



Alliance Resource Partners (ARLP)

Updated April 29th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	\$23.45	5 Year CAGR Estimate:	9.4%	Market Cap:	\$3.0 B
Fair Value Price:	\$25.00	5 Year Growth Estimate:	-3.0%	Ex-Dividend Date:	05/07/2024
% Fair Value:	94%	5 Year Valuation Multiple Estimate:	1.3%	Dividend Payment Date:	05/15/2024
Dividend Yield:	11.9%	5 Year Price Target	\$21.47	Years Of Dividend Growth:	2
Dividend Risk Score:	F	Retirement Suitability Score:	B	Rating:	Hold

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 ~\$2.7 billion in annual revenues and is based in Tulsa, Oklahoma.

On April 27th, 2024, Alliance Resource Partners reported its Q1 and full year results for the period ending March 31st, 2024. For the quarter, revenues declined by 1.7% year-over-year to \$651.7 million. Lower revenues were primarily the result of lower average coal sales prices, partially offset by higher oil & gas royalties and other revenues.

Net income came in at \$158.1 million, or \$1.21 per unit, compared to \$191.2 million, or \$1.45 per unit last year.

In 2024, Alliance's management expects another record-breaking year in terms of revenues, driven by a strong coal sales book that mirrors the success of 2023. Over 90% of its coal sales volumes are committed at similar price levels to last year, signaling a promising outlook. More specifically, the company expects to sell between 34 and 35.8 tons of coal. At current coal prices, and along with strong oil & gas royalties, we expect EPU of about \$5.00 for the year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPU¹	\$4.77	\$2.28	\$2.51	\$2.25	\$2.73	\$3.07	(\$1.02)	\$1.36	\$4.39	\$4.81	\$5.00	\$4.29
DPS	\$2.47	\$2.66	\$1.98	\$1.88	\$2.07	\$2.15	\$0.40	\$0.40	\$1.50	\$2.80	\$2.80	\$3.25
Units²	74.0	74.2	74.4	98.7	130.8	128.1	127.2	127.2	127.2	127.1	127.1	128

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, though, it has rebounded massively, hitting all-time levels that exceeded \$450 per metric ton in 2022. While coal price levels have somewhat normalized, at \$134.5 per metric ton currently, they are still notably higher from the past decade's \$60 to \$100 range.

In the face of substantial regulatory challenges and media scrutiny, Alliance stands out as one of the last major players in the coal industry, enjoying notable advantages. The ongoing conflicts in Ukraine and the Middle East, coupled with unprecedented economic sanctions, such as the EU's ban on coal imports from Russia, are poised to maintain coal prices at above-average levels.

Further, as the management sets its sights beyond 2024, they express optimism about the strengthening fundamentals of coal export demand and the emergence of opportunities in new markets. Nevertheless, we forecast EPU growth of negative 3% through 2029 to be prudent against any events that could result in lower coal prices over the next five years. Last year, Alliance utilized its \$100 million buyback program to repurchase \$19.4 million worth of units.

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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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.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	8.8	13	4.0	9.5	7.61	6.5	N/A	5.8	4.6	4.0	4.7	5.0
Avg. Yld.	5.9%	5.4%	20.0%	15.0%	9.4%	10.4%	12.6%	5.0%	7.6%	14.4%	11.9%	15.1%

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 \$5.00 EPU for FY2024 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 5 times EPU, which implies a possibility for soft valuation tailwind ahead. The run rate of Alliance's most recent quarterly distribution suggests a hefty yield of 11.9%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

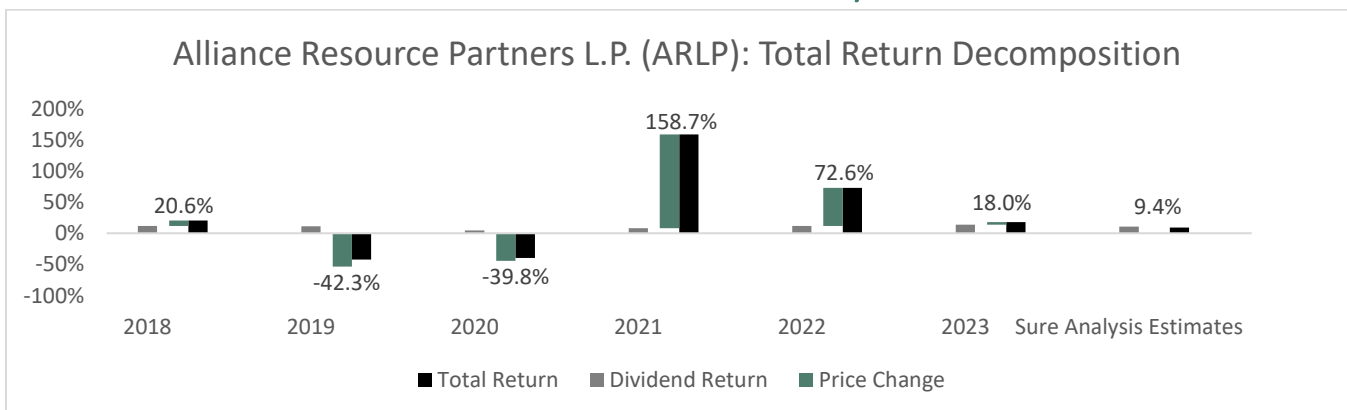
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	52%	117%	79%	84%	76%	70%	N/A	29%	34%	58%	56%	76%

Alliance's business model faced challenges due to factors like the push against combustible energy sources. However, recent shifts in the narrative show promise. With a rising demand for power post-coronavirus economic recovery and surging natural gas prices in Europe and Asia, coal consumption has gained traction. The ongoing Ukraine conflict has further disrupted the global energy market, ensuring high coal prices. The last two years highlight Alliance's strength as one of the major players in the current coal supply shortage. Despite the long-term trend favoring renewable energy, uncertainties in the geopolitical landscape raise questions about the pace of this transition. In the meantime, Alliance is poised to keep generating robust cash flows. That said, uncertainties regarding its overall success over the long term do exist. Macro developments, including long-term trends in demand for coal and coal prices, could easily sway its results.

Final Thoughts & Recommendation

Alliance Resource Partners remains a highly volatile investment. Still, the current energy landscape remains favorable for the partnership. Despite forecasting a decline in EPU through 2029 to be conservative, the possibility of a soft valuation tailwind and the hefty dividend suggest an annualized return potential of 9.4% through 2029. Accordingly, we now rate ARLP a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	2301	2274	1931	1796	2003	1962	1328	1570	2407	2567
Gross Profit	2000	1916	1563	1486	1609	1530	447	289	732	751
Gross Margin	86.9%	84.3%	80.9%	82.7%	80.3%	78.0%	33.7%	18.4%	30.4%	29.3%
SG&A Exp.	73	67	73	62	68	73	60	70	80	79
Operating Profit	544	462	368	332	333	275	129	219	652	672
Operating Margin	23.7%	20.3%	19.1%	18.5%	16.6%	14.0%	9.7%	13.9%	27.1%	26.2%
Net Profit	497	306	339	304	367	399	-129	178	577	630
Net Margin	21.6%	13.5%	17.6%	16.9%	18.3%	20.4%	-9.7%	11.3%	24.0%	24.5%
Free Cash Flow	420	504	589	411	461	209	280	302	505	451
Income Tax	---	0	0	0	0	0	0	0.4	54	8

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	2285	2361	2193	2219	2395	2587	2166	2159	2661	2788
Cash & Equivalents	25	33	40	7	244	36	56	122	296	60
Accounts Receivable	184	123	152	182	175	162	105	130	239	283
Inventories	83	121	61	60	59	101	56	60	77	128
Goodwill & Int. Ass.	---	136	136	136	136	136	4373	4373	---	---
Total Liabilities	1270	1372	1100	1068	1207	1321	1094	933	1020	930
Accounts Payable	86	84	64	97	96	81	48	70	95	108
Long-Term Debt	821	818	549	488	656	781	593	435	422	337
Shareholder's Equity	1015	987	1088	1146	1182	1253	1061	1215	1615	1835

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	22.6%	13.2%	14.9%	13.8%	15.9%	16.0%	-5.4%	8.2%	24.0%	22.9%
Return on Equity	53.3%	30.6%	32.7%	27.2%	31.5%	32.8%	-11.2%	15.7%	40.8%	35.3%
ROIC	58.9%	37.3%	49.4%	57.9%	63.5%	54.9%	-18.5%	33.9%	129%	155.6%
Shares Out.	74.0	74.2	74.4	98.7	130.8	128.1	127	127	127.2	127.2
Revenue/Share	31.07	30.65	25.98	18.20	15.32	15.31	10.44	12.34	18.92	20.18
FCF/Share	5.67	6.79	7.93	4.16	3.52	1.63	2.20	2.38	3.97	3.55

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

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