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Q&A: Illinois basin prospects may be improving *Australia-listed coal producer Paringa Resources is developing new mines in west Kentucky. Grant Quasha is Paringa's new chief executive, having joined the company on 19 June from Bowie Resource Partners, where he served as chief commercial officer. In this interview, edited for length and clarity, Quasha discusses Paringa's progress in developing these new mines as well as the prospects for Illinois basin markets.*

Tell me a little about Paringa's plans and the timeline for action.

Construction has started at Paringa Resources' fully financed and permitted 2.8mn short ton/yr (2.54mn metric tonnes/yr) Poplar Grove mine, located in the western Kentucky section of the Illinois basin.

Paringa is expected to produce first coal production at the mine 12 months from the start of construction, meaning early in the third quarter of 2018. Once Poplar Grove is constructed, Paringa will consider beginning construction of the permitted 3.8mn st/yr Cypress mine by early 2019, ultimately becoming the next major Illinois basin coal producer.

Why develop new mines now?

Historically, the most opportune time to invest in a new mine is at the bottom of the market, rather than the top, and we have been fortunate enough to permit, finance and begin construction of the Poplar Grove mine during a fairly challenging period for US thermal coal.

That said, we have only been able to get to this point on the back of the change in administration. Without the Trump administration ending the "war on coal," we would not be building out these thermal coal mines.

How so?

The mine has been in development for some time, but the real delineating moment in its development was the raising of the A\$50mn (\$39.7mn) in equity to fund the construction of the mine. That was done this spring on the back of the positive sentiment associated with the change in administration.

The project was basically ready to start construction in the end of 2016, but we needed to raise the capital to do so. Had President Donald Trump not been elected, I am quite confident we would not have been able to raise the A\$50mn to build the mine. It would just have remained a project that required funding.

Some market participants have raised concern about the Illinois basin still being a bit oversupplied. What are your thoughts on that?

The target markets for Illinois basin coal during 2016 were oversupplied. However, we see 2017 as a re-balancing year where stockpiles at utilities continue to be driven down, export markets open up for the longwall coal mines - which may potentially increase to 10mn st from very little in 2016 amid a backdrop of domestic natural gas prices stabilizing at around \$3/mmBtu.

On the supply side, we have seen supply rationalization in western Kentucky, the longwalls in Illinois and in Indiana, so we see the markets for Illinois basin coal moving into balance in 2017, with 2018 and 2019 potentially being years where we see pricing starting to tick up.

What sort of progress has Paringa made in securing additional sales contracts outside of the agreement with Kentucky Utilities and Louisville Gas & Electric? How much of your expected production and sales

are under contract?

Paringa's initial focus was to enter into a cornerstone sales contract, or mine opening contract, with an investment grade, highly respected utility that would be considered a "bankable document" and facilitate the execution of a debt facility for the construction of the Poplar Grove mine.

As the company moves through the construction phase and nears first coal from Poplar Grove, Paringa has begun participating actively in the coal solicitation process to sell additional coal to utilities initially located in the Ohio river market. As production expands at Poplar Grove and Cypress, Paringa will also aggressively target coal sales to the secondary southeast market.

What are you expecting from prices in the near future? We feel pricing has shown signs of bottoming out following a re-balancing period during 2016 and the start of 2017, and is now potentially moving into a period of rising prices for coal deliveries during 2018 and 2019 years. We are in a fairly healthy position as we are only looking to sell additional coal in 2019 and beyond.

What are you seeing as far as competition?

There has been a significant lack of investment in permitting and developing new coal mines in the Illinois basin over the past years five years, particularly in high quality, low capex mine districts such as the western Kentucky section of the Illinois basin.

Our main competitors have a similar view to the market and see the supply/demand dynamic balancing in the basin with price pressure returning to the market.

What sort of challenges do you see for the basin in the near future? What about opportunities?

Other than Paringa completing technical studies and permitting for Poplar Grove and Cypress, there has been a significant lack of investment in new mine developments in the Illinois basin. While there are significant undeveloped coal reserves in the Illinois section of the Illinois basin, we believe these reserves require long lead times from a permitting and construction point of view and represent higher chlorine coal for which there is limited use in the US domestic thermal market.

Higher cost producers living off above market contracts will continue to struggle to maintain existing production, which should help continue to further re-balance the Illinois basin market. We feel very confident that Paringa is well positioned to provide a highly competitive new source of Illinois basin coal to a market seeking diversification of supply. We feel this is the right strategy for the medium to long term.

We also feel there will be additional opportunity for consolidation of smaller players in the basin, and as a new entrant unencumbered by debt or legacy liabilities, we are well positioned to examine these opportunities.

What other markets outside of the Ohio river and southeast are you looking at? What about exports?

The export market has proved very robust and should provide an outlet for excess Illinois basin supply in 2017 and beyond. While most of this will come from larger players such as Foresight Energy, Murray Energy and Alliance Resource Partners, the benefits to the domestic market will benefit Paringa regardless of whether we ship export.

Should we desire, we can always tap that market but will instead focus first on the Ohio river and southeast markets as the Buck Creek complex is in the enviable position of having low cost barge access to the Green and Ohio rivers, providing a significant transportation cost advantage over other Illinois basin and US coal producers. The increase in scrubber installations in the US has provided an opportunity for low cost Illinois basin coal to increasingly penetrate a large proportion of the eastern US power market.

Our view is that the Illinois basin market will continue to grow modestly in an increasing gas price environment and that the export market should continue to provide an outlet for excess tonnage from regional longwall producers primarily.