

Corsa Coal Announces Financial Results for Second Quarter 2019

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CANONSBURG, Aug. 20, 2019 - [Corsa Coal Corp.](#) (TSXV: CSO; OTCQX: CRSXF) ("Corsa" or the "Company"), a premier metallurgical coal producer, today reported financial results for the three and six months ended June 30, 2019. Corsa has also released unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2019 and related management's discussion and analysis under its profile on [www.sedar.com](#).

Unless otherwise noted, all dollar amounts in this news release are expressed in United States dollars and all ton amounts are expressed in short tons (2,000 pounds per ton). Pricing and cost per ton information is expressed on a free-on-board, or FOB, mine basis unless otherwise noted.

Second Quarter and First Half Highlights

- Corsa reported net and comprehensive income from continuing operations of \$3.6 million, or \$0.03 per share attributable to common shareholders, for the second quarter 2019, compared to a loss of \$4.9 million, or \$(0.05) per share attributable to common shareholders, for the second quarter 2018. Net and comprehensive income from continuing operations for the six months ended June 30, 2019 was \$6.6 million, or \$0.05 per share attributable to common shareholders compared to a loss of \$2.9 million, or \$(0.04) per share attributable to common shareholders for the six months ended June 30, 2018.
- Corsa's adjusted EBITDA⁽¹⁾ was \$10.1 million and \$19.3 million for the three and six months ended June 30, 2019, compared to \$4.3 million and \$15.2 million for the three and six months ended June 30, 2018. Corsa's EBITDA⁽¹⁾ was \$10.2 million and \$19.8 million for the three and six months ended June 30, 2019 compared to \$2.3 million and \$11.4 million for the three and six months ended June 30, 2018.
- Cash production cost per ton sold⁽¹⁾ was \$84.55 for the second quarter 2019, a decrease of \$7.65 per ton, or 8%, compared to the second quarter 2018. Cash production cost per ton sold⁽¹⁾ was \$83.92 for the six months ended June 30, 2019, a decrease of \$7.87 per ton, or 9%, as compared to the six months ended June 30, 2018.
- Operating cash flows provided by continuing operations for the three and six months ended June 30, 2019 were \$9.5 million and \$14.5 million, respectively, compared to a use of \$4.6 million and cash provided by continuing operations of \$1.9 million for the three and six months ended June 30, 2018, respectively.
- Total revenue from continuing operations was \$63.0 million for the second quarter 2019 compared to \$57.3 million for the second quarter 2018, an increase of 10%. Total revenue from continuing operations was \$120.3 million for the six months ended June 30, 2019 compared to \$137.8 million for the six months ended June 30, 2018.
- Low volatile metallurgical coal sales tons, comprised of "Company Produced" tons and "Value Added Services" tons, were 414,105 in the second quarter 2019 compared to 282,444 in the second quarter 2018. In the second quarter 2019, Corsa sold a total of 36,306 "Sales and Trading" tons, which are treated as pass-through from a profitability perspective, compared to 109,890 tons in the second quarter 2018. See "2019 Year-to-Date Sales Metrics" for a detailed breakdown of Corsa's three types of metallurgical coal sales.
- Corsa achieved an average realized price per ton of metallurgical coal sold⁽¹⁾ of \$117.48 for all metallurgical quality coal sold in the second quarter 2019 compared to \$115.52 in the second quarter 2018. This average realized price is the approximate equivalent of \$168 to \$174 on an FOB vessel basis.⁽²⁾ For the second quarter 2019, Corsa's sales mix included 33% of sales to domestic customers and 69% of sales to international customers.
- Subsequent to June 30, 2019, certain wholly-owned subsidiaries of Corsa, as borrowers, entered into a senior secured revolving credit facility with KeyBank National Association for up to \$25 million and a lease financing agreement with Equipment Finance, as lessor and assignor, and 36th Street Capital Partners, LLC, as assignee, for the sale and leaseback of various coal mining equipment for a funding amount of \$12 million. These new facilities replace the \$25 million senior secured term credit facility with Sprott Resource Lending Corp.

(1) This is a non-GAAP financial measure. See "Non-GAAP Financial Measures" below.

(2) Similar to most U.S. metallurgical coal producers, Corsa reports sales and costs per ton on an FOB mine site basis and denominated in short tons. Many international metallurgical coal producers report prices and costs on a delivered-to-the-port basis (or "FOB vessel basis"), thereby including freight costs between the mine and the port. Additionally, Corsa reports sales and costs per short ton, which is approximately 10% lower than a metric ton. For the purposes of this figure, we have used an illustrative freight rate of \$35-\$40 per short ton. Historically, freight rates rise and fall as market prices rise and fall. As a note, most published indices for metallurgical coal report prices on a delivered-to-the-port basis and denominated in metric tons.

Peter Merritts, Chief Executive Officer of Corsa, commented, "During the second quarter of 2019, Corsa reached a milestone as all of our active mining locations are now operating at their full run-rate capacity. We began realizing the benefits of this ramp-up in the second quarter, as production from our mines hit a new five-year high for the Company, surpassing the previous quarterly production record, set in the first quarter of this year, by 13%. Operations continued to perform well in the second quarter as production cost per ton sold improved by 8% from a year ago. We expect to continue to experience these benefits as the quarter progresses. The Company made significant advances on free cash flow generation during the quarter increasing the cash position by \$4.5 million.

The outlook for metallurgical coal pricing is challenged in the upcoming months, and we are taking steps to minimize the decline impact on our business. Although the market has weakened in the near term, we continue to believe the fundamental drivers of metallurgical coal pricing will remain supportive in the coming quarters, driven by continued global economic growth and investment in new coal production. As a result of this market pull back, we have adjusted our guidance downward to reflect the impact of the current price forecasts. We expect to continue to be profitable in the existing price environment and will continue to focus on cost control and discipline in managing our operations."

2019 Year-to-Date Sales Metrics

Corsa's metallurgical coal sales figures are comprised of three types of sales: (i) selling coal that Corsa produces ("Company Produced"); (ii) selling coal that Corsa purchases and provides value added services (storing, washing, blending, loading) to make the coal saleable ("Valued Added Services"); and (iii) selling coal that Corsa purchases on a clean or finished basis from outside the Northern Appalachia region ("Sales and Trading"). For the six months ended June 30, 2019, Corsa's sales are broken down into the following categories.

Metallurgical Coal Sales by Category (Tons)

	Q1 2019	Q2 2019	YTD 2019
Company Produced	280,657	319,202	599,859
Purchased - Value Added Services	78,197	94,903	173,100
Purchased - Sales and Trading	49,982	36,306	86,288
Total	408,836	450,411	859,247

Financial and Operations Summary

	For the three months ended			For the six months ended		
	June 30,		Increase	June 30,		Increase
(in thousands)	2019	2018	(Decrease)	2019	2018	(Decrease)
Revenues	\$ 62,974	\$ 57,331	\$ 5,643	\$ 120,308	\$ 137,779	\$ (17,471)
Cost of sales ⁽²⁾	\$ 55,017	\$ 55,097	\$ (80)	\$ 104,919	\$ 125,826	\$ (20,907)
Selling, general and administrative expense	\$ 4,155	\$ 5,100	\$ (945)	\$ 8,710	\$ 11,557	\$ (2,847)
Net and comprehensive income (loss) for the period from continuing operations	\$ 3,603	\$ (4,889)	\$ 8,492	\$ 6,605	\$ (2,932)	\$ 9,537
Cash provided by operating activities from continuing operations	\$ 8,754	\$ (4,556)	\$ 13,310	\$ 14,472	\$ 3,215	\$ 11,257
EBITDA ⁽¹⁾	\$ 10,236	\$ 2,287	\$ 7,949	\$ 19,754	\$ 11,393	\$ 8,361
Adjusted EBITDA ⁽¹⁾	\$ 10,088	\$ 4,305	\$ 5,783	\$ 19,272	\$ 15,166	\$ 4,106
Coal sold - tons						
NAPP – metallurgical coal	450	392	58	859	950	(91)

(1) This is a non-GAAP financial measure. See "Non-GAAP Financial Measures" below.

(2) Cost of sales consists of the following:

(in thousands)	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Mining and processing costs	\$ 25,249	\$ 17,107	\$ 47,299	\$ 37,447
Purchased coal costs	12,928	20,146	24,946	48,561
Royalty expense	1,826	1,041	3,406	3,124
Amortization expense	5,667	6,233	11,160	12,422
Transportation costs from preparation plant to customer	8,281	9,884	15,482	22,785
Idle mine expense	323	131	795	240
Tolling costs	802	696	1,871	1,131
Write-off of advance royalties and other assets	—	—	—	5
Other costs	(59)	(141)	(40)	111
	\$ 55,017	\$ 55,097	\$ 104,919	\$ 125,826

	For the three months ended			For the six months ended		
	June 30,			June 30,		
	2019	2018	Variance	2019	2018	Variance
Realized price per ton sold ⁽¹⁾						
NAPP – metallurgical coal	\$ 117.48	\$ 115.52	\$ 1.96	\$ 117.00	\$ 117.25	\$ (0.25)
Cash production cost per ton sold ⁽¹⁾⁽²⁾						
NAPP – metallurgical coal	\$ 84.55	\$ 92.20	\$ 7.65	\$ 83.92	\$ 91.79	\$ 7.87
Cash cost per ton sold ⁽¹⁾⁽³⁾						
NAPP – metallurgical coal	\$ 88.66	\$ 97.02	\$ 8.36	\$ 87.48	\$ 93.28	\$ 5.80
Cash margin per ton sold ⁽¹⁾						
NAPP – metallurgical coal	\$ 28.82	\$ 18.50	\$ 10.32	\$ 29.52	\$ 23.97	\$ 5.55
EBITDA ⁽¹⁾ (000's)						
NAPP	\$ 11,865	\$ 4,462	\$ 7,403	\$ 23,280	\$ 15,590	\$ 7,690
Corporate	(1,629)	(2,175)	546	(3,526)	(4,197)	671
Total	\$ 10,236	\$ 2,287	\$ 7,949	\$ 19,754	\$ 11,393	\$ 8,361
Adjusted EBITDA ⁽¹⁾ (000's)						
NAPP	\$ 11,155	\$ 5,660	\$ 5,495	\$ 21,615	\$ 17,879	\$ 3,736
Corporate	(1,067)	(1,355)	288	(2,343)	(2,713)	370
Total	\$ 10,088	\$ 4,305	\$ 5,783	\$ 19,272	\$ 15,166	\$ 4,106

(1) This is a non-GAAP financial measure. See "Non-GAAP Financial Measures" below.

(2) Cash production cost per ton sold excludes purchased coal. This is a non-GAAP financial measure. See "Non-GAAP Financial Measures" below.

(3) Cash cost per ton sold includes purchased coal. This is a non-GAAP financial measure. See "Non-GAAP Financial Measures" below.

GUIDANCE^(a)

Corsa's updated guidance for the year ending December 31, 2019 reflects the impact of coal market reactions to concerns of a slowing global economy. This reaction caused index prices to weaken and is the primary reason that our guidance has been reduced. Additionally, in response to the market decline, Corsa has reduced general and administrative expense.

Updated Guidance Full Year 2019 amounts in US dollars	Previous Guidance Full Year 2019 ^(b)	Change to Previous Guidance
Metallurgical Sales 1.400 million	1.250 to 1.400 million	—
Processed Purchased 0.350 million	0.300 to 0.400 million	0 - (0.050) million
Added 0.400 million	0.325 to 0.425 million	(0.025) million
Sales 1.0 to 2.150 million	1.875 to 2.225 million	(0.025) - (0.075) million
Trading Metallurgical Coal Sales Tons		
Metallurgical Domestic Sales	29%	(2)%
Export Sales	71%	2%
Mid-point the Mid-point Committed at Committed mid-point Price at the mid-		
Cash Production Cost per ton sold (FOB Mine) ^{(c)(d)}		
\$78 - \$82 Division Metallurgical General and Non-ferrous Division	\$78 - \$82	—
\$8.5 - \$9.0 million Division	\$8.5 - \$9.0 million	(\$1.0) million
\$5.0 - \$5.5 million Division	\$5.0 - \$5.5 million	(\$1.1) million
Total Corsa	\$13.5 - \$14.5 million	(\$2.1) million

Note: Selling expenses are forecasted to be covered by margins from Sales and Trading tons sold.

\$7 and Corporate EBITDA	\$13 to \$15 million	(\$6) - (\$5) million
\$42 - \$46 million	\$42 - \$46 million	(\$9) million

Capital Expenditures per ton sold^(f)

Maintenance capital Expenditures	\$5	—
capital expenditures	\$5	—

- (a) Guidance projections ("Guidance") are considered "forward-looking statements" and "forward looking information" and represent management's good faith estimates or expectations of future production and sales results as of the date hereof. Guidance is based upon certain assumptions, including, but not limited to, future cash production costs, future sales and production and the availability of coal from other suppliers that the Company may purchase. Such assumptions may prove to be incorrect and actual results may differ materially from those anticipated. Consequently, Guidance cannot be guaranteed. As such, investors are cautioned not to place undue reliance upon Guidance, forward-looking statements and forward-looking information as there can be no assurance that the plans, assumptions or expectations upon which they are placed will occur.
- (b) Previous guidance was presented in the Company's MD&A for the three months ended March 31, 2019 dated May 8, 2019.
- (c) This is a non-GAAP financial measure. See "Non-GAAP Financial Measures" below.
- (d) Cash production cost per ton sold excludes purchased coal.
- (e) Exclusive of stock-based compensation and selling related commissions, bank fees and finance charges.
- (f) Tons sold excludes purchased coal used in the Sales and Trading platform.

2019 Net Income and Adjusted EBITDA Guidance Assumptions

Price Case 2H 2019: \$164.83/mt FOB Vessel Net and comprehensive income \$7 - \$10 million
 (Previous Guidance: \$190.00/mt FOB Vessel) Adj. EBITDA \$33 - \$37 million

Current TSI FOB Aus. Spot Price \$153.90/metric ton FOB Vessel

Forward TSI FOB Aus. Curve (\$/mt FOB Vessel)

2H 2019 (Average) \$161.42

Adjusted EBITDA sensitivity to movement in seaborne price (unpriced volumes only):

\$10/metric ton FOB Vessel: \$3.5 to \$4.0 million

Coal Pricing Trends and Outlook

Price levels stayed above \$200/metric ton ("mt") delivered-to-the-port basis ("FOBT") for spot deliveries of Australian premium low volatile metallurgical coal through early June, hitting a high in mid-May of \$210/mt, primarily due to strong imports into China and India. Late in the second quarter the market reacted to concerns of a slowing global economy and finished at \$193 FOBT for Australian premium low volatile metallurgical coal. Since the end of the second quarter 2019, spot prices have further weakened to \$154/mt, a decrease of \$62/mt since the beginning of 2019, a 29% decline. The quarterly price average for the second quarter of 2019 was \$203/mt FOBT for Australian premium low volatile metallurgical coal, compared to \$207/mt in the first quarter of 2019. The forward curve for the balance of the year has weakened with current prices at \$161/mt down \$22/mt since the beginning of the year. The forward curve for 2020 declined from \$175/mt to \$160/mt.

In late May 2019, Turkey reduced its import tariff on imported coking coal from the U.S. from 13.7% to 5%.

The lower import tariff will allow U.S. coking coal exports to be sold into Turkey more competitively. Recent news has been focused on bankruptcies of U.S. coking coal producers. Currently, there are three U.S. producers in bankruptcy and two of the producers have shut down production, which has limited near term supply availability. Finally, U.S. domestic buyers have started their annual buying process by issuing the first round of tenders for 2020 business.

The World Steel Association reports that global steel production through May is up 5% year-to-date while the U.S. is up 6.2%, China is up 10.2% and Asia is up 7.4%. China represents 54.7% of global steel production. Chinese hot-rolled coil steel prices are up 6% since the start of the year while Northern European prices are down 10% and U.S. prices are down 24% to \$560/net ton. Trade data through May shows Chinese coking coal imports are up 30% year-to-date while India's coking coal imports are up 23% year-to-date. China recently announced new coking coal import restrictions until further notice. Preliminary U.S. coking coal export data shows an 8.5% decline for a total of 24 million tons year-to-date through May which would imply annual coking coal exports declining 3-4 million tons in 2019.

Financial Statements and Management's Discussion and Analysis

Refer to Corsa's unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2019 and 2018 and related management's discussion and analysis, filed under Corsa's profile on www.sedar.com, for details of the financial performance of Corsa and the matters referred to in this news release.

Non-GAAP Financial Measures

Management uses realized price per ton sold, cash production cost per ton sold, cash cost per ton sold, cash margin per ton sold, EBITDA and adjusted EBITDA as internal measurements of financial performance for Corsa's mining and processing operations. These measures are not recognized under International Financial Reporting Standards ("GAAP"). Corsa believes that, in addition to the conventional measures prepared in accordance with GAAP, certain investors and other stakeholders also use these non-GAAP financial measures to evaluate Corsa's operating and financial performance; however, these non-GAAP financial measures do not have any standardized meaning and therefore may not be comparable to similar measures presented by other issuers. Accordingly, these non-GAAP financial measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. Reference is made to the management's discussion and analysis for the three and six months ended June 30, 2019 for a reconciliation and definitions of non-GAAP financial measures to GAAP measures.

Corsa defines adjusted EBITDA as EBITDA (earnings before deductions for interest, taxes, depreciation and amortization) adjusted for change in estimate of reclamation provision for non-operating properties, impairment and write-off of mineral properties and advance royalties, gain (loss) on sale of assets and other costs, stock-based compensation, non-cash finance expenses and other non-cash adjustments. Adjusted EBITDA is used as a supplemental financial measure by management and by external users of our financial statements to assess our performance as compared to the performance of other companies in the coal industry, without regard to financing methods, historical cost basis or capital structure; the ability of our assets to generate sufficient cash flow; and our ability to incur and service debt and fund capital expenditures.

Qualified Person

All scientific and technical information contained in this news release has been reviewed and approved by Peter Merritts, Professional Engineer and the Company's Chief Executive Officer, who is a qualified person within the meaning of National Instrument 43-101 – Standards of Disclosure for Mineral Projects.

Caution

The estimated coal sales, projected market conditions and potential development disclosed in this news release are considered to be forward looking information. Readers are cautioned that actual results may vary from this forward-looking information. Actual sales are subject to variation based on a number of risks

