

Alpha Metallurgical Resources (NYSE: AMR)

Business goes bankrupt because of debt. Commodity producers have a high chance of going bankrupt because of boom-bust cycles. The management plans expansion through debt when the commodity prices are increasing thus creating overcapacity and this overall results in decline of price.

First order thinking: Oh, the coal prices tumble because of low demand and over supply. The miners are debt laden. Yeah, that's true: more than 50 coal mining companies in the United States filed for bankruptcy. So, I'm not touching them.

Now let's Invert this Idea

Second order thinking: are there any anomalies? After 2020 the debt laden coal miners were coming clean with no-debt / low debt. The price boom of coal led them to pay off their debts. Thanks to late 2021 to 2024. But we have the risk of boom-bust cycles

Third order thinking: there are mainly two different types of coals: thermal coal doesn't go for a high price used for electricity production, and coking coal used for making steel. limited in quantity and sells for a good price. 70% steel is production uses Blast Furnace.

nth Order thinking: Price of any commodity depends on the supply and demand. Demand for metallurgical coal comes from blast furnace steel producers. Their plant usually has an asset life of 25+ years and they are not going to go out of the business. The world needs steel, steel needs metallurgical coal. On the supply side there cannot be new mines commissioned because no bank is going to finance them due ESG reasons. You can go to mars, but you can't open a new coal mine.

Alpha metallurgical Resources: Tennessee-based mining company with operations in Virginia and West Virginia operates high-quality, cost-competitive coal mines across the CAPP coal basin mines and sells metallurgical coal. The production output for the fiscal 2020, 2021, 2022, 2023, 2024 along with their realised price per ton and others key details are given in the table.

This is type of investment with low risk and high uncertainty (price of Met Coal). Market participants generally don't like uncertainty. But in case of Alpha metallurgical Resources the down side has been protected to large extent the debt has gone down, the company has been buying back shares and main uncertainty factor is the met coal price in last 10 years price has been \$120 in FY 13, \$99 in FY 16, \$130 in FY 19, \$212 in FY 23. The average COGS to produce a met coal in 2022, 23, 24 fiscal years were \$108.22 /Ton, \$111.67 / Ton, \$112 / Ton respectively.

If we assume margins at \$30 per ton, we end up with \$450–550 million in net income per year. In bad years, we might see net income of \$150–220 million. In good years, it could range from \$700 million to \$1.5 billion, though the probability of that is low. Realistically, we can assume earnings in the range of \$450–600 million. The best part is that the market cap is \$1.5 billion as of April 15, 2025—trading at less than 4x earnings. Even if our price assumptions are significantly off, we likely won't be punished. That's the beauty of buying things cheap. We don't need a financial calculator to do the math. It's a Simple and No Brainer type. All we need is Stomach to do well!

Table 1

Year	2020	2021	2022	2023	2024
Met Coal Produced (mn tons)	13.07	15.56	15.47	16.54	17.12
Price Realised per ton	101.97	80.68	180.00	186.39	154.68
Net Income (in \$mn)	446.89	288.79	1448.54	721.95	187.57
EPS	-24.42	15.66	82.82	51.18	14.41
Shares Outstanding (000)	18298362	18441175	17490886	14106466	13013469
Total Debt (in mn\$)	582.52	448.55	10.97	135.62	99.50
Capital Expenditure (in \$mn)	153.99	83.30	164.30	245.37	198.84
Cash used in Buyback (in \$mn)	0.20	0.78	521.80	540.07	122.29

Source: AMR annual reports FY 2020-24

You Pay A Very High Price, In the Stock Market for a Cheery Consensus

- Warren Buffett