those mine sites in consultation with, and as overseen by our regulators.

In terms of the Stratford energy project, we have disclosed in our release that the project was granted critical state significant infrastructure by the New South Wales Planning Minister. Feasibility studies are ongoing, and we expect to lodge the EIS and planning application with the Department of Planning on that asset during quarter three.

Brendan Fitzpatrick: Thank you Mark. Looking at the question list. There's one here related to our coal product specifications. The question asks whether we can provide any detail or comment on our thermal coal, whether it's mid-grade or high-grade thermal coal output during the quarter, I assume it's referring to the quarter just completed.

Mark I'll turn to you to the extent that we can comment on product quality without compromising our commercial position. Is there a comment available?

Mark Salem: Yes, we do produce quite a varied range of thermal coals, both low-ash, mid-ash and high-ash in terms of the spectrum. Quarter on quarter it's a very similar profile, typically one third, two thirds as a ratio. One third low-ash to two thirds mid-to-high-ash.

Brendan Fitzpatrick: Thank you Mark. There's just been another question popped in and because it's related to coal prices, I'll go to that one now. Do we have a general comment on the outlook for coal prices over the remainder of this calendar year.

Mark Salem: Yes, thank you. I think from a coal price point of view we've seen over the first half of the year a very stable supply market and supply and demand market. We've also seen very little fluctuation in coal prices.

That's also a reflection that there's been no major event as we've had in previous years, such as flooding or the Russia-Ukraine crisis or anything else. I think the first half of the year is a good reflection.

From my own personal position and my own personal observations of where we're moving to in the second half, it's very much going to depend on two aspects. That's weather in relation to a very hot summer which some forecasts are indicating. But then that could be counteracted by a mild winter so at the moment everything's very stable and consistent, is my current position.

Brendan Fitzpatrick: Thank you Mark. There's a specific question which related to the production profile and the recent wet weather, that impacted production and the mitigation strategies in place. What we've said there is through the past several years, we built a lot of additional infrastructure, water storage capacity, pumping capacity, pipe work.

We are in a much better place to handle wet weather when it occurs, but inevitably there will be some rain. When rain occurs, we do need to cease operations during the rain, simply to maintain the safety of the workforce and the integrity of the assets.

There are some specific questions coming through in relation to potential growth scenarios, mergers and acquisitions which reference the Anglo assets. We don't comment on specific assets, and we certainly don't offer views on the valuation of other company's assets or the current conditions of any processes underway.

But there is a question that's broader in nature, which talks of the potential acquisition of coal assets and asks how Yancoal might evaluate such opportunities, and what criteria might be relevant to Yancoal when examining potential growth scenarios in not just perhaps the coal sector but the mining sector more broadly.

Kevin, could I turn to you for an overall comment.

Kevin Su: Thanks Brendan. As Yancoal has been consistently communicating with the market, we are actively pursuing growth opportunities and diversification opportunities. We are interested in coal and potentially commodities other than coal and have been for some time.

As Brendan just mentioned, we are not able to give any comments on any specific assets but the initiatives from a growth and diversification perspective are very real and the Company is actively pursuing them.

Brendan Fitzpatrick: Okay, to close it out we've received one last question from the webcast. There's an observation that it's been a very good year for Yancoal. The question then turns to the topic of the dividend and what looks to be a question about the dividend yield. Kevin perhaps you could just reiterate the comments on the dividend framework and the decision making by the Board.

Kevin Su: Yes, thank you Brendan. From the Company's perspective, the framework set by the Board about dividends is 50% of free cash flow, or 50% of NPAT, whichever is higher. Then the yield is very much a function of the dividend and also the share price in the market.

At the end of the day, the Board has the ultimate discretion to decide the dividend distribution. Thanks.

Brendan Fitzpatrick: Thanks Kevin. Whilst we were doing that one last question, an extra one came through. The question asks us, can we comment on an expected price profile for coal over the five-to-ten-year horizon?

We don't provide forecasts for coal on an outward basis. What we said is coal markets look relatively balanced in the short-term. There will be several drivers relevant over the medium- and longer-term horizon. We subscribe to various industry forecasters; we work with their views and our own internal views when assessing coal markets and making internal decisions. But we don't have a formal forecast that we share for a coal profile on a five-to-ten-year horizon.

That concludes all the webcast questions, we've already covered off the phone line questions. Kevin if I could hand back to you for closing remarks, thank you.

Kevin Su: Thank you Brendan. Thank you everyone for your time in participating in today's session. I just want to reiterate a few key points we made today. Yancoal has maintained a very strong cash position and a very healthy operating margin.

We will keep the flexibility to pursue different growth and diversification opportunities. Please stay tuned for our next disclosure, which is the First Half results in August this year. Once again, thank you very much for your time.