**CRU: How the 'Fair Value' of Coal Assets is Affected by Commodity Cycles**

*As with any commodity, valuing coal assets can be tricky due to the cyclical nature of the market. In this insight, CRU discusses how commodity cycles have created 'winners' and 'losers' in the last few years of M&A activity in the coal sector.*

Since commodity prices tend to move in cycles, one of the biggest challenges that industry stakeholders face is determining the 'fair value' of assets (which is essentially derived from future cash-flows). In order to do this, CRU has noticed that the biggest hurdle lies in identifying the current position in the commodity cycle. Moreover, it appears that parties often place too heavy an emphasis on prevailing prices. This has led to companies either significantly under- or over-valuing coal assets in recent years.

**Sellers are the industry 'winners' of 2018…**

Historically, the coal industry has not been renowned for maintaining supply discipline and high margins have usually resulted in a push to ramp up supply, through both brownfield/greenfield expansions and M&A activity. Today, however, environmental concerns mean that new thermal coal investments are largely off the table, although the push towards increased supply in the metallurgical coal sector is still alive and kicking.

The benchmark Premium HCC spot price averaged $206 /t, FOB Australia in 2018, the highest annual average price since 2011, and margins for most seaborne metallurgical coal producers have been very strong. This has encouraged some to look to acquire more volume (e.g. Glencore), while other producers have divested coal assets as part of a strategic repositioning (e.g. Rio Tinto). Other companies that previously produced mostly thermal coal have also acquired metallurgical coal assets (e.g. Adaro). Meanwhile, mid-tier producers, such as Whitehaven Coal, have also acquired new assets as part of their growth strategies.

**Read the full story:** [**https://www.crugroup.com/knowledge-and-insights/insights/2019/how-the-fair-value-of-coal-assets-is-affected-by-commodity-cycles/**](https://www.crugroup.com/knowledge-and-insights/insights/2019/how-the-fair-value-of-coal-assets-is-affected-by-commodity-cycles/?utm_medium=Press_release&utm_source=PR%20Newswire&utm_campaign=CRU%20Insight%20MS%20May%2019)

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**About CRU**

CRU offers unrivalled business intelligence on the global metals, mining and fertilizer industries through market analysis, price assessments, consultancy and events.

Since our foundation by Robert Perlman in 1969, we have consistently invested in primary research and robust methodologies, and developed expert teams in key locations worldwide, including in hard-to-reach markets such as China.

CRU employs over 280 experts and has more than 11 offices around the world, in Europe, the Americas, China, Asia and Australia – our office in Beijing opened in 2004 and Singapore in 2018.

When facing critical business decisions, you can rely on our first-hand knowledge to give you a complete view of a commodity market. And you can engage with our experts directly, for the full picture and a personalised response.

CRU – big enough to deliver a high-quality service, small enough to care about all of our customers.

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