



# Alliance Resource Partners (ARLP)

Updated January 31<sup>st</sup>, 2022 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$13.91	<b>5 Year CAGR Estimate:</b>	11.4%	<b>Market Cap:</b>	\$1.80 B
<b>Fair Value Price:</b>	\$11.90	<b>5 Year Growth Estimate:</b>	8.0%	<b>Ex-Dividend Date:</b>	02/06/2022
<b>% Fair Value:</b>	117%	<b>5 Year Valuation Multiple Estimate:</b>	-3.1%	<b>Dividend Payment Date:</b>	02/14/2022
<b>Dividend Yield:</b>	7.2%	<b>5 Year Price Target</b>	\$17.49	<b>Years Of Dividend Growth:</b>	1
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	25%

## Overview & Current Events

Alliance Resource Partners is the first publicly traded master limited partnership and the second-largest coal producer in the eastern United States. Apart from its primary operations of producing and marketing coal to major domestic and international utility users, the company also owns both mineral and royalty interests in premier oil & gas regions, like the Permian, Anadarko, and Williston Basins. Finally, the company provides terminal services, including the transportation and loading of coal and technology products and services. The company generates ~\$1.3 billion in annual revenues and is based in Tulsa, Oklahoma.

On January 31<sup>st</sup>, 2022, Alliance Resource Partners reported its Q4-2021 results for the period ending December 31<sup>st</sup>, 2021. Revenues grew by 29.2% year-over-year to \$473.5 million. This was the result of higher coal sales volumes and prices, which rose 12.7% and 5.6%, respectively, as well as significantly higher oil & gas prices, which increased by 93.1%. Consequently, EPU jumped to \$0.40, compared to \$0.27 in the comparable period last year. This was despite the impact of inflationary cost pressures and increased labor-related costs as certain mines worked overtime to meet customer demand.

Following the company's deleveraging efforts, during 2021, Alliance reduced total debt and finance lease obligations by \$161.5 million, improved total leverage to 0.93 times, and increased liquidity by \$105.4 million. Alliance's marketing team continues to add commitments to its coal contract book, entering into new agreements for the delivery of approximately 13.3 million tons over the balance of this year through 2024. With these new contracts, ARLP enters 2022 with approximately 89% of its anticipated coal sales volumes priced and committed. For FY-2022, management expects to sell 35.2-36.7 million short tons of coal. Along with its expected royalties, we forecast FY-2022 EPU of \$1.70.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPU<sup>1</sup></b>	\$6.12	\$7.26	\$4.77	\$2.28	\$2.51	\$2.25	\$2.73	\$3.07	(\$1.02)	\$1.36	<b>\$1.70</b>	<b>\$2.50</b>
<b>DPS</b>	\$4.16	\$4.56	\$2.47	\$2.66	\$1.98	\$1.88	\$2.07	\$2.15	\$0.40	\$0.40	<b>\$1.00</b>	<b>\$1.47</b>
<b>Units<sup>2</sup></b>	73.7	73.9	74	74.2	74.4	98.7	130.8	128.1	127.1	127.1	<b>127.1</b>	<b>127.1</b>

Alliance has been struggling over the past decade due to worldwide efforts to reduce the usage and production of coal in favor of renewable energy sources. The price of coal was slashed in half in 2020 from 2018. Since then, however, it has rebounded massively, hitting a 13-year high of \$269.5 per metric ton recently. It currently stands at around \$226 per metric ton. While Alliance is facing significant regulation and media pushback, it is currently benefiting from being one of the big remaining players in the coal industry. We estimate EPU growth of 8% moving forward due to lower interest expenses, a better-than-expected recovery in the coal industry, and very high coal prices that were previously unexpected. We also expect distributions to grow at 8% annually as the company, following the improving trajectory of Alliance's profitability.

<sup>1</sup> Earnings Per limited Unit

<sup>2</sup> Units in millions

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## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	4.9	5.1	8.8	13.0	4.0	9.5	7.61	6.5	N/A	5.8	<b>8.2</b>	<b>7.0</b>
Avg. Yld.	5.1%	7.0%	5.9%	5.4%	20.0%	15.0%	9.4%	10.4%	12.6%	5.0%	<b>7.2%</b>	<b>8.4%</b>

Alliance’s valuation has been fluctuating in broad range of multiples, following its volatile earnings and uncertainty regarding future operations. The stock’s P/E based on our expected \$1.70 EPU for FY-2022 points towards a valuation a bit higher than its historical average, which is likely due to investors expecting EPU growth in the medium term as the company gradually recovers from the pandemic. However, the company operates in one of the riskiest industries (coal) in a cyclical sector (fluctuating commodity prices). We hike our fair P/E from 5 to 7, nonetheless, amid recent improvements and a favorable trading environment for coal producers.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

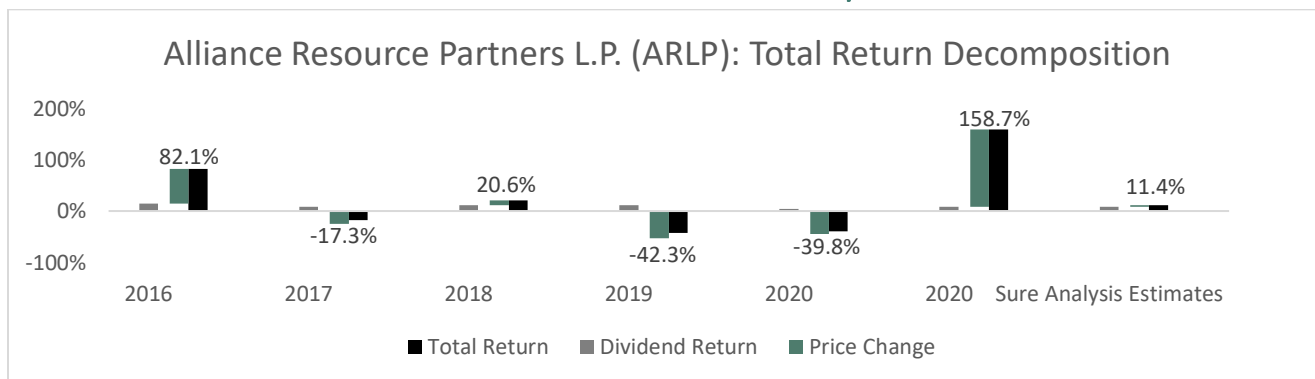
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	68%	63%	52%	117%	79%	84%	76%	70%	-39%	29%	<b>59%</b>	<b>59%</b>

Alliance’s business model is seriously endangered from a combination of factors, including the “war” on combustible energy sources and reduced demand amid the pandemic’s effects in industries such as the transportation sector, which still persist despite vaccinations rolling out successfully. The most recent quarter reflected the strengths of Alliance’s position. By being one of the bigger remaining players in the coal market, Alliance benefits from the current supply shortage of coal, which raises commodity prices. Simultaneously, however, the fact that competitors are exiting the industry proves that it’s not a favorable one moving forward. Considering that renewable energy sources continue replacing coal’s demand, we believe that the company’s long-term pathway remains uncertain. Alliance’s investment case may end up being brighter if the sector stabilizes to a late-state of essentials-only coal demand. Until then, it’s hard to trust ARLP and its distributions, despite the impressive distribution hike, and even though the company’s financials could continue to positively progress in the medium term.

## Final Thoughts & Recommendation

Alliance Resource Partners remains a highly volatile investment, operating in what the market rightfully sees as a much undesirable industry to be invested in. While the company may gradually grow its EPU and DPU in the medium term, it’s hard to know its longevity prospects in the long run. We forecast growing EPU & DPU in the medium-term, but the relatively hefty yield is still threatened by the potential for a modest valuation compression amid the company’s operating field. We estimate annualized returns of around 11.4% through 2027. ARLP earns a speculative buy rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Revenue</b>	2034	2206	2301	2274	1931	1796	2003	1962	1328
<b>Gross Profit</b>	1756	1906	2000	1916	1563	1486	1609	1530	447
<b>Gross Margin</b>	86.3%	86.4%	86.9%	84.3%	80.9%	82.7%	80.3%	78.0%	33.7%
<b>SG&amp;A Exp.</b>	59	64	73	67	73	62	68	73	60
<b>Operating Profit</b>	394	444	544	462	368	332	333	275	129
<b>Operating Margin</b>	19.3%	20.1%	23.7%	20.3%	19.1%	18.5%	16.6%	14.0%	9.7%
<b>Net Profit</b>	336	393	497	306	339	304	367	399	-129
<b>Net Margin</b>	16.5%	17.8%	21.6%	13.5%	17.6%	16.9%	18.3%	20.4%	-9.7%
<b>Free Cash Flow</b>	131	376	420	504	589	411	461	209	280
<b>Income Tax</b>	-1	1	---	0	0	0	0	0	0

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	1956	2122	2285	2361	2193	2219	2395	2587	2166
<b>Cash &amp; Equivalents</b>	28	94	25	33	40	7	244	36	56
<b>Accounts Receivable</b>	173	154	184	123	152	182	175	162	105
<b>Inventories</b>	47	44	83	121	61	60	59	101	56
<b>Goodwill &amp; Int. Ass.</b>	---	---	---	136	136	136	136	136	4373
<b>Total Liabilities</b>	1251	1271	1270	1372	1100	1068	1207	1321	1094
<b>Accounts Payable</b>	100	79	86	84	64	97	96	81	48
<b>Long-Term Debt</b>	791	868	821	818	549	488	656	781	593
<b>Shareholder's Equity</b>	705	851	1015	987	1088	1146	1182	1253	1061

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Return on Assets</b>	18.2%	19.3%	22.6%	13.2%	14.9%	13.8%	15.9%	16.0%	-5.4%
<b>Return on Equity</b>	50.5%	50.6%	53.3%	30.6%	32.7%	27.2%	31.5%	32.8%	-11.2%
<b>ROIC</b>	44.9%	47.4%	58.9%	37.3%	49.4%	57.9%	63.5%	54.9%	-18.5%
<b>Shares Out.</b>	73.7	73.9	74.0	74.2	74.4	98.7	130.8	128.1	127
<b>Revenue/Share</b>	27.59	29.84	31.07	30.65	25.98	18.20	15.32	15.31	10.44
<b>FCF/Share</b>	1.78	5.08	5.67	6.79	7.93	4.16	3.52	1.63	2.20

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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