stanmorecoal

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A RECORD H1 SET TO DELIVER STRONG H2

FINANCIAL HIGHLIGHTS

Stanmore Coal Ltd (ASX: SMR) reports a profit after tax of $21.278m for the half year ended 31 December 2018. This represents a significant improvement over the previous corresponding period (pcp) profit of $8.036m and the results include the following financial highlights:

- Revenue increase to $148.284m (79.1% increase pcp)
- Gross margin 48.1% (33.7% in pcp)
- Underlying EBITDA up to $41.618m and in line with guidance for the half year and on track to meet guidance for FY19 year of Underlying EBITDA of $140m to $155m
- Investing activities of $33.541m ($5.921m at June 18)
- Interim fully franked dividend declared of 3 cps

The gross profit from operations improved to $46.139m (pcp: $21.607m) with coal sales delivering revenue of $148.284m in the first half of the financial year (pcp: $82.772m). The profit before tax (PBT) of $30.743m (pcp: $13.944m) is driven by continued strong coking coal prices, increased volumes, improved sales mix between coking coal and thermal coal and a continued focus on cost control.

OPERATING HIGHLIGHTS

Stanmore's Isaac Plains complex continued to perform well during the half year and is set up for a strong second half. The operational highlights were:

- In December 2018 the Dragline relocated from the Isaac Plains Mine to the new Isaac Plains East Mine which has a lower strip ratio compared to the Isaac Plains Mine resulting in a significant reduction in waste removal costs
- Record open cut ROM production of 1,298kt (81.8% increase pcp)
- Record coal production of 978kt (91.0% increase pcp)
- Record coal sales of 882kt (48.5% increase pcp)
- 176kt of product stockpiles at the end of the period due to port congestion which will enable strong sales and cash conversion in the second half of financial year 2019 as port queues return to more normal levels
- Underlying FOB costs of $104/t[1] (excluding state royalties of $15/t) (16.8% increase pcp)

FULL YEAR GUIDANCE

Stanmore maintains its 2.15mt coal production guidance for FY19 with an underlying FOB cost of $86/t (excluding state royalty of $15/t). Full year Underlying EBITDA guidance remains at $140m to $155m for FY19

[1] Non-IFRS measure

Cashflow

During the half-year to 31 December 2018, a total net cash inflow of $12.474m was recorded, which included $22.669m of short-term borrowings which were subsequently repaid on 2 January 2019. The net inflow from operating activities was positive with $27.479m being contributed by operations, this is a 235% increase against the pcp. The net cash outflow for investing activities ($33.541m) represented the acquisition of Isaac Downs, further investment in the capital program at Isaac Plains East and the scheduled maintenance shutdown of the coal handling and processing plant (CHPP). During the half year, the final dividend FY18 was also paid to shareholders of $4.133m (net of dividends reinvested pursuant to DRP).

Operational Summary

Safety

The Total Reportable Injury Frequency Rate for the half-year was 16.16 per million hours (pcp 12.7), with a rolling 12-month average of 14.21 per million hours (pcp 10.7).

Isaac Plains Coal Complex

The Isaac Plains Complex delivered a total of 1,298kt of ROM coal to the CHPP at a prime strip ratio of 10.0x. Product coal production of 978kt, with the coal handling and processing plant (CHPP) delivering a total yield of 78% (product split of 81% to 19%, semi soft coking coal to thermal coal respectively). Following the successful dragline relocation to Isaac Plains East, Stanmore expects the FY19 production split of semi soft and thermal coal will be approximately 90% semi-soft and 10% thermal. Total coal sold during the period was 882kt with 74% of sales being semi-soft coking coal.

Underlying operating FOB costs where $104/t sold (excluding state royalties of $15/t) which was a 16.8% increase from the pcp. Favourable mining conditions at Isaac Plains East will enable Stanmore to meet its full year Underlying FOB cost guidance of $86/t (excluding state royalties). The average coal price received for the half year was A$168/t (pcp $131/t). In light of the strong coal prices, Stanmore will continue to accelerate production where it makes financial and commercial sense to do so.

Isaac Downs Project

On 31 July 2018, the agreement entered into with Peabody Australia for the purchase of Isaac Downs completed. The acquisition consisted of $30 million cash (of which $6.0 million was payable on completion followed by a series of deferred payments totalling $24 million over the following 12 months). $10 million was paid during the half year.

Since completion, a number of milestones have been reached in order to realise the full value of the acquisition, including:

- Base line environmental studies commenced
- Exploration was initiated to further define the coal resource
- Declaration in accordance with the JORC Code of maiden Coal Reserves on 21 December 2018
- Life of Mine plan developed and reviewed.

Isaac Plains Underground Project

It is expected an investment decision will be made during FY19. The Bankable Feasibility Study (BFS) is undergoing final review by third party technical experts. The underground mine is targeting to produce over 1Mt of ROM coal per annum at an Underlying FOB cost of less than $100/t and is one of a number of options available to provide additional ROM coal to the CHPP.

Outlook and developments

Operations

- In line with previously provided guidance, Stanmore is expecting to boost saleable coal production to 2.15Mt in FY19, representing a ~90% increase over FY18.
- Underlying FOB Costs will improve to $86/t (excluding state royalties) in FY19 from $98/t in FY18. State royalties (variable dependent on coal price received) are estimated at $15/t in FY19, up from $12/t in FY18. The reduction in Underlying FOB cost per tonne is due to the migration of operations from Isaac Plains to Isaac Plains East which has lower strip ratio and more favourable geological conditions to Isaac Plains.
- Supported by strong coal prices and embedded cost discipline Stanmore Coal ("The Group") is on track to deliver significant EBITDA growth in FY19 and shareholder value.
- During H1 FY19 the Group also secured additional long-term port capacity through Dalrymple Bay Coal Terminal (DBCT). The additional long-term port capacity now provides further certainty to enable the company to consider various options to fill the CHPP to its nameplate capacity of 3.5Mtpa ROM. The company's tenure across two separate take or pay contracts of 5 and 10 years gives it flexibility to manage its exposure to long term obligations including those matched to its lowest cost production unit, the dragline.
- The Group also negotiated an extension of the Mining Services Agreement with Golding Contractors Pty Ltd for an additional 5-year period commencing on 1 July 2019 to 30 June 2024. The contract provides the Group with flexibility to scale up and down production through a cost-effective structure to meet market conditions and manage the transition to Isaac Downs once environmental approvals are achieved.
- The Group will continue to pursue high value coal sales opportunities and has taken advantage of the planned increased production and coal quality from Isaac Plains East to expand its customer base as well as continuing to meet the requirements of its existing customers.

Exploration and development

In a release to the ASX on 27 July 2018, the Group announced total Coal Resources of 52Mt[2] within the Isaac South area. These resources were upgraded to the standard required by the JORC code 2012. Exploration is planned for the tenement to further assess the opportunity to provide additional ROM feed for the Isaac Plains infrastructure.

The Group will continue to monitor and assess the opportunities to develop or monetise its existing portfolio of assets in the Surat Basin and South Bowen Basin, particularly with respect to The Range and Belview assets

Stanmore Managing Director, Dan Clifford, said "Isaac Plains continues to deliver strong, consistent results which has enabled a very positive outcome for H1 FY19. These results are on track to continue, setting Stanmore up for a strong H2. Coupled with the Isaac Downs acquisition, Stanmore has secured a long-term production runway for its assets."

"Stanmore continues to confidently capitalise on the current market conditions and operational performance by embedding strong planning and cost control into its operations. The relocation of the dragline from Isaac Plains to Isaac Plains East represents a significant milestone for the company in meeting its objectives of generating substantial growth in returns and strong cash flows for our shareholders given the improved cost structure and product mix split at Isaac Plains East. This progression of the Isaac Plains complex, has put the company in a great position for substantial growth in returns as we head towards the objective of 3.5mt ROM for the complex"

"Metallurgical coal demand continues to be strong and it's our view in the long term it will remain that way, giving Stanmore, with the right fundamentals in place, the perfect opportunity to become a key participant in the sector"

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[2] Represented by Indicated 14.5Mt, Measured 11.9Mt and Inferred 25Mt Resources

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Yours faithfully,

Ian Poole
Company Secretary

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About Stanmore Coal Limited (ASX: SMR)

Stanmore Coal operates the Isaac Plains coking coal mine in Queensland's prime Bowen Basin region. Stanmore Coal owns 100% of the Isaac Plains Complex which includes the original Isaac Plains Mine, the adjoining Isaac Plains East (operational), Isaac Downs (open cut mine project) and the Isaac Plains Underground Mine (currently being assessed in a Bankable Feasibility Study). The Company is focused on the creation of shareholder value via the efficient operation of the Isaac Plains Complex and the identification of further development opportunities within the region. In addition, Stanmore Coal holds a number of high-quality development assets (both coking and thermal coal resources) located in Queensland Bowen and Surat basins.

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