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Whitehaven Coal Ltd (WHC)

Investor day: Narrabri reset

Recommendation
Buy (unchanged)
Price
$1.585
Target (12 months)
$2.15 (unchanged)

GICS Sector

Energy

Expected Return	
Capital growth	36%
Dividend yield	0%
Total expected return	36%
Company Data & Ratios	
Enterprise value	$2,555m
Market cap	$1,637m
Issued capital	1,033m
Free float	68%
Avg. daily val. (52wk)	$20.5m
12 month price range	$0.83-$2.80

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	1.09	0.85	2.63
Absolute (%)	45.4	86.5	-39.7
Rel market (%)	37.5	73.7	-39.7

Absolute Price

SOURCE: IRESS

Improved outlook for Narrabri & group costs

WHC's Investor Briefing mostly focussed on an updated outlook for Narrabri, substantially de-risking that mine's production and cost outlook. Targeted annual cost savings of $50m as a result of an operations-wide review of costs and productivity were also flagged. Importantly, WHC noted during the briefing that its balance sheet liquidity position had held since mid-year, despite realised prices lagging the recent thermal coal price rally. WHC made no changes to FY21 guidance. We have made no material changes to our WHC earnings estimates or valuation.

Narrabri reset de-risks production outlook

At Narrabri, revised longwall sequencing will bring forward access to shallower and less structurally complex coal geology. This should result in lower risk production and improvements to unit costs. From FY22, the introduction of Cut & Flit mining on the perimeter of the Reserve provides a low-capex opportunity for incremental volumes of around 600ktpa. From around FY25, WHC plan to add a second longwall miner, enabling a smoother production profile in the lead-up to the full Stage 3 Extension.

Maules Creek coal seam access is improving and in-pit waste dumping ramping up, both of which should improve consistency in coal quality and lower unit costs. The autonomous waste haulage program is also increasing productivity at this mine.

WHC's two growth projects remain on ice. Any change to this status is not expected until FY22 and requires sustained improved thermal coal pricing. Updated Resources and an initial Reserve for Winchester South are expected to be released next week.

Investment thesis: Buy, Target Price $2.15/sh

WHC's operational outlook is improving amid strengthening thermal coal markets and the company's undeveloped projects provide future growth opportunities. WHC is one of few ASX-leverages to thermal coal prices. Our Target Price of $2.15/sh is based on our valuation of WHC's operating assets only.

Earnings Forecast

Year ending 30 June	2020a	2021e	2022e	2023e
Sales (A$m)	1,725	1,598	2,009	1,989
EBITDA (A$m)	306	255	525	523
NPAT (reported) (A$m)	30	(23)	153	187
NPAT (adjusted) (A$m)	30	(23)	153	187
EPS (adjusted) (¢ps)	3	(2)	15	18
EPS growth (%)	-94%	-175%	na	22%
PER (x)	54.1	(70.5)	10.6	8.7
FCF Yield (%)	-7%	5%	20%	20%
EV/EBITDA (x)	8.4	10.1	4.9	4.9
Dividend (¢ps)	1.5	-	4.0	9.0
Yield (%)	1%	0%	3%	6%
Franking (%)	0%	0%	100%	100%
ROE (%)	1%	-1%	5%	5%

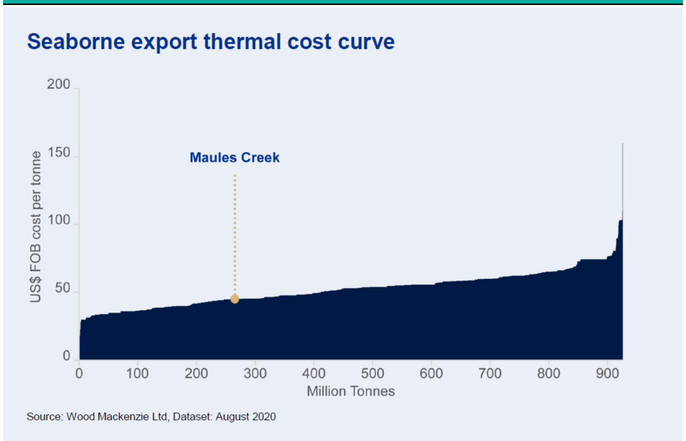
SOURCE: BELL POTTER SECURITIES ESTIMATES

Investor day: Narrabri reset

The following are what we consider the key slides from WHC's presentation.

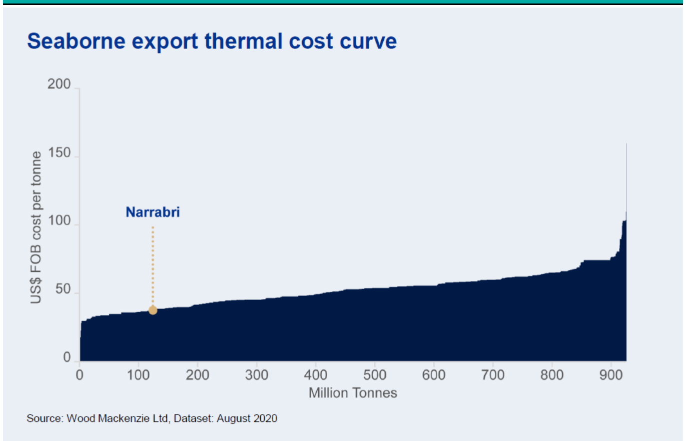
Key projects are cost competitive through the price cycle

Figure 1 - Maules Creek cost position US$/t FOB



SOURCE: WHC PRESENTATION

Figure 2 - Narrabri cost position US$/t FOB



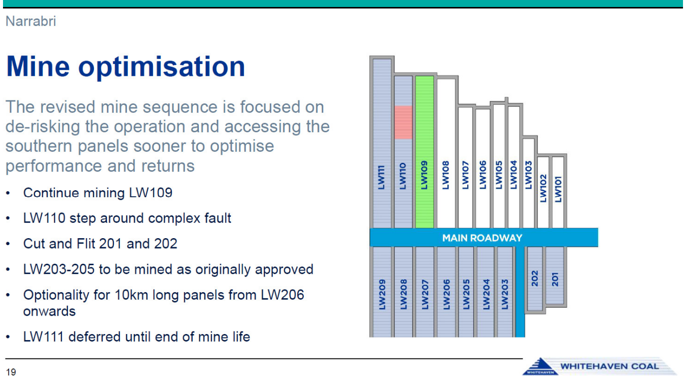
SOURCE: WHC PRESENTATION

Narrabri optimisation revises mining sequence

The Narrabri optimisation substantially de-risks near to medium term operations through:

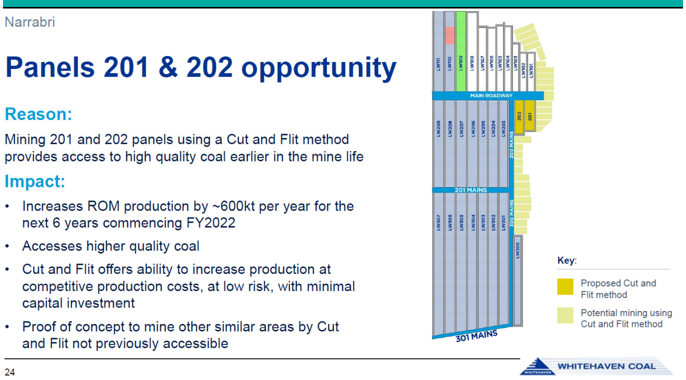
- Stepping around the faulted zone in LW110. While this action obviously results in production downtime, it is estimated to have minimal net impact when compared with traversing the fault at lower speeds and incurring lower coal quality.
- Deferring LW111 in preference of shorter panels LW203-205. These southern blocks have less cover and less structural features.
- Cut and Flit mining of 201-202 will provide low-capex incremental production of around 600ktpa from FY22 for a period of 6 years.
- Introduction of a second longwall miner from FY25 (WHC's capital cost is estimated at its 78% share of $400m) should flatten the mine's production profile and improve costs in the lead-up to the full Stage 3 Extension (extending mine life from 2031 to 2045).

Figure 3 - Narrabri mine optimisation plan (1)



SOURCE: WHC PRESENTATION

Figure 4 - Narrabri mine optimisation plan (2)



SOURCE: WHC PRESENTATION

FY21 guidance: No changes

WHC made no changes to FY21 production, unit cost or capital cost guidance.

Table 1 - FY21 guidance details

		FY20 actual	FY21 guidance	Comments
Operations				
Managed ROM coal production	Mt	20.6	**21.0 - 22.8**	Weighted to 2H ~55%
Maules Creek	Mt	10.7	**11.3 - 12.0**	Weighted to 2H ~60%
Narrabri	Mt	6.1	**6.0 - 6.7**	Longwall change-out in June 2021 quarter
Gunnedah Open Cuts	Mt	3.8	**3.7 - 4.1**	Tarrawonga expansion now operational
Managed coal sales (excl purchases)	Mt	17.5	**18.5 - 20.0**	Excludes coal purchases / trading
Unit cost (excl. royalties)	A$/t	75	**69 - 72**	Increased production & lower diesel costs offsetting higher strip ratio at Maules Creek and increased depth at Narrabri
Capital expenditure				
Sustaining capital	A$m	39	**60 - 70**	Includes rebuild of certain Maules Creek mining equipment
Narrabri mains development	A$m	23	**5**	
Expansion & growth capital	A$m	134	**50 - 60**	
Operating mine projects	A$m		**15 - 20**	
Growth projects	A$m		**35 - 40**	
Acquisition of EDF consideration		20	**17**	
Total	**A$m**	**216**	**132 - 152**	

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Balance sheet: Liquidity held; banks supportive

WHC commented that balance sheet liquidity levels are unchanged on levels at 30 June 2020. WHC's borrowings at 30 June 2020 are summarised as:

- Senior debt facility of $1b maturing in July 2023 and drawn to $638m (i.e. $362m undrawn);
- Export Credit Agency facility drawn to $68.1m, amortised over the next 8 years;
- Finance leases of $216.3m, mostly on mobile equipment fleets; and
- IFRS16 leases of $130.3m.

Table 2 - Balance sheet summary as at 30 June 2020

All figures in $m unless otherwise stated	**Jun-20**
Leases	347
Borrowings	638
Export Credit Agency loan	68
Total	**1,053**
Capitalised borrowing costs	-28
Total loans & borrowings	**1,025**
Cash	107
Equity	3,250
Net debt (pre-IFRS16)	**788**
Net debt / net debt + equity %	20%
Net debt (total) $m	**946**
Interest expense FY20	40
EBITDA FY20	306
EBITDA / interest expense x	**7.6**

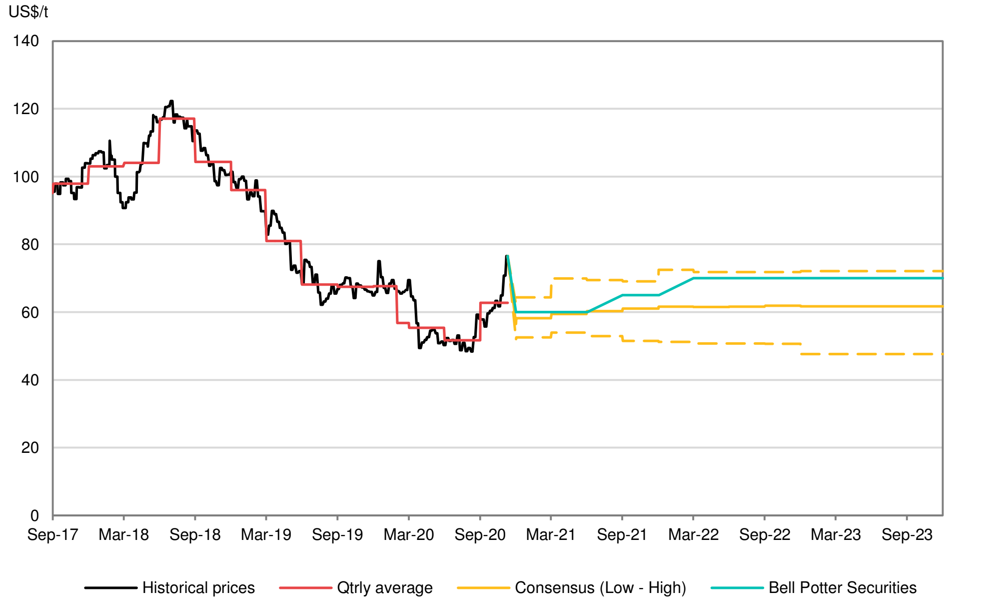
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Coal price outlook

Consensus data presented here is from Consensus Economics' November 2020 survey. Consensus Economics' estimates have been adjusted from nominal to real 2020 dollars.

Thermal coal

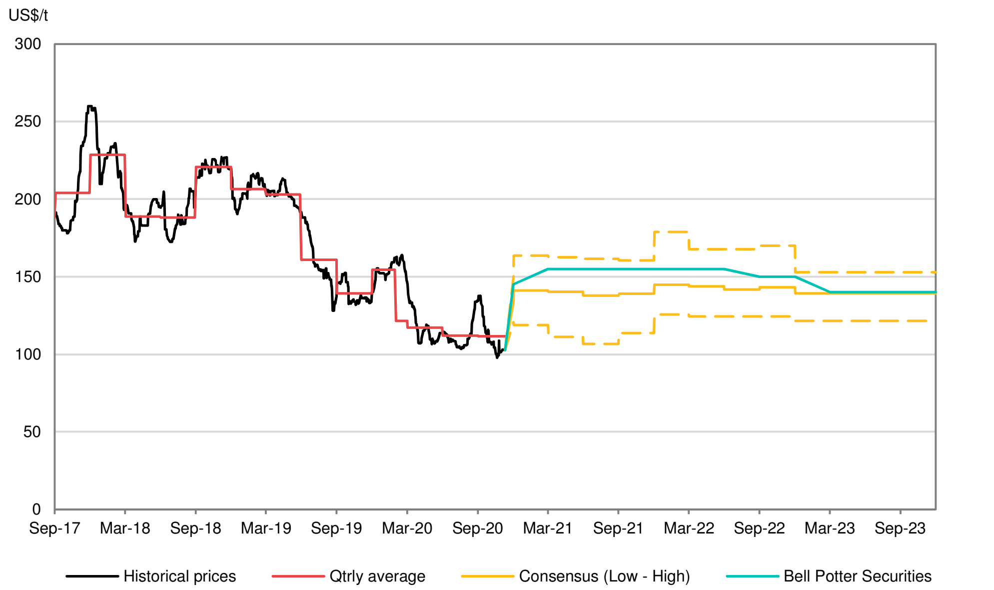
Figure 5 - Thermal coal US$/t FOB Newcastle - Historical & expected prices



SOURCE: BLOOMBERG, CONSENSUS ECONOMICS, BELL POTTER SECURITIES ESTIMATES

Metallurgical coal

Figure 6 - Premium hard coking coal US$/t FOB Queensland - Historical & expected prices



SOURCE: METAL BULLETIN, CONSENSUS ECONOMICS, BELL POTTER SECURITIES ESTIMATES

Whitehaven Coal Limited (WHC)

Company description

WHC is an ASX-listed and Australian based coal producer. The company produces mostly thermal coal (around 80% of production) from four core assets located in the New South Wales Gunnedah Basin. In FY20, we estimate that WHC will produce around 18Mt of product coal (WHC equity share).

The company's development projects include the Vickery Project which is expected to produce up to 8.5Mtpa ramping up from FY21 and is also located in the Gunnedah Basin. In early 2018, WHC acquired Rio Tinto's Winchester South metallurgical coal project located in the Queensland Bowen Basin. Both of these projects should increase the proportion of metallurgical coal production at the WHC group level.

Investment thesis: Buy, Target Price $2.15/sh (unchanged)

WHC's operational outlook is improving amid strengthening thermal coal markets and the company's undeveloped projects provide future growth opportunities. WHC is one of few ASX-leverages to thermal coal prices. Our Target Price of $2.15/sh is based on our valuation of WHC's operating assets only.

Valuation

Bell Potter Securities' valuation is based on discounted cash flow models of WHC's principal operating assets and projects: Maules Creek; Narrabri; Tarrawonga; Werris Creek; Vickery Project; and Winchester South Project. Each asset is modelled to its current reserve life and to mine parameters consistent with historical production, Bell Potter Securities' estimated production outlooks and peer asset benchmarks.

Our base case valuation does not include the Vickery (permitting stage) or Winchester South (EIS underway) projects.

The discount rate is 10% (nominal).

Risks

Risks to resources sector equities include, but are not limited to:

- **Commodity price and exchange rate fluctuations**. The future earnings and valuations of exploration, development and operating resources companies are subject to fluctuations in underlying commodity prices and foreign currency exchange rates.
- **Infrastructure access.** Bulk commodity producers are particularly reliant upon access to transport infrastructure. Access to infrastructure is often subject to contractual agreements, permits, and capacity allocations. Agreements are typically long-term in nature (+10 years). Infrastructure can be subject to outages as a result of weather events or the actions of third party providers.
- **Operating and capital cost fluctuations.** Markets for exploration, development and mining inputs can fluctuate widely and cause significant differences between planned and actual operating and capital costs. Key operating costs are linked to energy and labour markets.
- **Resource growth and mine life extensions.** Future earnings forecasts and valuations may rely upon resource and reserve growth to extend mine lives.
- **Sovereign risks.** Mining companies' assets can be located in countries other than Australia and are subject to the sovereign risks of that country.

- **Regulatory changes risks.** Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuation of mining companies.
- **Environmental risks.** Resources companies are exposed to risks associated with environmental degradation as a result of their exploration and mining processes. Fossil fuel producers (coal) may be particularly exposed to the environmental risks of end markets including the electricity generation and steel production industries.
- **Operating and development risks.** Mining companies' assets are subject to risks associated with their operation and development. Risks for each company can be heightened depending on method of operation (e.g. underground versus open pit mining) or whether it is a single operation company. Development assets can be subject to approvals timelines or weather events, causing delays to commissioning and commercial production.
- **Occupational health and safety risks.** Mining companies are particularly exposed to OH&S risks given the physical nature and human resource intensity of operating assets.
- **Funding and capital management risks.** Funding and capital management risks can include access to debt and equity finance, maintaining covenants on debt finance, managing dividend payments, and managing debt repayments.
- **Merger/acquisition risks.** Risks associated with value transferred during merger and acquisition activity.
- **COVID-19 risks:** Mining companies' rely on freedom of movement of workforces, functioning transport routes, reliable logistics services including road, rail, aviation and ports in order to maintain operations and get their products to market. They also rely on liquid, functioning markets to sell their products. Measures being put in place to combat the COVID-19 pandemic are posing risks to these conditions.

Whitehaven Coal Ltd
as at 10 December 2020

Recommendation	Buy
Price	$1.585
Target (12 months)	$2.15

Table 3 - Financial summary

Date		**10/12/20**
Price	**A$/sh**	**1.59**
Target price	**A$/sh**	**2.15**

Bell Potter Securities
Stuart Howe (showe@bellpotter.com.au, +61 3 9235 1856)

PROFIT AND LOSS

Year ending 30 Jun	Unit	2019a	2020a	2021e	2022e	2023e
Revenue (including other)	$m	2,492	1,725	1,598	2,009	1,989
Expenses	$m	(1,450)	(1,419)	(1,343)	(1,484)	(1,466)
EBITDA	$m	**1,042**	**306**	**255**	**525**	**523**
Depreciation	$m	(224)	(225)	(241)	(257)	(217)
EBIT	$m	817	81	15	268	306
Net interest expense	$m	(41)	(39)	(49)	(40)	(27)
PBT	$m	**776**	**42**	**(34)**	**228**	**279**
Tax expense	$m	(211)	(12)	11	(76)	(92)
NPAT (underlying)	$m	**565**	**30**	**(23)**	**153**	**187**
Significant items	$m	(37)	-	-	-	-
NPAT (reported)	$m	**528**	**30**	**(23)**	**153**	**187**

CASH FLOW

Year ending 30 Jun	Unit	2019a	2020a	2021e	2022e	2023e
OPERATING CASH FLOW						
Receipts	$m	2,442	1,745	1,600	1,987	1,999
Payments	$m	(1,478)	(1,555)	(1,356)	(1,477)	(1,471)
Tax	$m	(15)	(14)	11	(64)	(92)
Net interest	$m	(32)	(30)	(49)	(40)	(27)
Other	$m	-	-	-	-	-
Operating cash flow	$m	**916**	**146**	**206**	**406**	**408**
INVESTING CASH FLOW						
Capex	$m	(124)	(248)	(116)	(81)	(90)
Other	$m	(69)	(20)	(17)	-	-
Investing cash flow	$m	**(194)**	**(268)**	**(133)**	**(81)**	**(90)**
FINANCING CASH FLOW						
Debt proceeds	$m	410	650	-	-	-
Repayment of borrowings	$m	(537)	(132)	(150)	(250)	(220)
Dividends	$m	(465)	(312)	-	-	(103)
Other	$m	(123)	(97)	-	-	-
Financing cash flow	**$m**	**(715)**	**109**	**(150)**	**(250)**	**(323)**
Change in cash	**$m**	**8**	**(13)**	**(77)**	**74**	**(4)**
Free cash flow	$m	723	(122)	73	324	318

BALANCE SHEET

Year ending 30 Jun	Unit	2019a	2020a	2021e	2022e	2023e
ASSETS						
Cash	$m	120	107	30	105	100
Receivables	$m	156	129	128	150	140
Inventories	$m	149	176	176	176	176
Property, plant and equipment	$m	3,842	4,155	4,026	3,846	3,715
Other assets	$m	579	646	650	654	658
Total assets	**$m**	**4,845**	**5,212**	**5,009**	**4,930**	**4,789**
LIABILITIES						
Creditors	$m	198	189	177	183	178
Borrowings	$m	415	1,025	875	625	405
Other current liabilities	$m	60	41	41	41	41
Other liabilities	$m	650	707	690	701	701
Total liabilities	**$m**	**1,323**	**1,962**	**1,783**	**1,551**	**1,326**
NET ASSETS	**$m**	**3,522**	**3,250**	**3,227**	**3,379**	**3,464**
Shareholder equity	$m	3,522	3,250	3,227	3,379	3,464
Minorities	$m	-	-	-	-	-
SHAREHOLDER EQUITY	**$m**	**3,522**	**3,250**	**3,227**	**3,379**	**3,464**
Weighted average shares	m	988	1,026	1,026	1,026	1,026

RESOURCES & RESERVES (Note: Major projects listed, reserves are marketable tonnes)

Resources	Unit	Equity	Meas & Ind	Total	Reserve
Maules Creek	Mt	75%	546	590	400
Narrabri	Mt	70%	610	618	212
Tarrawonga (open pit)	Mt	100%	54	67	28
Werris Creek	Mt	100%	10	10	8
Vickery	Mt	100%	490	735	178
Winchester South	Mt	100%	430	530	
Other	Mt	100%	854	1,813	0
Total (100%)	**Mt**		**2,994**	**4,363**	**826**
Total (equity)	**Mt**		**2,675**	**4,030**	**662**

FINANCIAL RATIOS

Year ending 30 Jun	Unit	2019a	2020a	2021e	2022e	2023e
VALUATION						
EPS (underlying)	c/sh	57	3	(2)	15	18
EPS (reported)	c/sh	53	3	(2)	15	18
EPS growth	%	1%	-94%	-175%	na	22%
PER	x	3.0x	54.1x	-70.5x	10.6x	8.7x
DPS	c/sh	50	2	-	4	9
Franking	%	13%	0%	0%	100%	100%
Yield	%	31.5%	0.9%	0.0%	2.5%	5.7%
Payout ratio	%	87%	51%	0%	27%	49%
Capital return	c/sh	-	-	-	-	-
FCF/share	c/sh	73	(12)	7	32	31
FCF yield	%	46%	-7%	5%	20%	20%
EV/EBITDA	x	2.5x	8.4x	10.1x	4.9x	4.9x
LIQUIDITY & LEVERAGE						
Net debt / (cash)	$m	296	918	844	520	304
ND / E	%	8%	28%	26%	15%	9%
ND / (ND + E)	%	8%	22%	21%	13%	8%
EBITDA/net interest expense	x	25.5x	7.8x	5.2x	13.2x	19.6x
PROFITABILITY RATIOS						
EBITDA margin	%	42%	18%	16%	26%	26%
EBIT margin	%	33%	5%	1%	13%	15%
Return on assets	%	11%	1%	0%	3%	4%
Return on equity	%	15%	1%	-1%	5%	5%

ASSUMPTIONS - Prices (nominal)

Year ending 30 Jun	Unit	2019a	2020a	2021e	2022e	LT real
Hard coking coal	US$/t	205	144	142	155	140
LV PCI	US$/t	129	91	94	116	110
Semi-soft coking coal	US$/t	113	80	75	94	100
Thermal coal	US$/t	99	64	58	68	70
CURRENCY						
AUD/USD	US$/A$	0.72	0.68	0.70	0.73	0.74

ASSUMPTIONS

Year ending 30 Jun	Unit	2019a	2020a	2021e	2022e	2023e
Managed ROM coal production	**Mt**	**23.2**	**20.7**	**21.5**	**24.4**	**24.9**
Managed coal sales						
Maules Creek	Mt	9.3	7.9	9.7	10.3	10.1
Narrabri	Mt	5.7	6.2	6.4	6.9	7.5
Tarrawonga	Mt	2.2	2.0	2.3	2.6	2.6
Werris Creek	Mt	1.7	1.4	1.5	1.8	1.8
Rocglen & Sunnyside	Mt	1.1	0.3	-	-	-
Vickery	Mt	-	-	-	-	-
Winchester South	Mt	-	-	-	-	-
Total	**Mt**	**20.0**	**17.8**	**19.9**	**21.5**	**22.0**
Equity sales of produced coal	**Mt**	**16.0**	**14.4**	**16.1**	**17.4**	**17.8**
Coal purchases	Mt	1.6	2.4	1.1	1.0	1.0
Total equity coal sales	**Mt**	**17.6**	**16.8**	**17.2**	**18.4**	**18.8**
Sales mix						
High CV thermal	%	66%	62%	68%	70%	70%
Low CV thermal	%	16%	20%	15%	10%	10%
Metallurgical	%	18%	18%	17%	20%	20%
Average revenue per tonne	US$/t	102	69	65	79	78
Average revenue per tonne	A$/t	141	103	93	109	106
Average cash costs (EBITDA level)	A$/t	83	84	78	81	78
Average cash costs (excl royalty)	**A$/t**	**69**	**74**	**71**	**72**	**69**

VALUATION

Issued capital	**Unit**					
Shares on issue	m	1,033				
Options assumed	m	23				
Diluted shares	**m**	**1,056**				
NPV (Discount rate 8%)	**Current**		**+ 12 months**		**+ 24 months**	
	$m	$/sh	$m	$/sh	$m	$/sh
Maules Creek (75%)	1,387	1.34	1,487	1.44	1,520	1.47
Narrabri (78%)	1,309	1.27	1,360	1.32	1,328	1.29
Tarrawonga (100%)	429	0.42	443	0.43	428	0.41
Werris Creek (100%)	103	0.10	81	0.08	47	0.05
Total assets	3,227	3.12	3,371	3.26	3,323	3.22
Corporate overheads	(130)	(0.13)	(130)	(0.13)	(130)	(0.13)
Enterprise value	3,097	3.00	3,241	3.14	3,193	3.09
Net debt/(cash)	918	0.89	844	0.82	520	0.50
Equity value	**2,179**	**2.11**	**2,397**	**2.32**	**2,673**	**2.59**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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