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Peabody struggles to pay debts, but local mines OK

MATT CHAMBERS THE AUSTRALIAN MARCH 18, 2016 12:00AM

Peabody says the notice should not contribute to closure of its local mines. Picture: Sam Mooy

Peabody Energy, one of Australia's biggest coal producers, says a Tuesday night notice in the US that it could go bankrupt is debt-related and should not contribute to closure of its local mines.

In its annual report, Peabody, the biggest US coalminer, said its finances may not be sustainable over the year and that it had elected to exercise a 30-day grace period on interest payments.

Peabody operates nine mines in Australia that last year produced 35 million short tonnes of mainly coking coal, acquired in boomtime takeovers of Excel Coal and Macarthur Coal.

"The effects of our financial activities are unrelated to our operations and jobs, which are unaffected by today's disclosures and continue in business-as-usual fashion," a spokeswoman said.

"In Australia, we are working on a number of projects to drive down costs and increase productivity to ensure the sustainability of our operations."

The company said all its US operations were cash flow-positive and it had a "strong platform" of coal assets in Australia.

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In Australia, Peabody made cash on thermal coal last year, with earnings before interest, tax, depreciation and amortisation of $US193 million, down from $US264m the previous year.

Metallurgical coal lost money, with an EBITDA loss of $US18m. But this was down from a $US151m loss in 2014 despite sliding prices, indicating the company's productivity drive is headed in the right direction.

In the US, if a company files for chapter 11 bankruptcy, it usually means the chance to plan a restructure to keep its business going and pay creditors over time.

A chapter 11 filing by Peabody would be the latest in a wave of bankruptcies to hit US coal producers, including Arch Coal, Alpha Natural Resources, Patriot Coal and Walter Energy.

Just under one-third of the US grid is still powered by coal, and hundreds of mines are still profitable and operating.

Most of Peabody's mines were still profitable, but "they're just not profitable enough to take care of the debt (Peabody and others) have run up", said Matt Preston, a research director at consultancy Wood Mackenzie.

Peabody has debts of about $US6.3bn.