5 March 2024 | Contact Michelle Surowiec

Australian coal miners face increased lending costs

Whitehaven Coal's reckless coal expansion plans, which are incentivised through its remuneration plan, threaten to destroy billions in shareholder value in the face of the energy transition that is underway and gathering speed.

Along with soaring production costs, Whitehaven's increasing cost of capital is making its risky growth plans even more expensive. Australian banks and many global peers are turning their backs on Whitehaven and its 5 expansion projects. This is already seeing increased capital costs, as demonstrated by recent transactions for both Whitehaven and its coal mining peer New Hope Group.

With rapidly increasing costs and a runaway global clean energy buildout to contend with, Whitehaven's massive coal growth pipeline faces unacceptable risks. Investors must therefore urge Whitehaven to abandon its planned growth projects, and instead focus on capital returns.

Key Findings

- A comparison of Whitehaven's latest credit facility to its peers on the ASX and its previous facilities shows that the company is facing a much higher cost of capital, paying hundreds of millions more for debt and threatening shareholder value.
    - Whitehaven faces cumulative additional interest costs of US$148.5m (or AUD $226m) when compared to the current interest rates its non-coal peers received.
    - These additional interest costs plus the known Blackwater and Daunia acquisition transaction costs are equivalent to a one-off special dividend of AUD $0.46 per share.

- With Whitehaven flagging interest in fixed income markets, an analysis of New Hope Group's 2021 convertible note offering shows that this type of capital raising also carries risks for shareholders, with New Hope paying twice the amount actually raised.

Investors must call on the company to remove incentives for coal growth project delivery from its remuneration plan and adopt a managed decline strategy consistent with the company's stated support for the Paris Agreement.

Whitehaven Acquisition Transaction (2023)

Whitehaven's debt raising for its acquisition of the Blackwater and Daunia mines illustrates the increased lending costs the company is already facing. In November 2023, Whitehaven secured $900 million (m)* bridge loan from US banks Jefferies and Bank of America to help finance its acquisitions. The goal was to refinance this with a larger syndicate of banks and with a longer tenor, but the company instead had to turn to private creditors for a $1.1 billion (b) facility that was finalised in December 2023.

We compared Whitehaven's December 2023 transaction to recent term loans and revolving credit facilities for similarly sized companies on the ASX: Nickel Industries (NIC) and Champion Iron (CIA). These firms were selected to highlight how pure-play coal companies specifically face higher costs of capital than other miners.

Prior to the acquisition, Whitehaven had significantly lower debt, net debt and a remarkably lower debt leverage ratio than its 'non-coal peers' (Annex, Table 1). This implies that Whitehaven should have been able to access significantly lower interest rates, not higher. However, comparing the transactions we see the opposite with Whitehaven facing an additional 1.5% interest on its revolving credit facility (Annex, Table 2), and 4.5% more interest on its term loan (Annex, Table 3) when compared to its peers.

If we add the cumulative costs of the additional interest paid:

Instrument type	Amount (US$m)	Maturity	Additional bps vs comparison peers	Additional yearly interest paid (US$m)	Total additional interest over life of the loan (US$m)
Whitehaven Revolving Credit Facility	$550	18/12/26	150bps (1.5%)	$8.25	$24.75
Whitehaven Term Loan	$550	18/12/28	450bps (4.5%)	$24.75	$123.75
				Total:	**$148.5m**

Note: Revolver calculations assume full draw-down at settlement, maintained until maturity.

In total, Whitehaven faces cumulative additional interest costs of $148.5m (or AUD$226m) when compared to the current interest rates its 'non-coal peers' received. This is capital that could have been returned to shareholders if Whitehaven chose to manage down its assets or transition away from coal.

Transaction expenses	AUD$92.4m
Foreign exchange loss	AUD$71.4m
Total additional interest over life of the loan	AUD$226m
Total costs to shareholders	**AUD$389.8m**

If we combine the total additional interest to the **known** acquisition transaction costs, each shareholder could have received a one-off special dividend of AUD$0.46 for each share held if Whitehaven had pursued a returns-focused strategy. Taking Goldman Sach's position in Whitehaven as an example (25.83m shares according to Bloomberg), this amounts to AUD$11.9 million in missed dividends. Furthermore, in the half-year results analyst call the company flagged that further transaction expenses are still due.

The same pattern emerges when we look at previous facilities Whitehaven has taken out. When comparing the most recent revolving credit facility to Whitehaven's 2020 revolving credit facility, which the company failed to refinance last year, we see significant increases in interest rates, even when accounting for changes in the underlying benchmark. We estimate that through its recent loans, the company is subject to a margin interest rate increase of 250 bps resulting in the company needing to pay additional interest of $41.25m (or AUD$62.83m) over the course of this new revolving credit facility when compared to facilities it was able to access just four years ago. Furthermore, this is the additional cost for only the revolving credit facility, these higher interest rates would also apply to Whitehaven's new term loan.

It is clear that Whitehaven's cost of capital has increased dramatically when compared not only to contemporary non-coal peers but also to facilities it has previously accessed. This is an indicator of how Whitehaven's coal growth strategies are already costing shareholders dearly.

New Hope Convertible Notes (2021)

Whitehaven is confident that its strategy of adding more metallurgical coal to its portfolio will mean it can again access institutional lenders for debt. The company has been planning a maiden bond offering for years, **however fixed-income instruments also carry significant risks to shareholder value as illustrated below**.

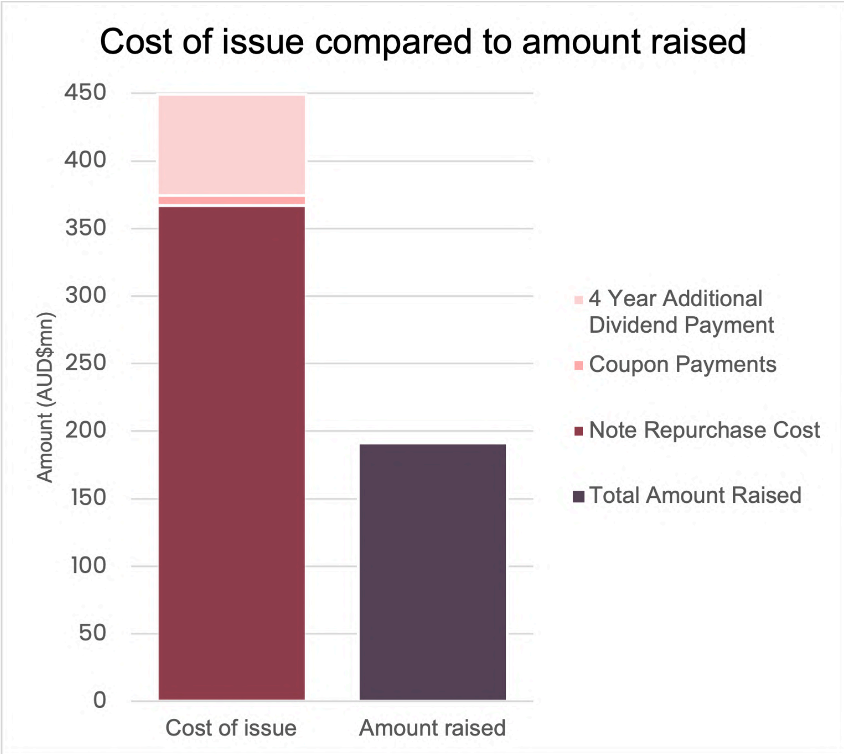
In June 2021, Jefferies arranged a convertible note offering with the aim of raising AUD$196m for New Hope Group, a transaction that has turned out to be an example of exceedingly poor capital management by the company. Convertible notes offer purchasers the choice of an annual coupon rate, or conversion to shares at a premium, and was potentially chosen as an instrument to offer capital raise participants greater compensation for the risk of their investment. Ultimately, this cost was borne by New Hope and its existing investors.

This facility was highly dilutive and expensive for shareholders. In FY23 the company issued 50,037,233 shares, or about 6% of shares currently on issue. The average issue price for these shares was just AUD$1.85 representing a staggering discount to New Hope's average share price in FY2023 of $5.257, according to Refinitiv.

This convertible notes facility also created long-term costs to the company with higher dividend payouts and lower dividends per share for current holders. Based on Refinitiv's forecast dividend, we estimate additional cost for the company of about AUD$75m over the next 4 years due to dividends needing to be paid to convertible note shareholders. This is a perpetual cost for as long as the company pays dividends.

With the high coal price and New Hope sitting on significant excess capital, the company repurchased the remaining notes in FY23 to avoid further dilution of its equity base (or the creation of approximately 53m more shares). However, the amount spent repurchasing notes was subject to the high share price at the time, with the company **spending AUD$367.3m to repurchase just AUD$98.3m worth of notes**.

If we consider the AUD$367.3m repurchase cost, the AUD$6.98m coupon payments in FY22 and FY23, and the increase in dividend obligation expenses of about AUD$75m (over four years), **then the total cost for this offering comes to a staggering AUD$449.28m to raise only AUD$191m after costs.**



With the termination of its syndicated debt facility in 2022, New Hope is also likely to face a higher cost of capital in the future. However, New Hope does not have capital intensive growth plans at this time, and can for now insulate itself from these increased costs, whereas Whitehaven plans to spend AU$4.5b by the end of this decade on Narrabri Stage 3, full scale Vickery, and Winchester South. **Whitehaven and its growth projects will most certainly be subject to increased costs for capital and therefore impact shareholder returns.**

Conclusion

With major global banks backing away from coal miners, Whitehaven faces higher costs of capital in the future, especially for "primarily thermal" projects like Vickery, which is still awaiting a final investment decision on the full scale project.

Whitehaven's strategy to "diversify" its portfolio with more metallurgical coal still presents risks to investor capital. With the global steel industry accounting for 7% of global greenhouse gas (GHG) emissions, and the International Energy Agency (IEA) confirming no new or expanded metallurgical coal mines are required in the transition to net zero emissions by 2050, Whitehaven's massive greenfield metallurgical coal projects present unacceptable risks to investor capital.

Our analysis before last year's AGM showed that Whitehaven's pre-acquisition growth plans would struggle to create value even with a small downward shift to coal prices against current consensus forecasts. Such a shift would be consistent with the implementation of current policy settings as modeled by the IEA. However, if growth plans are axed, Whitehaven could maintain dividends even under 10-20% lower prices, making for a far more resilient company. This analysis will be updated to include Blackwater, Daunia and Blackwater South in the next few months.

While Whitehaven's executives are incentivised toward growth, the company could destroy billions in shareholder value through coal expansion plans that don't stack up under even minor policy and market shifts towards alignment with global climate goals.

Investor action required

Given the material financial risks that Whitehaven's coal expansion projects carry, we urge investors to engage with Whitehaven to ensure the company:

- **Removes incentives for coal growth project delivery** from its remuneration plan.

- **Adopts a strategy to manage down production** in line with the company's stated support for the Paris Agreement, focusing on shareholder returns.

Should investors find Whitehaven again ignoring shareholder concerns, the company should face a second strike against its-growth focused remuneration plan in 2024.

If you have any questions, please do not hesitate to contact michelle.surowiec@marketforces.org.au

Note
*All dollar figures in USD unless otherwise stated.

Disclaimer

Annex

We compared Whitehaven's December 2023 transaction to recent term loans and revolving credit facilities for similarly sized companies on the ASX: Nickel Industries (NIC) and Champion Iron (CIA). These firms were selected to highlight how pure-play coal companies specifically face higher costs of capital than other miners.

Consideration was also given to the size of the loan, type of loan facility and maturity date of the loans, as well as the companies' leverage ratios. All data for Whitehaven excludes its $1.1bn debt taken on as part of the Blackwater and Daunia acquisition.

Table 1: Leverage ratios

Ticker	Total Debt (US$mn)	Net Debt (US$mn)	Total Debt as % of Total Equity	Total Debt as % of Total Assets	Total Debt to EBITDA Ratio	Reporting period
WHC	$125.9	-$1,724	3.6%	2.5%	0.07	FY23
NIC	$551	$406	30.4%	20.6%	2.02	FY23
CIA	$416	$174	44.1%	24.3%	0.92	FY23

Table 2: Revolving Credit Facility

Ticker	Financial Close	Instrument type	Amount (US$mn)	Margin over SOFR	Maturity	Lender(s)
WHC	18/12/23	Revolving Credit Facility	$550	**450bps**	18/12/26	Private Credit Syndicate
NIC	18/10/23	Revolving Credit Facility	$50	300bps	18/10/28	Bank Negara Indonesia (Singapore)
CIA	29/11/23	Revolving Credit Facility	$400	300bps	29/11/27	Assorted International Banks

Table 3: Term Loan

Ticker	Financial Close	Instrument type	Amount (US$mn)	Margin over SOFR	Maturity	Lender(s)
WHC	18/12/23	Term Loan	$550	**650bps**	18/12/28	Private Credit Syndicate
NIC	18/10/23	Term Loan (tranche 1)	$150	200bps	18/10/28	Bank Negara Indonesia (Singapore)
NIC	18/10/23	Term Loan (tranche 2)	$200	200bps	18/10/28	Bank Negara Indonesia (Singapore)

All table data sourced from Refinitiv Workspace, Bloomberg. The CIA deal also had a term loan tranche but the margin was not reported.