

Whitehaven Coal Ltd (ASX: WHC): Delivered record earnings and capital returns to shareholders in FY23

BY ACE INVESTORS / 30 AUGUST 2023



Reading Time: 5 Mins

By Team Ace Investors

Stock Code	ASX: WHC
Shares O/S	836.60 million
Closing Price	AUD 6.620
Market Cap	5.43 billion
52 W H/L	11.040/5.635
One Year Stock Performance	-16.44%
Avg. Volume	7.36 million
EPS(TTM)	3.584
P/E	1.8
Annual Dividend Yield	11.38%
Franking	100%
Last Dividend Ex-Date	31-Aug-23
Last Dividend Pay Date	15-Sep-23
DPS (AUD)	0.42
ROE (%)	56.33%

(Source: ASX)

Company Overview

Whitehaven Coal Ltd. (“WHC” or the “Company”) is an Australia-based premium-quality coal producer. The Company operates four mines (three open-cut and one large underground mine) in the Gunnedah Coal Basin of NSW. WHC’s operating assets are also complemented

by two high-quality, near-term development assets, Vickery, near Gunnedah, and Winchester South, in Queensland's Bowen Basin. It operates four mines in the Gunnedah Basin of New South Wales (NSW), such as Maules Creek Mine, Narrabri Mine, Tarrawonga Mine, and Werris Creek Mine. Maules Creek produces some of the highest quality high-energy thermal coal in Australia and has been in operation since 2015. The mine has coal reserves to support 40 years of production and anticipated coal sales from the mine are expected to deliver \$2.4 billion in royalties in the first 21 years of operation. The Narrabri underground mine is expected to produce 11 million tonnes p.a. of high-quality thermal coal by 2031. Tarrawonga has been part of the bedrock of Whitehaven's business since the company's formation in 1999 in the Gunnedah Coal Basin. The Tarrawonga open-cut mine produces high-quality thermal coal and semi-soft coking coal for export markets with reserves to support more than 20 years of coal extraction. The Werris Creek open-cut coal mine is located 4km south of the town of Werris Creek in North West NSW. Werris Creek commenced operations in 2005 and possesses resources to support production until approximately 2025. The Company also operates the Gunnedah Coal Handling and Preparation Plant (CHPP) and train load-out facility that supports its open-cut mines in the Gunnedah Basin.

Investment Rationale

Demand from North and Southeast Asian nations to drive demands for premium high-quality coal in the medium-term

Coal has been the fastest-growing energy source over the last decade and global demand continues to rise, especially in South East Asia. Coal helps power regional economies through energy generation and steel production. WHC operates four mines, three open-cut, and one underground, in the Gunnedah Coal Basin in North West NSW, producing high-quality metallurgical and thermal coal for export to advanced and developing economies across North and South East Asia. WHC's investment in high-quality, large-scale, long-life assets enables it to scale up its operations, deliver on its key development assets-Vickery and Winchester South, and efficiently manage the cyclical nature of the commodities sector. WHC expects to grow its portfolio from a managed level of ~21Mt in 2020 to over 40Mt by 2030. The company is experiencing increased demand for its high-quality coal from North and Southeast Asian nations looking for high-efficiency, low-emission (HELE) coal-fired power as a critical component of their energy mix.

Whitehaven approved an investment of around \$150 million to commence early mining at the Vickery coal deposit

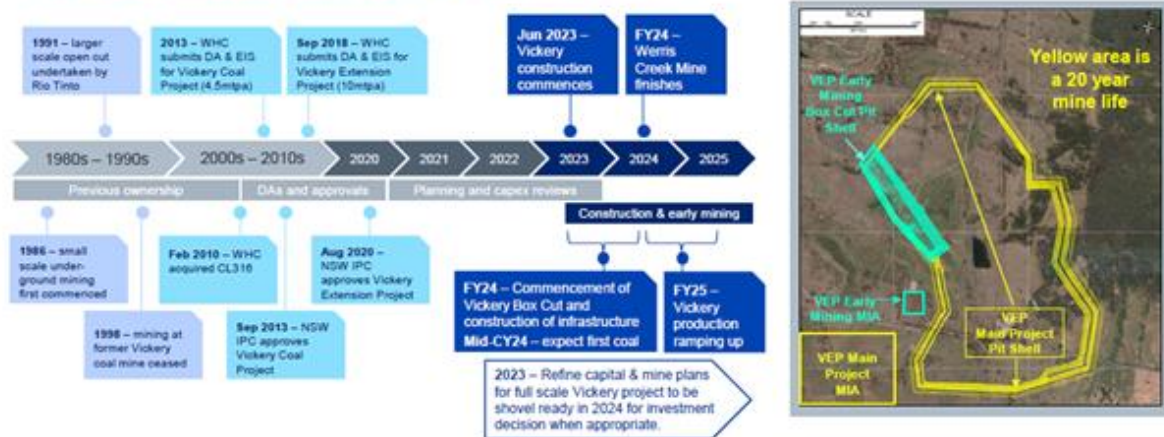
WHC has made considerable progress on its key development projects viz. Vickery Extension Project, Winchester South Metallurgical Coal Project, and Narrabri Underground Mine Stage 3 Extension Project. These development projects are expected to underpin WHC's plan to increase its managed ROM production profile in the next decade.

- During the Mar23Q, the WHC board approved an investment of around \$150 million to commence early mining at the Vickery coal deposit. The Vickery mine is located approximately midway between Whitehaven's Tarrawonga mine and the Gunnedah CHPP. The mine produces proven high-quality semi-soft coking coal, PCI coal, and high-CV thermal coal.
- Early mining at Vickery is expected to produce a >6400 CV thermal coal with low ash content of between 6% and 10%, providing attractive blending opportunities across Whitehaven's portfolio. Early mining will comprise a low capital project that will utilize surplus coal processing and washing infrastructure capacity at the Gunnedah CHPP as well as existing road haulage, rail, and port capacity.

- Approximately ~\$150m is allocated for early mining at Vickery, including \$120m for the full-scale Vickery project. The first coal is expected around mid-CY2024 with the ramp up of production to happen in FY25. Following the ramp-up, the project is expected to deliver ROM production of around 1.2-1.3Mtpa (~0.9-1.0Mtpa sales).
- A decision around further investment and commencement of full-scale operations at Vickery will be considered by the Board later in CY2023.

Vickery is a long-life, fully approved proven asset

We expect first coal from early mining of Vickery around mid-CY2024, ramping up from FY25 to ~1.2-1.3 Mtpa ROM¹ and ~0.9-1.0 Mtpa sales



(Source: Company Reports)

WHC delivered record earnings and capital returns to shareholders in FY23, with a 37% increase in NPAT to \$2.7 billion

For the year ended 30 June 2023(FY23), WHC delivered record earnings and capital returns to shareholders driven by strong demand for high-CV thermal coal and higher realized prices. The company reported record revenue of \$6.1 billion underpinned by an average coal price of A\$445/t compared with an average price of A\$325/t in the prior year and generated a cash flow from operations of \$4.2 billion compared with \$2.6 billion in the prior year. For FY23, WHC delivered a 30% increase in EBITDA to \$4.0 billion and a 37% increase in Net profit after tax (NPAT) to \$2.7 billion. The company declared a fully franked final dividend of 42cps, taking the full-year dividend to 74cps and the annual dividend yield to 11.38%. WHC also completed a buyback of 119.67 million shares at an average price of \$7.93 per share during the year for \$948.9 million. The full-year dividend combined with the proportion of the share buy-back attributed to FY23, represents a total payout ratio of 50% of FY23 NPAT, aligned with its capital allocation framework.

Financial Results summary

(\$m)	FY23	FY22	% change
Revenue	6,064.7	4,920.1	23%
EBITDA	3,985.6	3,060.1	30%
Net profit after tax	2,668.1	1,952.0	37%
Cash generated from operations	4,211.6	2,582.0	63%
Unit cost per tonne (\$/t)	103	84	23%
	30 Jun 2023	30 Jun 2022	
Net cash	2,652.2	1,037.8	156%

(Source: Company reports)

Energy security remains a key priority against a backdrop of global energy supply shortfall, particularly for high-quality thermal coals. WHC expects that the rebalancing of the global energy demand and supply will take several years from now. Industry analysts expect demand for coal to remain strong, particularly for high-CV coal with its higher energy content and lower emission profile. While thermal coal prices have retreated from record high levels, the resilience in the gC NEWC index through this seasonal lower demand period provides positive sentiment for the outlook. WHC expects restocking to increase in the months leading up to the Northern Hemisphere winter, and an upward pricing pressure for thermal coal is expected. Current metallurgical coal market pricing is strong. In the longer term, demand for metallurgical coal is expected to be largely driven by demand growth in India, emerging Asia, as well as China.

ACE's Recommendation:

Whitehaven Coal Ltd (ASX: WHC) is an Australia-based premium-quality coal producer. The company has invested in high-quality, large-scale, long-life assets. This will allow the business to scale up its existing operations, deliver on key development assets, Vickery and Winchester South, and efficiently manage the cyclical nature of the commodities sector. WHC expects to grow its portfolio from a managed level of ~21Mt in 2020 to over 40Mt by 2030. WHC has made considerable progress on its key development projects viz. Vickery Extension Project, Winchester South Metallurgical Coal Project, and Narrabri Underground Mine Stage 3 Extension Project. These development projects are expected to underpin WHC's plan to increase its managed ROM production profile in the next decade. During the Mar23Q, the WHC board approved an investment of \$150 million to commence early mining at the Vickery coal deposit. The mine produces proven high-quality semi-soft coking coal, PCI coal, and high-CV thermal coal. Early mining at Vickery is expected to produce a >6400 CV thermal coal with low ash content of between 6% and 10%, providing attractive blending opportunities across Whitehaven's portfolio. Approximately ~\$150m is allocated for early mining at Vickery including \$120m for the full-scale Vickery project. The first coal is expected in mid-C24 with the ramp-up of production to happen in FY25. We believe that a favorable demand outlook for premium quality coal and investment at Vickery for early mining are expected to underpin WHC's managed ROM production profile. We would like to recommend a **BUY** rating on the stock.

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