

Coal industry consolidates

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Tuesday, May 12, 2009 8:22 PM MDT

CHARLESTON, W.Va. -- Alpha Natural Resources said Tuesday it plans to buy rival Foundation Coal for about \$1.4 billion in an all-stock deal that would create the nation's third-largest coal producer.

Foundation Coal shares jumped nearly 21 percent.

Talk of another wave of consolidation in the coal industry has been growing louder in recent weeks and on Tuesday, Alpha Chief Executive Mike Quillen said the bid for Foundation reflected that need.

Producers have wrestled with declining demand, falling prices and tight credit, not to mention increased environmental scrutiny under the administration of Barrack Obama.

"I think people had predicted that the Alpha-Foundation one was one that made a lot of sense," Quillen said in an interview.

Combined, Alpha and Foundation would be well-financed -- they'd have approximately \$743 million in cash and available credit -- and diversified. The companies would have 2.3 billion tons of coal reserves balanced between higher-profit Appalachian mines and high-volume western operations. Their 91 million tons of annual production from 59 mines would rank third behind Peabody Energy and Arch Coal.

Both companies had been searching for partners, Foundation CEO James Roberts said.

"I don't think there's any other company out there that we could have merged with that ended up with the same results," Roberts said.

One result is size, which Roberts said was vital given the poor economy.

"In these times, with regulatory issues, legislative issues that we have to deal with, size really matters," he said.

The Environmental Protection Agency has begun scrutinizing permits for surface coal mines in the eastern U.S. and the Interior Department has taken steps to reverse one mining-friendly stream regulation adopted late in the Bush administration.

Quillen said the deal dilutes risk tied to environmental regulations. Alpha operates in West Virginia, Virginia, Kentucky and Pennsylvania, where resistance to surface mining is strongest.

Foundation also owns and operates two coal mines in Wyoming's Powder River Basin: the Eagle Butte mine north of Gillette and Belle Ayr about 15 miles south of Gillette. Together, the mines produced more than 50 million tons in 2008 and employed about 615 miners.

Alpha and other large coal companies routinely talk about making acquisitions, but Teck Cominco's takeover of Fording Canadian Coal Trust last year and St. Louis-based Peabody Energy's purchase of Australia's Excel Coal in 2006 have been the exception. More common have been smaller deals such as Russian metals company Mechel OAO's recent purchase of Appalachian coal producer Bluestone Industries for \$436 million plus 83.3 million preferred shares of stock.

Abingdon, Va.-based Alpha itself agreed to a \$2.7 billion takeover by Cleveland-based iron ore producer Cliffs Natural Resources. The deal drew objections from Cliffs' largest shareholder and was scuttled in November.

Some on Wall Street gave an early stamp of approval to the latest takeover bid.

"I want to thank you for letting us all release the breath that we have been holding regarding coal M&A for so long," Goldman Sachs analyst Justine Fisher said during the conference call.

Marshall University economist Cal Kent said big buyouts will likely remain rare, but consolidation will continue in the form of smaller deals.

Besides what Alpha is paying in stock for Foundation Coal Holdings Inc., it will assume \$530 million in debt. The companies value the total transaction, including debt, at about \$2 billion.

Linthicum Heights, Md.-based Foundation shares gained \$4.79, or 20.61 percent, to close at \$28.03. Alpha closed down \$1.84, or 6.38 percent, at \$27.02.

Shareholders of Foundation would receive 1.084 shares of the new company for each share held, or about \$32.73 per share -- a 41 percent premium over Monday's closing price. Alpha shareholders would own about 59 percent of the combined companies.

Both boards approved the deal, which is targeted to close later this year.