

2022

Resource Report-WHC


KAPITALES



Whitehaven Coal Ltd (ASX: WHC)

29 June 2022

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Whitehaven Coal Ltd.
Equity Analysis
29 June 2022

Kapitales Research Rating	★★★★
Recommendation	Buy
Current Market Price	\$5.00
Risk	Moderate

Average volume	13,318.046 K	52 Week Range (AUD)	1.860 - 5.550
Shares outstanding	1.03 B	Dividend amount (AUD)	0.080
Free float	861.73 M	Dividend Yield	1.62%
P/E (TTM)	-	Ex date	24 Feb 2022
Market cap (AUD)	4.80 B	Record date	25 Feb 2022
EPS (TTM)	-0.113	Pay date	11 Mar 2022
ROE	-3.51%	Franking	0%

Source: (ASX and Refinitiv), Analysis by Kapitales Research

Whitehaven Coal Ltd. (ASX: WHC) is an Australia-based company engaged in the production of coal. The Company is focused on the development and operation of coal mines in New South Wales and Queensland. Its segments include open cut operations and underground operations. It operates four mines, three open cut and one underground, in the Gunnedah Coal Basin in North West New South Wales, producing metallurgical and thermal coal for export to developing economies across North and South East Asia.

SWOT Analysis

Strength

- Gross margin and operating margin stood at 57.2%, and 43.6%, in H1FY22, vs 31.6% and 6%, in H1FY21.
- The cash conversion period stood at 68.1 days in H1FY22, which is lower than 96.7 days in pcp, which illustrates that the company is taking a lower time to convert its investments to cash flows.

Weakness

- The company's reported revenue of AUD 1,557.0 million in FY21, compared to AUD 1,773.2 million in FY17, due to decline in realization prices during the period.

Opportunity

- Due to the ongoing war with Russia, we have seen an uptick in global coal prices, and the momentum is expected to continue in the coming days. For FY22, the company expects its managed ROM coal production of 19 to 20.5 Mt, while coal sales is expected in between 17.2 to 17.8 Mt.

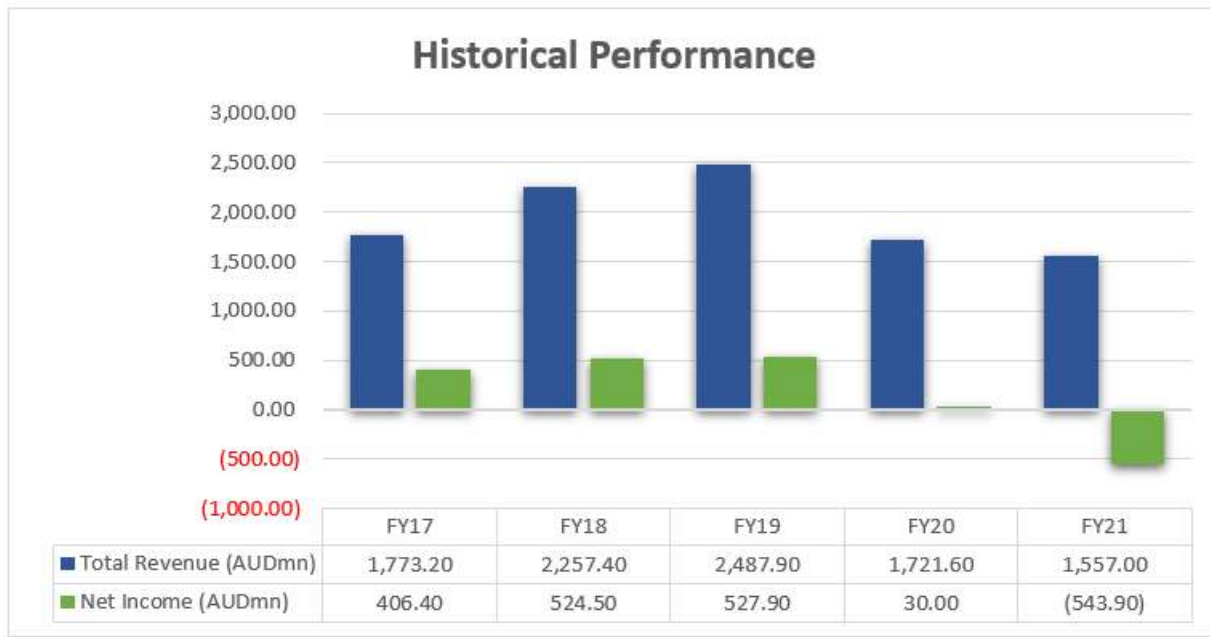
Threat

- The company's operation is directly co-related to the international commodity prices, and price volatility might dampen the company's realization price and revenues.

Source: Company Reports, Analysis by Kapitaless Research

Historical Performance:

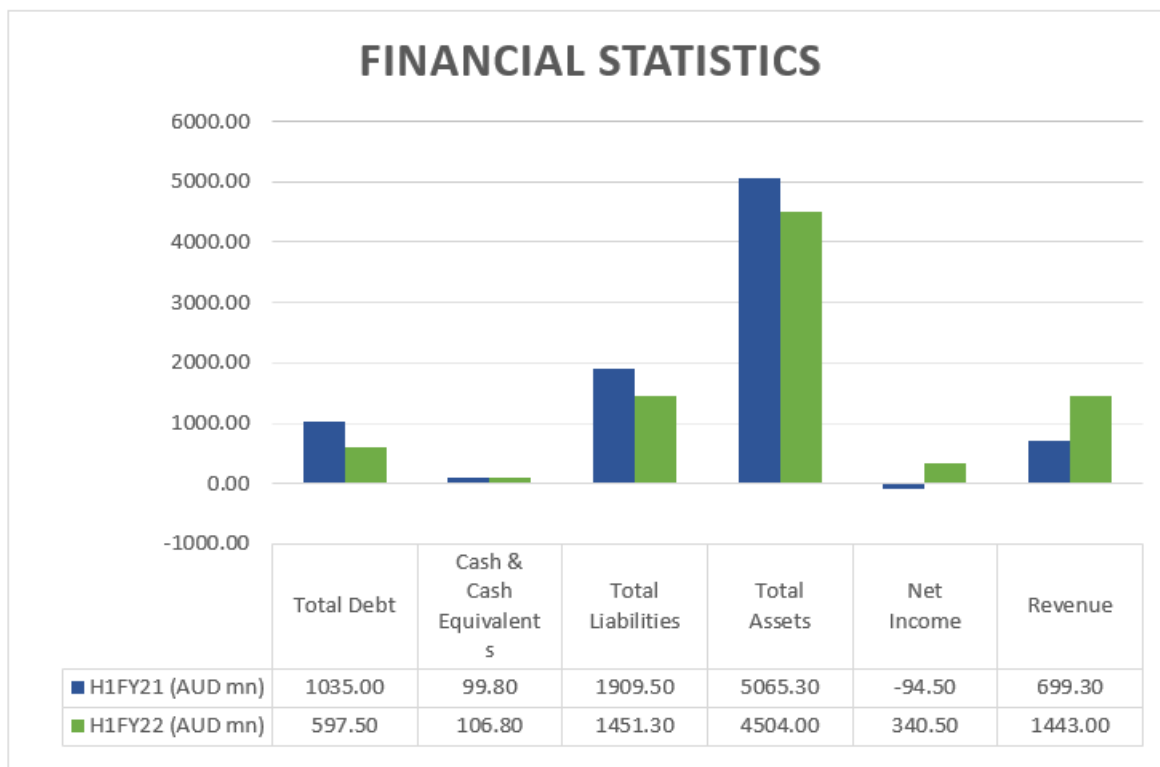
The company’s reported revenue of AUD 1,557.0 million in FY21, compared to AUD 1,773.2 million in FY17, due to a decline in realization prices during the period. On the other hand, the company reported a net loss of AUD 543.9 million in FY21, as compared to a net profit of AUD 406.4 million in FY17.



Source: Company Reports and Refinitiv, Analysis by Kapitaless Research

H1FY22 Performance (Ended 31 December 2021):

In H1FY22, the company reported its revenue of AUD 1443.0 million, which surged from AUD 699.30 million in pcp, led by higher realized prices during the period. The group reported an increase in coal purchases, higher selling and distribution costs and higher administrative costs. Profit before net financial expense stood at AUD 513.57 million, compared to a loss of AUD 100.97 million, despite rising input costs, supported by elevated revenue. The corporation reported its profit after tax of AUD 340.50 million, as compared to a loss of AUD 94.50 million in pcp. The company ended the period with a cash balance of AUD 106.80 million, while its total assets were recorded at AUD 4,504.0 million.



Source: Company Reports, Analysis by Kapitaless Research

Ratio Analysis:

The company’s gross margin and operating margin stood at 57.2%, and 43.6%, respectively, in H1FY22, which is higher than the 31.6% and 6%, respectively, in H1FY21. The group’s net margin stood at 23.6% in H1FY22, higher than the industry median of 20%. This indicates robust cost metrics. The quick ratio and current ratio improved to 0.75x and 1.19x, respectively from 0.68x and 1.18 x, respectively, in pcp. This indicates improving working capital management. The cash conversion period stood at 68.1 days in H1FY22, which is lower than 96.7 days in pcp, which illustrates that the company is taking a lower time to convert its investments to cash flows.

	Industry Median	2022		2021		2020	
		Dec-2021	Jun-2021	Dec-2020	Jun-2020	Dec-2019	
Gross Margin	61.6%	57.2%	41.1%	31.6%	39.0%	40.5%	
EBITDA Margin	52.7%	43.6%	19.5%	6.0%	15.8%	20.1%	
Operating Margin	-	35.6%	(70.6%)	(14.4%)	3.4%	6.9%	
Net Margin	20.0%	23.6%	(52.4%)	(13.5%)	0.3%	3.1%	
ROE	7.7%	0.12	(0.15)	(0.03)	0.00	0.01	
Quick Ratio	1.36	0.75	0.69	0.68	0.82	0.75	
Current Ratio	1.52	1.19	1.18	1.16	1.39	1.06	
Cash Cycle (Days)	6.1	68.1	88.5	96.7	79.5	73.0	
Assets/Equity	1.94	1.48	1.62	1.61	1.60	1.54	
Debt/Equity	0.49	0.20	0.37	0.33	0.32	0.25	
% LT Debt to Total Capital	23.3%	14.4%	24.8%	22.8%	22.1%	18.3%	
ROIC	-	8.3%	(10.2%)	(2.0%)	0.1%	0.6%	

Source: Refinitiv, Analysis by Kapitales Research

Shareholding Pattern:

The Company's top 10 shareholders constitute around 24.07% of the total interest in the company. Dimensional Fund Advisors, L.P. and AMCI WH, L.L.C. hold major stakes of 6.54% and 3.22%, respectively.

Number	Investor Name	% Outstanding	Position (mn)	Position Change (mn)	Value (\$mn)	Filing Date
1	Dimensional Fund Advisors, L.P.	6.54%	64.09	+34.63	242.74	25-05-2022
2	AMCI WH, L.L.C.	3.22%	31.58	-2.17	73.71	01-09-2021
3	AET SFS Pty. Ltd.	2.72%	26.68	0	49.37	19-08-2021
4	Mitsubishi UFJ Financial Group Inc	2.56%	25.07	-35.67	94.96	10-05-2022
5	The Vanguard Group, Inc.	2.28%	22.30	+0.15	84.46	31-05-2022
6	Vanguard Investments Australia Ltd.	1.65%	16.20	-2.80	37.76	28-02-2022
7	Kundrun (Fritz R)	1.61%	15.75	-10.30	30.92	04-10-2021
8	Commonwealth Superannuation Corporation	1.22%	11.91	+11.91	22.04	19-08-2021
9	BlackRock Institutional Trust Company, N.A.	1.16%	11.39	+0.23	43.13	31-05-2022
10	Crocodile Capital Partners GmbH	1.11%	10.86	0	25.33	28-02-2022

Source: Refinitiv, Analysis by Kapitales Research

Important Update:

- During Q3FY22, the company sold 3.7 Mt of coal, with an average realised price of AUD 315/ tonne.
- The company reported saleable coal production of 4.4Mt, up 5% on y-o-y basis. Managed coal stock piles stood at 2.1 Mt in Q3FY22, which is at par with Q4Fy21.

Outlook:

Throughout FY22, the coal sector witnessed supply-demand constraints due to adverse weather conditions across Canada and Australia (major coal-producing nations), along with supply disruptions in South Africa. Moreover, due to the ongoing war with Russia, we have seen an uptick in global coal prices, and the momentum is expected to continue in the coming days. For FY22, the company expects its managed ROM coal production of 19 to 20.5 Mt, while coal sales is expected between 17.2 to 17.8 Mt.

Key Risks:

The company's operation is directly co-related to the international commodity prices, and price volatility might dampen the company's realization price and revenues.

Valuation:

Relative Valuation Based on Price/Cash Flow	
Whitehaven Coal Ltd.	WHC
Cash Flow Per Share (FY23E AUD)	4.830
Price/Cash Flow Multiple (NTM) (Peer Mean) (approx)	1.32x
Target Share Price (AUD)	6.355
Current Market Price (AUD) (29 June 2022)	5.00
Recommendation	Buy

Source: Refinitiv, Analysis by Kapitales Research

Technical Analysis:


Source: Refinitiv, Analysis by Kapitales Research

Company Name	Ticker	Sector	CMP (\$)	Advisory date	Rating	Target 1 (\$)	Target 2 (\$)	Stop Loss (\$)
Whitehaven Coal Ltd	WHC	Energy	\$5.000	29 June 2022	Buy	\$6.270	\$7.585	\$3.787

On a weekly price chart, the WHC's stock closed above the significant 20-weeks, 50-weeks and 200-weeks EMAs, which indicates strong buying interest. Moreover, the stock has been on an uptrend since May 2021, which is a bullish signal considering the overall market condition.

Investors can enter at the current price level of AU\$ 5.000 with a target price of pivot resistance R3 of AU\$ 6.270 and pivot resistance R4 of AU\$ 7.585, respectively. Investors can either book full or partial profits at target 1 and wait for the stock to achieve target 2 (depending on their risk appetite).

Investors are advised to keep a strict stop loss at or below AU\$ 3.787 (200-weeks EMA) to protect their investments, in case of an unfavourable movement in the stock due to any uncertain event.

Please Note: It would be in the best interest of investors to trail their stop-loss upward if the stock is moving in our favourable direction.

Investment Summary:

The company seems confident to meet its FY22 guidance in terms of production and sales, which is encouraging. Moreover, elevated coal prices due to higher demand from China and Europe coupled with supply-demand constraints is likely to benefit the company's upcoming sales and cash flows, which is a key positive. The company has a prudent capital management and reported a D/E ratio of 0.20x in H1FY22, as compared to 0.37x in H2FY21. This is also lead to higher financial flexibility and would safeguard the company's performance during turbulent times.

Hence after considering the facts mentioned above facts, investors are advised to have a "Buy" rating on the stock of WHC at the closing price of AUD 5.000 on 29 June, 2022, with a target price of AUD 6.35.

Note: Kapitales Research Rating Star has been decided over the quantitative analysis of the stock. Maximum number of stars can be 5, with 5 for the top rating and 1 for the lowest rating.

Technical Indicators Defined:

EMA: Exponential Moving Average is the moving average that puts more weight on the most recent data points. $EMA = \text{Closing price} * \text{multiplier} + EMA(\text{previous day}) * (1 - \text{multiplier})$. For a 200-day exponential moving average, the multiplier can be calculated with the formulae i.e. $[2/(200+1)] = 0.0095$.

RSI: Momentum indicator, Relative Strength Index is used to evaluate the overbought or oversold nature of an asset by measuring the magnitude of its recent price changes.

Bollinger Band: A technical analysis tool that uses two parameters i.e. period (default is 20) and standard deviations, forming a kind of price envelope depicting a range of upper price band and lower price band. This price band shifts according to the volatility swings, and it helps in identifying whether the underlying asset is in the overbought zone or oversold zone.

Support: This is a level or zone where the stock finds good demand indicating the buyer's strength.

Resistance: This is a level or zone where the stock finds a good supply indicating the seller's strength.

Stop-loss: This is the level from where the investors should exit their positions to prevent any further losses in case of unfavorable movement in the stock prices.

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Disclosure: The information mentioned above has been sourced from the company reports and a third-party database, i.e., Refinitiv. Investors are advised to use strict stop-loss to protect their investments in case of any unfavorable/uncertain market events.

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