Whitehaven Coal (WHC),

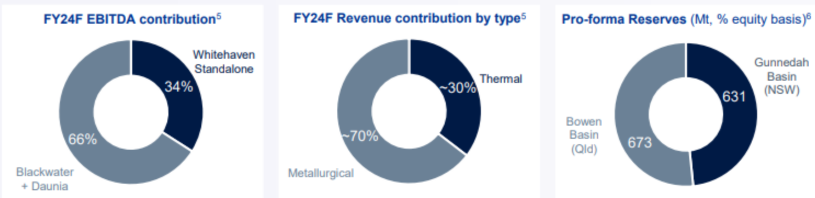
Game changer

WHC has confirmed that it will be acquiring 100% of the BHP coal mines Daunia and Blackwater for US$3.2b plus up to US$900m in price dependent contingency payments.

Overview of acquired assets

Established metallurgical coal mining operations with combined ROM production of ~20 Mtpa sold via export markets

	Daunia	Blackwater
Product type and mix[1]	~80% HCC / ~20% PCI	~65 - 70% HCC / ~25 - 30% SSCC
Mine type and method	Open cut / truck & shovel	Open cut / draglines x 7 and truck & shovel
ROM production[2]	~6.0 Mt	~14.8 Mt
Saleable production[2]	~4.9 Mt	~12.4 Mt
JORC Reserves[3]	81 Mt	212 Mt
JORC Resources[3]	115 Mt	1,837 Mt
Expected mine life	~17 years	>50 years[4]
First production	2013	1967
Logistics path	Rail to Dalrymple Bay Terminal	Rail to RG Tanna Coal Terminal



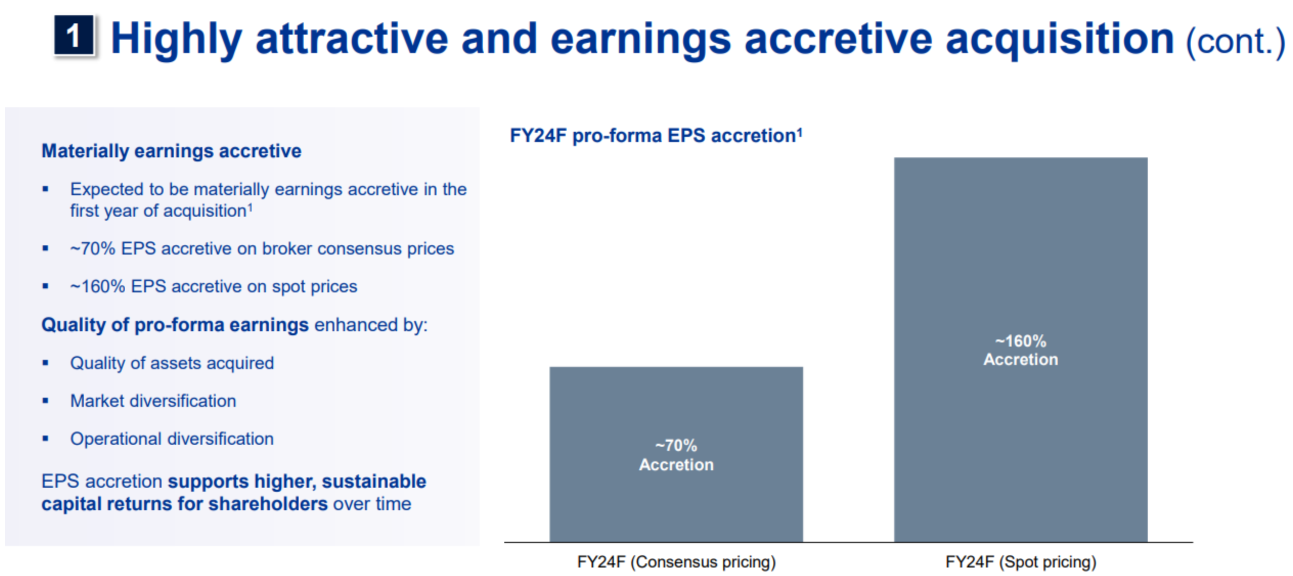
- The consideration will be US$2.1b up front, and US$1.1b deferred into three tranches of US$500m, US$500m and US$100m on the first, second and third anniversary of the completion date.

- WHC will also pay BHP up to US$900m in contingency payments to be made in three annual payments, each capped at US$350m. The coal price needs to average more than US$159/t for the first payment to be triggered, and US$134/t for each of the second payments. These prices are currently well below spot pricing and with our view that coal prices should remain strong, we expect these contingent payments will be triggered.

- The funding will be via a US$900m bridge facility, available cash and Whitehaven's own cashflow in FY25/26/27 which will be significantly increased by this acquisition. WHC had A$2.65b cash at June 2023. Whitehaven intends to refinance the bridge facility and target gearing of 20%.

- WHC is acquiring 100% of the assets but is considering a minority sell-down to global steel producers through a strategic JV. If implemented, this would reduce Whitehaven's funding requirements.

- WHC expects this transaction to be materially earnings accretive – **at spot prices, it estimates 160% earnings accretion in FY24.**



- Pro-forma managed Run of mine (ROM) production increases to around 40Mtpa – with a 70/30 coking/thermal split. This reinvents WHC as a majority coking coal producer (for steel manufacture).

- The acquisition means that further capital management via share buybacks are on hold. WHC intends to keep paying a franked dividend at 20-50% of NPAT. Surplus cashflow will be used to retire vendor finance.

- Completion of the transaction is expected in the June 2024 quarter.

- This is a transformational acquisition for WHC and should be well received by the market. The company has not overpaid for these high quality coking coal assets. This catapults WHC into global relevance.

Coventry Group (CYG)

Q1 FY24 Trading update

- Group sales of $94.606m, up +6.1% on the prior year

- Unaudited EBITDA of $5.5m, up 10.8% on the prior year.

- Robert Bulluss, Group CEO and Managing Director of Coventry Group said, *"The Group delivered solid FY24 quarter one sales and unaudited EBITDA growth. Initiatives to grow EBITDA % to Sales to 10% in the medium term have delivered early positive improvements and our strategy based on specialisation and service excellence is continuing to be resilient. These buy-side and sell-side initiatives were implemented early in the financial year and started to become evident in the month of September with EBITDA up 26.7% on the previous corresponding period (pcp). We expect the run-rate from these initiatives to continue to improve over the December quarter. There was some weakness in the Konnect and Artia New Zealand business due to the recessionary environment in New Zealand and the businesses exposure to residential construction through roofing screws. Konnect is the dominant industrial fasteners business in New Zealand, and we expect the business to become even stronger through this period as competitors withdraw from the market. There are already signs of green shoots in the economy driven by all-time record rates of immigration."*

- The first sentence in the above paragraph is the most important comment the company has made to the market in years, and I think completely ignored. The current margin is 5.8% and will likely be around 6% by year end, 8% in 2025 and 10% in 2026. This will make them industry leaders and results in a replication of what Bulluss and CFO Jackson achieved at Bunzl a few years earlier.

- The Enterprise Resource Planning (ERP) upgrade continues to plan, schedule and budget.

- CYG operates in multi-billion-dollar fragmented markets and has very modest market shares.

- There are clear plans in place to continue to increase market share via new branch openings, branch refurbishments, business development, product range expansion and an enhanced focus on sales and marketing.

- In particular, our goal is to achieve best in-class trade distribution margins over time and to that end we have identified and are implementing a range of improvement opportunities. No guidance provided for FY24.

- As infuriating as this stock has been, these guys have ticked every box. If CYG only wrote the same revenue as last year ($358.5m) at a 10% margin the EBITDA is $35.8m; double the FY23 $17m, but they have clearly explained they will achieve revenue growth as well as EBITDA margin expansion.

- In the table below, you can see the extraordinary turnaround in performance the current management team has achieved; but still no love from the market.

- CYG represents excellent value, we're just waiting for the market to take notice.

RIO

Q3 CY23 update

- Iron ore shipments up 1% to 83.9Mt.
- Year to date shipments up 5%.
- Copper production up 1% year to date with the ramp up at Oyu Tolgoi offsetting the production outages at Kennecott. Grades at Escondida were better.

- Iron ore costs are running at US$21-22.50/t – well up on previous levels in the low teens. NB: Current iron ore spot price is US$116.80.

- Capex is rising – and it is notable that RIO spent $574m at Simandou in 2023. This is the new iron ore mine in Guinea. This will be a massive, high-grade source of iron ore for China once built. It is part of the reason why iron ore prices are heading lower over the medium term.

- Commodity prices found some support during the quarter and are closer to levels at the start of the year. China's economic recovery has been uneven, as the property market continues to weigh on the economy and prompts further policy easing. Consumer confidence in the US has started to wane while manufacturing activity in advanced economies decelerated further as recessionary risks remain.

- China's economy is showing signs of stability, with resilient steel demand as growth drivers shifted from property to infrastructure and manufacturing.

- Iron ore prices rose by 7% during the quarter, lifting the average 62% Fe China price to $114 per dry tonne, up 3% quarter-on-quarter. China's domestic steel demand is up 1% year-to-date to August 2023 despite continued weakness in residential property, while a 40% spike in net steel exports lifted crude steel production and iron ore imports by 4.5% and 5%, respectively. This, coupled with headwinds to China's domestic iron ore production, led to portside iron ore inventories declining to a three-year low of 114 million tonnes at the end of the quarter, despite the ~8 million tonne quarter-on-quarter increase in seaborne iron ore supply.

- The copper LME price was slightly weaker in the third quarter, with the average price down 1% quarter-on-quarter to $3.79/lb. China's demand continued to be resilient; however, ex-China demand has weakened, as high interest rates hit construction activity. New mining projects in South America and Africa have started to deliver volumes. Inventories edged up slightly in the third quarter, but the market remains balanced year-to-date.

- We are in an earnings downcycle for RIO and dividends will be lower. Better value elsewhere

Production*		**Q3 2023**	vs Q3 2022	vs Q2 2023	**9 MTHS 2023**	vs 9 MTHS 2022
Pilbara iron ore shipments (100% basis)	**Mt**	**83.9**	+1%	+6%	**245.5**	+5%
Pilbara iron ore production (100% basis)	**Mt**	**83.5**	-1%	+3%	**244.0**	+4%
Bauxite	**Mt**	**13.9**	+2%	+3%	**39.5**	-5%
Aluminium	**kt**	**828**	+9%	+2%	**2,427**	+9%
Mined copper (consolidated basis)	**kt**	**169**	+5%	+17%	**460**	+1%
Titanium dioxide slag	**kt**	**247**	-20%	-19%	**835**	-5%
IOC** iron ore pellets and concentrate	**Mt**	**2.4**	-14%	+16%	**7.0**	-10%

*Rio Tinto share unless otherwise stated
**Iron Ore Company of Canada

2023 guidance

Rio Tinto production share, unless otherwise stated	2022 Actuals	**2023 Sept. YTD**	**2023 Previous**	**2023 Current**
Pilbara iron ore (shipments, 100% basis) (Mt)	322	**245.5**	**320 to 335[1]**	**Unchanged**
Bauxite (Mt)	55	**39.5**	**54 to 57[2]**	**Unchanged**
Alumina (Mt)	7.5	**5.6**	**7.4 to 7.7**	**Unchanged**
Aluminium (Mt)	3.0	**2.4**	**3.1 to 3.3**	**Unchanged**
Mined copper (kt)[3]	521	**460**	**590 to 640**	**Unchanged**
Refined copper (kt)	209	**129**	**160 to 190**	**Unchanged**
Diamonds (M carats)	4.7	**2.7**	**3.0 to 3.8**	**Unchanged**
Titanium dioxide slag (Mt)	1.2	**0.8**	**1.1 to 1.4[2]**	**Unchanged**
IOC[4] iron ore pellets and concentrate (Mt)	10.3	**7.0**	**10.0 to 11.0**	**9.3 to 9.8**
Boric oxide equivalent (Mt)	0.5	**0.4**	**~0.5**	**Unchanged**

[1]*In the upper half of the range.*
[2]*In the lower end of the range.*
[3]*Mined copper for 2023 guidance and actuals includes Oyu Tolgoi on a 100% consolidated basis following Rio Tinto's acquisition of Turquoise Hill Resources Ltd, which completed on 16 December 2022. Mined copper for 2022 includes Oyu Tolgoi on a 33.52% Rio Tinto share basis.*
[4]*Iron Ore Company of Canada continues to be reported at Rio Tinto share.*

World growth in 2023 is set to be a little lower than the pre-pandemic rate but, more importantly, the pattern is changing. Where interest rates settle after the tightening process comes to an end remains key for financial markets.

Read the EFG Q4 edition of *Insight* as we look at the shifting sands of global growth, US technology lead, and explore stars and TIPs.

Click on link below to read

Q4 EFG insight

Have a good weekend,

Ben and the team.

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