

UNDER THE HOOD IN THE ENGINE OF THE AUSTRALIAN ECONOMY

The resources sector is a major driver of the Australian economy, at the frontline of climate transition – and underrepresented in the local capital market. In November, Fitch Ratings and *KangaNews* hosted a roundtable for issuers and investors to discuss the sector's outlook and capex plans, as well as how transition is affecting both.

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METALS AND MINING OUTLOOK

Davison There has been a lot of discussion in Australia about issues like China's economic slowdown and, more structurally, the concept of "peak steel". Clearly, commodity demand and pricing has a huge impact not just on players in and adjacent to the sector but also the Australian economy as a whole. What is the outlook for 2025?

■ **ZHAI** I will focus on two main topics: our overall outlook for the mining sector next year and a more specific look at China. Our overall stance on the mining sector is neutral for next year, though there are significant variations across metal groups.

For instance, we anticipate continued demand growth for base metals like copper and aluminium. However, unlike this year, growth will be more evenly distributed between China and the rest of the world. On the other hand, we expect a decline in China's demand for steel-making materials including coking coal and iron ore. This decline will be partially offset by incremental consumption in other regions.

As for battery-making materials like lithium, we expect the market to remain oversupplied into 2025 due to overinvestment in the sector over the past few years.

Turning to China, including its economic slowdown and peak steel, there is ongoing weakness in the property sector. It has been a significant drag on China's economic growth over the past few years, with investment in the sector falling



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LAURA ZHAI FITCH RATINGS



substantially. We forecast a further decline in property sales, of around 5 per cent, but this is a marked improvement compared with the 20-30 per cent drops seen in recent years.

At the same time, China's industrial strategy has increasingly shifted toward renewables, electrification and high-end manufacturing. This shift has supported robust growth in demand for metals like copper and aluminium. For instance, in the first nine months of this year China accounted for approximately 85 per cent of global copper consumption growth, even as Europe and the US continued to lag in manufacturing growth. Looking ahead, China's emphasis on electrification will likely sustain demand growth for these metals, though at a slower pace.

By contrast, we expect Chinese steel production to continue its decline, albeit at a low single-digit rate. The composition of steel demand is also shifting. While property once accounted for more than half China's steel usage, manufacturing is steadily climbing and could represent around 65 per cent of steel demand in the next few years.

This evolution aligns with the steel-related policies China has released in 2024, emphasising capacity management and financial support while underscoring the steel industry's importance as a pillar of the economy. As a result, while we anticipate a modest 3-5 per cent annual decline in steel demand, we do not foresee a drastic drop of 10-15 per cent.

Davison One aspect not addressed in this summary was geopolitics and trade. There are clear signs of renewed tensions including the potential – or even likely – application of tariffs

under the incoming US administration. How does this factor into the outlook?

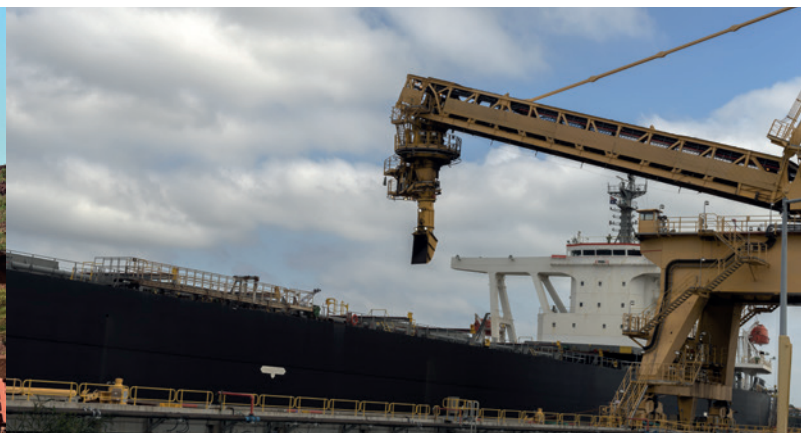
■ **ZHAI** Headlines about a 60 per cent tariff on Chinese goods or a 10 per cent tariff on imports from the rest of the world feel very significant. But to put this into perspective, if these tariffs are applied only to currently taxable goods, the effective tax rate on all US imports – currently around 2.3-2.5 per cent – would rise to roughly 7 per cent. This is a noticeable increase but it is not as drastic as the headline figures of 10 per cent or 60 per cent might suggest.

From the perspective of metal consumption in China, the direct impact of such tariffs would likely be limited. Narrowing the focus specifically to Chinese demand, it's worth noting that geopolitical tensions are hard to predict and the same remains the case as we head into 2025. Our base case assumes some degree of ongoing tension based on current trajectories.

Even with this in mind, we expect global base metal consumption to continue growing. For instance, copper demand is projected to grow by about 3 per cent. However, China's share of growth is likely to decrease – to around 50 per cent from 85 per cent.

The remaining growth is expected to come from Europe and the US, where manufacturing demand for these metals has been underperforming relative to expectations. We anticipate some catch-up in these regions in 2025, contributing to overall demand growth for base metals.

Davison Vicky, would you like to comment on how the overall outlook affects the Australian entities you cover? Is the narrative essentially



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KATE PARMEGGIANI EVOLUTION MINING

the same or are there nuances specific to Australia that stand out?

■ **MELBOURNE** Broadly speaking, as Laura mentioned, the impact varies across commodities. For instance, the slowdown of China’s property sector has had a mixed effect on iron ore shipments.

Data up to October show shipments from Port Hedland have remained relatively flat, with China accounting for 85 per cent of those shipments. Shipments to Japan, which represent 5 per cent of the total, are down by 1.5 per cent, while South Korea, at 4 per cent, has seen a 4 per cent increase. This relatively steady performance is reflected in the iron ore producers’ numbers, which have been flat to slightly up.

Shifting to gold, its role as a safe-haven investment has been supported by geopolitical tensions. However, the mild easing of interest rates in a higher-for-longer environment has added another layer of influence.

Gold producers have performed well, despite inflationary pressures. Labour and supply-chain costs are starting to ease, which is benefiting margins. Many producers are focusing on reserve replacement due to higher profitability. The strength of the gold price gives Australian producers headroom.

In the oil and gas sector, LNG and domestic gas prices are largely tied to long-term contracts or crude-linked pricing with fixed escalations. Companies like Woodside and Santos have shown encouraging headline numbers, aligning with forecasts.

We expect a more balanced lithium market in 2025 given the supply constraints due to mine production curtailments announced in 2024. We have revised our 2025 price to US\$12,500 from US\$10,300. We also increased our 2024-26 price assumption for zinc to reflect concentrate shortfalls.

Looking ahead, we expect leverage in the metals, mining and resources sector to peak at 1.8 times in 2024, remaining elevated through 2025-26. However, much of this is driven by significant investment capex, including climate initiatives and reserve replacements.

A noteworthy trend is the increasing role of private debt and equity, with companies like Mineral Resources entering JV arrangements to offload investment pipelines. This trend is reshaping the Australian resource landscape, balancing capex demands with external capital inflows.

Davison This seems like a good moment to hear the perspectives of the producers and

related companies to discuss how the outlook is affecting their business. Vicky mentioned that many gas producers in Australia are relatively well-insulated from price movements, likely due to hedged revenues. How much does the current outlook for the sector affect a related business like APA Group over the medium term?

■ **FORDE** Our business is fairly insulated. With the exception of one large contract, most of our revenues are domestic, and the majority of our customers are energy companies.

On the other hand, about 30 per cent of our customers are resource companies – and this share is expected to grow. In 2023, we acquired the Pilbara energy system from Alinta Energy and this brought us three key customers: BHP, Hancock Roy Hill and Fortescue Metals Group. These are all heavily tied to exports, particularly to China and other Asian economies.

Nevertheless, the key driver for us is not offshore demand but rather our customers’ efforts to decarbonise. This requires significant investment in generation, transmission, and, in the longer term, decarbonising their fleets – which are among their largest sources of emissions. This shift creates opportunities for us, as we don’t take commodity risk ourselves – we simply transport the gas and provide the electricity for our remote customers.

We also have a large contract with Shell to transport gas to the Gladstone LNG export terminal in Queensland. This contract is structured to sell capacity rather than volume, which insulates us from price risk.

Looking ahead, the transition of Australia’s economy toward decarbonisation will drive demand for peaking gas and for transporting gas from northern Australia to the south, where reserves are depleting – especially in Victoria, which is further constrained by exploration moratoriums.

Overall, our business is built for the long term – we are looking decades ahead. Short-term trends in metals, mining and minerals have less impact on us compared with broader energy and decarbonisation trends.

■ **KITE** Newcastle Coal Infrastructure Group (NCIG) is a coal export terminal. We have strong ‘ship or pay’ agreements with our customers so we do not take any volume or price risk. This means we are insulated from movements in variables like commodity prices.

"Gas has a very important role for the transition, and for the Australian economy, as coal is taken out of the generation mix. This has created a number of opportunities for us to participate in, including supporting gas generators bringing gas from the northern region of Australia down to the southern states."

MICHAEL FORDE APA GROUP



Even so, our customers will be watching these developments closely. The industry forecasts we look at for the coal export sector are showing growth in demand for coal from Asia, with Australia's share being relatively constant throughout the next couple of decades.

Davison What does the context of a complex geopolitical world mean for a gold producer?

■ **PARMEGGIANI** It is very exciting for Evolution Mining to be operating in this current high-price environment. Copper and gold prices reached all-time highs in 2024. Since the beginning of the year, gold prices have increased by 27 per cent. This is a function of the macro environment, uncertainty and US dollar debt concerns – all of which reinforce gold's safe-haven status.

Analysts remain very bullish on future gold prices. Their confidence is being driven by continued demand from central banks. It is likely that central banks will replace some of their foreign-exchange reserves with gold allocations if international trade falls because of Trump's trade tariffs. Some analysts are forecasting a gold price of US\$3,000 per ounce for 2025.

With this high-price environment comes risks, however. The gold industry has a reputation of being a poor custodian of capital in that some producers continue to invest on the assumption that prices will keep on increasing. Gold producers have been known to slacken their discipline in a rising-price environment, bringing forward capital project spend in order to speed up production and monetise quicker. This sometimes results in margins being squeezed and less return on capital being delivered than planned.

Evolution recognises that we are operating in a cyclical industry so we believe it is important to focus on operational discipline while prices are high, banking the upside of cash flow for the times when prices are not as high. Evolution remains focused on margin over ounces.

We aim for the best return on capital while remaining aligned to the budget we set six months ago. We do not intend to deviate from our capex plan per the budget. With approximately as much as US\$700 per ounce upside on the gold price, from this original plan, we expect to bank the additional cash.

We will continue to be disciplined with capex and invest in projects when our mines require it. We will bank the additional cash from high metal prices and use it to continue to deleverage the balance sheet while maintaining investment

in project opportunities to grow the business. With this high cash-flow generation, we anticipate consecutive dividends to shareholders.

FINANCING STRATEGIES

Davison Michael, APA did a large US 144A deal in 2024. How does this relate to capex requirements, and what are APA's capital market expectations and strategy more generally?

■ **FORDE** The primary purpose of the 144A transaction was our A\$2.2 billion (US\$1.5 billion) refinancing task. Due to our asset profile we like to get as long a tenor as possible, which is why we chose the US market – in addition to volume availability. In the end, we raised a little more than we needed to.

This was based on capex expectations, for which our forecast is A\$1.8 billion over the next three years. Some of this spend is already known – because we are working on the projects – whereas some of it is uncertain. Determining our exact capex is harder than in other industries because we are customer led and therefore based on their long-term requirements.

For the most part, we work with our customers to build energy infrastructure – whether it be gas-fired generation peaking in a remote grid, solar or batteries, other forms of transmission lines, gas laterals, or all the above. All of this has linkage to the energy transition – whether it is for customers or the wider economy. This means our capex profile is very different from how APA operated for the last two decades and, consequently, will lead us to raise more debt over the medium-to-long term.

The business has good cash flow so we can primarily rely on debt markets for this funding. Our plan is to look across the full spectrum of markets. Currently, our funding is equally spread between the US144A market, euros, a little less in sterling and the Australian loan market. In future, the Australian bond market will feature highly – especially as more issuers are having success bringing transactions here.

Davison Would the domestic market always have been in APA's mix or has its success in the last 18 months made a material difference to the funding strategy?

DOMESTIC INVESTORS AND MINING EXPOSURE

It is an anomaly of the Australian dollar market that the local economy is heavily weighted to resource extraction yet the sector has almost no presence in the domestic capital market. Second-order exposure is more common, however.

DAVISON To what extent does the outlook for the resources sector affect Australian credit managers' overall thinking and strategy? A lot of extractors do not have exposure to the Australian dollar bond market, but investors might buy their debt in other currencies. Sector service providers and infrastructure periodically issue bonds locally and, of course, the sector has a big impact on the overall economy. What are the 'touch points' for local asset managers?

■ **KELLY** Tanarra Capital is a private credit manager. We are relatively new in the credit space and our goal is to find opportunities to provide debt capital to interesting parts of the market. We are sector agnostic

and have two performing credit strategies – one high-grade and one subinvestment-grade loan portfolio – we have been managing for eight years.

We have a new portfolio for Australian-denominated credit and we want to use this to support companies through the cycle. This speaks to our difference: we are buy-and-hold, private capital credit investors, focused on investing in companies through the cycle, rather than fixed-income investors looking for liquidity.

My observation of the current bond market is that, ultimately, fixed-income managers are seeking investment opportunities from a relative-value, yield perspective as well as a credit lens. There is a big opportunity in the

broader resources sector, in the form of companies such as APA Group and the ports that are adjacent to and support the resources sector. We believe this is a segment of the market that is undersupplied with debt capital. We want to support companies that are capital-hungry, including some that might be linked to the energy transition.

In addition, we are discussing a part of the market where there are high investment cycles and capital requirements. This is where we view the investment opportunity. In particular, companies that are critical for Australia such as those operating in infrastructure and resources.

■ **LOW** In the metals and mining space, we consider issuers

with strong capital discipline, a clear capital structure and that can demonstrate corporate cost control. These are the 'three Cs' within a producer's control – we know that resources pricing is not. From a credit investor's point of view, we like issuers that tick these boxes, at least from an investment-grade perspective.

We've witnessed a lot of non-investment grade issuers access the US dollar market, which is great because it means supply of finance is available in this space. In the local market, the type of exposure in mining and metals we have witnessed has been indirect, through the likes of Aurizon Network, Pacific National and the ports.

Opportunities for direct exposure in mining have been few and far between. This is mostly because miners receive their revenue in US dollars, so it makes sense to raise their funding in US dollars. This is beneficial for our US funds.

We invest locally on behalf of our US mutual funds and we do a lot of the research



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VIOLETA KELLY TANARRA CAPITAL

■ **FORDE** If you asked me about domestic issuance 18 months ago, I might have screwed up my face. APA's experience in the market a decade ago wasn't great, so I will admit that there is a bias. However, it is also clear that performance in the last 12 months has been strong.

The Australian dollar market is starting to provide 10-year tenor, which is important to us because we need it to support the long life of our underlying asset profile. In addition, pricing has become more competitive and there is more confidence in volume.

Australian dollars is very much in the mix. In fact, had we not been confronted with a refinancing task of the size we were dealing with earlier in 2024, we probably would have gone

to the domestic market first. It is ironic that APA has more than US\$13 billion in borrowings and none of this is in the Australian dollar bond market. But the market is looking strong and is a very viable option for us in future.

Davison How does this compare with NCIG and Evolution's capex expectations and thoughts on market selection?

■ **KITE** We have more than sufficient coal export capacity going forward so we do not have capex requirements – it's all refinancing. We are in three senior debt markets: bank debt, US private placements (USPPs) and two US 144A issues. We also have a couple of tranches of subordinated debt.

work that we share with our colleagues offshore. While we like to see issuers come to the local market, we understand it is a matter of what works best for them – and this is more important than what might be best for the Australian dollar market.

As Violeta alluded to, as a very large US fund we often take relative-value positions and consider the outlook. But a large part of our index funds is buy and hold, and we like to invest through the cycle, too. Therefore, doing the credit work upfront, knowing who our issuers are, where they sit on the cost curve and the sort of contractual terms they have with their end customers – the basic credit investing criteria – is really important. Especially when we have no control over the price.

■ **SCULLY** The point on the limited direct exposure to metals and mining in the Australian dollar market is well made. Exposure to the resources industry comes adjacently, via infrastructure or service providers.

We can invest in US dollars, which gives us the opportunity potentially to gain exposures to Australian borrowers issuing in US dollars. My sense is that a growing cohort of domestic investors is able to do this, even though it potentially comes with additional complexity around hedging.

Even so, as there is no direct exposure to the resources sector in the local bond market it probably does not get as much attention relative to its overall proportion of the domestic economy.

Regarding second-order effects and how they influence our thinking about the economy, it depends on what is meant by the strength of the market. If it is just a commodity price play, second-order effects are somewhat limited. High commodity prices have a direct impact on the federal budget and the government's ability to execute on some of its fiscal plans.

But if there is a huge increase in domestic capex – not Australian companies investing

in new production offshore but significant new domestic production investment – this certainly has an impact on how we think about the broader economy. In this equation, there will be winners and losers.

For example, from 2008-09 through to 2013-14 there was a huge capex boom in the resources sector in general. This had ripple effects through large sections of the domestic economy. It led to big differences in regional economic growth performance. It also led to capital and human resourcing, that could have been used in other parts of the economy, being drawn into the resources industry.

DAVISON On the topic of investing in related businesses rather than direct resources producers or extractors, a couple of the companies in this discussion spoke about their limited exposure to commodity prices. How direct of a proxy is this type of investment? Clearly there is going to be some impact from commodity

market performance, but presumably it is not 100 per cent.

■ **SCULLY** Absolutely not. It is a very different credit proposition to lend to a business that has exposure to the industry but is not taking commodity price or volume risk, versus one that is directly extracting the minerals, and thus has exposure to commodity prices and the vagaries that can come with production. The credit work and the amount of leverage an adjacent company's balance sheet can sustain is quite different from a business that is actually doing the digging and selling the minerals.

■ **KELLY** This is the way we look at it, too. We have a fund that aims to deploy capital in longer duration. This will largely play into investment capex requirement. It is not to take a view on commodity price, and subsequently to take volume and price risk. The focus is on companies where it makes sense to deploy seven- and 10-year money, and understanding what their capex programmes look like over a long period.

“OPPORTUNITIES FOR DIRECT EXPOSURE IN MINING HAVE BEEN FEW AND FAR BETWEEN. THIS IS MOSTLY BECAUSE MINERS RECEIVE THEIR REVENUE IN US DOLLARS, SO IT MAKES SENSE TO RAISE THEIR FUNDING IN US DOLLARS. THIS IS BENEFICIAL FOR OUR US FUNDS.”

ALICIA LOW VANGUARD



Our next funding need is still a couple of years away but for this we will look at all markets. In the past, we have found offshore capital markets to be more conducive than Australia, whereas in bank debt we have been very well supported by Australian and offshore banks.

■ **PARMEGGIANI** Evolution has a combination of bank debt and USPP issuance. We have a supportive bank syndicate – local and international – some of which have been in the group since Evolution's inception 13 years ago.

We initially entered the USPP market at the end of 2021. This was for the acquisition of Ernest Henry in Queensland. Subsequently, we have gone back in 2022 and 2023. The USPP market allowed us the opportunity to secure the long

tenors we needed to align with our portfolio's average mine life of circa 18 years.

We are aiming to deleverage and are in the fortunate position of high commodity prices and good cash flow, the latter of which is driven by our operational performance. With respect to capital investment, we are sticking to our plans and only doing key projects that have received board and regulatory approval.

On the refinancing side, most of our debt is not due for some time: the first USPP tranche only matures in 2029. Even though we are deleveraging, it is worth noting that we have been a very acquisitive company throughout our history, targeting strategic deals that will provide a good return on

capital. We will explore acquisition financing on a case-by-case basis.

Davison The Australian credit market continues to grow. Could Australian dollars fit into Evolution's plans?

■ **PARMEGGIANI** Evolution only entered the USPP market three years ago and this market still has available capacity for us. At the time the Australian bond market did not have equivalent liquidity.

But the situation has changed. We have taken a keen interest in the local market and are certainly aware that it has supported record volume in 2024. We have not yet had the opportunity to actively investigate or engage with the Australian market, but we are not ruling it out.

Most of Evolution's revenue is in Australian dollars, so it is of particular interest that the US swap spread is less competitive than issuing Australian dollars directly. Without a doubt, we will look at the Australian market next time we issue. Obviously, though, this will depend on our requirements at the time, the liquidity environment and pricing competitiveness.

Davison Are investors optimistic about the potential for resources-sector issuers to be more active in the Australian dollar market – including credits that are not natural Australian dollar funders? Names like BHP have issued in the past but there has never been successful development of momentum or ongoing supply.

■ **SCULLY** There is potential. What we have seen in the last 18 months across the Australian bond market – including corporates but also other parts of the market – is reflective of higher base rates attracting more money. Treasurers across a range of industries have been able to take advantage of this and as a result there has been a huge increase in volume issued domestically.

I don't see why this wouldn't extend to resources – if these issuers have a need for Australian dollar funding, I'd like to think the market has enough sophistication to understand these businesses and price them.

■ **LOW** It will be interesting to see how the local market opens in the new year, particularly for large transactions from nonfinancial names. The banks are issuing a lot of longer-dated tier-two paper, which is indicative of investor appetite – and not just from Australian accounts but Asia-Pacific investors as well. Investors in the region are showing strong demand for tenor and volume.

We invest across the capital structure and are not averse to high yield. We have a high-yield team in the US that operates globally. It is mostly focused on US companies but if an Australian issuer wanted to print a high-yield transaction in the US we could have the conversation internally.

For issuers, it would be a case of meeting with investors ahead of time and giving them a little extra time to do credit work. In saying this, most investors would be familiar with the names at this discussion as they are with the large, diversified miners.

■ **KELLY** The bid for Kangaroo issuance always depends on the swap spread. In this context, a weakening Australian dollar may make it inefficient for offshore borrowers. It is the same dynamic that makes it inefficient for companies to borrow in US dollars and swap back to Australian dollars. Issuance will always be a relative-value consideration and based on what is happening in swap markets.

What I would like, to meet demand, is the entrance of borrowers that have traditionally not had access to this market or have not had access for a long time. It is quite disappointing that the Australian market has not been able to support Australian companies like Evolution and APA. I hope we can close the demand-supply imbalance by supporting our domestic borrowers and open the universe to companies that haven't looked at Australian dollars in the past.

Davison What are Fitch Ratings' analysts' perspectives on capex outlook for the sector?

■ **MELBOURNE** We expect capex to peak over the next two years for a lot of Australian resource companies. In the gold sector, this typically means exploration and production, and in others it is typically because of their transition to renewables. There has also been some M&A activity lately.



"Conversations with financiers have certainly changed in the seven years I have been chief financial officer at NCIG. We have always been very focused on doing what we can from a sustainability perspective and we believe that ourselves and our miners are playing an important part in the transition."

JOHN KITE NEWCASTLE COAL INFRASTRUCTURE GROUP

A cohort of businesses is approaching final investment decisions on LNG and other commodities. While we expect peak capex this year, it is possible that this may be overtaken in the next couple of years.

■ **ZHAI** Gold, copper and aluminum are all in focus at the moment. Aluminum incurs a capacity ceiling because of China. But for base metals, with commodity prices being so high, most companies can support a prudent capex plan with few issues, and generate fairly robust cash flow.

Lithium may be an exception. There are still big investment plans coming out of the lithium industry, driven by a long-term demand outlook. M&A is also a theme in this industry. Despite the low-price environment, the long-term decarbonisation story continues to support its capex plan.

When it comes to China, capex has peaked. For industries such as steel and aluminum, stakeholders are focused on decarbonisation and electrification. Aluminum reached a capacity ceiling in China in 2024 while capacity globally is moving forward. Overall, we expect capacity to continue to fall for Chinese resource companies in the next couple of years.

MINING AND TRANSITION

Davison It is probably fair to say at this stage that capital market participants have progressed in their understanding of transition – in many cases moving past outright exclusions to a more nuanced understanding of the need for transition financing. To what extent has this change affected operators' cost

of capital and the types of conversations the resources sector is having with investors?

■ **KITE** Conversations with financiers have certainly changed in the seven years I have been chief financial officer at NCIG. We have always been very focused on doing what we can from a sustainability perspective and we believe that ourselves and our miners are playing an important part in the transition.

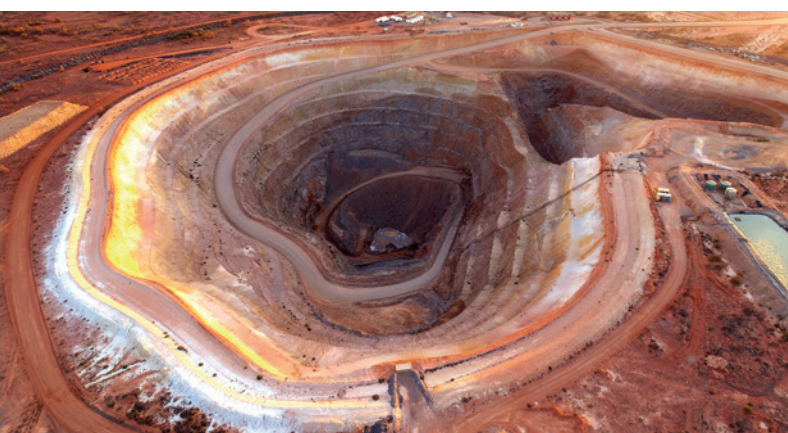
Parts of Asia are behind the rest of the world in the transition to renewables. Meanwhile, the coal that comes out of Newcastle and into Asian markets is the highest-quality coal in the world in the sense of having high energy content and lower emissions. As the wealth of some of these economies grows, they increase their electricity consumption and need to access the lowest-cost electricity.

A few years ago, we became far more intentional about transparency of what we had been doing from a sustainability perspective, and we have received strongly positive reviews and ratings from sustainability analytics companies about how we communicate with the market.

We have found that our openness and transparency has been encouraging for the lenders and investors that can allocate capital to our space.

When it comes to access to capital, we want to be at the forefront – to the extent that lenders or investors are able to participate in our financing. As we approach the new climate-related sustainability reporting coming into play in 2026, we want to continue on this path.

Davison The role of gas in the transition is very well understood in some areas and actively





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VICKY MELBOURNE FITCH RATINGS

rejected in others. How does this feed through to access to, and cost of, capital and the investor relations task?

■ **FORDE** Gas has a very important role for the transition, and for the Australian economy, as coal is taken out of the generation mix. This has created a number of opportunities for us to participate in, including supporting gas generators bringing gas from the northern region of Australia down to the southern states as reserves in the south diminish.

Our 144A transaction earlier in 2024 was well supported by a large number of investors and we have not noticed much change in our demand profile from global debt investors.

We are uniquely positioned: gas is very important for the future but a big part of our growth is supporting our customers in the resources space to decarbonise, too. A lot of our investment is directly into renewables, whether this be solar farms, wind farms or batteries, and in transmission for remote generation grids. We are front and centre of the transition and well supported by bond and debt investors.

We also have emissions targets, which we publish, and we spend a lot of our capex on trying to reduce our own carbon footprint. We have been reporting on this since 2022 and engaging with investors on the targets.

Davison What degree of leeway do investors have when it comes to investing in companies that are best in class in their sector or, with regard to transition, in sectors that are dealing with medium- to long-term time horizons?

■ **SCULLY** We know the expectations of our investors and our clients when it comes to their requirements on ESG [environmental, social and governance] and its implementation into investment processes. This has continued to grow and evolve over time, but it can be to varying degrees. They don't all want the same level and attention on these types of risks. We have to come up with an outcome that caters to as many of them as possible.

Businesses that are actively working on a transition plan but are in industries that are inherently high emissions can sometimes be unfairly penalised. A lot of the ESG work can be done on a data basis but without qualitative context it can often be hard to tell the whole story.

■ **KELLY** We are largely funded by some of the leading industry super funds, as well as family offices and private wealth. We

increasingly have an obligation to report on our investment activities and address ESG issues.

We are not an impact fund – we are a through-the-cycle credit investor. This means we do not negatively screen based on revenue thresholds or lack of disclosure of scope-three emissions in particular, because we know how difficult this is to achieve.

We are interested in transition plans and how businesses and companies are addressing them. But we also recognise that many factors are interconnected and no one company on its own can solve them. We take a programmatic approach and ensure we are still returning invested capital and delivering returns to our investors.

Davison Is operational sustainability the main focus of the three companies at the roundtable, what have you achieved and what are your targets in this space?

■ **KITE** NCIG's main focus is to provide the best possible service to our customers at the lowest possible long-term cost and, of course, to ensure our business resilience in the face of a transitioning landscape. But we also believe our operational sustainability fosters operational efficiency.

This means we maintain an innovative and continuous improvement mindset, focusing on asset performance and reducing our impacts on the environment, including through resource efficiency. It also supports our regulatory compliance efforts. NCIG is committed to achieving net zero operational emissions by 2030. Our focus is on reducing our scope-one and scope-two emissions as these are within our direct operational control.

We recently entered into a power purchase agreement to provide NCIG with renewable solar electricity from 2030. We also recently established a recycled water plant through which we have reduced potable water use by 80 per cent in 2024. We have other targets on waste management, diversity and inclusion, and community investment.

■ **PARMEGGIANI** Sustainability is integrated into everything Evolution does – it is an integral part of our company strategy. Being sustainable means keeping our people safe, managing risk that includes climate risk, being an environmental steward, being a genuine partner to our First Nations Partners and Indigenous Peoples and communities, and being transparent in our reporting.

“Businesses that are actively working on a transition plan but are in industries that are inherently high emissions can sometimes be unfairly penalised. A lot of the ESG work can be done on a data basis but without qualitative context it can often be hard to tell the whole story.”

ADAM SCULLY ALEXANDER FUNDS



Some of our key targets in this space include our target of 30 per cent emissions reduction by 2030 and net zero by 2050, active risk management including climate risk, increased gender diversity by the close of FY25, and maintaining our social licence to operate. We are also investing in grid-connected renewable energy, where possible, through partnerships, delivering operational efficiencies and considering options for a future transition to a low emissions fleet alternative.

In our most recent sustainability report, we shared our progress against these targets. We are on track with our net zero commitment, with around 12 per cent emissions reduced to date against an FY20 baseline. We also validated that we maintain “high approval” levels and social licence to operate score in our most recent stakeholder perception survey. Targeted work and plans are underway to increase gender diversity.

Davison To what extent are mandatory or legislated requirements on sustainability, for instance mandatory climate risk reporting, affecting companies’ strategies? How much of an uplift in sustainability reporting is required as the regulatory environment continues to evolve?

■ **PARMEGGIANI** With the introduction of international and national standards and baselines for sustainability and climate reporting, companies around the nation are reflecting on their reporting to date, their business strategies and how these strategies have translated into impact. Each company now has the opportunity to assess its alignment and how climate risk has been embedded in business strategies and long-term planning.

Larger companies are likely to be ready to undertake this uplift as there have been previous standards they could voluntarily report against and use to prepare themselves. An example of this is the Taskforce on Climate-related Financial Disclosures (TCFD).

As companies undertake this shift in transparency of reporting, the legislation outlines a tiered approach with a focus on continuous improvements each year. We have undertaken comprehensive preparatory work for this, placing us in a strong position to deliver against the revised compliance obligations. This has involved engaging our people internally to prepare them for the new disclosure needs, engaging a third party for

readiness assessments, and leveraging our mining industry partners to share lessons and challenges.

We welcome the standards, which are working to establish a global baseline of investor-focused sustainability-related disclosures. We also believe we are well prepared to meet these new reporting obligations.

■ **KITE NCIG** has been producing sustainability reports since 2016 and we report in line with voluntary best practice frameworks such as the Global Reporting Initiative. In the past few years, we have also responded to the TCFD and have achieved strong performance scores in ESG benchmarking and through Morningstar ESG risk ratings.

We performed our first scenario analysis and climate risk assessment a few years ago. We believe we have been at the forefront of transparency for sustainability reporting and we look forward to delivering on the new mandatory reporting requirements as they are introduced.

Davison How does Fitch believe ESG considerations are affecting the availability of capital in the sector? Is there any sign of coal, oil and gas producers, and companies whose revenues are strongly tied to the sector, losing access to capital or having their cost of capital significantly increase?

■ **ZHAI** The trend is there, although it varies. For example, local funding access for the likes of Indonesian thermal coal producers remains robust but international funding is increasingly difficult. A growing number of funds have ESG-related requirements and some do to the extent that they completely exclude various sectors, such as oil and thermal coal.

Fitch considers ESG-related factors in the rating process. We have ESG relevance scores, produced by Fitch’s analytical teams, which display the relevance and materiality of individually identified ESG elements to the rating decision. They are sector-based and entity-specific with a scoring system of 1-5. While 3 is neutral to the rating, a score of 4 would constrain a rating and a score of 5 would mean that it is a key rating driver.

We also assess access to funding as part of our key rating considerations under financial flexibility, which can also be affected by ESG relevance. For example, if a thermal coal company is losing funding access due to the sector it operates in, this will impose a constraint on the rating as well. •