AGL Energy Limited Full-Year Results Webcast Q&A

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Moderator: We will now open for questions. To ask a question, press the star key followed by the number one. Can I please ask you to mute any other devices before asking questions over the conference line. We'll take one question at a time and if time permits, we will circle back for any further questions. The first question comes from Tom Allen at UBS. Go ahead, Tom.

Mr Allen: (UBS, Analyst) Good morning, Damien, Gary and the broader team. On the result, if it wasn't for higher electricity procurement costs arising from weaker generation availability over the half, the business looks to be performing okay. So despite having capacity to pay out more, you've called out in today's result that part of the Board's conservatism in again only paying out 50% of NPAT in dividends, is to preserve liquidity and to support the retail transformation. So can you please elaborate on that in more detail? What's driving the need for such conservatism here? What scenario do you see pressure building on the balance sheet and what changes to the outlook would the Board need to see to award shareholders with a stronger than 50% dividend payout?

Mr Nicks: Thanks Tom, good morning. Let me see if I can unpack that question a little. Clearly what we've released today is we saw really strong performance from our flexible assets. That's the key point here. It offsets some of the major outages we saw in the first half, we had two versus one, but in the second half, we did have some unplanned outages. Those flexible assets absolutely performed well above where we anticipated them. That is why you see us investing in the likes of the Tomago Battery just recently.

In terms of paying the dividend, the dividend is at 50%, we have a big capital outlay over the course of the next year. We still retain that flexibility in our dividend policy and that flexibility will continue to exist in years where we potentially have either higher or lower capital deployment. But what's important, we see absolutely the ability to offset the impact of coal and gas recontracting by the deployment of our flexible assets, particularly batteries and that's why we're going after these as quickly and as hard as we can.

Mr Allen: (UBS, Analyst) Okay, thanks, Damien. Last week, the draft recommendations in the Nelson Review were released, recommending some sensible changes to wholesale market settings that seek to overcome this tenor gap that's restricting investment in new capacity that the market needs. So, I was wondering if you could please outline how the draft recommendations might impact the outlook for AGL. How do you think they might impact prices, common capacity contracts and also base load swaps in New South Wales and Victoria?

Mr Nicks: Look, I think the first thing to say is there's been really good engagement across both the industry and AGL through the Nelson Review. I think it's still very early days to comment precisely how all that will work. I mean, I think the tenor gap's an important one. The tenor gap is a gap that we need to solve for those outer years of eight-plus years. I think for us, we want to make sure, through the Nelson Review, there is the right mechanisms for things such as affirming capacity, whether it be gas peakers or long duration storage such as pumped hydro.

They're the sort of things we want to make sure is appropriately in the mechanisms going forward. Again, it's early. There's not a lot of detail yet in terms of how the mechanism will work. I think they've talked about a warehousing mechanism for those outer years. Again, that's something we want to understand how that's all going to work into the future.

Mr Allen: (UBS, Analyst) Okay, thanks Damien.

Moderator: Thanks Tom. Next question is from Anthony Moulder at Jefferies. Go ahead Anthony.

Mr Moulder: (Jefferies, Analyst) Good morning all. I just wanted to start on guidance if I could. So the increase you've put through for FY26 EBITDA at the midpoint is more than offset by that increase in D&A and net interest costs. Is that a reflection of the earnings from Liddell being obviously staged over several years or are you seeing that rehab cost now expected to be a bigger drag on earnings going forward than can be offset by the operating earnings of the business?

Mr Nicks: I think the way to think about it, you see EBITDA at the midpoint lifting year on year, that is on two fronts, or three fronts, should I say, one, improvement in consumer customer markets result, we expect that to step up next year. The second being we expect higher generation levels going forward. Also, we see the Liddell Battery coming into play from early 2026, plus the broader flexibility of our assets. Again, I'll keep reiterating that. The performance we're seeing out of those flexible assets and the way they're operating in the market has certainly helped offset some of those impacts we saw through generation. But again, we do expect higher generation and we're standing behind those commitments around higher generation into '26 and '27.

Mr Moulder: (Jefferies, Analyst) With the higher rehab costs, I guess, is the point of what detracts from that though.

Mr Nicks: Gary?

Mr Brown: Yes, look, what I'd say is if you look at the depreciation slide, there's three key buckets there. One's investment in thermal assets and you can see that we are continuing to invest in that fleet. As the life of those assets comes towards its end, it's depreciating over a shorter period. So of that circa $100 million increase, a decent chunk of it is that. Then you've got the growth bucket, which is primarily depreciation in relation to the batteries, which you should be able to calculate. Then you've also got the impact of rehabilitation assets, as you're talking about as well, as that asset value increases and it depreciates over the period. It's a small proportion of that $100 million uplift as well.

Mr Moulder: (Jefferies, Analyst) Okay and just lastly, if I could, on tax, the expectations around the tax paying level for FY26, it was a particularly low level of tax rate in the second half of '25 at 25.4%?

Mr Brown: Yes, so we would expect that would normalise towards that 28% to 30% range.

Mr Moulder: (Jefferies, Analyst) Very good, thank you.

Moderator: Thanks, Anthony. Next up, we have Henry Meyer from Goldman Sachs. Go ahead, Henry.

Mr Meyer: (Goldman Sachs, Analyst) Morning all, it's good to see the expected battery earnings forecasts and comments around more than offsetting the impact of coal and gas contracts expiring long term. Could you share perhaps whether you expect those earnings and cost reduction to completely or more than offset the impact of those contracts expires in 2028? Or if it's further out in this long-term horizon when that could be?

Mr Nicks: Look, that's absolutely what we're saying. So over the duration as we build these batteries and have them in the market, they will more than offset those contractions of both the coal and gas recontracting. We're already seeing to date the value of the Liddell Battery, the Broken Hill Battery and again the Liddell Battery coming in, in 2026 and that's why we've taken the FID as quickly as we have, again, on the Tomago Battery. We want those in the market as quickly as we can. We've got a slide there that demonstrates just where we see those returns growing into the future.

Mr Meyer: (Goldman Sachs, Analyst) Okay, thanks Damien. Just to double check, so we're saying 2028, you can more than offset the earnings impact from the coal and gas expiries?

Mr Nicks: That's what we're saying, yes.

Mr Brown: Yes, that's correct.

Mr Meyer: (Goldman Sachs, Analyst) Great, thank you.

Moderator: Thanks Henry. Next up, we have Gordon Ramsay from RBC. Go ahead, Gordon.

Mr Ramsay: (RBC, Analyst) Thank you everyone. Just wanted to comment on the FY26 guidance on gas margin compression and outlook going forward. It seems to me like you have a high dependence on signing up for LNG imports to be able to kind of balance your gas book beyond 2027. Are you prepared to be an anchor buyer in support of one of these projects getting off the ground?

Mr Nicks: Thanks, Gordon. Look, the way to think about it is we're in discussions with many players in the market, not just LNG players. LNG players we certainly are in discussions with, but both local production, both Bass Strait, both local, both LNG and that will be from – we are contracted out to '28, so we're comfortable from that point in time, but we are in many discussions, as you'd expect, about getting the right gas in the portfolio. The important thing from a value point of view, it's how we use that flexibility of gas, how we use the storage of gas, how we get that back into the market.

But Markus, do you want to comment any further?

Mr Brokhof: I think we are not bound by LNG imports. It's one source of supplies which we are targeting, but I think we want to have competitive gas in the portfolio going forward and that's the reason why we have not made a decision so far on one or the other projects. We want to mature the negotiations and then we are coming back to the market. I think it's very clear that we are a foundational buyer. I think that has been acknowledged by the market, as you said. So if we are committing to one project, that will then most probably be going up, but we have made no decision so far.

Mr Ramsay: (RBC, Analyst) Thank you.

Moderator: Thanks Gordon. Next up we have Dale Koenders from Barrenjoey. Go ahead Dale.

Mr Koenders: (Barrenjoey, Analyst) Morning guys. I just want to ask around your operating cash flow conversion and the impact to the provisions you've made today. In the FY25 I think there was a $98 million onerous contract impact. I think the current provision is $141 million onerous contracts, so out of a total of about $1.4 billion on the balance sheet now. So what sort of cash draw should we assume from those onerous contracts going forward?

Mr Brown: Yes, so I think the first thing to think of is the onerous contract has gone up by – the provision has gone up by $398 million post-tax. That's primarily driven by a reduction in the green price in the future expectation of the curves. I think it's important to note, firstly, that we've risk managed that position, particularly in the next 12 to 24 months, so we've already effectively priced that through to customers. Towards the back end, as we've seen in the past, there's a lot of volatility in those curves. It's mark-to-market valuation. They go up, they go down. So we'll have to wait and see how that plays out.

The way you should think about it, it is a circa $400 million increase. That's over a 10-year period. Again, these numbers will bounce around. From a cash conversion perspective, we're reporting a 97% cash conversion adjusted number today. The impact as a result of this, should it play out the way that it's provided for in the books, is probably a few percentage points across that period. So it's again an area that will continue to bounce around and has bounced around in the past as well.

Mr Koenders: (Barrenjoey, Analyst) So that $140 million is kind of the right level, unless green certificate prices or power prices recover?

Mr Brown: Yes, I mean, again, it's difficult to talk exactly how that is into the future, but you're talking about those types of quantum. You've got, I think through the cash flow this year, was $98 million and it'll be a little bit bigger again into the future. So it's circa that number you talked about.

Mr Koenders: (Barrenjoey, Analyst) Okay, thanks. Then just on the comment about replacing the earnings losses, can you just give us a steer on what CapEx you're assuming? Is it still that $3 billion to $4 billion dollar growth CapEx or maybe towards the upper end as you're accelerating batteries?

Mr Brown: Yes, so the way you should think about that, Dale, is all of the batteries that we've currently deployed, so we've got, obviously, Torrens is done, Broken Hill is done, Liddell, which is $750 million of capital and we've also got Tomago, which is about $800 million. So when we talk about those assets being deployed and the last one of those is the back end of ‘27, we're confident that the earnings stream out of that will be able to offset any reduction that we could see in both the coal and gas recontracting. In addition to that, we've got another 900-odd megawatts that we would expect to get to FID in the next 12 to 18 months, which would also contribute across that period as well.

Mr Koenders: (Barrenjoey, Analyst) Okay, thanks.

Moderator: Thank you, Dale. Next up, we have Rob Koh from Morgan Stanley. Go ahead, Rob.

Mr Koh: (Morgan Stanley, Analyst) Good morning, thank you for the presentation. I just wanted to get a little bit of colour, perhaps from Mr Brokhof on commentary about forward curves. Very helpful commentary on forward base load and cap, just any early indication from the new evening and morning peak contracts and how they'll flow through if you could please?

Mr Brokhof: I think at the moment, as we said, I think the curves are drifting sideways if you look at ‘26, ‘27, ‘28, there's a small [back validation] even on the caps and on the swaps, but it's very slightly so you can say it's staying stable. I think it's too early to say what the impact of the new products have an influence on the market, I think it's still too early to define the impact.

Mr Koh: (Morgan Stanley, Analyst) Okay, all right, thank you. On a personal note, congrats on your next stage, Mr Brokhof and I guess it's a compliment that it takes two people to replace you.

Mr Brokhof: Thanks.

Mr Koh: (Morgan Stanley, Analyst) My second question is, I guess, referring to the Nelson Review. One of the other recommendations was the market making obligation, or MMO, which AGL currently has, I think, in a couple of states. Just if you could provide your views on that proposal, please.

Mr Nicks: Look, I think through our submissions, Rob, we were promoting the certificate mechanism. Again, would I say we love the market making obligation? No, we don't. However, again, we're looking at this from an overall package perspective, what is the right thing for the market going forward. Again, there's still a lot of detail to flow under the bridge right now. We'll continue to work with them. It's now out for discussion right now and so we'll continue to work out what do we think is the right package of measures for this market going forward.

Mr Koh: (Morgan Stanley, Analyst) Okay, many thanks.

Moderator: Thanks Rob. Next up we have Ian Myles from Macquarie. Go ahead Ian.

Mr Myles: (Macquarie Group, Analyst) Hey guys. Can you maybe just give a little bit of colour about your confidence in the recovery of the consumer gross margin, particularly where we saw gas being quite weak?

Ms Egan: Thanks Ian, Jo here. Yes, look we did, as flagged, see a reduction in consumer margin and that was really driven by our decision to hold back some of the price increases last year. We also saw quite a lot of competition in the second half with some retailers really chasing growth at big levels of discounting where we didn't really see value in the levels. But we're very confident in a return to stronger margins next year as we’ve flagged. Importantly, I think it's good to note that our customer satisfaction remains really strong, so we're in a really good position. We've also got the Ampol energy portfolio joining us this financial year, so yes, we see a good outlook there.

Mr Myles: (Macquarie Group, Analyst) Okay and you made a comment in your speech, Damien, with regards to gas gross margins falling backwards. I'm intrigued, I understand the step down of gas when the contract comes to an end, but can you give us some colour again around what's driving that lowering for FY26 and ‘27 and how material that is to the business?

Mr Nicks: Yes, I'll get Markus to comment. It's not majorly material. What we're trying to call out there is what we saw that step up, particularly through that ‘24 year. In terms of year-on-year movement, that was a component of that year-on-year movement, when we saw those higher prices roll through into ‘23 into ’24. What we're seeing is that then come back out.

But Markus, do you want to make any other comments on that one?

Mr Brokhof: No, I think you have seen most probably out of the report that the overall gas portfolio price has increased by $0.90 per gigajoule. Going forward for FY26, we see also a slight increase in the portfolio price, not at this scale, but it will be lower, but there will be a slight increase due to the fact that some of the contracts are rolling off. So there is still a bit of compression in the gas margin, but I think we are coming back to levels from '23. I think we have seen quite a risk premium in the gas margins due to the Ukraine crisis and so on, as Damien also elaborated on. So we are coming back to normal levels.

Mr Myles: (Macquarie Group, Analyst) Okay, thanks.

Moderator: Thanks, Ian. We have another question from Anthony Moulder from Jefferies. Go ahead, Anthony.

Mr Moulder: Yes, I just want to follow up on the fleet availability. Obviously, you've got a target out there for FY27. You had expectations of improving that through second half of '25 that didn't really deliver. We've now seen further outages at Loy Yang. Are you investing enough into the fleet availability at this particular point, or does that need to move higher?

Mr Brokhof: I think, Anthony, it's always a trade-off. I think we are not satisfied with the fleet performance. I think that's very clear, I think particularly in the second half. What is more important for us is when we looked and when we also consulted some specialists, it's not a systemic issue. I think we had a lot of one-offs when it comes to induced draft fence outages, commercial conveyor issues and so on. These were one-offs.

I think we are proud, to be honest with you and we are also confident that we are targeting a higher availability. I think the first six weeks, if you follow how we are performing in this financial year, have shown that this is not a systemic issue. I think at the moment we have an availability on the coal fleet around 93%. But I don't want to continue now to forecast that this will stay like this. We have still two major outages of around 170 days, which are coming up at Bayswater Unit 3 and Loy Yang Unit 2. But I think we have not a systemic issue and availability should – we are targeting a higher availability this financial year.

Mr Nicks: I think the other thing just to call out is, again, the breadth of our flexible assets now means we're making and can make the right decisions at the right time. Like we can run a unit, whether it be a weekend and take it over a weekend, so you can manage the impacts as well from a trading perspective. So you're seeing us do a lot more of that as we manage unit outages. Look again, we are standing here today confident that we will lift the availability into '26 and still have that target into '27.

Mr Myles: (Macquarie Group, Analyst) Great, thank you.

Moderator: Thanks, Anthony. We have another question from Rob Koh from Morgan Stanley. Go ahead Rob.

Mr Koh: (Morgan Stanley, Analyst) Oh, good afternoon. Thanks for letting me back on. I just thought I'd ask a little bit more colour, if I may, on slide 37. This is perhaps for Mr Brown on the capital allocation. You've talked about capital recycling in the past, but it's now explicitly written in the preso and you've also talked about exploring selling down the Tilt stake. Can I just maybe get some colour on how you're thinking about that, now that, for example, the Torrens Battery is up and running and delivering, is that now a candidate for capital recycling and how are you seeing the market, please?

Mr Brown: Yes, so I think the way you should think about capital recycling, it's probably more focused in our development pipeline. We've got some very promising wind developments in there. It's those types of assets that we would look to bring up to FID and then at some point, they're yet to be determined. That's what we're talking about in terms of asset recycling. Our plan is to keep the batteries on our balance sheet because we think that they are best suited both from a cost of capital perspective and also the trading abilities that we have internally as well. So that's really the focus there.

Mr Koh: (Morgan Stanley, Analyst) Okay, thank you. Maybe just to follow up, I guess there's been a very interesting deal done in New South Wales by Ampere Energy and the Wambal Bila people, First Nations group. Is that something that you've looked into? Is there any possibility with any of your pipeline for innovation on that front?

Mr Nicks: Off the cuff, Rob, I'm not across that particular one, but we've work very, very closely with our First Nations groups in all the areas we work in. There's actually a slide in the pack about the amount of work that we are doing there. With the Liddell Battery, again, we engage very closely with the First Nations at that site, as we do all sites. But let me take that on notice and I'll come back to you. I'm not across that one specifically.

Mr Koh: (Morgan Stanley, Analyst) Yes, no worries. Thank you so much. Cheers.

Moderator: Thanks Rob. We have another question from Henry Meyer from Goldman Sachs. Go ahead Henry.

Mr Meyer: (Goldman Sachs, Analyst) Thank you. I just want to come back to slide 32, looking at the battery earnings. Could you share what assumptions you're using here for arb spreads, what the split of earnings might be between cap contracts, storage arbs and ancillary services, which are now getting quite saturated?

Mr Brown: Yes, so I think the way to look at that and we've actually shared some information probably about 18 months to two years ago, I think it might have even been at one of our strategy days where you should think about the caps of being roughly 60%, 70% of the revenue stream. You should think about arbitrage at being 20%, 30% of the revenue stream and you should think of FCAS as being anywhere from up to 10% type thing of the revenue stream. Clearly the value of these batteries is in the capacity and the ability to sell or defend caps there as well.

Mr Meyer: (Goldman Sachs, Analyst) Great.

Mr Nicks: So I think nothing's really changed in what we've said in the market there. It's absolutely playing out precisely as we thought strategically with those batteries. Different batteries in different states will also, depending on the market, perform different tasks and for us, it's about finding those constraints on the market, or those best areas where we can place them, not only to get them stood up quickly, but also where they're best placed in the network as well.

Mr Meyer: (Goldman Sachs, Analyst) Great, thanks. Would you be willing to quantify the assumed spread and cap prices in that forecast?

Mr Brown: No, but I think what you should do is, if you look at the back, we give a little bit of indication as to at least where they've traded historically and also where the current curves are. But yes, we're not forecasting or talking about where we see those in the future, other than to say we are very confident when we talk about the returns profile of these batteries over 20 years. We've talked about a 7% to 11% return, we are currently seeing these assets perform in the upper end of that range and we're very confident they will continue to trade across the period at those levels.

Mr Nicks: Maybe also just to pick up a comment you made, I think you said with so many batteries coming into the market, don't underestimate the sheer amount of batteries that are required in this market over the coming decade. It is enormous. So again, getting into the market also early is, I think, an important part of what we are trying to do. But so many batteries and so much capacity needs to be built in this market, that's why strategically it makes a huge amount of sense for us to be putting our capital there now.

Mr Meyer: (Goldman Sachs, Analyst) Got it, makes sense, thank you.

Moderator: Thanks, Henry. We have another question from Gordon Ramsay from RBC. Go ahead, Gordon.

Mr Ramsay: (RBC, Analyst) Thank you. Just want to refine the view on the sustaining CapEx on your thermal assets. I know the guidance is $400 to $500 million. You mentioned today 170 days' downtime for planned outages at Bayswater and Loy Yang. Should we be thinking at the upper end of that range, considering the amount of work that's being done and your goal to increase reliability and availability in FY26?

Mr Nicks: Look, I think the way to think about it is, like the year just gone, we did two majors, next year for '26, we've got two majors. For Loy Yang, Loy Yang we do a major every six years per unit, whereas Bayswater we do a major every four years. So in every, if you like, third year, we will have a lower amount of capital, give or take, so that's when we're at the lower end of that scale.

When we get to the end of the life of these assets, those capital numbers also come right down. We are spending now the major outage work to get those assets and those major components. So in many cases, they can run all the way through to closure, so you will, towards the back end of this decade, start to see those numbers come right off as well.

Mr Ramsay: (RBC, Analyst) Aren't you worried that's going to affect availability and reliability though in the latter years?

Mr Nicks: No, because the work that we're doing now is that major outage work, whether that be on the turbines or whether – and I'll get Markus to talk to this, but some of that major work that you won't need to do again, it's that 10-year work you're doing right now on the turbines and so forth. When you get towards the back end, it's in more of that maintenance work you're doing to bring it through to the end of its life.

Mr Ramsay: (RBC, Analyst) Assuming things, like tube leaks happen all the time, so you just have to expect maybe there'd be a bit more of them.

Mr Nicks: Absolutely, and we forecast for tubes and unplanned outages through our guidance numbers. You're going to continue, you will, continue to see tube outages and that maintenance required on the plant. I'm talking about that strategic, large-scale outage planning that happens under the five- to 10-year asset planning. That will start to come off towards the back end of the decade as you've got through that final phase.

Mr Ramsay: (RBC, Analyst) Okay, thank you.

Moderator: Thanks Gordon. That's all we have time for today for our Q&A session. Thank you for listening.

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