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Market Commentary by Bob Hodge

- Ever heard of Flipkart or BlaBlaCar?
- Paringa sees an opportunity in the ILB.
- Corsa Coal to sell CAPP Division.
- Corsa will concentrate on the met business.

“If you see a bandwagon, it’s too late.”

Investor James Goldsmith

Grant Quasha was at the American Coal Council’s Spring Coal Forum to deliver the keynote address, but the companies he mentioned that caused the audience to perk up have never mined a ton of coal. Heck, they may never even make their first dollar.

There’s a good chance that nobody reading this, outside of Quasha and his audience in Clearwater Beach, has ever heard of a company called Flipkart. There’s an even better chance that a French startup called BlaBlaCar has flown even further under the radar.

The Paringa Resources CEO wasn’t touting anything about either company, but used them to illustrate the position in which coal finds itself when it comes to things like financing new projects or, in the case of Paringa, financing new companies. As of Wednesday, the market cap for all of the coal companies in the U.S. was \$12 billion, give or take a couple of dollars.

That’s less than the market cap for Flipkart ...which is kind of like Amazon except based in India. The good news is that March 8 is Ladies Day at Flipkart if you’re looking for some extra savings. The bad news is, you had better know your rupee-to-dollar conversions if you want to know how much you’re saving.

And BlaBlaCar is a carpooling company that launched less than a year ago and already has a market cap bigger than Arch Coal.

It’s in an environment where those kinds of companies are valued at more than the entire U.S. coal industry that Paringa decided to start a new Illinois Basin coal company from scratch. Production from

its Poplar Grove mine is expected to start in the third quarter of this year and full production at the mine should kick in sometime in mid-2019.

While the common theme in the U.S. coal business has been to cut something here or close something there, Paringa has definitely been swimming against the tide by starting up a brand spanking new operation. Like just about every other producer in the ILB, Paringa is going to have an eye on exports, but as the company moves toward the first tons coming out of the ground, domestic sales will be key.

“We’re focused more on the domestic market and at the moment we are small enough we can put our tons away locally,” Quasha said. Paringa already has one deal in hand with LG&E and, of course, is looking for more.

While Paringa is going to be looking at those local deals, Quasha was talking a lot about what’s happening internationally with energy and why coal may be a better bet over the long haul than it’s given credit for.

Wind and solar and other forms of renewables are currently the chic power sources, but Quasha pointed out that 82% of the world’s power still comes from fossil fuels and even though times may be a changin’, those changes come with a price.

The No. 1 renewable energy source in the world right now? It’s not wind or solar or even hydro power but wood ... and burning wood has never been confused with being environmentally friendly. And the renewables that are environmentally friendly – wind, solar and geothermal – aren’t friendly to the pocketbook.

Quasha presented numbers he said are the implied dollars per megawatt-hour that the federal government provides in subsidies for each generation source: for coal, \$0.57/megawatt hour and renewables, \$231/megawatt hour. In other words, there’s still a place for coal-fired power.

Paringa originally was going to have its Cyprus mine up and running first, but Poplar Grove turned out to be a lower-cost alternative. As has been said many times, low-cost mines are going to win, and Quasha believes that production is going to be ramping up at a time when those new deals may be a bit easier to find.

After years of being beaten up by waves of new regulations losing burn to natural gas, the utility coal market in the U.S. is “stable to slightly improving,” Quasha said.

While the short-term deals that are favored by utilities these days aren’t exactly producer-friendly, for a company that won’t hit its production stride for another 15 months or so, those deals could be a good thing. When Paringa starts producing in earnest, it won’t be locked out by utilities having coal locked up under long-term contracts.

He also said there’s a chance ILB producers could double the amount of coal going into the export market this year after shipping out a healthy 12 million tons last year. That could also open up a path for more domestic sales.

“We finally had a normal winter and the folks that I’ve talked to burned more coal,” he said. “Right now, prices are being buoyed by the export market, but I think we’re seeing some improvement in the domestic market as well.”