Are Coal Companies a Good Contrarian Bet?

Despite the conversion of many electric plants to natural gas and away from coal, the USA still consumed 800 million tons of coal in 2015, the last year for which totals are available. We wrote recently about the **bleak future of coal**.

> *Electric companies have been switching plants from coal to natural gas and closing coal plants. Big consumers like GM and Toyota insist on clean energy and won't use coal even if environmental regulations are relaxed. That is the bleak future of coal.*
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> *Peabody Energy is the largest coal producer in the USA as well as in Australia. The stock sold for $27 a share in 2013 and then steadily fell down to $2. It spiked briefly in late 2015 to $24 and then fell again. The company entered bankruptcy in early 2016.*

That having been said the market currently prices coal stocks accordingly. Considering all the negativity with coal, are coal companies a good contrarian bet? *Market Watch* refers to coal stocks as the **ultimate contrarian bet**.

> *"Coal-mining companies are among the most out-of-favor companies in the stock market today," says George Putnam. "As contrarian investments, these stocks have real appeal."*
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> *First, coal stocks look darn cheap. "Prospects are not nearly as grim as most investors believe," says Putnam. So the stocks now trade at "enticing" valuations. All of the six coal companies he suggests, below, trade either below book value or for price-to-earnings (P/E) ratios of 8 or less. The benchmark S&P 500 Index's P/E ratio SPX, +0.14% is about three times higher.*
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> *Next, since many coal companies have gone through bankruptcy, they've shed debt. "Coal companies are healthier now than they've been in a long time," says Putnam. Stronger balance sheets and lower interest payments enable them to produce better earnings, pay regular dividends and special dividends, and use cash flow to buy back stock. This is one reason why Eric Green, director of research at Penn Capital, owns Arch Coal Inc. ARCH, +1.38% on behalf of his investors.*

These are the coal companies that he is talking about.

- *Arch Coal Inc., emerged from bankruptcy in October 2016*
- *Peabody Energy Corp., emerged from bankruptcy in April 2017*
- *Alliance Resource Partners LP, avoided bankruptcy*
- *Foresight Energy LP, avoided bankruptcy*
- *CNX Coal Resources LP, majority owner is a natural gas company*
- *Cloud Peak Energy Inc, produces low sulfur content coal but has quite a bit of debt*

Warren Buffett started in the stock market by purchasing companies that were doing poorly but could be reorganized and made more profitable for a short term thus increasing their share price and providing Buffett with profits. This was referred to as getting one more puff out of the cigar. There is no question that coal as it is now used is not going to make a huge comeback. But the USA and the rest of the world need energy and there will always be a place for coal. And, as technology advances, coal may become a cleaner way to generate energy. The point is that considering their extremely low prices coal companies may be a good contrarian bet for the near future.

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