

### **Alpha Metallurgical Resources (AMR)**

I will explain why Alpha Metallurgical Resources presents a compelling short opportunity, driven by declining steel demand in China and sustained weakness in metallurgical coal prices.

Written/finished: 12/25/24 @ 10:27pm

## Short Thesis

AMR's reliance on international markets, combined with declining metallurgical coal prices and falling global steel demand, positions the stock for significant downside.

## Cost Push Inflation

While AMR's freight and handling costs have declined, other cost categories remain elevated, leading to overall margin compression:

- **Non-GAAP cost of coal sales per ton:** Increased **3.9% YoY**, from \$109.95/ton in Q323 to \$114.27/ton in Q3 2024.
- **Depreciation, depletion, and amortization (DDA):** Rose **30.5% YoY**, reflecting higher fixed costs and production inefficiencies.
- Rising costs in production and asset amortization have eroded profitability despite cost-saving measures in logistics.

## Weakening Selling Prices

Metallurgical coal prices continue to decline due to persistent weakness in global steel markets:

- Realized coal prices for AMR fell **14.2% YoY**, from **\$154.73/ton in Q323 to \$132.76/ton in Q324**.
- High-quality steelmaking coal prices have been pressured by:
  - i. Weak global steel demand, particularly in China (6.1% YoY steel production decline in September 2024).
  - ii. Regional manufacturing contractions, as evidenced by PMI levels below 50 in key markets (e.g., U.S. at 47.3, Europe at 45.0).
  - iii. Oversupply in global met coal markets.

***Takeaway: AMR's reliance on global demand exposes it to pricing volatility, with realized prices unlikely to recover significantly in the near term.***

## Margin Compression

The spread between selling price and cost per ton shrank dramatically, leading to severe profitability challenges:

- **Q324 spread:**  $\$132.76 - \$114.27 = \$18.49/\text{ton}$  (Non-GAAP margin).
- **Q323 spread:**  $\$154.73 - \$109.95 = \$44.78/\text{ton}$  (Non-GAAP margin).

***Takeaway: This represents a 58.7% YoY decline in non-GAAP margin per ton, driven by both falling prices and rising costs.***

## Sales Volumes

AMR's total sales volumes for met coal remained stable, increasing marginally:

- Q324 met coal sales volumes: 4.148 million tons, up slightly from 4.115 million tons in Q3 2023.

**Takeaway: Stable volumes indicate that AMR's revenue and margin decline is entirely attributable to pricing pressure, not operational cutbacks or demand-driven volume reductions.**

## Exposure to Spot Prices

AMR's earnings are heavily reliant on spot market pricing, which remains rangebound at **\$170-\$200/metric ton**, based on recent market trends.

Takeaway: At the lower end of the range (\$170-\$180/metric ton), AMR's margins could shrink to **\$18/ton or less**, further compressing profitability.

## EBITDA Decline

**Q324 adjusted EBITDA:** \$76.7 million, down significantly from \$184.3 million in Q323, 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 the 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 Q324 suggests realized prices already declined to \$132.76, 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 \$132.76/ton. The downward trend observed in realized prices reinforces this.

## Impact on Valuation

The most recent realized price is \$132.76.

Realized prices at \$140 or below places significant downward pressure on AMR's stock, with the impact most severe at \$130 per metric ton, where the stock could lose up to **47%**. Even with an assumed price floor of \$140—given AMR's reliance on higher realized prices to maintain margins—the stock is still positioned for a potential **26% drop**.

While AMR has a strong liquidity position with \$485 million in cash and only \$7 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 rising costs, AMR's cash reserves are likely to decline significantly as profitability shrinks.

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	
<b>Math @ \$170/Ton</b>	
Price Per Ton	170
Non-GAAP cost per ton	114
Spread Per Ton	56
Q3 sales vol mtons	4
annualized	17
EBITDA	925
Implied EV	4,157
Implied Market Cap	4,634
Shares	13
<b>Implied Stock Price</b>	<b>356</b>
Upside	78%
<b>Math @ \$150/Ton</b>	
Price Per Ton	150
Non-GAAP cost per ton	114
Spread Per Ton	36
Q3 sales vol mtons	4
annualized	17
EBITDA	593
Implied EV	2,665
Implied Market Cap	2,665
Shares	13
<b>Implied Stock Price</b>	<b>205</b>
Upside	2%
<b>Math @ \$140/Ton</b>	
Price Per Ton	140
Non-GAAP cost per ton	114
Spread Per Ton	26
Q3 sales vol mtons	4
annualized	17
EBITDA	427
Implied EV	1,919
Implied Market Cap	1,919
Shares	13
<b>Implied Stock Price</b>	<b>147</b>
Upside	-26%
<b>Math @ \$132.76/ Ton Q3 Realized priced</b>	
Price Per Ton	133
Non-GAAP cost per ton	114
Spread Per Ton	18
Q3 sales vol mtons	4
annualized	17
EBITDA	307
Implied EV	1,379
Implied Market Cap	1,379
Shares	13
<b>Implied Stock Price</b>	<b>106</b>
Current	200
Upside	-47%

Reasons why prices will not go above \$140/ton by Q4 Earnings

### 1. Weak Global Steel Demand

- a. China is the world's largest steel producer and consumer and they are showing significant demand weakness. Steel production in September 2024 was down 6.1% Y/Y, and its PMI remains in contraction (<50). China's real estate struggles and limited infrastructure stimulus make a near-term recovery unlikely.
- b. **Global PMI Trends:** Manufacturing PMIs across Europe and the U.S. are below 50, indicating contraction. Steel demand in these markets is unlikely to recover substantially in the short term.
- c. **Impact of A & B:** Weak steel demand directly limits the ability of metallurgical coal prices to rebound, as steel production drives met coal consumption.

### 2. Oversupply

- a. **Ample Supply:** Major producers like Australia and Russia are unlikely to cut production significantly in the near term. This oversupply exacerbates pricing pressure.
- b. **High Export Exposure:** AMR relies on exports (~77% of Q3 revenue) which exposes it to the global pricing glut, particularly in regions like China and Europe, which are oversupplied.

### 3. Current Price Trends

- a. **Q3 Realized Prices:** AMR's most recent realized price was \$132.76/ton, a 14% YoY decline. This price reflects the oversupply and weaker global demand dynamics.
- b. **Post-Q3 Stability:** Pricing indices, such as the U.S. East Coast Low Volatile index and the Australian Premium Low Volatile index, have remained relatively stable since Q3, with no material upward trend.

### 4. Seasonal Factors

- a. **Limited Demand in Winter:** Steel demand typically slows in winter months due to lower construction activity in key regions, including China, Europe, and North America.
- b. **India and Brazil Positives:** While India and Brazil remain bright spots, their combined demand growth is insufficient to offset declines in China and other major markets.

### 5. NO Clear Catalyst

## Conclusion

AMR'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 (\$130-\$170/metric ton), margins could fall below \$18/ton, with profitability and cash flows under severe pressure. Coupled with stable sales volumes and increasing production inefficiencies, AMR is fundamentally vulnerable in a challenging market environment.