

# Mossberg's Investor Digest

## Best Idea Profile:

## Westmoreland Coal Company (NASDAQ:WLB)

### DESCRIPTION:

At over 150 years old, Westmoreland Coal is the oldest independent coal company in the U.S. The company operates six surface mining complexes; all but one of which are located adjacent to, or only a short conveyor, truck, or rail haul from their primary customers. This provides significant transportation and logistical advantages to their principal customers. Its coal operations include coal mining in the Powder River Basin in Montana, sub-bituminous mining in Wyoming, and lignite mining operations in Montana, North Dakota and Texas. Its power operations include ownership of the two-unit ROVA coal-fired power plant in North Carolina. The majority of the company's coal production is sold under long-term contracts of one year or greater. Westmoreland Coal Company was founded in 1854 and is headquartered in Englewood, Colorado.

### KEY INVESTMENT CONSIDERATIONS:

**Excellent Results From January 2012 Acquisition –** Westmoreland acquired the Kemmerer mine from Chevron Mining Inc. in January 2012. The integration of the Wyoming mine continues to go very well, with a new six-year labor agreement, high morale and improving operational and safety performance. The purchase appears to have been executed at a very reasonable multiple and the outstanding productivity there is “jumpstarting” the company's ability to deleverage.

**Defending the Treasury and Maintaining Flexibility –** This appears to be Westmoreland's mantra. The company took on extensive debt to acquire Kemmerer in 2012. However, it is making steady progress in increasing its cash position in order to pay off debt. Third-quarter cash increased to over \$53 million, an increase of \$23 million. However, management has emphasized that as long as opportunities exist for growth, it is comfortable with debt in order to be able to take advantage of prudent acquisition opportunities. The Kemmerer acquisition has exceeded expectations and is making a big impact on revenue. Management is looking at many potential acquisitions, but notes that it will not overpay.

**Record Third Quarter –** Adjusted EBITDA and earnings set a record in the third quarter, driven largely by Kemmerer operations. Year-to-date EBITDA is more than \$77 million, which is an increase of over 25% compared with 2011 and is actually more than full-year 2011. The third quarter is historically the best for the

Company as it tends to be a good time of year for coal power generation. Management has indicated it expects the 4Q12 to be its second best quarter of the year.

**Long term fundamentals are attractive –** While short term remains weak, long term demand for coal in developing markets like China and India should continue. The US Energy Information Administration (EIA) projects US coal exports to grow by 30% by 2030.

**Near term weakness in demand has led to higher inventory levels and weak prices. –** Coal prices have hit a two year low recently, dropping from \$130/ tonne to approximately \$60 per tonne. Nothing cures over supply like weak prices. Some Coal companies have already begun to shut mines and close regional offices.

**Management Transition Won't Affect Progress –** The Company named a new president and COO earlier this year with the intent to name him as CEO in April 2013. The current CEO will maintain strategic importance and has stated that the company's outlook and strategic vision will remain unchanged.

### VALUATION:

The sector has seen pressure resulting from uncertainty about many of the coal players' liquidity. Westmoreland is seen as one of the stronger participants and the stock should rise as fears are allayed.

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Investment Data (as of 12/17/12)

<b>Recent Price</b>	<b>\$9.86</b>
52-Week Range	\$6.94 - \$13.47
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	14.2 M
Average Trading Volume (3 mos)	32 k
Market Capitalization	\$140 M
Cash	\$54 M
Long-term Debt	388 M
Enterprise Value (EV)	\$480 M
Book Value	N/A
TTM Revenue	\$571 M
P/ Revenue	0.26
TTM EPS	\$(1.14)
P/ EPS	NA
TTM EBITDA	\$81 M
EV/ EBITDA	5.9

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