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October 31, 2014 – Make A Long Term Investment In Arch Coal – By Jeffrey Hagenmeier

Arch Coal is one of the most diversified coal companies in the United States. The company founded in 1969 and based in St. Louis Missouri, has a presence across every major coal producing region in the country. At this time, Arch coal is focusing more on developing *metallurgical coal* also known as *coking coal*. The company owns 430 million tons of this variety of coal, mostly located in the Appalachian region. This type of coal is mainly used for industrial purposes like making steel and other products. The other variety of coal known as *thermal coal*is mostly used in power generation. Arch coal has over 5 billion tons total of reserves in the company portfolio. It has the assets to stay in business for a long time. It has 32 active mines and is the second largest producer of coal in the United States. The company supplies about 15% of the domestic market and provides coal to customers on 5 continents.

The greatest concentration of the reserves of the company, are to be found at the Powder Reserve Basin. The site located in southeastern Montana and northeastern Wyoming contains 3.2 billion tons of coal. Another total of 1 billion tons of company owned coal tracts, are scattered throughout the bituminous region in southern Wyoming, Utah and Colorado. An additional 1 billion tons are owned by the company in the aforementioned, Appalachian region (Kentucky, Virginia, West Virginia).

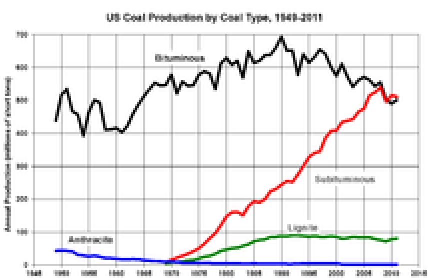
In 2013, the company sold a total of 140 million tons of coal, bringing the company $3 billion USD (United States Dollar) in revenues for the year.

Arch Coal stock was sold for **$2.09 USD** yesterday. The stock had advanced **$.07 USD** or (**3.47%)**. The previous close was $2.02. The stock opened at $2.05 with a high of $2.12 and a low of $1.96. Market capitalization stands at $428.81 million USD.

The stock for the company had reached a low of $1.66 on October 28th and is at a high for the last business week. A month ago the stock was selling for $2.12. A low of $1.50 was realized on October 10th. The 52 week range was from a high of $5.37 to a low of $1.35. Yesterday, volume traded was at 13,823,336 million shares. The average volume for the last 3 months was 7.5 million shares traded. The dividend and yield is at $0.01 and (0.50%) respectively.

The company stock has been beaten down, but this has been the case across the board for leaders in the industry. This is not only the situation in the United States, but with major producers across the globe. At present,there is an abundance of supply that outstrips demand. With the global economy slowing, the need for coal has slackened. Most dramatic, has been the reduced supplies for coal requested in China. The world leader in steel production, has been cutting coal orders all year.

A quick look at the stock price for Arch Coal will tell the story for the industry. In 2011 when global demand for coal was surging, the share price reached a high of $35.99 USD in early March. The secret for the industry is that almost all coal production in the United States is unprofitable, at current prices. Roughly half of all global output is operating at a loss. The impressive expansion of coal production in Australia only makes matters worse. Beginning in 2014, the world had an excess of 30 million tons by the end of the first business quarter. Less productive mining operations have already been shuttered, reducing world supplies of coal by 40 million tons in 2 years.



Metallurgical coal is selling for $120 USD a ton internationally. This is the lowest price in 6 years. It is also unsustainable. By forcing industry consolidation and efficiency, prices per ton are due to recover by the end of 2015. One can expect prices per ton to average between $135 USD to $145 USD. In the United States profitability across the industry will not arrive until prices are at $160 USD to $170 USD. This indicates major cuts in production and further integration of the remaining companies. Smaller producers will need to merge with larger concerns or face bankruptcy. The largest coal company in the United States, Peabody Energy Corp. states that prices need to reach $145 USD per metric ton, for profitability to return in the industry. Thermal coal is already selling well below $100 USD per metric ton.

Arch Coal Inc. saw third quarter business losses narrowing. This was a result of lower expenses that offset a decline in revenue. Sales surpassed expectations due to a small increase in prices. However, the earning results were still below the anticipated level by some analysts.

The company is continuing to cut costs and capital outlays. In July it was announced that the Cumberland River site will be idled for the time being. Still, Arch Coal predicts that sales for the year will be between 130.3 million tons to 136.9 million tons.

Arch Coal posted a third quarter net loss of $97 million USD or $0.46 per share. Revenues for the quarter were $742.2 million USD when expectations were for just $719.3 million USD. This resulted in an increase in the stock price in the last couple of days.

One can still expect further retrenchment of the stock. Some analysts predict it could drop to as low as $0.75 USD a share. Although prices at this level are possible it is unlikely, because that would mean that the assets of the company would have very little tangible value. The company is valued at close to $10 billion USD.

This is an opportunity for investors to get in, while prices are at these levels. A small investment now can bring major rewards down the road. One cannot expect returns until later in 2015, when prices for coal begin to recover. A merger with another industry leader is also quite possible, but that will simply make the share price increase in value.

An investor must also consider that with the changing political environment coming in the national government of the United States, coal will do better as an energy resource in the future.

One can set their target based on what kind of return they would like. A **100% return** on an investment is not unreasonable considering the stock saw prices in excess of $5.00 USD this year. The stock would need to be in the **low $4.00 dollar USD** range for that return to be realized. This writer is much more conservative and would **set a lower target price** nearer to **$3.00 USD**.