**Arch Resources (ARCH)**

I will explain why Arch Resources presents a compelling short opportunity, driven by weak global steel demand, falling coal prices, and increased costs. Like AMR and HCC, ARCH faces substantial headwinds in its core metallurgical coal markets, compounded by operational inefficiencies and macroeconomic pressures.

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**Short Thesis**

ARCH’s reliance on both metallurgical and thermal coal markets, combined with declining coal prices and faltering demand, positions the stock for significant downside. Key drivers include:

**Cost Push Inflation**

ARCH’s cost pressures are similar to those seen at AMR and HCC but are exacerbated by additional operational disruptions and inefficiencies:

* **Non-GAAP Cost of Coal Sales Per Ton (Met):** Increased 3.2% YoY, from $93.81/ton in Q323 to $96.63/ton in Q324.
* **Depreciation, Depletion, and Amortization (DDA):** Increased 11.4% YoY due to aging assets and higher maintenance costs.

Takeaway: Rising costs across multiple categories further compress margins, particularly in a declining price environment.

**Weakening Selling Prices**

ARCH’s realized prices have experienced a significant decline, mirroring trends seen in AMR and HCC:

**Realized Coal Prices (Met):** Fell 23.5% YoY, from $151.33/ton in Q323 to $115.55/ton in Q324.

* High-quality steelmaking coal prices have been pressured by:
  + **Weak Steel Demand:** China, the world’s largest steel producer, recorded a 6.1% YoY drop in steel production in September 2024.
  + **Global Manufacturing PMI:** Remains below 50 in key markets (e.g., U.S. at 47.3, Europe at 45.0).
  + **Oversupply:** Increased supply from Russia, Australia, and Mongolia weighs on pricing.

**Takeaway: ARCH’s reliance on international markets exposes it to pricing volatility, with little expectation of recovery in the near term.**

**Margin Compression**

Similar to AMR and HCC, ARCH is experiencing severe margin compression due to declining prices and rising costs:

* **Q324 Spread: $115.55 - $96.63 = $18.92/ton (Non-GAAP margin).**
* **Q323 Spread: $151.33 - $93.81 = $57.52/ton (Non-GAAP margin).**
* YoY Decline: Represents a 67.1% reduction in non-GAAP margin per ton

***Takeaway: ARCH’s profitability is rapidly eroding, driven by falling realized prices and rising costs.***

**Sales Volumes**

ARCH’s total sales volumes for metallurgical coal remain flat, highlighting a lack of demand growth:

* **Q324 Met Coal Sales Volumes:** 2.445 million tons, up slightly from 2.346 million tons in Q323.

***Takeaway: Stable volumes indicate that ARCH’s revenue and margin declines are entirely attributable to pricing pressure, not operational cutbacks or demand-driven volume reductions.***

**Exposure to Spot Prices**

ARCH’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/metric ton), ARCH’s margins could shrink to $20/ton or less, further compressing profitability***

**EBITDA Decline**

Q324 Adjusted EBITDA: Q3 2024 fell **58% YoY**, to **$54.2M**, from $128.3M in Q3 2023.

**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:****Excess supply results in downward pressure on prices due to suppliers lowering prices to clear the market. Evidence from Q3-24 suggests realized prices already declined to $115.55/ton, 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 $115.55/ton. The downward trend observed in realized prices reinforces this.*

**Impact on Valuation**

**The most recent realized price is $115/ton for Q3’24.**

This one is simpler, basic logic below:

1. 9M YTD realized price: $131.8/ton
2. Quarterly Realized Prices
   1. Q224:$132/ton
   2. Q324: $115.6/ton
   3. 6-month realized price (Q1 + Q2): $140.9/ton

We can see how Q3 price pulled down the 9M average.

1. Impact on Full Year Prices
   1. Full year realized price will depend on Q4 pricing
   2. If Q4 realized price is less than $131.8/ton, the full year avg price will decline be;pw $131.8/ton
2. Stock Implication
   1. As long as Q4 realized prices are less than $131.t/ton, the full year average will decline further putting pressure on financials

I suspect full year average realized prices will come in around $127/ton; however, I suspect Q1’25 and 2025 guidance to be negative and these two things easily push the stock to $100/share versus $138 price today.

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

1. **Weak Global Steel Demand** 
   1. 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.
   2. **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.
   3. **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** 
   1. **Ample Supply:** Major producers like Australia and Russia are unlikely to cut production significantly in the near term. This oversupply exacerbates pricing pressure.
   2. **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** 
   1. **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.
   2. **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**
   1. **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.
   2. **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.