



Alliance Resource Partners (ARLP)

Updated May 4th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	\$20.71	5 Year CAGR Estimate:	15.1%	Market Cap:	\$2.7 B
Fair Value Price:	\$33.00	5 Year Growth Estimate:	-5.0%	Ex-Dividend Date:	05/05/2022
% Fair Value:	63%	5 Year Valuation Multiple Estimate:	9.8%	Dividend Payment Date:	05/15/2022
Dividend Yield:	13.5%	5 Year Price Target	\$26	Years Of Dividend Growth:	2
Dividend Risk Score:	D	Retirement Suitability Score:	B	Rating:	Buy

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 ~\$2.4 billion in annual revenues and is based in Tulsa, Oklahoma.

On May 2nd, 2023, Alliance Resource Partners reported its Q1 results for the period ending March 31st, 2023. Revenues for the quarter grew by 44% year-over-year to \$662.9 million. This was the result of higher coal sales prices and relatively stable volumes of coal sold.

With margins expanding considerably, EPU surged to \$1.45, compared to \$0.28 in the prior-year period. This was despite the impact of inflationary pressures on numerous expense items, including labor-related expenses and supply and transportation costs.

For FY2023, management expects the total short tons of coal sold to be between 36 million and 38 million. Based on the current coal prices and expected royalties, our FY2023 EPU estimate still stands at \$5.50.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPU¹	\$7.26	\$4.77	\$2.28	\$2.51	\$2.25	\$2.73	\$3.07	(\$1.02)	\$1.36	\$4.39	\$5.50	\$4.26
DPS	\$4.56	\$2.47	\$2.66	\$1.98	\$1.88	\$2.07	\$2.15	\$0.40	\$0.40	\$1.50	\$2.80	\$3.57
Units²	73.9	74	74.2	74.4	98.7	130.8	128.1	127.2	127.2	127.2	127.2	127.2

Prior to 2021, Alliance was struggling 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 all-time levels that exceeded \$450 per metric ton last year. It currently stands at around \$178.2 per metric ton. Thus, 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. The ongoing war in Ukraine and the unprecedented economic sanctions, including the EU's ban on coal imports from Russia, should also keep coal prices near record levels.

Nevertheless, we forecast EPU growth of negative 5% through 2028 to be prudent against any events that could result in lower coal prices over the next five years. Alliance started utilizing its \$100 million repurchase program in its most recent quarter. They repurchased and retired 860,060 units at an average unit price of \$21.15 for an aggregate purchase price of \$18.2 million. Repurchases could aid EPU growth, but again, the industry can be very volatile, and we prefer to be rather conservative. We still expect distributions to grow at 5% annually, however, as the company can afford further payout hikes.

¹ Earnings Per limited Unit

² Units in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	5.1	8.8	13.0	4.0	9.5	7.6	6.5	---	5.8	4.6	3.8	6.0
Avg. Yld.	7.0%	5.9%	5.4%	20.0%	15.0%	9.4%	10.4%	12.6%	5.0%	7.6%	13.5%	14.0%

Alliance's valuation has been hovering in the low single digits due to its volatile earnings and uncertainty regarding future results. The stock's P/E based on our expected \$5.50 EPU for FY2023 points towards a humbler valuation than its historical average. While ARLP still operates in one of the riskiest industries (coal) in a cyclical sector (fluctuating commodity prices), its risk profile has lately softened following an excellent trading environment. We believe the stock would be more fairly priced at around 6 times EPU, which implies there is a possibility for strong valuation expansion tailwinds ahead. The run rate of Alliance's most recent quarterly distribution suggests a massive yield of 13.5%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

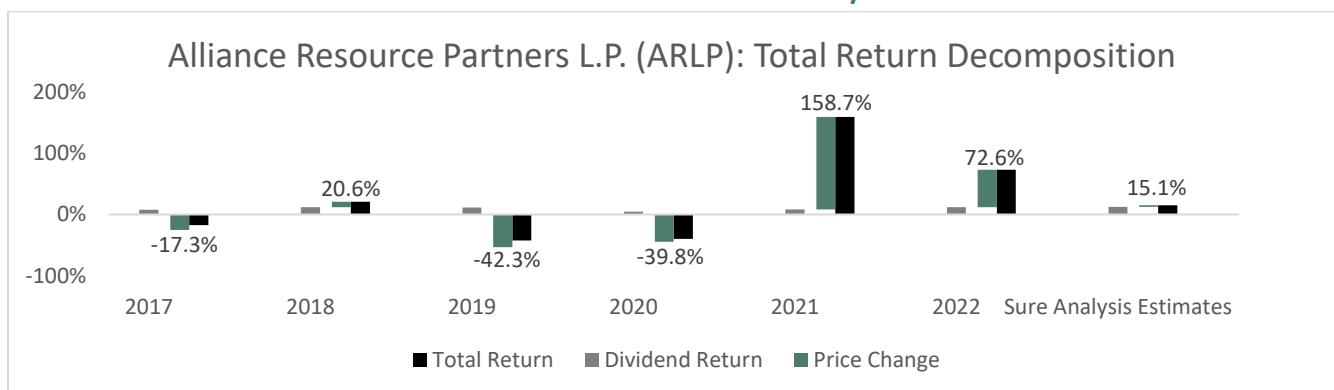
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	63%	52%	117%	79%	84%	76%	70%	---	29%	34%	51%	84%

Alliance's business model was considered endangered by a combination of factors, including the "war" on combustible energy sources. However, the narrative seems to have changed lately. With an increasing demand for power generation amid resumption in economic activity after the coronavirus-induced slump and soaring natural gas prices in Europe and Asia, coal consumption has been boosted. The ongoing war in Ukraine has also thrown the global energy market into chaos, which should keep coal prices at sky-high levels. 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, whose demand has skyrocketed for the reasons mentioned above. While renewable energy sources should continue replacing coal over the long term, the ongoing geopolitical landscape has raised questions regarding the pace of this trend. Until the macro environment stabilizes, Alliance should continue printing cash. That said, uncertainties regarding its overall success over the long term do exist. Changes in the macro environment, including changes in demand for coal and coal prices, could easily sway its results.

Final Thoughts & Recommendation

Alliance Resource Partners remains a highly volatile investment. Regardless, the current macro and geopolitical landscapes have been extremely favorable for the partnership. Despite forecasting a decline in EPU through 2028 to be conservative, the possibility of valuation tailwinds and the hefty dividend suggest an annualized return potential of 15.1% through 2028. Accordingly, ARLP earns a speculative buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	2301	2274	1931	1796	2003	1962	1328	1570	2407
Gross Profit	2000	1916	1563	1486	1609	1530	447	289	732
Gross Margin	86.9%	84.3%	80.9%	82.7%	80.3%	78.0%	33.7%	18.4%	30.4%
SG&A Exp.	73	67	73	62	68	73	60	70	80
Operating Profit	544	462	368	332	333	275	129	219	652
Operating Margin	23.7%	20.3%	19.1%	18.5%	16.6%	14.0%	9.7%	13.9%	27.1%
Net Profit	497	306	339	304	367	399	-129	178	577
Net Margin	21.6%	13.5%	17.6%	16.9%	18.3%	20.4%	-9.7%	11.3%	24.0%
Free Cash Flow	420	504	589	411	461	209	280	302	505
Income Tax	---	0	0	0	0	0	0	0.4	54

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	2285	2361	2193	2219	2395	2587	2166	2159	2661
Cash & Equivalents	25	33	40	7	244	36	56	122	296
Accounts Receivable	184	123	152	182	175	162	105	130	239
Inventories	83	121	61	60	59	101	56	60	77
Goodwill & Int. Ass.	---	136	136	136	136	136	4373	4373	---
Total Liabilities	1270	1372	1100	1068	1207	1321	1094	933	1020
Accounts Payable	86	84	64	97	96	81	48	70	95
Long-Term Debt	821	818	549	488	656	781	593	435	422
Shareholder's Equity	1015	987	1088	1146	1182	1253	1061	1215	1615

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	22.6%	13.2%	14.9%	13.8%	15.9%	16.0%	-5.4%	8.2%	24.0%
Return on Equity	53.3%	30.6%	32.7%	27.2%	31.5%	32.8%	-11.2%	15.7%	40.8%
ROIC	58.9%	37.3%	49.4%	57.9%	63.5%	54.9%	-18.5%	33.9%	129%
Shares Out.	74.0	74.2	74.4	98.7	130.8	128.1	127	127	127.2
Revenue/Share	31.07	30.65	25.98	18.20	15.32	15.31	10.44	12.34	18.92
FCF/Share	5.67	6.79	7.93	4.16	3.52	1.63	2.20	2.38	3.97

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

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