Speakers: APA Group CEO and Managing Director, Adam Watson, and APA Group CFO, Garrick Rollason

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CEO and Managing Director Adam Watson address

Good morning everyone.

Thank you for joining us, at today's FY24 results presentation.

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, present and emerging.

As a sign of how APA is making a difference with our communities, we're at the halfway point with our Reconciliation Action Plan and we've already achieved 50 per cent of our commitments.

While this means we're on track, and we have great momentum, we acknowledge we have more to do.

Moving to slide 4 for a safety share.

In June this year, we commissioned a new monitoring system on Basslink. It allows us to safely transport electricity above our nameplate capacity, for short periods, when there's heightened market demand.

In simple terms, we've invested in technology that enables us to run Basslink dynamically, based on the temperature of the asset.

In the past, we were restricted to operate the asset up to its basic nameplate capacity. Even when, for example, seabed temperatures were low.

Since commissioning in June, we've safely gone above the nameplate capacity for more than 30 hours collectively.

The initiative speaks to our focus on ensuring we have assets that are safe and reliable for our customers and the community.

And it speaks to our ingenuity as Australia's energy system becomes more dynamic.

Today's agenda is on slide 5.

I'll start by covering our FY24 highlights, and I'll touch on the outlook for FY25.

Garrick will cover our financial performance in more detail.

I'll then finish with some observations on current market dynamics, before we go to Q&A.

Slide 7 provides the highlights of our FY24 performance.

There are three key messages from today's result.

First – we've delivered a solid financial performance, with earnings and distributions in line with guidance.

Second – our recent investments are delivering to expectations.

And the third key message – is that we're making good progress with our business development activities.

EBITDA growth was driven by recent acquisitions, inflation, and another solid year of customer recontracting.

Our corporate cost growth has moderated. Pleasingly, we've been able to keep our growth in costs below expectations.

Our balance sheet is in a strong position.

We've successfully refinanced a significant amount of debt during the year, and our FFO:debt is above target.

Pilbara Energy and Basslink are both performing well. As is stage two of our east coast grid.

They've all been successfully integrated, and generating returns in line with their business cases.

Construction is progressing well, on both our Solar & Battery project in Port Hedland, and our Kurri Kurri lateral pipeline development in NSW.

From a business development perspective, we've recently signed a new agreement with CS Energy to deliver twin pipelines in Queensland, to support their new gas peaking plant.

We see gas peaking requirements across the country as an attractive growth market for APA.

And our business development pipeline is in good shape.

We're actively engaging with customers to progress new opportunities, particularly in power generation.

Importantly, we remain confident about the Pilbara business. We're working on a number of opportunities, which we hope to announce in the not-too-distant future.

Slide 8 calls out several operational highlights for the year, using our three delivery pillars as a guide.

Our safety performance has improved.

Representation of women across our workforce is up.

We've continued to operate our assets at a high reliability standard.

We've continued to progress our Sustainability Roadmap and our Climate Transition Plan.

We have the capability of the organisation in a good place, having recently invested in areas such as business development, sustainability and community, and technology and asset security.

We delivered our ERP on time and on budget.

We successfully acquired and integrated the Pilbara Energy business.

We invested $833 million of capital in organic growth projects.

Our balance sheet will support our growth ambition.

And we have positioned the company well, building capability, to ensure we can generate strong returns from the growth opportunities before us.

Our outlook for 2025 is on slide 9.

EBITDA guidance for FY25 is between $1.96 billion – $2.02 billion.

This is consistent with the internal expectations we've had for some time. It also reflects the statements we've made publicly on revenue and costs, and the ramp up of new assets.

FY25 distribution guidance is 57 cents per security.

This too is consistent with our internal expectations.

We remind investors that our intention is to consistently grow distributions over time, while at the same time, preserving cash to partly fund our organic growth capex.

From a cash flow perspective, we remind investors that in FY25 we expect to see higher interest costs, as we refinance some $1.7 billion of debt in the period.

And we also expect to see our tax payments increase. That's because we conclude the period where we've been able to claim a full upfront tax deduction on our capital investments.

While these higher tax payments will impact our free cash flow, it does mean that securityholders will benefit, as we move to being able to partially frank our dividends.

We expect the level of franking to step-up over time, as we get closer to a more normalised tax payment profile.

With that, I'll hand you to Garrick to take you through the financial results in more detail.

The intent of this next section is to address some of the questions we are receiving from investors.

That is, how do we ensure we generate strong returns from our growth strategy.

And, what are the potential implications of regulation on APA, and the energy market more broadly.

Slide 19 sets out our strategy, which remains unchanged.

The market opportunities within Australia's energy transition are significant.

Our focus, is on markets where we have clear competitive advantages.

Our focus will ensure we deliver strong returns on investment. And deliver value for our customers and communities.

We've recently defined a new purpose for APA: Securing Australia's Energy Future.

It links to our strategy, and reflects the unique role APA plays in the energy market.

We have good momentum with our pipeline of growth projects.

And, as I said earlier, we're confident we will bring to life some of these opportunities over the next 12 months.

Moving to slide 20.

We have confidence that our strategy positions us well to capitalise on the trends we're seeing in the market.

We call out three important trends on this slide.

First – the commitment our customers are making to decarbonise their own businesses, is driving significant opportunity in the remote grid market.

The Pilbara alone represents a $3 billion pipeline of organic growth projects for APA.

Second – the need to retire coal and diesel means there's strong demand to support the roll-out of renewables, with gas-powered generation and electricity transmission infrastructure.

As an example, we've recently executed an agreement with CS Energy to deliver twin gas pipelines, akin to storage bottles, to support new gas-powered generation in Queensland.

We've also teamed up with EDF, one of the world's largest electricity transmission companies, to create a formidable partnership.

This brings together APA's strength in infrastructure development and community engagement, with EDF's strong technical capability and procurement power.

The third trend – is that gas supply sources are shifting, creating significant opportunity in gas transmission.

We're in the early stages of working with our customers to bring much needed new gas supply to the domestic market, from places such as the Beetaloo basin.

It's important to acknowledge the significance of the Beetaloo basin for energy security in the Northern Territory.

Challenges with existing gas supply from within the Territory are well known.

This has driven the NT Government to recently sign new Gas Supply Agreements with the developers of the Beetaloo basin.

I'm going to get a little deeper into gas supply and demand considerations in the coming slides.

The intent is to provide context regarding the important role we believe gas will play in Australia, for many years to come. It also informs our belief that heavy regulation of pipelines, would be detrimental for Australia's industry and consumers.

Slide 21 presents AEMO's forecast of supply shortages in Australia if we fail to invest in new gas sources.

To plug the supply gap, AEMO states that we need to bring to life new developments in regions such as the Beetaloo and the Surat.

Without new gas supply, and the associated transportation and storage infrastructure, we will fail to meet Australia's renewable energy targets.

We will fail the federal government's Future Gas Strategy.

And we'll put at risk Australia's energy security.

As you can see on slide 22, APA has played a significant role in safeguarding Australia's energy security in recent years.

The charts show the incremental investments we've made over the past 3 years, to expand the South West Queensland Pipeline, and the East Coast Grid more broadly.

Growing demand for transportation services along the SWQP has been driven by several factors. Most notably, the shift in supply.

With southern gas basins rapidly diminishing, we're seeing a generational shift.

Southern demand centres are increasingly being serviced from northern gas basins, with gas being transported down along the east coast grid.

APA has spent around $700 million over the past three years, to incrementally expand our east coast assets.

This was done at APA's risk, ahead of demand.

And demand has been strong.

In matching demand with supply, we're playing our part to support energy security in Australia.

And by delivering these expansions incrementally, we've kept energy transmission costs low, for our customers and consumers.

Let's take a look at the data. Compare demand and supply in winter 2022 to winter 2024 – over that same period, we've increased the capacity of the east coast grid by 25 per cent.

Without APA's incremental expansion of the east coast grid, supply would not-have-met-demand. We're confident there would have either been gas shortfalls, or substantially higher energy costs, or possibly both.

Let's not forget that in a world of gas shortfalls, Australia's industry can't operate.

Consumers don't have gas for heating or cooking facilities.

Restaurants can't operate. Hospitals can't operate.

And we'll create shortfalls in electricity supply.

Slide 23 takes a look forward, with AEMO's forecast gas demand from the SWQP, in 2027.

Quite plainly, without immediate further investment in the SWQP, and the east coast grid more broadly, Australia is unlikely to have the supply of domestic gas it needs to meet demand.

AEMO assumes that, absent further investment in the SWQP, the supply of gas for the east coast will need to come from “other sources”.

That means, until new gas resources are brought to market, Australia will likely need to source gas from offshore. I’ll come back to the implications of this in a moment.

It's worth noting that AEMO obviously can’t predict in their models material prolonged market failures. Failures, such as wind droughts, the failure of aging coal fired generators, or issues with existing gas production facilities.

Failures we’ve all become accustomed to.

Why are we bringing this to your attention?

Because we‘ve had to pause our stage 3 expansion of the east coast grid because of the uncertainty caused by the AER’s review of the SWQP.

The AER is looking to review all major pipelines in Australia, starting first with the SWQP, given its importance to the east coast.

I should start by saying that we’ve been working collaboratively with the AER to assist with their process.

We acknowledge the important role the AER plays in ensuring there is no market failure.

The current light-handed regime governed by the AER, provides APA’s customers with transparency about pricing.

The current regime works, and it works well.

With the current frameworks in place, we’ve seen pricing on our SWQP remain constant in real terms, since the asset was acquired in 2012.

The key issue, should SWQP become subject to heavy regulation, is that we can’t see a clear pathway where APA can continue to incrementally expand the east coast grid ... certainly not at the pace the market requires.

Why? Because we won’t know what return we‘ll generate from the investment for several years.

More broadly, the timeframes to approve expenditure under a heavily regulated model, simply don’t accommodate the urgent and dynamic needs of the east coast grid.

From an APA perspective, we have existing contracts on foot that would continue until expiry, regardless of the regulatory outcome.

And we’re confident, based on a wide level of analysis, that the returns we currently generate from the SWQP are fair and reasonable.

I must, however, caveat that we’re in uncharted territory. We can’t be confident about how the AER would price the SWQP under heavy regulation. Again, we’re in uncharted territory.

What we are confident about, is that under heavy regulation, the cost to consumers through delayed investment in capacity, will likely outweigh any potential benefits.

It’s clear from the public submissions made to the AER, that the light-handed regulation that currently exists, is the most appropriate way to govern assets such as the SWQP.

There were no public submissions made to the AER that supported a change to heavy regulation.

There has been no suggestion of a market failure under the current arrangements.

We therefore remain hopeful, that the AER will conclude that the current form of light regulation for the SWQP, remains the most appropriate model, to deliver the best overall outcomes, for Australia's energy consumers.

A likely unintended consequence of moving to heavy regulation on the SWQP, is that it will increase domestic gas prices, as highlighted on slide 24.

That's because, heavy regulation will likely constrain, or delay, investment on our east coast grid. And that will likely create a market dependency, on imported LNG.

From an APA perspective, LNG imports are likely to simply represent an alternative source of gas for the market, which you would expect will be transported by our existing assets.

But the market impacts are likely to be profound.

Our energy market will be beholden to international gas markets.

Reliability and security of supply will likely be diminished.

And emissions will be higher.

A recent study by the UK North Sea Transition Authority, compared the emissions intensity of imported LNG, against UK domestic gas.

They found LNG was four times more emissions intensive than domestic gas. Four times.

The other big issue with LNG imports, is one of price impacts for consumers.

Frontier Economics modelling suggests prices could double for industrial customers, if LNG imports were to set the domestic price, throughout the year.

Australia's industries, most of which are dependent on gas, simply can't absorb the higher costs that will result from LNG imports.

Retail consumers will also bear the brunt of higher gas costs.

It's worth remembering, that the government's price cap intervention two years ago, was introduced, in part, because LNG exports were setting the price of domestic gas.

That is, international LNG prices, which are beholden to global issues, were setting the floor price for Australia's domestic gas.

A likely unintended consequence of a world, where heavy regulation constrains investment, and Australia becomes dependent upon LNG imports, is that it effectively risks recreating the issue that the federal government was trying to avoid in the first place.

That is, having international LNG prices set the floor price for Australia's domestic gas.

Put simply, relying on LNG imported gas sets a floor in the domestic gas price – NOT a ceiling.

In summary, heavy regulation of our east coast gas pipelines, will risk supply.

It will risk higher prices for industry and consumers.

Which is why we remain hopeful, that the AER will determine that the current form of light regulation – which is working well – remains the best mechanism to protect consumers.

Domestic gas supply, and the expansion of the existing network, is the solution to AEMO's forecast energy supply issue, not imported LNG.

To wrap up on slide 26.

A reminder of today's three key takeaways.

First – we've delivered a solid financial and operational performance, with outcomes in line with our expectations.

Second – we're creating value from our recent investments. Pilbara Energy, Basslink, and the East Coast Grid expansion.

They've all been successfully integrated, and are delivering returns consistent with their business cases.

And finally – we have strong momentum with our business development activities, and the outlook for APA remains positive.

With that, I'll now open up to Q&A.

CFO Address Garrick Rollason address

Good morning everyone.

Moving to our headline financials on slide 11.

Underlying EBITDA is up 9.7 per cent, reflecting inflation linked tariff escalation, recontracting, and earnings contribution of recent acquisitions: the Pilbara assets and Basslink - both of which delivered earnings in line with their business cases.

Free cash flow was relatively flat year on year. This reflects a broader shift in higher interest costs, relating to capital management initiatives implemented during year, and higher cash tax paid, as accelerated depreciation allowances have been fully utilised.

Net profit after tax of $119 million dollars, excluding significant items, is a step down from FY23 as a result of higher depreciation and amortisation. This is due to the recent acquisitions and increased interest and tax, as I've just outlined.

The significant items after tax relate mainly to the accounting remeasurement of APA's existing 88.2 per cent interest in the Goldfields Gas Pipeline, which we outlined in the half year results.

The other non-cash significant item of note for the year was the Moomba to Sydney Ethane Pipeline impairment, which we disclosed to the market in July this year.

Moving to slide 12. I'll step through the drivers of our 9.7 per cent uplift in underlying EBITDA versus the prior year.

Inflation-linked tariff escalation and recontracting across our energy infrastructure gas pipeline assets contributed approximately $90 million dollars of additional earnings.

On the east coast, there was strong take up of our increased capacity with haulage of Queensland gas to supply southern markets and Mount Isa mining customers.

This was partially offset by Moomba to Sydney Ethane Pipeline revenue write-off associated with the July impairment announcement.

We also saw earnings re-base lined from the Roma to Brisbane Pipeline relative to FY23, which included a half year of earnings for a now closed customer's manufacturing plant, and additional demand due to LNG train outages.

And as discussed at the half year, we also continued to see lower earnings relative to the prior year at Diamantina Power Station. This was a result of a very strong FY23 that benefited from minimal maintenance downtime, and additional customer demand to support a generation shortfall. FY24 earnings for the asset reflect the normalisation of the maintenance program.

As previously mentioned, the earnings contribution of our recently acquired Basslink and Pilbara assets also contributed to the step up in earnings.

Finally, corporate costs increased by about 6 per cent, excluding the non-cash mark to market accounting adjustments of long-term incentives.

Pleasingly we are seeing moderation in our corporate costs growth from the anticipated 13 per cent compared with FY23.

We also anticipate further corporate cost growth moderation for FY25 and beyond.

Slide 13 summarises the year-on-year movement in free cash flow, the result being relatively flat, with a 0.3 per cent increase to approximately $1.1 billion dollars.

The benefit from the uplift in Underlying EBITDA was largely offset by a reduction in working capital and increased interest and tax paid.

Looking forward to FY25, free cash flow will incorporate a full year of the impact of increased debt funding costs and a more normalised cash tax position, which will likely offset EBTIDA growth.

Moving to slide 14, I want to take the opportunity to remind you of APA's capital allocation framework. This will 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, we outline our progress in investment in our growth strategy on slide 15.

During the year we invested in growth capital expenditure through the completion of both stage 2 of the East Coast Grid expansion and the Victorian Western Outer Ring Main.

In flight projects, which will deliver earnings in FY25, include the Kurri Kurri Lateral pipeline and our Port Hedland solar farm and battery projects.

Foundational capital expenditure was lower in FY24 than we had projected due to the timing of the Grid Solutions Project. Expenditure in FY25 and FY26 will be focused around our investment in technology solutions, emissions reduction, and enhancements to the physical security of our assets and will incorporate some of the expenditure deferred from FY24.

Stay in Business capital investment is in line with expectations. Going forward we anticipate annual spend will be approximately $200 million dollars.

Overall, capital expenditure across the three areas remains consistent with our expectations in both FY24 and in the coming two financial years.

Moving to slide 16, we have outlined here the focus of our growth investment over the coming years.

As you can see, the focus of our $1.8 billion plus near-term organic growth pipeline is contracted power generation and continued expansion of our gas transmission and storage network.

While ultimately the timing of many new growth projects is customer driven, the slide provides indicative allocation and timing for growth, across our three focus areas.

We have not yet factored Electricity Transmission in to our forecasted anticipated spend on growth capital in the near term. We will do so as we progress the execution of our strategy.

As we have shown you previously, the slide also sets out ranges of our target indicative returns on growth projects. We will continue to apply discipline to our investments to achieve returns with a healthy margin above our post tax WACC.

We are confident we can continue to deliver returns on our growth projects which are consistent with the returns you have been accustomed to over APA's long-term journey.

Turning now to our balance sheet on slide 17.

Our balance sheet remains well positioned, with a healthy spread of debt maturities and a significant amount of liquidity, to support investment in growth.

In FY24 we undertook a number of capital management initiatives which have further strengthened our balance sheet position, allowing us to fund our growth pipeline. These initiatives included our recent debt and hybrid raisings as well as the bond tender on the outstanding sterling bonds.

Our funds from operations to net debt at the year-end is 10.3 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 credit ratings.

We are well positioned to refinance our near-term maturities and the associated costs are included in our Free Cash Flow forecasts.

To wrap up I want to re-iterate three key points …

First – we have delivered an overall solid operating and financial performance – in line with our expectations and guidance we have provide to the market.

Second – we are well positioned to create value with the growth opportunities in front of us.

Finally – the outlook for our business remains positive with expectations of ongoing Underlying EBITDA and distributions growth.

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