

Warrior Metal Coal (WCC)

I will explain why Warrior Met Coal (HCC) presents a compelling short opportunity if average selling prices for coking coal remain between \$170–\$200 per metric ton. Coking coal is the primary driver of HCC's revenue.

Written/finished: 12/25/24 @ 11:51am

Short Thesis for Warrior Met Coal (HCC)

HCC's reliance on spot pricing, combined with rising costs and falling demand, positions the stock for significant downside.

Cost Push Inflation

While U.S. inflation eased to ~2.4% as of Q3 2024, inflation in the coal mining industry remains elevated, with HCC experiencing 25%-35% increases in costs for labor, construction materials, and equipment.

Specific cost pressures include belt structures, roof bolts, cables, magnetite, rock dust, labor, and parts for equipment repairs and rebuilds.

Q3 2024 cash cost: \$136.10/metric ton, up 8% YoY from \$126.36/metric ton in Q3 2023. Year-to-date (YTD) 2024 costs rose to \$140.07/metric ton, up 6% from \$132.49/metric ton in 2023.

Production costs now account for 66% of total costs in Q3 2024, compared to 62% in Q3 2023, highlighting rising operational inefficiencies.

Weakening Selling Prices

High-quality steelmaking coal prices reached a 3-year low in Q3 2024, driven by:

- i. Weaker global steel demand.
- ii. Excess Chinese steel exports impacting key customer markets.
- iii. Ample global steelmaking coal supply.

Q324 average selling price: \$189.54/metric ton, down 7% YoY from \$203.56/metric ton in Q323. YTD 2024 selling price: \$218.79/metric ton, a 7.8% drop from \$237.32 in 2023.

Takeaway: This price weakness signals limited near-term recovery, with Wood Mackenzie forecasting a range of \$170–\$200/metric ton for the remainder of 2024. Additionally, at \$180/metric ton, 13% of global coking coal suppliers would be operating at a loss, potentially establishing a price floor.

Margin Compression

The spread between selling price and cash cost shrank by 31% YoY:

Q3 2024 spread: $\$189.54 - \$136.10 = \$53.44/\text{ton}$.

Q3 2023 spread: $\$203.56 - \$126.36 = \$77.20/\text{ton}$.

Takeaway: This compression reflects both rising costs and declining selling prices, pressuring profitability.

Weaker Sales Volumes

HCC sold 1.688 million metric tons in Q324; a 17.6% YoY decline from 2.048 million metric tons in Q323.

Takeaway: Lower volumes exacerbate the revenue decline and highlight reduced demand.

Exposure to Spot Prices

HCC appears heavily reliant on spot market pricing, which remains rangebound at **\$170-\$200/metric ton**, based on Wood Mackenzie report.

Takeaway: At the lower end of the range (\$170/metric ton), HCC's margins could shrink to \$34/ton or less, severely compressing profitability.

EBITDA Decline

Q3 2024 adjusted EBITDA: \$88.3 million, down **44% YoY** from \$156.5 million in Q3 2023, showcasing the financial impact of weaker selling prices and rising costs.

Scenario Analysis: Spread Margin and EBITDA Impact

If premium LV coal prices stabilize in the **\$170-\$200/metric ton range**, the spread between selling price and cash cost will compress further. The economics should behave this way:

Scenario 1: Same Demand, Same Supply

Premise: If demand remains unchanged and supply remains steady, the equilibrium price depends on market saturation

Outcome: At same level of demand, excess supply will result in downward pressure on prices due to suppliers having to lower prices to clear the market Evidence from Q3-24 suggests realized prices already declined to \$189.54 reflecting softer demand and oversupply

Scenario 2: Lower Demand, Same Supply

Premise: *If demand decreases (as anticipated from weaker global steel production), and supply stays the same, the equilibrium price will fall further*

Premise Support 1: Steel Demand Weakness: declining rebar prices (~\$3249 CNY/T) indicate lower steel demand, reducing the need for coking coal

Premise Support 2: Infrastructure delays in India and oversupply of Chinese steel further reduce demand

Premise Support 3: Larger producers (Australia, Russia) are unlikely to cut supply quickly, maintaining pressure on prices

Outcome: With lower demand and unchanged supply, realized prices will likely fall further below \$189.54/ton. Downward trend observed realized prices reinforced this

Impact on Valuation

Realized prices at \$190 or below place significant downward pressure on HCC's stock, with the impact most severe at \$170 per metric ton, where the stock could lose up to 35%. Even with an assumed price floor of \$180—set by the fact that 13% of global coking coal suppliers would be operating at a loss at this level—the stock is still positioned for a potential 20% decline.

While HCC's liquidity position is strong with \$583 million in cash and only \$153 million in debt, this does not insulate the company from downside risks. Valuation is driven by EBITDA multiples, which depend on realized prices, not the balance sheet. With sustained low prices and heavy CapEx commitments for the Blue Creek Project, HCC's cash reserves are likely to decline significantly.

Additionally, structural margin compression from rising costs and weak demand will overshadow any temporary liquidity advantages, making the stock highly susceptible to a significant de-rating.

Estimates	
@ \$200/metric ton	
Annual EBITDA	435
Target EV	2,641
Adjusted Market	3,088
Stock Price	59
Upside	9%
@ \$190/metric ton	
Annual EBITDA	367
Target EV	2,229
Adjusted Market Cap	2,675
Stock Price	51
Upside	-6%
@ \$180/metric ton	
Annual EBITDA	299
Target EV	1,816
Adjusted Market Cap	2,263
Stock Price	43
Upside	-20%
@ \$170/metric ton	
Annual EBITDA	231
Target EV	1,403
Adjusted Market Cap	1,850
Stock Price	35
Upside	-35%

Conclusion

HCC's elevated production costs, declining selling prices, and heavy reliance on spot pricing position the company for further margin erosion. If coal prices remain weak in the forecast range (\$170-\$200/metric ton), margins could fall below \$34/ton, with profitability and cash flows under severe pressure. Coupled with reduced sales volumes and increasing production inefficiencies, HCC is fundamentally vulnerable in a challenging market environment.

