# AFR NEWS ARTICLE

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## Well placed to meet surging demand

Yesterday Coronado Global Resources Inc. were featured in the Australian Financial Review.

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FINANCIAL REVIEW

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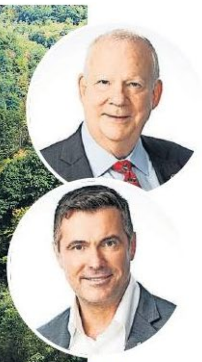

CEO Gerry Spindler, top, and CFO Gerhard Ziems of met coal producer Coronado, which operates the Buchanan Mine in Virginia.

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ADVERTISING FEATURE

## Metallurgical coal projects

CEO Gerry Spindler, top, and CFO Gerhard Ziems of met coal producer Coronado, which operates the Buchanan Mine in Virginia.

# Well placed to meet surging demand

Soaring coal prices are part and parcel of the global energy crisis spurred by Russia's invasion of Ukraine – but not all of the carboniferous 'black gold' is fed into power turbines to make electricity.

A crucial ingredient of steelmaking, metallurgical coal (also known as coking coal) has followed the demand and pricing trajectory of thermal coal – and the trend shows no sign of abating.

The price of premium, low volatile Australian hard coking coal (HCC) hit a record $US670 a tonne ($960/t) in March, a more than sixfold increase on levels a year ago.

For every tonne of steel produced in a blast furnace, 780 kilograms of coking coal are required.

Favoured in many Western countries, electric arc furnaces use scrap steel, rather than coal. But developing world steel output (including China's) is heavily oriented to blast furnaces – and this method still is expected to account for more than half of global steel output in 2050.

The extraordinary pricing spike has been driven by complex factors including COVID-19 related supply disruptions, increased post-pandemic infrastructure spending and wet weather on the east coast of Australia (which accounts for more than half of seaborne exports).

On industry estimates, seaborne exports will grow to 396 million tonnes (mt) in 2050 from 291mt in 2021, a 36 per cent increase. This assumes abating demand from China – by far the biggest steel producer – but with the gap more than filled by fast-emerging producers such as India and Vietnam.

"Ultimately thermal coal can be replaced by renewables, but 'met' coal has a brilliant future because it can't easily be substituted," says Gerhard Ziems, chief financial officer of the pure-play met coal producer Coronado Global Resources (ASX code CRN).

Disruptive events such as China's embargo of Australian coal, Queensland's wet spell and an explosion at a key US coal export port also highlight the importance of having diverse operations.

On this count, Coronado is uniquely – and exquisitely – placed, with operations in both the Bowen Basin and the Central Appalachian region of the United States.

Locally, Coronado owns the Curragh mine, which it acquired from Wesfarmers for $700 million in 2018. Its US operations consist of the tier one Buchanan and Logan mines, in Virginia and West Virginia respectively.

Coronado chief executive Gerry Spindler says this two-pronged approach has allowed the company to continue to access the Chinese market, by supplying from the US mines rather than Curragh.

"We are continuing to serve all our key markets on five continents, including our biggest market, India," he says.

Spindler adds the company is well placed to service European steel mills as a key supplier of both HCC and the more economic PCI (pulverised coal for injection).

With Europe boycotting PCI from Russia – a major supplier – demand is soaring for Buchanan's "extremely flexible" product, which can be sold as either HCC or PCI. Reflecting met coal's purple patch, Coronado's March quarter group revenue climbed 152 per cent to a record $US947 million, while adjusted earnings before interest tax depreciation and amortisation (EBITDA) soared to an all-time high of $US411 million.

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> Gerhard Ziems

Coronado, which has just joined the ranks of the S&P/ASX 200 index, was one of the first pure-play coal operators in the world to return to a net cash position post pandemic: at the end of March the company held net cash of $US257 million and available liquidity of $US671 million.

Despite the poor Queensland weather, the company achieved 'run of mine' production of 6.7mt, up 5 per cent on the December quarter. Sales volumes were 1.4 per cent higher at 4.4mt.

Management projects calendar 2022 saleable production of 18-19mt, compared with the previous year's tally of 17.4mt.

Since listing in 2018, Coronado has returned more than $US1 billion to shareholders, including two dividends in the first half of 2022 totalling $482 million. The board has signalled a twice-yearly dividend of 0.5 US cents a share, with a targeted payout ratio of 60-100 per cent of free cash flow.

"While most coal analysts expect the heady price to abate in the short term, pricing will stay well above the long-term average of $US174 per tonne for Australian hard coking coal," Ziems says.

He sees a "massive undersupply" of 45mt by 2030 and up to 180mt by 2050 if no further met coal supply comes online. And with the big miners pledging to exit all coal, that looks like a systemic shortfall.

Ziems adds that China is likely to re-engage with Australian suppliers as it ramps up steel-hungry infrastructure projects following its renewed COVID-19 lockdowns.

"China is the biggest steel producer and Australia is the biggest met coal exporter, so economically they will have to deal with each other at some time. That time could be sooner rather than later."

With the big miners divesting coal assets, Coronado's management is keeping a keen eye open for opportunities at a time of softer valuations across the board.

"We purchased all of our operations, so accretive acquisitions are part of our DNA," Spindler says.



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