

Coal Market Update

April 2015

Depressed market see utilities phase out coal and miners cut production

This Coal Market Update summarises general developments in the last four months that raise the risk of investing in the global coal industry. We will return to our bimonthly updates from hereon. This is not investment advice. Greenpeace International tracks coal market developments worldwide through specialists located in the 28 national and regional offices, including the United States, China, India, Australia, South Africa and Indonesia. This update is prepared in collaboration with BankTrack. All prices are in USD unless noted.

Key points:

- Coal companies around the world are facing closure and cuts in production, as large institutional investors exit the market and more utility companies commit to tackling climate change.
- Shenhua Energy set to decrease coal sales by 10% in 2015.
- China is burning less coal, while economy continues to grow.
- Indonesian miners halts production.
- Anglo-American Plc reports further losses and mine closures.
- Glencore set to close mines permanently in Australia.
- Rio Tinto signals it may exit from coal mining assets.
- Adani's Carmichael mine facing further uncertainty from lack of committed funding.
- US coal miners Alpha and Patriot closing mines and cutting production.
- Murray Energy's bond yields have skyrocketed as US coal market suffers deep depression.

Companies mentioned include:

ENEL (ENEL: MIL)
China Shenhua Energy Co (1088:HK)
PT Garda Tujuh Buana Tbk (GTBO:IJ)
Anglo-American PLC (AAL:LN)
Glencore PLC (GLEN:LN)
Rio Tinto Ltd (RIO:AU)
Adani Enterprise (ADANIENT:NSE)
Alpha Natural Resources Inc (ANR:NYSE)

Global

Coal industry facing difficult times as plants are shelved, mines cut production, and large institutional funds divest from fossil fuels

Coal industry is facing further difficulties as power plants are shelved,¹ mines cut production and utilities turn away from coal.²

This is made worse by divestments led by large institutional investors, such as the Norwegian Government Pension Fund who have sold of 53 coal companies in 2014,³ including Coal India, Adani Power, Shenhua Energy, and major US coal miners: Peabody Energy, Alpha Natural Resources and Arch Coal.

China

Shenhua cuts coal sales by 10 per cent

China's Shenhua Energy Company, it's largest coal producer, has announced a 10% reduction in its domestic coal sales for 2015.⁴ The Company's capex plans for coal and power in 2015 are down 25% from 2014 levels, stating '[i]n 2015, coal demand will further slacken against the slower growth in the real economy of China, the tightened national control over total energy consumption and the accelerated structural adjustment of national energy consumption. It is expected that oversupply will persist in the coal market and coal price will continue to fluctuate at a low level'.

China's mining less and burning less coal than before

Coal production fell 2.1% in 2014 against 2013,⁵ with further decreases expected this year, indicating China's clean air and renewable energy policies are beginning to have an effect on the country's coal industry. While reducing its coal appetite, China has managed to maintain a robust GDP growth at 7.4%, showing decoupling between energy use and economic growth.⁶

¹ See, http://action.sierraclub.org/site/DocServer/Coal_Tracker_report_final_3-9-15.pdf?docID=17381

² See, <http://www.ft.com/intl/cms/s/0/4cd63116-cc8d-11e4-b5a5-00144feab7de.html#axzz3V7MypqOx>

³ See, <http://www.theguardian.com/commentisfree/2015/jan/27/guardian-view-coal-china-digging-down>

⁴ See,

[http://www.shenhuachina.com/cs/Satellite?blobkey=id&blobnocache=true&blobwhere=1383707260565&blobheadername3=MDT-Type&blobheadername2=Content-Disposition&blobheadername1=Content-Type&blobheadervalue3=abinary%3B+charset%3DUTF-](http://www.shenhuachina.com/cs/Satellite?blobkey=id&blobnocache=true&blobwhere=1383707260565&blobheadername3=MDT-Type&blobheadername2=Content-Disposition&blobheadername1=Content-Type&blobheadervalue3=abinary%3B+charset%3DUTF-8&blobheadervalue2=attachment%3B+filename%3D%22e01088.pdf%22%3Bfilename*%3DUTF-8%27%27e01088.pdf&blobheadervalue1=application%2Fpdf&blobcol=urldata&blobtable=MungoBlobs)

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⁵ <http://www.theguardian.com/environment/2015/jan/27/china-coal-production-falls-for-first-time-this-century>

⁶ <http://energydesk.greenpeace.org/2015/03/17/comment-chinas-falling-coal-use-shows-world-can-achieve-paris/>

Indonesia

Indonesian coal miner Garda Tujuh stops production

The company has announced that it will suspend production due to low prices and excess supply is forcing some low ranking coal producers out of the market.⁷

Australia

Anglo-American reports another net loss on write-downs

Anglo-American Plc reported a \$2.51 billion loss for 2014,⁸ providing fresh evidence their coal assets have struggled to adapt to a vicious cycle of slumping demand. Anglo-American Chief Executive Mark Cutifani said he doesn't expect the situation to improve soon. Net debt rose to \$12.9 billion as of Dec 31, 2014, with expectation that it will increase to \$14 billion. The Company is also further considering sales of Australian coal-mining projects.⁹

Glencore set to permanently cut production

Glencore is set to permanently cut their production from Australian coal mines in a move that could represent a cut of more than 20% of its total production, which casts doubt on its expansion prospects at the Rollaston and Mt Owen mines.¹⁰

Rio Tinto signal coal exit

The world's second largest mining company said on Friday it will fold its coal mines in Australia into the copper division, a move that could signal its intention to divest its coal assets.¹¹

Adani's Carmichael coal mine loan in doubt

Sources with direct links to the State Bank of India have told Reuters that the Bank is preparing to turn down the \$1 billion loan request from Adani Enterprises, citing 'the credit guys are not comfortable with the project, nothing is moving...' and foreign currency risk.¹² Three of the biggest French banks have also committed to not funding the project, reducing its pool of possible funders.¹³

⁷ See, <http://in.reuters.com/article/2015/02/13/indonesia-coal-garda-tujuh-idINL4N0VN4I920150213>

⁸ See, <http://www.nasdaq.com/article/anglo-american-reports-another-net-loss-on-writedowns--2nd-update-20150213-00156>

⁹ See, <http://www.bloomberg.com/news/articles/2015-01-23/anglo-american-said-to-weigh-sale-of-two-australian-coal-mines>

¹⁰ See, <http://www.smh.com.au/business/mining-and-resources/glencore-slashes-australian-coal-production-jobs-on-the-line-20150227-13qe16.html>

¹¹ See, <http://www.reuters.com/article/2015/02/27/rio-tinto-costs-idUSL4N0W14HA20150227>

¹² See, <http://www.reuters.com/article/2015/03/13/india-adani-sbi-idUSL4N0WF3UD20150313>

¹³ See,

http://www.banktrack.org/show/news/victory_for_the_climate_and_environment_french_banks_pledge_not_to_finance_mega_coal_projects_in_australia_s_galilee_basin

US

Alpha Natural Resources continue to cut coal production

Alpha, after 13 consecutive quarters of losses, plans to slash Appalachia coal production by 20 percent in 2015, and a revised 2015 capital budget set between \$225 million and \$275 million.¹⁴

Patriot Coal temporarily idles West Virginia mines

US miner Patriot Coal has temporarily idled coal production at the Samples surface thermal coal mine and Winchester underground metallurgical coal mine at its Paint Creek Complex in southern West Virginia.¹⁵ Appalachia thermal coal market have been particularly hard hit due to coal-fired plant closures, low cost natural gas competition and diminished export opportunities, said Patriot Coal.

Murray Energy bond yields skyrocketing

Murray Energy Corp, the largest privately held coal-mining company in the US, is marketing a \$1.6 billion loan that would initially pay interest of \$6.75 percent and sold at 98 c on the dollar, paying 5.75 percent points more than the London interbank offering rate.¹⁶ As coal industry faces the worst slump in price, analysts comment that the coal price is not showing any signs of rebounding anytime soon.

¹⁴ See, <http://powersource.post-gazette.com/powersource/companies-powersource/2015/02/12/Coal-producer-Alpha-Natural-Resources-records-more-losses-in-2014-Pennsylvania/stories/201502120313>

¹⁵ See, <http://www.platts.com/latest-news/coal/houston/us-miner-patriot-coal-temporarily-idles-west-21186298>

¹⁶ See, <http://www.bloomberg.com/news/articles/2015-03-24/murray-energy-said-to-offer-above-market-rate-on-buyout-loan>