



# Alliance Resource Partners (ARLP)

Updated October 28<sup>th</sup>, 2024 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$25	<b>5 Year CAGR Estimate:</b>	9.6%	<b>Market Cap:</b>	\$3.21 B
<b>Fair Value Price:</b>	\$26	<b>5 Year Growth Estimate:</b>	0.0%	<b>Ex-Dividend Date:</b>	11/06/2024
<b>% Fair Value:</b>	98%	<b>5 Year Valuation Multiple Estimate:</b>	0.4%	<b>Dividend Payment Date:</b>	11/14/2024
<b>Dividend Yield:</b>	11.2%	<b>5 Year Price Target</b>	\$26	<b>Years Of Dividend Growth:</b>	N/A
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	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, such as 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 October 28<sup>th</sup>, 2024, Alliance Resource Partners posted its Q3 results for the period ending September 30<sup>th</sup>, 2024. For the quarter, revenues declined by 3.6% year-over-year to \$613.6 million. Lower revenues were primarily the result of reduced coal sales prices, which fell 2.1% due in part to lower export pricing in Appalachia, and lower transportation revenues. Oil & gas royalties remained more or less flat.

Net income came in at \$86.3 million, or \$0.66 per unit, compared to \$153.7 million, or \$1.18 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. More specifically, the company expects to sell about 34 tons of coal. At current coal prices, and along with strong oil & gas royalties, we expect EPU of about \$3.66 for the year.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPU<sup>1</sup></b>	\$4.77	\$2.28	\$2.51	\$2.25	\$2.73	\$3.07	(\$1.02)	\$1.36	\$4.39	\$4.81	<b>\$3.66</b>	<b>\$3.66</b>
<b>DPS</b>	\$2.47	\$2.66	\$1.98	\$1.88	\$2.07	\$2.15	\$0.40	\$0.40	\$1.50	\$2.80	<b>\$2.80</b>	<b>\$2.80</b>
<b>Units<sup>2</sup></b>	74.0	74.2	74.4	98.7	130.8	128.1	127.2	127.2	127.2	127.1	<b>128.1</b>	<b>128.1</b>

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 \$143.75 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. We do not forecast EPU growth or decline in 2029, as predicting coal prices over a five-year period is not possible. However, we believe the company can sustain its current profitability levels. Also, last year, Alliance allocated \$100 million for a buyback program, repurchasing \$19.4

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

<sup>2</sup> Units in millions

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million worth of units. While repurchases could contribute to EPU growth, the industry's volatility prompts a prudent outlook. Additionally, we do not anticipate dividend growth moving forward; the partnership's most recent quarterly distribution of \$0.70 marks two consecutive years with an annual DPU of \$2.80, concluding its prior DPY growth streak.

## 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	7.6	6.5	N/A	5.8	4.6	4.0	6.8	7.0
Avg. Yld.	5.9%	5.4%	20.0%	15.0%	9.4%	10.4%	12.6%	5.0%	7.6%	14.4%	11.2%	10.9%

Alliance's valuation has been hovering in the low single digits due to its volatile earnings and uncertainty surrounding its future results. The stock's P/E based on our EPU forecast of \$3.66 for FY2024 points to a valuation that is in-line with historical average. Note that the partnership still operates in one of the riskiest industries (coal) in a highly cyclical sector (fluctuating commodity prices). This explains the seemingly depressed multiple. Thus, we believe units are somewhat fairly valued. The run rate of the most recent quarterly distribution suggests a hefty yield of 11.2%.

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

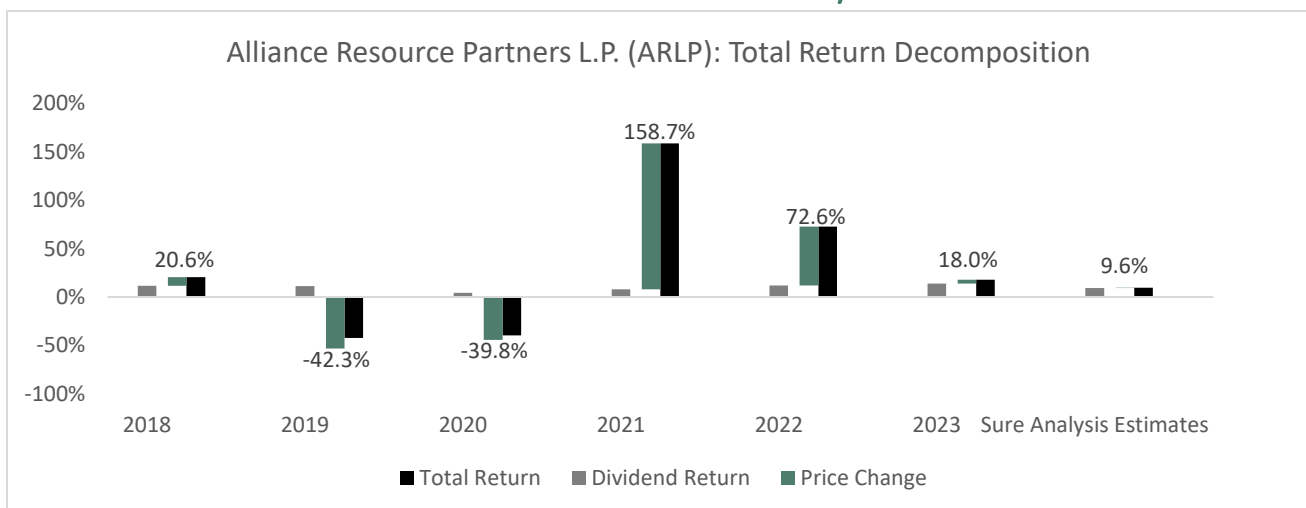
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	52%	117%	79%	84%	76%	70%	N/A	29%	34%	58%	77%	77%

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 no growth over the medium-term, the hefty distributions should contribute to an annualized return potential of 9.6% through 2029. We rate ARLP a speculative buy.

## Total Return Breakdown by Year



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## Income Statement Metrics

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

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	2285	2361	2193	2219	2395	2587	2166	2159	2661	2788
<b>Cash &amp; Equivalents</b>	25	33	40	7	244	36	56	122	296	60
<b>Accounts Receivable</b>	184	123	152	182	175	162	105	130	239	283
<b>Inventories</b>	83	121	61	60	59	101	56	60	77	128
<b>Goodwill &amp; Int. Ass.</b>	---	136	136	136	136	136	4373	4373	---	---
<b>Total Liabilities</b>	1270	1372	1100	1068	1207	1321	1094	933	1020	930
<b>Accounts Payable</b>	86	84	64	97	96	81	48	70	95	108
<b>Long-Term Debt</b>	821	818	549	488	656	781	593	435	422	337
<b>Shareholder's Equity</b>	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
<b>Return on Assets</b>	22.6%	13.2%	14.9%	13.8%	15.9%	16.0%	-5.4%	8.2%	24.0%	22.9%
<b>Return on Equity</b>	53.3%	30.6%	32.7%	27.2%	31.5%	32.8%	-11.2%	15.7%	40.8%	35.3%
<b>ROIC</b>	58.9%	37.3%	49.4%	57.9%	63.5%	54.9%	-18.5%	33.9%	129%	155.6%
<b>Shares Out.</b>	74.0	74.2	74.4	98.7	130.8	128.1	127	127	127.2	127.2
<b>Revenue/Share</b>	31.07	30.65	25.98	18.20	15.32	15.31	10.44	12.34	18.92	20.18
<b>FCF/Share</b>	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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