Roster of US coal companies turning to bankruptcy continues to swell

By Taylor Kuykendall

As coal market conditions squeeze even the most optimally balanced mining companies, more than three dozen coal operations have been forced into bankruptcy in just over three years.

A review of bankruptcy filings by SNL Energy found that most of the operators turning to the bankruptcy courts in the U.S. are primarily doing so in Central Appalachia. The coal mining region has been hardest hit by market pressures as the region’s increasingly difficult geology has left neighboring coal basins with a competitive advantage as the entire sector battles increased regulatory scrutiny, weak export markets and inexpensive natural gas.

Patriot Coal Corp., now on its second bankruptcy since it first filed in 2012, noted the sector’s challenges in a declaration from Chief Restructuring Officer Ray Dombrowski.

“Coal’s share of the U.S. energy market and prices for thermal and metallurgical coal have both declined markedly,” Dombrowski wrote. “The lethargic economic environment, lack of growth in energy demand generally, and a number of scheduled coal-fired plant retirements have precipitated this decline. Additionally, the demand and price for metallurgical coal are dependent on the strength of the global economy and, in particular, on steel production in countries such as China and India, as well as Europe, Brazil and the United States. The global metallurgical coal market continues to suffer from oversupply in addition to reduced demand from China, further depressing the price of coal.”
Patriot also cited increased regulatory impediments, including not just environmental protections, but also worker health and safety obligations as reasons for the company’s stress. Many companies, particularly in Central Appalachia, have also amassed a large amount of legacy liabilities.

Now, it appears Blackhawk Mining LLC is poised to capture a substantial amount of Patriot’s assets. It also made a move on the distressed assets of James River Coal Co., which expressed concerns similar to Patriot about the state of coal markets in early 2014.

"Domestic demand for coal has decreased dramatically, in large part because alternative sources of energy have become increasingly attractive to electricity generators in light of declining natural gas prices and more burdensome environmental and other governmental regulations," wrote former James River Chairman and CEO Peter Socha in an April 7, 2014, bankruptcy filing. "Similarly, the seaborne markets have experienced an oversupply of coal products, primarily in response to slow economic growth in key international markets."

Murray Energy Corp. President and CEO Robert Murray warned attendees of an industry conference in September 2014 that more coal companies could soon resort to bankruptcy. He said those publicly touting their ability to shed costs in tough markets — as Alpha Natural Resources Inc., Arch Coal Inc. and other companies have done — are in trouble.

"Because in the coal business, you already had your costs as low as you could possibly make them every day," Murray said. "That is garbage from public coal companies who are worried about their stock price. Be alerted."

Arch has been reported to have hired restructuring advisers to help the company reduce its debt.

While the met coal market has shown some signs of hitting bottom, any recovery may not be rapid enough to save producers that are closest to the edge. Though Alpha and Arch have significant liquidity cushions, many analysts have kept a watchful eye on Walter Energy Inc., a met coal producer with a lower pool of liquidity.

While regulations expected to restrict demand are on the horizon for domestic thermal coal companies, at least one company believes that those with heavy thermal coal portfolios are in better shape than those that primarily produce met coal. Credit Suisse, which recently initiated coverage on several in the coal sector, warned investors considering picking up cheap coal stocks that the industry faces a "dire macro outlook."

Many producers that have filed for bankruptcy are seeking to liquidate their assets, but some are hoping to restructure and emerge as a stronger company. Mark Levin, a BB&T Capital Markets analyst, noted in a recent report that coal companies looking around at distressed competitors may seek a "first mover" advantage and file bankruptcy soon. He also suggested a major bankruptcy, like that of Walter, could trigger a domino effect that ripples through the industry.

Article updated at 3:22 p.m. EST on June 5, 2015, to correct the date of Cobalt Coal’s bankruptcy filing.

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