APA Group 1H FY24 financial results speeches

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Check against delivery

CEO and Managing Director Adam Watson address

Acknowledgement to Country

Good morning everyone and thank you for joining us.

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.

Safety share: Hand safety awareness program to address one of our key physical injury risks

Before we dive into the presentation, I'll begin on slide 4 with a safety share.

As you'll see in a moment, our safety performance is improving, but we know we can always do better.

One area of focus is the protection of hands – they account for almost a third of our injuries.

We're seeing hand injuries from simple daily tasks, such as cuts from Stanley knives and accidents from using vehicle winches.

Raising awareness is key to addressing these injuries, and we're doing this through programs such as Safer Together and Helping Hands.

Our key message is simple – it's not ok to get hurt at work.

Agenda

Today's agenda is on slide 5.

I'll discuss our first half 24 highlights and touch on the outlook for the full year.

Garrick will cover our first half financial performance in more detail.

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

Recent acquisitions performing well, in line with business cases, driving a solid 1H24 performance

There are three key takeaways from today's results:

<u>First</u> – we've delivered a solid financial performance, with earnings and free cash flow growth.

EBITDA growth was largely driven by recent acquisitions and inflation linked revenue increases. This was partially offset by

- lower revenue from Victorian Transmission System as a result of our warmer winter,
- lower revenue from the Roma Brisbane Pipeline and Diamantina Power Station, which had comparatively strong first half 2023 outcomes,
- and higher costs associated with our investment in the business.

Second – we've demonstrated our ability to acquire quality assets that create value, with both the Alinta Pilbara and Basslink acquisitions.

I'm pleased to say that their integration programs are on track and their earnings are in line with their business cases.

They are both performing well, and we remain confident about their growth outlook.

Third – the outlook for our business remains positive.

We have expectations of ongoing EBITDA and distribution growth, and we have established strong long-term growth platforms.

In 1H24 we have delivered solid growth in earnings and Free Cash Flow

Moving to slide 8, the key takeaway here is that first half revenue, earnings and distributions grew in line with our expectations.

Underlying EBITDA is up 5.8%.

Free cash flow is up 4% on a normalised basis

And our interim distribution of 26.5 cents per security is up 1.9%.

Reaffirmed FY24 DPS guidance of 56 cps and providing FY24 Underlying EBITDA guidance of $1,870-1,910m

Looking forward on slide 9, we've reaffirmed our FY24 distribution guidance of 56 cents per security.

In light of the recent Pilbara Energy acquisition, we're also providing EBITDA guidance for FY24 of between $1.87 billion – $1.91 billion.

I must stress – this guidance is consistent with the internal expectations we set ourselves at the start of the financial year.

It's also consistent with the statements we made on revenue and costs at our FY23 results presentation, and which we reaffirmed at our November Investor Day.

Any ongoing provision of earnings guidance will be considered by the Board in future periods.

Our 1H24 performance was achieved through continued focus on our three delivery pillars

On slide 10 we call out some of our operational highlights for the half, using our three delivery pillars as a guide.

Let's go a little deeper, starting with Our People on slide 11.

Our People: We are embedding a safe, respectful and inclusive workplace

We're embedding a safe, respectful and inclusive workplace.

There is always more to do, but this slide does provide some of the proof-points that show we are making good progress.

Our safety outcomes continue to improve.

Our diversity and inclusion outcomes continue to improve.

And we are implementing tangible programs to enhance the wellbeing of our people.

Case study: Our People: Growing apprenticeship program

Slide 12 brings this to life with a case study.

Our apprenticeship program is not only developing capability for the trades our business needs, but it's also building an inclusive and diverse workforce from the ground up.

Operational Excellence: Safe and reliable energy supply to our customers is central to our strategy

Slide 13 captures some of the metrics that are core to our Operational Excellence pillar.

We operate an expansive portfolio of energy infrastructure assets right across Australia – ensuring it's done safely and reliably underpins our success.

Case study: Operational Excellence: Ensuring energy reliability for our customers

A case study to highlight this is on slide 14.

On New Year's Eve, a severe storm disabled our solar farm at Gruyere in Central Western Australia.

Of the more than 25,000 solar panels, only 277 were damaged… but that was enough to shut down the entire solar farm.

Despite that, our gas-fired power generator immediately took charge to ensure there was ZERO supply issues for our customers.

Our job at APA is to ensure we provide our customers with energy solutions that are available rain, hail or shine.

Operational Excellence: Supporting our customers and communities through our sustainability agenda

Moving to slide 15, you can see some data points that show the progress we've made with our Climate Transition Plan and Reconciliation Action Plan.

Both are great examples of the commitments we're making to ensure the sustainability of our customers and communities.

Creating Value: Integration and earnings contributions from new assets in line with business cases

Moving now to our third delivery pillar on slide 16 – creating value.

As I mentioned, the two acquisitions we've made over the past 18 months are delivering in line with their business cases, with integration progressing well.

The takeaway here is that APA is a good acquirer of businesses, and we create long-term value when doing so.

Creating Value: Pilbara Energy score card

On slide 17 we've provided a scorecard for our most recent acquisition – Alinta Pilbara – which we now call the Pilbara Energy System.

It's delivered earnings in line with our business case.

And we remain highly confident in its ability to generate value in line with previously stated expectations.

The integration process so far has been positive and hasn't raised any red flags.

We acquired an impressive group of talent, and all employees have transferred across to APA and remain with the business.

We're integrating our operational and safety systems, and we're working through the technology platforms.

And we're making good progress with customers on emerging opportunities.

Creating Value: Attractive pipeline of near and long-term growth opportunities of >$1.8bn

Moving to slide 18 – which reaffirms what we said at Investor Day a couple of months ago.

The near and long-term opportunities for growth remain attractive.

We've maintained our $1.8 billion near-term organic growth pipeline.

And the acquisition of Pilbara Energy has added a further $3 billion to our growth pipeline.

Creating Value: Capital allocation framework maximises securityholder value

As we consider our growth opportunities, our capital allocation framework will come to the forefront.

The framework, which is presented on slide 19, is designed to ensure we allocate our free cash flow to those initiatives that can create the most value for our securityholders.

Our balance sheet is positioned to support our growth.

And we have a disciplined capital strategy which will ensure we make the right choices about how we deploy capital with a focus of maximising securityholder returns.

With that, I'll now hand you to Garrick who will take you through more details on our financials.

CFO Garrick Rollason address

Thanks Adam, and good morning everyone.

I'm pleased to address you for the first time as APA's CFO.

Before I get into the detail, I'll quickly call out the highlights:

First – the results are in line with the considerations for the 2024 full year provided last year, and demonstrates good progress with our strategy execution.

Second – existing earnings with inflation linked tariffs and the integration of our new assets – is supporting securityholder distributions and our growth projects.

Third – our balance sheet, and investment in systems and capabilities, is positioning our business to create value by enabling our growth agenda.

1H24 has delivered 6% growth in Underlying EBITDA and 4% growth in normalised Free Cash Flow

Moving to our headline financial metrics on slide 21.

Underlying EBITDA is up 5.8 per cent, reflecting the solid performance from our recent acquisitions.

This includes a six-month contribution from Basslink, and two-months of contributions from our Pilbara Energy System – both of which delivered earnings in line with their business cases.

Excluding Pilbara Energy, Underlying EBITDA increased by 3.4 per cent, and normalising for both Basslink and Orbost the period-on-period increase was 1.6 per cent.

Free cash flow increased by 12.8 per cent, noting this includes a delayed receivable in the prior corresponding period.

After normalising for this impact, free cash flow has increased by four per cent.

Normalised free cash flow growth was lower than EBITDA growth, reflecting our higher than usual stay in business capex investment during the half year.

And our interim distribution is 26.5 cents per security.

Strong contribution from new assets and continued investment in our business in 1H24

Turning to slide 22, where we have summarised the key drivers for the 2024 first half.

I will go into more detail shortly, but in summary:

- EBITDA has grown because of the inflation linked tariff escalation and the contribution of our new assets.
- Corporate costs, investment in technology projects, and capex are all aligned with the previous comments provided as considerations for 2024.

Revenue growth driven by inflation linked tariffs and recent acquisitions

The next slide provides a deeper dive on revenue.

Our segment revenue increased by 8.2 per cent, driven by inflation linked tariffs, and contributions from our recent acquisitions.

As Adam has previously mentioned, operating revenue was lower largely driven by:

1. Firstly, the Victorian Transmission System earnings being negatively impacted by the warmer winter, and also
2. Higher revenues in the first half of 2023 from Roma Brisbane Pipeline benefitting from gas supply volatility and Diamantina Power Station meeting additional customer requirements. Neither of these events reoccurred in the first half of 2024.

87 per cent of first half revenues in the Energy Infrastructure segment were from take or pay contracts or regulated revenue, with a small proportion of our revenues coming from flexible short-term services and other variable volume linked revenue.

Costs have grown as we integrate new acquisitions and continue to invest in capability

Moving to the next slide, which captures our cost base and includes the step up related to the new acquisitions.

Corporate costs increased by about 10 per cent, or $7m. Of the increase, $3m related to non-cash mark to market accounting adjustments of long-term incentives.

Excluding this item, growth in corporate costs was broadly in line with wage inflation.

Consistent with our previous comments, we anticipate that 2024 corporate costs to increase by approximately 13 per cent, compared with financial year 2023. Furthermore, 2024 will re-set the corporate cost baseline for the 2025 financial year and beyond.

EBITDA growth across all segments

Moving to slide 25. Our underlying EBITDA margin is slightly down on the prior period to 73.2 per cent.

The decrease was driven by three factors:

First, we experienced lower revenue from three assets as discussed previously.

Second, our investment in Electricity Transmission business development and higher corporate costs; and

Finally, the inclusion of our Pilbara Energy assets, which is dominated by generation and has lower margins compared to our pipeline assets.

Non-operating items includes ongoing non-cash items and foundational investment

Turning to non-operating and significant items on slide 26.

Outside of the non-cash items, I would like to call out our technology transformation project expenditure, an item which we have spoken to in the past.

This expenditure includes our new enterprise resource planning, or ERP, system.

Pleasingly, the ERP system is about to ‘go-live’ and is on time and on budget.

The second call out is the $975 million significant item.

This relates mainly to the accounting remeasurement of APA’s existing 88.2 per cent interest in the Goldfields Gas Pipeline.

This occurs as a result of purchasing the remaining 11.8 per cent through the Pilbara Energy acquisition.

The adjustment is non-cash and is a required accounting treatment.

This is offset in part by acquisition costs, including stamp duty.

Strong Free Cash Flow(27) growth reflects underlying earnings growth, partly offset by higher SIB capex ensuring asset excellence

Slide 27 summarises the period-on-period movement in free cash flow.

Like for like, free cash flow was 4 per cent higher.

The benefit from the uplift in EBITDA was partly offset by higher stay in business capital expenditure.

This reflects the inclusion of recently acquired assets, a focus on pipeline integrity works, and maintenance at Diamantina Power Station.

Continued capital investment in 1H24 to drive longer term growth and ensure reliability of our assets

On to slide 28, you can see the significant investments we made in the first half.

Excluding acquisitions, we spent $432 million on growth capex with the key projects being:

The East Coast Grid expansion, and

Kurri Kurri Lateral Pipeline.

Regulated asset expenditure included the Western Outer Ring Main or WORM project, in Victoria.

And on the West Coast, we completed the Northern Goldfields Interconnect.

Foundational capital expenditure of $27 million is in line with our previous comments for the 2024 financial year, and is focused around our investment in technology solutions, emissions reduction and enhancements to the physical security of our assets.

Balance sheet positioned to support investment in future growth
Turning now to our balance sheet on slide 29.

Our balance sheet remains well positioned, with a healthy spread of debt maturities and a significant amount of liquidity.

The increase in net debt and liquidity is a result of the recent debt and hybrid raisings, as well as the equity capital raising used to part-fund the Pilbara Energy acquisition.

The chart on the right confirms our upcoming debt maturities occur in 2025 financial year.

As expected, our funds from operations to net debt decreased half-on-half due to the increase in net debt to support growth.

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.

Outlook considerations remain unchanged*
Finally, turning to slide 30.

As Adam outlined, we have provided an Underlying EBITDA guidance range for the 2024 financial year.

The guidance is consistent with the internal expectations we set at the start of the financial year, and is consistent with the comments we provided on certain revenue and cost items at the 2023 financial year results and reaffirmed at our November Investor Day.

In the longer term, we expect Underlying EBITDA will continue to benefit from the integration of our newly acquired assets, and from revenue associated with both the East Coast Grid expansion, with both stages 1 and 2 expected to be fully contracted this coming winter, and the Northern Goldfields Interconnect.

We are also focused on stabilising our cost base from 2025 financial year, as we come near the end of our capability uplift program.

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.

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

And third – the outlook for our business remains positive with expectations of ongoing Underlying EBITDA and distributions growth and a strong long-term growth platform.

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

CEO and Managing Director Adam Watson address

Strategy remains unchanged - to be the partner of choice in delivering infrastructure solutions for the energy transition

Thanks Garrick.

I'll now talk to our strategy and how we're responding to some of the trends we're seeing in the market.

Our strategy, which is set out on slide 32, remains unchanged.

The market opportunities within Australia's energy transition are significant and we're focussing on markets where we have clear competitive advantages.

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

APA is adapting to shifting energy market dynamics

If you move to slide 33, there are four market dynamics to call out that are particularly relevant to the success of Australia's energy transition …

First – we're clearly seeing growing customer demand for large scale renewables as they look to move at pace to decarbonise.

However, in contrast to the first point – the pace of the transition build-out is unfortunately slowing.

Project delivery is being impacted by a number of things – policy and regulatory concerns, community disquiet, growing costs, supply delays, and skilled labour shortages.

Our job at APA is to work with governments, communities, regulators, suppliers, and our customers to ensure we can cut through these issues to deliver the infrastructure we need to decarbonise our energy systems.

The third dynamic is that the role of gas is becoming more widely understood and accepted.

This is a good thing, because without gas, we're going to see major disruptions to energy security and costs are likely to increase as we transition our energy systems.

However, in contrast to the growing acknowledgement of the role gas plays – policy uncertainty is unfortunately increasing.

We know we need to accelerate the introduction of large-scale renewables to take coal out of our energy systems.

They need to be connected with electricity transmission lines. And they need to be firmed with batteries and gas.

The problem is, however, that policy and regulation continues to be one of the key factors that is putting a handbrake on the industry's ability to move the transition forward at pace.

Regulatory matters being addressed

Which is a good segue to slide 34, where I'd like to update you on some regulatory matters that are particularly relevant to APA.

We've spoken previously about our Basslink conversion application and revenue proposal.

We expect the process will conclude later this calendar year.

We've also commenced work on the next access arrangement for the Goldfields Gas Pipeline.

And we expect to receive feedback from the regulator in the coming months.

The third item I wanted to highlight relates to the new regulatory powers granted to the AER under the National Gas Law that came into effect in March last year.

Please let me go into a bit of detail because it's important it's not misinterpreted.

As provided for under the legislation, the AER has indicated to us they are initiating reviews on all significant pipelines in Australia over the coming years.

They have commenced with APA's South West Queensland Pipeline (SWQP), given its significance in transporting gas from Australia's northern supply sources to the southern demand markets.

While we are yet to receive a formal notice with the details about the process, let me step through our understanding of how it will work.

This review is to determine whether the asset should remain "lightly regulated" or subject to "heavier regulation" under what they would call "reference price regulation".

In making this determination they will weigh the cost and benefits of the current form of regulation, with those that would occur if the regulatory regime were to change.

Importantly, the AER has reassured us they have no pre-determined outcome in mind.

They are simply following a process under the powers granted to them in March last year.

We will be working collaboratively with the AER and we expect this assessment to be concluded prior to the end of calendar 2024.

If it is determined the pipeline should be subject to reference price regulation, there will be a further process to work through, which would likely take another two to three years to complete.

In this further process the AER would determine an access arrangement, including reference tariffs and a value for the regulated asset base.

What this means in reality, is that if the asset is determined to be subject to heavier regulation, we are around 3 – 4 years away from knowing what impact that would have on APA's financial returns, if any, for that asset.

Our firm view is that the current arrangements with our customers work well. We haven't had a single customer seek recourse against APA under the current arbitration process.

Over the past 4 years, APA has invested around $700 million to expand the East Coast Grid to ensure capacity is available when customers and communities need it.

We've done that at our own risk, bringing supply to market ahead of demand.

And we've funded these investments while continuing to provide excellent service to our customers.

As such, we believe that the returns we currently generate from the South West Queensland Pipeline are fair and reasonable, and that the clear benefits of the current form of regulation outweigh any that might flow from a change to the regime.

Over the longer-term, if the AER does determine the asset should be subject to reference price regulation, it's important to understand that our existing bilateral contracts with customers will remain on foot.

Any access arrangement doesn't impact existing contracts and we will still have the ability to negotiate bilateral contracts with our customers.

A change to the regulation will, however, almost certainly add complexity and delays to decision making at a time when new investment is needed to enhance system capacity, reliability and security of supply.

In effect, the decision to make future investments will need to be negotiated with the AER, working through their review processes, before we can make any commitment about moving forward with the investment.

While we don't need to make any decisions right now about further investments that may be required to increase capacity in the East Coast Grid, rest assured we will continue to make our investment decisions on the basis of the creation and protection of value for our securityholders.

So to recap, we are entering into a process with the AER where they will consider whether the SWQP should be subject to reference price regulation. The AER won't be making that decision until the end of this year.

If, and only if, they decide to move the SWQP to reference price regulation, we would move into a further consultation process that would likely take another two to three years to complete.

The most efficient and effective way to decarbonise Australia's energy system is to retire coal and build out renewables supported by gas

With those market dynamics in mind, let me highlight some of the latest ISP forecasts around the energy transition … which further underscores the need to ensure we have a stable policy environment that encourages investment.

The graph on slide 35 is AEMO's latest estimate of how coal will be taken out of our energy systems … it's happening faster than we expected.

But our energy systems will quickly become unstable, if we can't offset the removal of coal with a rapid introduction of firmed renewables and electricity transmission.

Demand for peak gas firming capacity is forecast to more than double by 2050 to support the retirement of coal and build out of renewables

The graph on slide 36 highlights the size of the challenge.

By 2050, we're going to need …

- Seven times as much grid-scale variable renewable energy.
- 10,000km of new electricity transmission infrastructure.
- And four times as much firming capacity, including 13 gigawatts of new gas generation.

What that means is AEMO is forecasting gas demand for firming capacity to more than double by 2050 as coal exits the system and more renewable energy comes online.

This is a massive task and we don't have time to waste.

We need policy that supports, and indeed encourages, the roll out of firmed renewables and electricity transmission.

This dynamic will present many challenges for the energy industry.

Equally, it will present many opportunities for those businesses that have the capability to work with customers and communities to make the transition a reality – and that's APA's goal.

Case study: Victoria's Gas Power Generation (GPG) response helps secure the grid and deliver reliable energy to Victorians

Slide 37 presents a timely case study on the critical role gas plays in our energy system.

Tuesday last week, the severe heat wave in Victoria brought electricity transmission lines down and tripped some of the state's coal fired power generators.

This left over 500,000 homes in Victoria without power, at a time when it's most needed.

Given the time it takes to bring the coal fired power generators back on-line, the impact often isn't hours long, it's days long.

Renewable power generation continued, but wasn't enough to carry the load, and was ineffective when the sun went down.

Hydro power stepped up, but we all know we have limited available supply of this unique power source in Victoria.

It was gas that stepped up.

It's gas that always steps up.

It was gas fired power generation that switched on immediately and ensured more homes weren't left without power.

By our high-level estimates, if we didn't have sufficiently available gas in Victoria last Tuesday, we COULD have seen well over a million homes without power.

Gas kept our communities going, enabled people to have warm showers and to cook food for their families.

Gas will continue to play a critical role beyond supporting the transition to renewables

Slide 38 reinforces that this firming role is just one of the critical roles that gas plays in our energy mix.

It's also critical to Australian industry.

Industries that make building products and fertilisers.

Those very industries that build our homes and places of work, and put food on our table.

Those very industries that don't have any alternative viable solutions to gas.

Don't get me wrong … at APA, we are at the forefront of bringing new energy solutions to market.

We’re supporting the decarbonisation of our energy system, where coal and diesel need to be removed first, by developing solar and wind farms for our customers.

We’re supporting renewables by building the electricity transmission lines we need to connect the renewables to customers and communities.

And we’re exploring emerging technologies such as hydrogen and Carbon Capture and Storage.

The fact remains, gas is, and will continue to be essential if we are to have a successful energy transition and if we are going to continue to have a viable Australian manufacturing sector.

It’s the cleanest and most cost-effective long duration firming solution to complement renewables and it is vital to industry.

Today’s key messages

To wrap up on slide 40.

A reminder of today’s three key takeaways …

One – we’ve delivered a solid financial and operational performance in the first half of 24, with outcomes in line with our expectations.

Two – we’re demonstrating our capability at acquiring assets and creating value.

The recent Pilbara and Basslink acquisitions both remain on track with their business cases.

And we remain confident about their growth outlook.

And third – the outlook for APA remains strong.

With that I will now open up to Q&A.

Q&As

Thanks again for your time today.

We appreciate your interest and if I can leave you with a reminder of our 3 key takeaways …

We’ve delivered a solid financial and operational performance in the first half of 24.

We’re demonstrating our capability at acquiring assets and creating value.

And the outlook for APA remains strong.