National Coal Corp. (NCOC) – Q4 2008 Earnings Call Transcript

March 30, 2009 11:30 am ET

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the fourth quarter and year-end 2008 earnings conference call. At this time, all participants are in a listen only mode. Later there will be an opportunity for questions and comments, instructions will be given at that time. I would now like to turn the conference call over to our host, Director of Communications, Christine Pietryla.

Christine Pietryla

Good morning. Thank you everyone for joining us. Today, we're going to discuss National Coal's fourth quarter and year-end 2008 results. Management's statements will be followed by a question and answer period. Before we begin, I want to remind everyone that we will be discussing forward-looking information on this call. Examples of forward-looking statements include, anticipated benefits of capital improvements and new mines and anticipated strengthening or weakening within the coal market.

Forward-looking statements should not be read as a guarantee of future performance or results and are based on information currently available. Forward looking statements made on this call are based on management's good faith belief at this time with respect to future events and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward looking statements.

These conditions are more fully described in the company's filing with the Securities and Exchange Commission, including our most recently filed annual report on Form 10-K, as well as the quarterly reports on Form 10-Q, which should be read in conjunction with the information presented in this call. Further, we will also be referring to non-GAAP financial measures, which are reconciled in both our third quarter, fourth quarter 10-Q and earnings release, both of which are located on our website.

With that, I would like to introduce National Coal's President and CEO, Daniel Rolling.

Daniel Roling

Thank you, Christine, and good morning, everyone. 2008 was a very challenging year. We entered 2008 fully contracted of what turned out to be low prices. We did successfully renegotiate some and we had some luck with minimal spot sales. We entered the year with anticipating about a $60 a ton price. We averaged for the full year $65 per ton compared to the market that turned out to be very low price.

Our operating challenges occupied a significant portion of the year. Our dragline was down for five months, which impacted our sales by about 140,000 tons. In addition, we fully mined out two of our mines, which one of them turned out at the end of its life as a very high cost and impacted our fourth quarter results.

We moved equipment from the old mines that were depleted to the new mines and that also hurt production strengths, but there were some positives through the year. We have contracted significant tonnage for 2009 at strong prices. We have contracted 2.1 million tons at $75.28 for 2010. We have 1 million tons contracted for – excuse me, the 2.1 million tons at 75.28 was for 2009. For 2010, we have 1 million tons contracted at 77.40, and for 2011, we have 350,000 tons contracted at 79.43. So we are well positioned for 2009, and we have an optionality to the upside for 2010 and 2011.

We have started two new mines in March and we believe they will help with our cost structures as we go through the year. But again I would like to point out that we did have record production during 2008, increasing our production to 1.83 million tons. We had record revenues and our revenues per ton averaged $65. We still have uncommitted tonnage as I said for 2010. We have approximately 1.1 million to 1.4 million tons available. And for 2011, we have approximately 2.5 million tons available.

With that, I would like to turn the call over to Mike Castle, our Chief Financial Officer.

Mike Castle

Thank you, Dan. I will discuss the fourth quarter 2008 results, full year 2008 results and certain material changes within our balance sheet during both the fourth quarter and the full-year 2008. Then I will briefly discuss a few sales and operating expense details to get everybody up to date since our previous conference call in November.

First, in the fourth quarter of 2008, we sold 414,000 tons at $74.91 for a total sales revenue of $31 million compared to 617,000 tons sold at $54.87 per ton for total sales revenues of $33.8 million for the fourth quarter of 2007. That represents an increase of 36.5% on our average sales price per ton with a slight decrease of about 8% on total revenues from coal sales. The sales price per ton increase is a result of new or renegotiated coal supplier agreements that have been put in place since 2007, while the decline in total sales revenue and total sales tons is due mainly to the sale of our Kentucky operations in the first quarter of 2008.

In the fourth quarter of 2008, our cost of sales was $29.4 million or $71 per ton compared to $30.2 million or $48.91 per ton in the fourth quarter of 2007, which is an increase of approximately 44%. Several factors attributed to this increase but most revolved around lower-than-expected production during the fourth quarter of 2008 which was a direct result of waiting on permits for a couple of mines that have since opened. And then also we had a huge amount of rain in our Alabama surface mines that had a serious impact on production in primarily in December, and then we had obviously the holidays impact production. Most of our major cost components across-the-board have increased significantly since the fourth quarter of 2007, including fuel, labor and explosives related items. Royalties were also up due to higher sales prices.

Turning now to the full-year 2008, coal sales revenues increased 41% from 91.9 million at the end of 2007 to $129.4 million in 2008, primarily due to the October 2007 acquisition of our Alabama subsidiaries. We sold 1.99 million tons of coal in 2008 compared to 1.763 million in 2007, which is a 12.9% increase. However, the average selling price increased 24.6% from $52.15 in 2007 to $65 in 2008. This increase is again attributable to new and renegotiated coal supply agreements that we previously mentioned, as well as higher average selling prices for our Alabama operations.

Cost of sales increased 42% from 91.9 million in 2007 to 129.4 million in 2008. These costs translate to 61.90 per ton in 2008 versus 49.10 in 2007. Again like other producers, we saw significant increases in fuel, explosives and most of our major cost components in 2008 compared to 2007. And then also, as Dan mentioned, we had mechanical breakdown of our dragline in Alabama, which impacted costs and revenues there for approximately five months. And again we are also transitioning to some new mines in the fourth quarter of 2008.

Depreciation, depletion, amortization and accretion expense decreased approximately 10% from 16.5 million in 2007 to 14.9 million in 2008. This reduction is attributable primarily to the sale of our Kentucky properties in the first quarter of 2008 offset by 12 full months of expense for our Alabama subsidiaries. In addition to that, several larger depreciable pieces of equipment that were utilized in our Tennessee operations became fully depreciated in 2008.

G&A expenses increased in 2008 from 7 million to $8.7 million. This was due primarily as a result of full year Alabama operations plus some higher professional related fees at the corporate level. Interest expense increased 7.4 million from 10.8 million in 2007 to 18 million in 2008. This is due primarily to a full-year of our $60 million senior secured notes. They were issued in October 2007 in connection with the Alabama acquisition. Interest expense related to the 10.5% senior notes decreased roughly $900,000 due to the debt equity swaps of $13 million that we did in the earlier part of 2008. Also we repaid a $10 million term loan facility from the proceeds of the sale of Kentucky operations in March.

And on the balance sheet, cash on hand at December 31 decreased from 9.8 million in 2007 to 4.6 million in 2008, primarily due to 4.8 million in cash used for operating activities. Cash provided by investing activities was $4.2 million while cash used in financing activities was $4.6 million. Current assets at 12/31/2008, included $2.8 million of restricted cash that will become available in 2008. Property, plant and equipment in mine development decreased from $108 million to roughly $102 million and again that's primarily the result of the sale of the Kentucky properties.

Capital expenditures in 2008 were $24.1 million compared with $10.8 million in 2007. We have discussed those CapEx items in the past. That includes a $7.5 million that we paid in 2008 for the surface and mineral rights in Tennessee and approximately $6.9 million in equipment related acquisitions that we financed in 2008. In addition to the 2.8 million in current restricted cash, non-current restricted cash decreased as a result of $7.4 million in bond and reclamation cash collateral that was related to the sales of Kentucky operations.

Current maturities of long-term debt decreased from December 2007 to December 2008 due to again to the repayment of the $10 million term loan on the Kentucky transaction, while long-term debt decreased as a result of the $13 million in the 10.5% senior secured notes being converted to common stock. Our current deferred revenue at December 31, 2008 included $2.2 million from a December coal sales transaction that was recognized in January 2007.

One last item I guess, as you know, we have been subject to the management reporting internal control provisions for some time now and we will be required to have our auditors attend upon our internal control beginning with the 2008 audit. The audit standards requires sufficient amount of audit evidence to be available in order to reach a conclusion that a controlled environment is effected and for quarterly controls of typically two quarters.

Dan, I want to turn it back over to you if you want to add anything and then we will open up to questions.

Daniel Roling

Basically, the only thing I would add at this point is that we look – we are very optimistic on the future for the company and the coal industry, but we are very mindful that the current economic conditions and the economy are leading to lower demand for electricity. Electricity generation is down year-to-date versus the prior year, and we're very mindful that the impact of the slowdown in economic activity could have an impact on the demand for our coal this year from our utility customers.

With that, I will open it up for questions and then we can come back and answer and sum up.

Christine, will you please… yes, go ahead.

Mike Castle

Also Bill Snod, National’s Chief Operating Officer, is here for questions too if anybody has any for him.

Question-and-Answer Session

Operator

Brett Levy, your conference line has been unmuted. Go ahead and ask a question.

Brett Levy – Jeffries and Company

Hi, guys. As you look at, you know, a rough estimate of your costs going into 2009 per ton, I know you guys have said it would be down, can you give us a ballpark number relative or a ballpark direction relative to 2008?

Daniel Roling

In 2008, our average cost as we put in the report was $61.90. I – we are not forecasting where we expect it to be but we do – our objective is to have our cash cost below that number, below 60 would be something we're shooting for, but at this point, we are not prepared to forecast a number, Brett.

Brett Levy – Jeffries and Company

And then, you know, where we're seeing Big Sandy barge [ph] right now, obviously we would see that there is going to be quite a bit of capacity that needs to be idled. Do you have, as you look towards 2010, a list of mines that you might consider idling or something along those lines going into 2010, or is your thought at this point that prices will rally going into that year and you won't need to…

Daniel Roling

We believe that 2010 we should – we may see prices flat, so it is an improvement. But the key point I would make, Brett, is that we don't sell into the Big Sandy. We do realize that there is a lot more supply in the Big Sandy area and demand at present, but we are significantly further south from that, and we're closer to our customers. Big Sandy pricing is probably not a good barometer for our coal and I would say that I don't believe at this time our market is as weak as the Big Sandy market. Bill or Mike, would you have anything to add to that?

Mike Castle

No.

Brett Levy – Jeffries and Company

All right. And then lastly, I know that you guys have been talking about doing some exploration of your met operations or met potential operations in Alabama, is that something you're going to continue to develop or you're going to wait for prices to improve?

Daniel Roling

I would say at this point with the met coal prices having come down a lot and the demand off significantly, met coal projects are not receiving any higher priority than any of our projects right now. And I would say that the met mine in Alabama that we did open in the fourth quarter, Davis Creek, we did sell some metallurgical coal out of it, but I would say that most of that coal going forward at this time will most likely be either scaled back on the production, or if not metallurgical, it may be put into the steam coal market.

Brett Levy – Jeffries and Company

And lastly, what is liquidity or cash as of today?

Daniel Roling

I don't think we disclosed it as of this point in time, but our last official number would be as of December 31.

Brett Levy – Jeffries and Company

Okay, thank you.

Daniel Roling

Mike, if you want to give some guidance, you're welcome to though.

Mike Castle

Excuse me?

Daniel Roling

If you have any comment on cash beyond mine…

Mike Castle

Again, Dan, I think – you know I am not really prepared to discuss that at this time, but I will say liquidity is improving from where it has been recently. Our cash, keep in mind, we paid two interest payments in late December, one on the 10% note, and the other one on the 12.5% note – excuse me, 10.5% note and the 12% note. Both of those together were approximately $4 million.

Brett Levy – Jeffries and Company

Got it. All right. Thanks very much, guys.

Operator

(Operator instructions).

Daniel Roling

If there are no further questions at this time, I would thank you all for participating. We look forward to taking your calls individually and we look forward to our next conference call at the end of the first quarter.

Operator

We have a question from Alex Sams [ph]. Alex Sams, your conference line has been unmuted.

Daniel Roling

Moderator, did they ask a question?

Operator

No, he didn't ask, go ahead. Alex Sams did not go forward with his question.

Daniel Roling

Okay. Thank you. Well, once again, thank you all for participating in our call, and we look forward to speaking with you next quarter.

Operator

Ladies and gentlemen, this will conclude our conference. Thank you all for joining us today. Have a great day.