Investor and Analyst conference call notes

Operator: Thank you for standing by. Welcome to Yancoal Third Quarter 2024 Report conference call. At this time, all participants are in a listen only mode. After the speakers' presentation there will be a question-and-answer session. To ask a question during the session, you need to press star 1-1 on your telephone. You will then hear an automatic message advising your hand is raised. To withdraw your question, please press star 1-1 again. Alternatively, you may submit your questions via the webcast. Please be advised that today's conference is being recorded.

I'd now like to hand the call over to your first speaker today, Mr David Moult, Chief Executive Officer. Thank you. Please go ahead.

David Moult (Chief Executive Officer): Thank you, Desmond. Thank you to everyone on the call for joining this briefing on Yancoal's third quarter production report for 2024.

I'm joined on the call by several members of the Yancoal executive team, including our Chief Financial Officer Kevin Su, Executive General Manager Finance Mike Wells, Executive General Manager Marketing Mark Salem and our Executive General Manager Environment and External Affairs Mark Jacobs.

Before discussing the operational performance, I want to acknowledge that during September an incident occurred at our Austar Coal Mine which resulted in a fatality. I, along with the Yancoal team, are greatly saddened by the loss of a former long-standing employee who was working for a contracting company at the Austar Coal Mine as part of its closure activities when the incident occurred. Our thoughts remain with his family, friends and colleagues. We have offered Yancoal's full support to them and to all our people affected by this event.

This is the first time we've addressed the market since Yancoal's inclusion into the S&P/ASX 200 and S&P/ASX 300 Indices on 23 September. Welcome to any new participants on the call and welcome to those of you who have joined us on prior calls. The Index inclusion is a welcome event in Yancoal's 20th anniversary year and 12 years since listing on the ASX.

I will give a summary of the third quarter activities and then open the call to a question-and-answer session. My comments are based on the quarterly production report published on the Australian Securities Exchange and the Stock Exchange of Hong Kong announcement platforms yesterday, 17 October. 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.

The Total Recordable Injury Frequency Rate was 7.2 at the end of September and while it remains below the industry weighted average of 8.7, we aim to reverse the current increasing trend through targeted safety intervention activities.

As we indicated previously, like last year we are aiming for significantly higher output during the second half and, as anticipated, our third quarter production rate showed a step up to 17.5 million tonnes of ROM coal production, 26% higher than the second quarter and 13.2 million tonnes of saleable coal production, 28% higher. These volumes are on a 100% basis.

Our attributable share of the saleable coal production was 10.2 million tonnes, indicative of what our portfolio of assets can achieve when operating with minimal disruptions, particularly the three large scale open cut mines where saleable coal output increased between 18% and 60%.

It is worth noting our mines in New South Wales and Queensland did encounter some weather disruptions during the quarter, but in most cases production impacts were modest due to past investment in water storage and handling capacity.

Moolarben had a strong quarter as both underground and open cut operations performed largely to plan. There were minor equipment disruptions at MTW and HVO, but haul cycle management and mine schedule modifications enabled the teams to deliver strong operational outcomes.

Yarrabee benefitted from improved geotechnical conditions and equipment availability, and Middlemount had a steady performance despite the impact of some wet weather.

At Ashton, a planned longwall move during the quarter resulted in lower output, however following completion of the move, production rates increased with improved mining conditions being experienced.

Our attributable sales volume was 10.4 million tonnes, with a typical mix of thermal and metallurgical coal products. The overall realised coal price was A$170 per tonne, down 6% from the second quarter. However, this included the impact of a provisional price adjustment from earlier in the year. Prices on an adjusted basis in the third quarter were not too different from second quarter prices, confirming our view that coal markets remain stable.

Over 10 million tonnes of attributable sales at what are still good coal prices generated robust cash inflows. After all operating, capital, and corporate costs, including our monthly tax payments, our cash balance increased by $430 million to almost $2 billion at the end of September.

We see thermal coal markets continuing to experience relatively balanced supply and demand conditions, with small variations in market conditions affecting sentiment and coal indices. Thermal coal indices peaked in mid-August on the back of the Middle East tensions and a hotter than average summer in the northern hemisphere, contributing to additional electricity demand.

Year-to-date thermal coal imports by China are up compared to the first nine months of 2023, and there is the prospect that stimulus measures will be constructive for both thermal and metallurgical coal markets.

On the supply side of thermal coal markets, various factors constrained export from South Africa, Russia and Columbia. By contrast, Indonesian exports were not constrained and achieved good output levels.

The main thermal coal indices we reference traded within limited ranges during the quarter. We retain our view that thermal coal markets and coal indices remain subject to short term drivers. The prospect of a cold winter in the northern hemisphere could result in increased demand during the December quarter.

Turning to metallurgical coal markets, we see price indices reflecting weak steel market conditions. The Low Vol PCI price benefited from reasonable demand early in the quarter, however like the hard coking and semi soft coking indices, demand declined through the quarter, dragging down the price.

Yancoal's large-scale low-cost production profile is well suited to all coal market conditions, with no interest-bearing loans, a large net cash position and robust operating margins, we have the capacity to pursue suitable growth opportunities as they arise. If such an event materialises, we will inform the market.

In the meantime, we are focused on delivering another robust operational performance in the final quarter of 2024 and delivering on our production guidance of 35 million tonnes to 39 million tonnes of attributable saleable production at cash operation costs of $89 per tonne to $97 per tonne.

That concludes the summary of Yancoal's third quarter performance. We will now move to the question-and-answer session starting with questions from the phone and then moving to questions submitted by the webcast.

Desmond, could you please initiate the process of questions by the phone.

Operator: Our first question comes from Jonathan Sharp from CLSA. Please go ahead.

Jonathan Sharp: (CLSA, Analyst) Yes, good morning, all. My first question is on M&A activity. If Yancoal has interest in the Anglo assets, which we expect it does, what would be the next step if there wasn't an acquisition? What will be done with the almost $2 billion in cash, would there be a special dividend?

Also, I see Kestrel looks like it's up for sale. Would there be interest in acquiring that since it is a majority hard coking coal product?

David Moult: Jonathan, thanks for your question. We don't specifically comment on any M&A activity that we're involved in or not involved in at any time.

As far as the cash is concerned, our position hasn't changed. Our policy remains the same - our Board will make a strategic decision based upon what activity may or may not be happening and what the approach to returning capital to shareholders should be at that time, which is no different from our normal position.

Again, on Kestrel, . I note there were some comments in the press this morning, but it's not something I can comment on.

Jonathan Sharp: (CLSA, Analyst) My second question; can you give us an update on the Moolarben open-cut extension approvals? Has there been any progress there, and I believe the underground extension will be behind the open-cut extension? Can you give us some update please?

David Moult: Thanks Jonathan. Yes, I'll let Mark Jacobs comment on that, but they are progressing and the process is ongoing.

Mark Jacobs (Executive General Manager - Environment and External Affairs): Yes, we're continuing to work with the New South Wales government on the Moolarben open-cut extension. We have productive dialogue happening with them. I will note though, that this is a mine life extension. It doesn't change the forecast cap on production, it's an extension of mine life.

Jonathan Sharp: (CLSA, Analyst) Any dates when we can expect to see something announced?

Mark Jacobs: It's not possible to forecast when we might be able to receive a date. The process still has got to go through the regulatory process and it is being given priority by both the Company and by government.

David Moult: I think it's fair to say Jonathan, we don't see any problems with it, it's just like everything that goes through government these days. It takes time and we just have to follow the process.

Operator: Our next question comes from Lawrence Lau from BOCI. Please go ahead.

Lawrence Lau: (BOCI, Analyst) I've got two questions. First of all, I would like for the Company to give us some idea why the realised met coal price in the third quarter is actually dropping faster than the relevant benchmarks.

Second question is, if my understanding is not wrong, you are closing down Austar mine. Is any provision or impairment required against this mine? Thank you.

David Moult: Thanks Lawrence. Regarding your second question, the Austar mine has been closed for four years. We are in the process of rehabilitation and there are no other issues as far as impairment or impact on our financial accounts.

Regarding the met coal realised price, I'll ask Mark Salem to comment in a minute, but as I said in my summary, there was a provisional pricing update in our overall realised price as well as other factors.

If you look at it on an adjusted quarter-to-quarter basis, we've not seen any significant change in the price, but Mark, I'll let you comment on that.

Mark Salem (Executive General Manager – Marketing): Thanks, David. Lawrence, thanks for your question. It's a function of the Yancoal portfolio of met coal. When you look at our overall coal sales, met coal only makes up around 10% of the volume, and we have a mix of met coals that include semi-soft coking, PCI, and lower-grade hard-coking coals.

Therefore, it really depends on the production mix in the period. So in addition to what David said, there's also that product mix that comes into play. We really weren't necessarily behind the index when you take all factors into consideration.

Operator: There is a follow-up question from Jonathan Sharp from CLSA. Please go ahead.

Jonathan Sharp: (CLSA, Analyst) One more question regarding the Moolarben underground. What is the timing of the next longwall move? Thanks.

David Moult: Thanks Jonathan. It will commence at the end of this year, and it will run into the first quarter of next year. It will be a slightly extended longwall move to what a normal move is, due to some poorer ground conditions we've experienced. The conditions have since improved but will impact the longwall move. The move starts at the end of this financial year, end of our calendar year financial year and will run into the first part of next year.

Jonathan Sharp: (CLSA, Analyst) Is that about four, six or eight weeks for the longwall move? Thanks.

David Moult: A normal longwall move for us is a four week move. This will be longer than that and I'm expecting it will be somewhere between four and eight weeks.

Brendan Fitzpatrick (General Manager Investor Relations): I'll manage the questions coming through on the webcast. Starting off with one that's operational in nature following on from those comments about the longwall move.

We saw a strong pick up in the third quarter production compared to the first two quarters. The Company has previously said the production will be second half weighted.

Notwithstanding that comment about the longwall move in the end of the fourth quarter, are we looking at a similar production level for 4Q? Is that possible to clarify with that being in the context of the operational guidance being maintained for the year?

David Moult: Thanks, Brendan. Look, yes, we did say the second half would be strong. The third quarter was certainly a strong quarter with the three large mines all lifting their production as we expected.

That longwall move doesn't impact significantly the fourth quarter. It will come in at the end of the quarter, but it was planned to be in in the fourth quarter anyway. We expected it to be carried out at that time. So yes, we're expecting a similar sort of production level in quarter four which, together with our strong third quarter, will ensure that we're well in line with those expectations of our guidance.

Brendan Fitzpatrick: A question that's seeking clarification on the product mix in the portfolio, Mark Salem you mentioned about 10% met coal. Could you clarify if that's on a 100% basis, or it includes our additional managed assets?

Mark Salem: From a marketing point of view because we manage the assets, it is on a 100% basis and it does include the mines that we also manage.

Brendan Fitzpatrick: Moving on to another topic, we see questions coming through regarding corporate initiatives. I appreciate that we don't speak to specific transactions that may or may not occur, but is there any comment on timing and decision processes and when the Board would be able to determine use of the existing cash balance?

David Moult: There's a lot of media coverage of what's happening in potential M&A opportunities at the moment, I won't be commenting on them at all.

From a Board point of view, the Board as per normal at the end of this year will look at where we are in relation to any corporate activity but will also look strategically at the dividend payment and will likely make a decision when assessing our full year results.

Brendan Fitzpatrick: Following up on that concept of potential distributions in the future period, could we get a comment on the likely distribution ratio in a future period if cash is to be returned, and what would guide that process? Perhaps I'll turn to Kevin, our CFO, for a comment.

Kevin Su (Chief Financial Officer): The best indication is Yancoal's previous communication about the position in our constitution, which provides a guide of 50% free cash flow, or 50% NPAT, whichever is higher subject to cash flow requirements and regulatory obligations; that position remains the same.

The Board is able to use its discretion to decide if there is a strategic growth opportunity as they balance different priorities.

The cash in the Company's accounts is very strong as already discussed and the cash is now generating a good yield for the Company.

Brendan Fitzpatrick: Following up on that topic of cash, we reported in the quarterly over $400 million added to the cash balance, and close to $2 billion held at the end of September. Is there a minimum cash holding that the Company needs to maintain as it considers applications for the cash?

Kevin Su: From a Company compliance perspective, there is not a minimum cash balance, but we tend to hold sufficient cash to sustain the business activities. Given the size of the Company, I would say this could be about $300 or $400 million.

Brendan Fitzpatrick: Turning back to operational commentary, the quarterly report doesn't contain cash operating costs. We disclose those in the half year and full year periods. However, is there some comment that can be made on the cash operating costs in the third quarter, given the increase in production tonnage relative to the prior two quarters?

David Moult: The point I would make is that we reported our cash operating costs in our first-half results, and we have maintained our unchanged guidance, of $89 per tonne to $97 per tonne for the year.

If you look at our reported cash costs in the first half and look at where we are aiming to be in our guidance, I think it's fair to assume that the third quarter costs were lower, enabling us to retain that $89 per tonne to $97 per tonne guidance number.

Brendan Fitzpatrick: With the observation made at the start of the conference call, that Yancoal is now included in the ASX 200 and ASX 300 indices, is there any anticipation for what that will mean for the Company going forwards?

David Moult: It is a position that we've been looking to achieve for a while and the only reason we weren't there was because of our free float. We reached that position in September. I think it's a very positive move for the Company.

It gives us exposure to more of the investment community through the ASX 200 and the funds that follow the indices, so I think overall it's a very positive move and I think should encourage a greater diversity of investors in our shares.

Brendan Fitzpatrick: There is a specific question on share trading. It's a query whether Yancoal will be eligible for exchange traded options in the future.

From my perspective, this is not something that the Company would facilitate. I believe some brokers offer that style of trading as a service, but it would be subject to broker service provision, not Company initiated activities for any style of exchange traded options.

Operator: We have a question from the line of Mengchen Ma from Qatar Securities. Please go ahead.

Menchen Ma: (Huatai Securities, Analyst) My question is about the NSW mine sites. The coal reservation directions concluded and we can see increased royalty rates starting from July. How might that impact the costs for the rest of the year and is that already included in the guidance?

David Moult: Yes, the royalty rate in New South Wales was increased from 1 July and that was a 2.6% increase on our royalty rate.

Cash operating costs exclude royalties, so the number you see in our guidance are net of royalty. However, in all our internal assumptions we've built in that royalty change into the way that we look forward with our costs.

Brendan Fitzpatrick: There's a question related to our realised prices for thermal and met coal in the third quarter. The question asks, what is the usual time lag between the realised price and the underlying benchmarks and how do those trends typically play out through the year?

Mark Salem: The pricing structures because of the product mix that we have, together with the various markets that we deal in, are very dynamic and very varied and different contracts have different pricing periods.

A typical lag is two to three months, but that's a generic comment given the structure of our business, the structure of our products and the markets we sell to.

Brendan Fitzpatrick: A question going on the topic of growth and diversification. Is Yancoal intending to move specifically into met coal, or are there other diversification strategies that could be considered such as non-coal assets?

David Moult: We've stated on several occasions that Yancoal would benefit from balancing our coal portfolio with additional met coal. But as we've said previously, we're a mining company, we are prepared to look at other commodities. At the moment we're not doing anything in those other commodities, but we continue to build our capabilities outside coal. That said, at the moment, our focus is to move our coal portfolio closer to a 50:50 balance between thermal coal and met coal.

Brendan Fitzpatrick: Thank you, David. That's the conclusion of all the questions submitted by the webcast.

David Moult: Thank you everyone for attending this morning. It was a very strong quarter. We delivered in line with what we have been talking about at previous meetings. We expect this second-half to continue to be strong and we look forward to delivering on our guidance at the end of 2024.

Thank you for your interest in Yancoal and I look forward to speaking to you again in the future.