APA
Australia's energy infrastructure partner

APA Group FY25 HY Results
24 February 2025

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Check against delivery

CEO and Managing Director Adam Watson address

Good morning everyone. Thank you for joining us at today's half year results presentation for FY25.

I'm joined by Garrick Rollason, our CFO, as well as the broader Investor Relations team.

Let me start by acknowledging the Gadigal people of the Eora nation, Traditional Custodians of the land on which I'm speaking today.

First Nations people have taken care of our lands and waterways for the past 60,000 years. We acknowledge and pay our respects to their Elders past and present.

As always, I'll start today's presentation with a safety share, on slide 4.

As you can see on this chart, the more we talk about safety, the less likely we are to experience injuries.

The correlation between interactions and injuries is unquestionable.

One of our recent initiatives to promote interactions is dubbed – 'For the things that matter'.

When we talk about what matters most to us, prioritising safety and care becomes second nature.

Moving to slide 5.

Before running through the first half results, I just want to remind everyone why we're excited about the future of APA.

The work we've done recently has established very strong foundations.

Coupled with the attractive market dynamics, it supports, what we believe, is a highly compelling investment thesis.

We're at the heart of the energy transition.

The breadth and size of the opportunity allows us to focus on projects where we know we can deliver strong returns.

Our assets are long-life and highly cash flow generative, helping us deliver healthy EBITDA margins.

We have Inflation-linked revenues across the business.

We deliver an attractive distribution yield, supported by a track record of both growing distributions and investing in growth.

And, we have a strong balance sheet with numerous funding options to support our growth.
…Moving to the next slide.

The key takeaways from today's presentation are threefold.

Firstly, having done the work to strengthen our foundations, we're confident in our ability to deliver sustainable growth, including sustainable distribution growth.

Today's strong result supports this.

And the strength of our business is confirmed by the wide-acceptance of the long-term role of gas, and how the energy transition more broadly will transpire.

Secondly, we're focused on initiatives that will maximise securityholder returns.

This includes cost reduction initiatives, and delivering new growth projects that generate returns well above our cost of capital.

Thirdly, we have the business model and the balance sheet to fund growth and maximise value.

We'll spend some time today talking about our funding headroom.

We'll note that, each year, the ongoing inflation-linked earnings growth from our base business, provides us with additional funding capacity. When coupled with our DRP and our payout ratio, our annual operating cash flow growth can give us around $700 million per annum of debt funding capacity to support growth capex.

The cash flows from our new developments then add to this. As too will cost reductions.

We'll also confirm that our balance sheet, when coupled with our operating cash flows and DRP, provide ample capacity to fund our $1.8 billion organic pipeline that's underway, and also support further growth.

The funding of our further growth can be sourced from numerous alternatives, including partnerships with the likes of EDF and Marubeni, which are already well established.

As a management team, we have an acute focus on delivering securityholder value. As part of today's results presentation, we'll be running through some of the initiatives that we believe will enhance securityholder value going forward.

Let's get into the results on slide 7.

The key takeaway here, is that we've delivered a strong result.

Underlying EBITDA is up 9.1%.

Excluding the Pilbara acquisition, which has performed in line with expectations, EBITDA was up 4.4% - ahead of inflation.

Free cash flow is up 3.6%.

Distributions continue to grow, with our interim distribution at 27 cents per security. And we've reaffirmed our FY25 distribution guidance of 57 cents per security, up 1 cent on FY24.

And we've also reaffirmed our FY25 EBITDA guidance, at between $1.96 billion and $2.02 billion.

Most importantly, you can see that we have the business in a strong position to deliver ongoing growth.

This is after a couple of years of investing in the foundations necessary to ensure our business is sustainable, and to ensure we have the right capability to execute our strategy.

With our foundations established, we're focused on progressing enterprise-wide cost reduction initiatives that will deliver meaningful efficiencies.

And with cost growth for the half below inflation, we're already starting to see the benefits of this flow through to our results.

Customer demand and recontracting is also strong.

On the east coast, we've filled our order book, for winter demand, out to 2027.

Solid foundations, cost optimisation, strong customer demand - This is all translating into a business where we can target year on year earnings growth, at or above inflation, and complement this with additional earnings from our growth developments.

On slide 8, we call out some of the momentum behind our growth strategy.

During the year we've completed construction at both the Port Hedland Solar and Battery Project and the Kurri Kurri lateral pipeline.

We're now into commissioning and performance testing on both projects, which we expect to complete during the second half of FY25.

We've executed new project agreements for the development of the Beetaloo basin and for new pipelines to support the Brigalow power plant.

And we're making good progress with our projects in the Pilbara. We remain highly confident about the growth opportunities in this region.

We also successfully navigated our way through the regulatory assessment of the South West Queensland Pipeline. The favourable outcome has facilitated our confidence to make further incremental investments in the East Coast Gas grid, which we've announced today.

Slide 9 highlights the strength of our balance sheet.

We have ample capacity to fund our existing $1.8 billion growth pipeline.

FFO / net debt is 10.7%, comfortably above our target.

At 31 December, this translates to approximately $1.6 billion of funding capacity already available.

When we add the capacity generated through our ongoing growth in operating cash flow, our funding capacity is significant.

The targeted cost reduction initiatives will provide additional funding headroom on top of that.

Moving to slide 10.

This slide addresses the priorities our investors have been sharing with us.

I won't go through each line, but I'll give you the key points…

First is about having confidence in the long-term future of gas.

The answer is, future Australian gas demand is robust, up to and beyond 2050, and this is strengthened by the role gas-powered generation is expected to play to maintain security of supply.

Generation demand is being fuelled by the growing introduction of renewables, by the growth in electrification, and by the significant expected demand from new industries such as AI and data centres.

These are not only our forecasts – this is what the ACCC, AEMO, and other Australian experts are saying, and it should give you confidence that the earnings from our existing assets are sustainable, beyond the 2050s.

Second is the desire for sustainable growth.

There's momentum in our growth strategy.

We remain confident that delivering our organic growth pipeline will enable us to further grow our earnings and deliver accretive growth over the long term.

And third, is about funding the growth pipeline.

As I said earlier, we can fund our organic growth and, at the same time, deliver sustainable ongoing distribution growth.

Again, our $1.8 billion pipeline is already fully funded.

The ongoing strength of our earnings and cash flow will provide additional ongoing funding capacity.

And we have a number of funding sources available to us as we deliver projects beyond the $1.8 billion.

Having the foundations in place, we're now firmly focussed on a range of initiatives that will create additional value for securityholders.

These are outlined on slide 11.

We're in advanced discussions with customers for a range of projects, including

- our East Coast Gas Grid expansion
- the ongoing development of the Beetaloo
- developments in the Pilbara and Mount Isa
- contracted Gas Powered Generation assets, and
- Electricity Transmission projects

They are all on strategy, and demonstrate that momentum within the group is strong.

Our strategy is compelling, and our focus on markets where we have a competitive advantage allows us to be disciplined, and target projects where we can generate returns above our hurdle rates.

In addition to growth, we're focussed on what we can control, such as our cost base.

We're confident we can deliver meaningful reductions in our cost base - across operations, our corporate functions, foundational capex, and our stay-in-business capex.

Our discipline extends to our funding arrangements.

We've already demonstrated our preparedness to work in partnerships, including with EDF, who are not only one of the most technically strong energy companies in the world, but they have a significant balance sheet.

Finally, we're continually reviewing our portfolio to identify opportunities for asset recycling.

This can provide an opportunity to recycle capital and deliver shareholder benefits, where certain assets may be better off in the hands of others, or in a partnership arrangement with APA.

In short, we're confident these initiatives will deliver value accretion and support our focus on delivering sustainable, ongoing distribution growth.

With that in mind, Garrick will now take you through our financial performance and get deeper into the balance sheet.

CFO address Garrick Rollason

Thanks Adam, and good morning everyone.

I would like to make three key points today on our half year results

First, the business has delivered strong earnings growth in the first half, with underlying EBITDA up 9.1% to just over a billion dollars. This is the first time that APA has delivered earnings of over $1 billion for a half year.

Second, our balance sheet remains strong and we are well positioned to fund growth along with growing distributions to securityholders.

And finally, our inflation-linked cash flows, strong customer demand and disciplined focus on reducing costs, means we are well positioned to create value with the organic growth opportunities in front of us.

The underlying activity we are seeing across the business in relation to customer discussions provides us with confidence around the outlook for the group.

Moving to our headline financials on slide 13.

Underlying EBITDA is up 9.1 per cent, reflecting inflation linked tariff escalation, strong customer contracting, a full six months earnings contribution from the Pilbara assets, and cost efficiencies across the business.

Pleasingly, underlying EBITDA margin increased to 74.5%, supported by the stronger operating result and corporate cost growth below inflation.

Free cash flow was up by ~4% to $552 million. This reflects higher underlying earnings, partially offset by increased funding costs and unfavourable working capital movements in the half.

Moving to slide 14. I'll step through the drivers of our 9.1 per cent uplift in underlying EBITDA compared with the corresponding period.

Inflation-linked tariff escalation contributed approximately $31 million dollars of additional earnings.

Recontracting has again been strong, further contributing to earnings growth.

Digging a little deeper…

On the east coast, there was increased demand from customers for seasonal capacity, inflation-linked tariff escalations and favourable customer recontracting.

Additionally, we received $13 million in insurance proceeds relating to the Moomba Sydney Ethane Pipeline compensating for lost revenue from Qenos' plant shutdown in February 2023. In FY26, following the asset conversion, we expect to recommence revenue from this asset, as such, we see the insurance proceeds delivering a largely normalised contribution for the asset.

On the west coast, higher ownership of the Goldfields Gas Pipeline and increased customer demand for storage at Mondarra contributed to higher earnings.

The Pilbara Energy assets drove strong growth in contracted power generation earnings. We have integrated these assets well and they are delivering in line with expectation. This was partially offset by lower availability in the North West Power System in Queensland, which had benefited from high availability in prior periods.

Finally, corporate costs increased by 2.5 per cent.

Pleasingly we continue to see moderation in our corporate costs growth, with growth below inflation for the period and below the guidance provided at the FY24 results.

And as Adam mentioned, we have progressed work to optimise APA's cost base with targeted reduction initiatives.

Slide 15 summarises the half-on-half movement in free cash flow, which was up almost 4% to $552 million.

The benefit from the uplift in Underlying EBITDA was partially offset by some temporary working capital movements and increased interest paid.

Looking forward to the full-year result, free cash flow will incorporate a full year of the impact of increased debt funding costs and recommencement of cash tax payments, which will offset underlying EBTIDA growth.

Slide 16 takes a look at statutory NPAT.

Net profit after tax of $34 million dollars is lower than the corresponding period, as a result of:

Higher depreciation and amortisation due to the inclusion of the Pilbara Energy assets; and

Increased net interest.

Net interest expense includes an $83 million non-cash recognition of FX losses, reflecting the impact of the discontinuation of the WGP hedge accounting relationship. This is described further in the supplementary financials in the presentation.

We also saw higher interest costs through a $35 million increase in the quantum and average cost of debt and a $30 million increase due to the full six month contribution of interest on hybrid securities.

Moving to slide 17, I want to take the opportunity to remind you of APA's capital allocation framework. This continues to be a key consideration for our decision making as we assess our growth opportunities.

The framework is designed to ensure we allocate our free cash flow to those initiatives that can create the most value for our securityholders.

To that point, I'll outline our approach to funding organic growth on slide 18.

Apart from the DRP, APA does not need to issue ordinary equity to fund the identified organic growth pipeline of ~$1.8bn over FY25 to FY27.

The $1.8 billion includes inflight and probable growth projects across contracted power generation and gas transmission and storage, as discussed in the FY24 results investor presentation.

Our balance sheet is strong, with FFO to net debt at 10.7%, well above our target. This metric supports debt funding capacity at the half year of over $1 billion.

This strong position, combined with active capital management and the predictable, capacity-based, inflation-linked revenues we have highlighted today, leaves us well positioned to deliver on our organic growth opportunities.

By focussing on an efficient cost base and increasing free cash flow, our balance sheet capacity increases.

The inflation-linkage on our tariffs, participation in the DRP and dividend payout ratio, provide up to $700 million of capex funding per annum, which is above our estimated growth capex of circa $600 million per annum.

This is before taking into account any incremental funding benefits, cost optimisations and potential proceeds from asset recycling.

The point is that we are very confident in relation to the funding flexibility we have in meeting the attractive growth opportunities available to us.

This provides a good introduction to our capex on slide 19.

During the first half we invested in growth capital expenditure through the completion of construction of both the Kurri Kurri lateral pipeline and the Port Hedland solar and BESS projects. These projects are expected to deliver earnings at the back end of the second half.

We also invested in early works for the east coast grid expansion, including the MSEP natural gas conversion and MSP summer capacity expansion.

Foundational capex was lower than forecast and focussed on the Grid Solutions Project, emissions reductions programs and ongoing physical security of assets.

Stay in Business capital was higher in the first half due to timing of expenditures, but we are maintaining guidance at around $200 million for the full-year.

Turning now to our capital management and debt metrics on slide 20.

We remain well positioned, with a healthy spread of debt maturities and a significant amount of liquidity, to support investment in growth.

In the first half, we undertook a number of capital management initiatives which have further strengthened our balance sheet position.

These included our very successful return to the US144A market, where we raised US$1.25 billion with 10 and 20-year maturities. This enabled us to proactively repay early the outstanding US$ notes in September.

We now have no existing drawn debt maturities until March 2027.

As noted earlier, funds from operations to net debt at December was 10.7 per cent, above our target of 9.5 per cent.

This metric remains consistent with our triple B flat, Baa2 credit ratings, and is in line with the rating agency expectations. We remain committed to our current investment grade credit ratings.

On slide 21, I want to wrap up by reiterating three key points.

First, the business has delivered strong earnings growth in the first half, with underlying EBITDA up 9.1% to just over a billion dollars.

Second, our balance sheet is strong and well positioned to fund growth along with growing distributions to securityholders.

And finally, our inflation-linked cash flows, strong customer demand and focus on reducing costs, means we are well positioned to create value with the growth opportunities in front of us.

And with that, I'll hand back to Adam.

Thanks Garrick.

CEO and Managing Director Adam Watson address

Taking you now to slide 23.

We remain confident about our strategy. It remains unchanged.

Our priority market segments contain billions of dollars of opportunity for APA.

This allows APA to be selective in choosing the markets where we'll participate - focussing on markets where we have clear competitive advantages, and choosing projects that deliver the greatest value for securityholders.

Before we discuss our growth opportunities, we want to provide evidence of the strength of our existing business.

I want to emphasise again, that all of the most credible energy market forecasters are in agreement - that demand for gas is strong over the long term, up to and beyond 2050.

This slide provides AEMO's view of the stable, long-term demand for gas on the east coast, and the significant investment required in gas-powered-generation.

This is what's driving the need to increase capacity on our East Coast Gas Grid, and for new gas storage projects.

The demand is being driven by two key dynamics.

First – there's a need to increase capacity to move gas from the northern basins to the southern markets.

And second – gas-powered-generation needs to grow by at least two and a half times to meet demand.

This GPG will need to be connected to the grid and, in most cases, command additional pipeline storage solutions.

Turning to slide 25.

At APA, as it relates to our business, we're generally agnostic to whether it is domestic gas or imported LNG that supports the demand for gas in Australia. We would be storing and transporting both sources of gas in any event.

However, as Australia's largest gas infrastructure company, we believe we need to ensure our market and policy settings translate into gas supply that's low cost, low emissions and reliable - for our customers, for industry, and for our communities.

That's why we advocate for unlocking the abundant domestic gas that's already available in our country.

AEMO's view on the price of gas from northern basins, ranges from roughly $5.50 to $8.20 per gigajoule at the well head.

By contrast, LNG global spot prices into Asia, range from $17 in an average northern hemisphere summer, to about $21 in an average northern hemisphere winter.

As you all know, not only is domestic gas cheaper than LNG, but it's more reliable and lower emissions.

The case for domestic gas is conclusive.

Our confidence in the demand for domestic gas supports today's announcement of a five-year, East Coast Gas Grid Expansion Plan.

The plan will deliver a 25% increase in north-to-south gas transport capacity, and new southern markets gas storage.

We've structured the investments to incrementally meet market demand and help avoid annual gas shortfalls.

Slide 27 is the detail behind our plan.

It's designed to unlock northern Australia gas to address AEMO's forecast gas supply shortages in the southern markets.

Our plan will support ongoing earnings growth from APA's core gas transmission business.

It builds on the $700 million investment APA has already made over the last four years in the East Coast Gas Grid - including Stages 1 and 2, that have already added 25% more capacity to the grid.

This new Expansion Plan includes an initial investment of $75 million over the next two years. This includes $40 million to immediately deliver two enhancements to the grid that have already reached FID.

The remaining $35 million will fund early works on Stages 3, 4, and 5 of the Expansion Plan. This includes both pipeline infrastructure expansions, as well as storage projects.

Reaching FID on Stages 3, 4 and 5 will require early customer support, and the required regulatory approvals, all of which will be progressed as we undertake our early works.

This is a significant project for Australia's East Coast gas market, and we look forward to bringing it to life.

In parallel to our East Coast expansion plans, we're also progressing opportunities in the Beetaloo, as outlined on slide 28.

It's becoming clearer that the Beetaloo basin is likely to have the lowest cost, lowest emissions gas, to support Australia's domestic gas requirements.

The first stage of our investment in the Beetaloo is already underway and will connect the basin with the Northern Territory.

This is a critical development for energy security in the NT, where approximately 80% of power generation comes from natural gas.

But beyond the NT is a significantly bigger opportunity - to supply Australia's East Coast gas market - and the Beetaloo basin looks set to achieve this.

Slide 29 presents a summary of where APA is focussing its growth efforts.

This includes the gas transmission and storage opportunities we just stepped through, as well as, in contracted power generation and electricity transmission.

We strongly believe in the attractive organic growth opportunities available to us, which will deliver value accretion for APA securityholders.

Our strategy is about partnering with our customers. Pleasingly, we're well advanced in our discussions with customers across each of the four markets.

We're confident we can deliver high returns from these projects, given our competitive advantages and the market requirements.

When coupled with a strong base business, that has strong demand fundamentals up to, and beyond 2050, we're confident that these projects will support sustainable distribution growth over the long term, as well as deliver value accretion.

Moving to slide 31, I'll leave you with a reminder of the strong fundamentals of our business.

We have long-life assets, with gas forecast to be required for decades to come.

More than 90% of our revenues are inflation linked.

We have high EBITDA margins, with a focus on further improving margins through enterprise-wide cost reduction initiatives.

We have a $1.8 billion organic growth pipeline, with ample funding capacity from our existing balance sheet and our operating cash flows.

Beyond this, we're targeting growth opportunities that deliver strong returns, and we will be disciplined.

We have an attractive distribution yield of 8.5%, and we're focussed on sustainable distribution growth for securityholders over the long-term.

Thanks again for your time today.

We'll now move to Q&A.