

An aerial photograph of a coal mine, showing a complex network of conveyor belts and machinery used for transporting coal. The landscape is rugged and industrial, with deep cuts in the earth for the mine's infrastructure.

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THE BIG SECRET ON WALL STREET

The King of Coal

- Clean Energy Is A Scam
- Coal Rushes Into The “Green Vacuum”

FROM THE DESK OF PORTER STANSBERRY

SPECIAL REPORT

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The King of Coal

Clean Energy Is A Scam

Coal Rushes Into The “Green Vacuum”

Judge Jacob Hessels spent much of the time in his courtroom dozing.

But he woke up when it really mattered... that is, whenever it was time to pronounce the death sentence.

Hessels couldn't really be blamed for taking a snooze while on duty. He was working round the clock, presiding over a seemingly endless lineup of heresy cases during the 1570s Spanish Inquisition in the Netherlands.

At the time, the Netherlands were under Spanish control... and Spain's Catholic ruler, Philip II, had given orders to round up all the Protestants in the Dutch “Low Country” and try them as heretics. But interrogating thousands of pious men and women – whose only crime was worshiping a little differently – proved exhausting for Judge Hessels.

After a few hundred cases, the judge started nodding off during the trials, waking up at the end to rubber-stamp executions with the words “Ad patibulum!” (“To the gallows with him!”)

If a Protestant was lucky, he caught Hessels between power naps – and maybe managed to get his sentence commuted to lifelong banishment, with all his worldly belongings confiscated for the benefit of the Catholic Church.

Artist and engraver Theodor de Bry was one of the “lucky” Protestants spared the gallows.

De Bry forfeited all his possessions to the Inquisitors, and was exiled to Strasburg, Germany in 1570 with life and limb intact. The penniless – but talented -- De Bry got to work as soon as he landed in Germany... and before long, landed a history-altering art commission.

The project was a series of illustrations for travel books about the discovery and exploration of the New World (then, the destination of choice for gold-hungry Spanish conquistadors). De Bry's fanciful engravings included strange gods and sea monsters... and, on every page, depictions of Spanish adventurers chopping up and torturing innocent natives.



The illustrator's unfavorable – and realistic – portrayal of the Spanish had far-reaching consequences.

De Bry's books found an audience across Europe, and his vivid illustrations were reprinted and used in countless other books – including a widely-circulated tome by a conscience-stricken Spanish monk, Bartolomé de las Casas, who wanted to atone for the sins his countrymen had committed in the New World. In a way, De Bry's illustrations served as a kind of 16th-century Internet meme... a viral image that becomes a cultural touchstone.

During the same late 1500s/early 1600s time period, persecuted Protestants in several countries fought back against the Catholics...and eventually flipped the balance of power in Europe from Catholic to Protestant.

The kingdom of Spain, though, stayed stubbornly Catholic... and soon found out how it felt to be the underdog.

Protestant leaders like England's Elizabeth I and the Netherlands' William of Orange, along with powerful religious reformers like the French John Calvin and the German Martin Luther, launched a series of highly effective smear campaigns against still-Catholic Spain.

Fueled by recent memories of the Inquisition, and of course, by de Bry's lurid engravings, a popular belief took root: the idea that the Spaniards were cruel... dastardly... violent... and just a little bit worse than the rest of Europe.

That was the start of the "Black Legend" of Spain.

Black Legends and Black Diamonds

The Spanish “Black Legend” was bigger than any single propaganda campaign or smear tactic. Over many decades and across the continent – and world – it survived as a “big idea” that the country of Spain was, somehow, a global menace.

As Spanish historian Julián Juderías explained in his 1914 book *The Black Legend and the Historical Truth* (the first place we find the term “Black Legend” officially used), the Legend is “the systematic ignorance... of all that is favorable and beautiful in the various manifestations of culture and art, the accusations that in every era have been flung against Spain.”

The Legend has taken many forms... subtle and not so subtle... over the last few centuries. (It’s a poorly-hidden source for a lot of the woke “anti-Columbus” drivel that young people spout today.) At its roots, the Black Legend was a collusion – by powerful political groups and interests – to demonize a country that, while not perfect, really didn’t deserve that level of vitriol.

Like all big stories, the Black Legend is a complicated one.

For one thing, there’s more than a grain of truth in it. The Spaniards – while not the worst villains in European history by far – did torture their opponents during the Inquisition. They also undeniably committed genocide in the Americas – it’s estimated that about eight million natives died, both from wartime violence and communicable diseases, during the three hundred years of Spanish colonization.

But as Juderías wrote... there’s much that’s “favorable and beautiful” in Spanish history, too.

The Black Legend is only one part of the complex story of Spain – and centuries of repetition have drowned out much of the other side... the good side... which has a legitimate claim to truth as well.

For instance, Spanish priests (fueled by the belief that they were doing the Lord’s work) toiled tirelessly over the three hundred years of the Spanish Colonial period to bring Native Americans schools, churches, and hospitals. Spanish and Native populations frequently intermarried during that time. And – as a direct result of de las Casas’ confessional writings – the Spanish government instituted a remarkable piece of humanitarian legislature, the Laws of Burgos, in 1512, ensuring that the conquistadors would treat the natives fairly, as free people, with cottages and land of their own.

In the end, there’s a lot of gray in the Black Legend. And we would be unfair to Spain – and to history – if we accepted this massive defamation campaign at face value.

Right now, it’s fair to say that we are in the midst of the creation of a new “Black Legend” for the modern age. We’re seeing a loosely coordinated group of political powers determined to torpedo an imperfect – but still valuable, still useful – resource.

I'm talking, of course, about coal – which, appropriately enough, sometimes goes by the name “black diamonds.” And about the “black legend” that's sprung up around it – not due to warring religious kingdoms, but to an even more fanatic group of zealots: climate change warriors.

That includes Barack Obama, who stated openly in his 2008 campaign that he wanted to “bankrupt” the coal industry – and followed through with a series of stringent actions to shut down coal mines and destroy jobs in the coal sector; President Joe Biden, who's continuing the war on coal with punitive EPA regulations designed to hamstring crucial coal mines in Montana's Powder River Basin; and environmental activist organizations like 350.org, who openly admit

that they aim to conduct “smear campaigns” and to take away the industry's “social license to operate.” All in favor of debunked green energy projects that are never going to work.

Coal is dirty energy, as we've written before. But it's also a vital part of American industry, and a significant segment of the country's energy backbone, responsible for 16% of power in the U.S., and 37% worldwide. And, especially now that we need massive doses of raw power to fuel AI's increasing energy demands... coal is not going away.

We owe it to ourselves not to believe the reductive myth-making of the climate-change elite. While nothing can whitewash the impact of coal pollution, we can't afford to ignore all the good things coal has done for the world, either.

In this issue, we'll show how one top-tier U.S. coal producer has thrived in recent years, despite the best efforts of American policymakers to bankrupt the industry.

Satisfying the Power Needs of Supercomputing

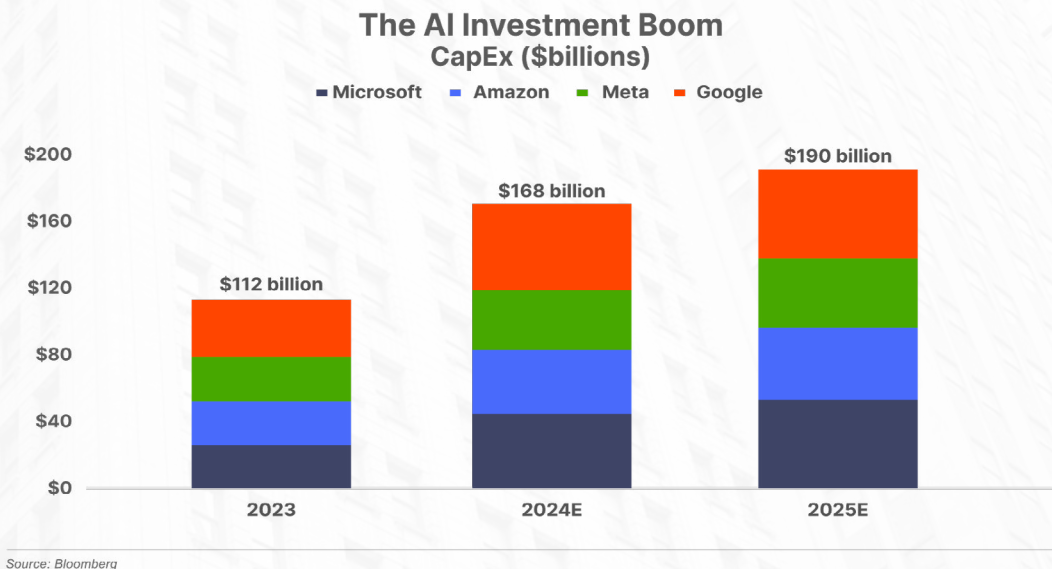
America's largest technology companies are competing in a capex arms race to overhaul their data centers for the new age of parallel processing.

This data center reboot comes as the explosion in artificial-intelligence (“AI”) computing requires a shift from the previous regime of x86-based serial computing architectures to the new era of GPU-powered parallel processors – GPUs (graphics processing units) can carry out ten of thousands of operations at once with a processing capacity that is exponentially greater than previous chips. These high-powered GPUs will consume vast amounts of additional energy versus the traditional x86 processors of the past.

Before the parallel-computing revolution took hold, the typical rack of servers in a data center required about three to five kilowatts (kw) of power. These devices run 24 hours a day, consuming 72 to 120 kilowatt-hours of electricity each day, or about three times as much as an average U.S. household. In today's cutting-edge

data centers that run on high-powered Nvidia GPUs, this number has increased 10-fold to roughly 30 kw to 50 kw per rack. As a result, the GPU-based data centers of today's parallel-computing revolution consume enough electricity to power 50,000 homes.

The Magnificent Four mega-cap U.S. tech companies – Alphabet (GOOG), Amazon (AMZN), Meta (META), and Microsoft (MSFT) – are racing to overhaul their roughly 600 U.S. data centers with the latest energy-hungry Nvidia GPUs. Together, these companies will spend a record \$168 billion on capital expenditures this year, up 50% from 2023, with the majority going toward data center investments. And that's only the beginning of a \$1 trillion investment boom that analysts expect U.S. companies will direct toward new data center development over the next five years.



The Electric Power Research Institute estimates that data centers will consume roughly 9% of U.S. power generation by 2030 – more than double today's 4%. Combined with the rising power demand from electric vehicles, this surge in demand will strain America's aging power grid. Indeed, it's already happening.

U.S. policy-makers plan to fulfill America's growing electricity needs with "renewable" power sources like wind and solar. The federal government currently aims to make 80% of America's electric grid powered by renewable sources by 2030, up from just over 20% currently. This would require solar and wind power to reach a combined output of 6.8 trillion kwh of annual generation capacity – or a 10-fold increase over current levels – in the next five years. Even assuming the manpower and materials existed to make this happen, it would require an investment on the scale of many trillions of dollars.

Even die-hard environmental activists, like Ernest Moniz, the secretary of energy in the Obama administration, acknowledge the futility of relying on wind and solar for America's growing power demands. At a **power-industry conference in March**, Moniz explained:

■ *"We're not going to build 100 gigawatts of new renewables in a few years."*

Moniz further explained that the only way to meet America's growing electricity needs will be to rely on traditional forms of cheap and reliable power: most notably, natural gas and coal.

The challenge is that U.S. utility operators haven't upgraded America's power-generation capacity for the last 15 years, as electricity demand has been stagnant over that time. As a result, the hundreds of billions of dollars pouring into new data center construction is rapidly outpacing the growth in new power generation capacity. Commercial real estate firm CBRE recently noted that the lack of power supply has delayed construction of data centers by two to six years.

This all adds up to a looming energy crunch. But *Bloomberg* reports because of increased demand, the push to shutdown coal plants is slowing down. In fact, the closing of more than 20 facilities from Kentucky to North Dakota that were set to retire between 2022 and 2028 has been delayed.

In this issue, we'll show how one U.S. coal producer is poised to profit from supplying the critical power fueling this computing revolution.

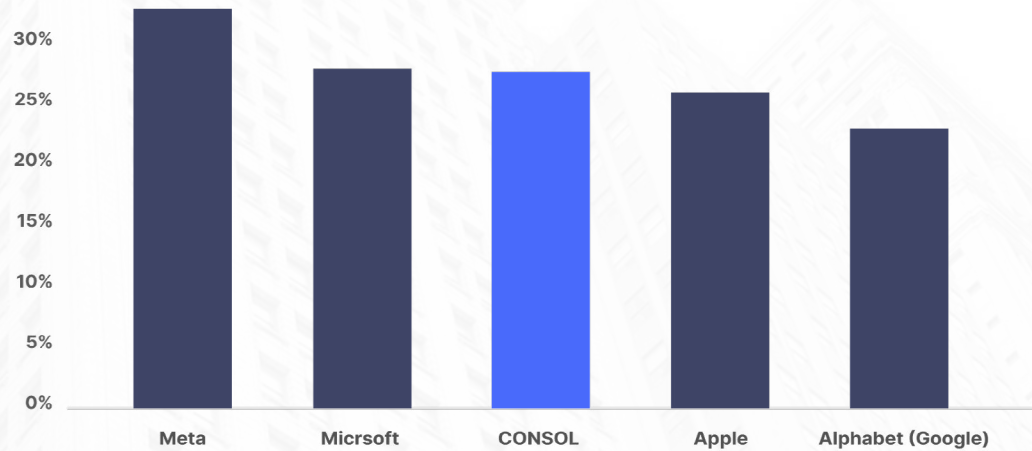
A Highly Overlooked Parallel-Computing Play

Headquartered in Cecil County, Pennsylvania – just outside of Pittsburgh – **CONSOL Energy (NYSE: CEIX)** is one of America's oldest coal producers. Its parent company Consol first began mining in 1864 in the Appalachian Basin, one of America's richest coal deposits. CONSOL Energy was spun off and began trading as a public entity in 2017.

CONSOL Energy primarily produces thermal coal, which is used to generate electricity. Last year, the company mined 23 million tons of thermal coal, making up 88% of its total output. The remaining 12% of production was metallurgical coal, which is used in steel-making.

In total, the company mined 26.1 million tons of coal last year, up 9% from 2022. This brought in \$2.57 billion in revenue and \$687 million in free cash flow, for a stellar free cash flow margin of 27%. For perspective, that's on par with some of the world's most dominant technology giants, including Microsoft, Meta, Apple, and Alphabet (Google):

CONSOL Cash Flow on Par With Mega-Cap Tech Giants Free Cash Flow Margin (2023)

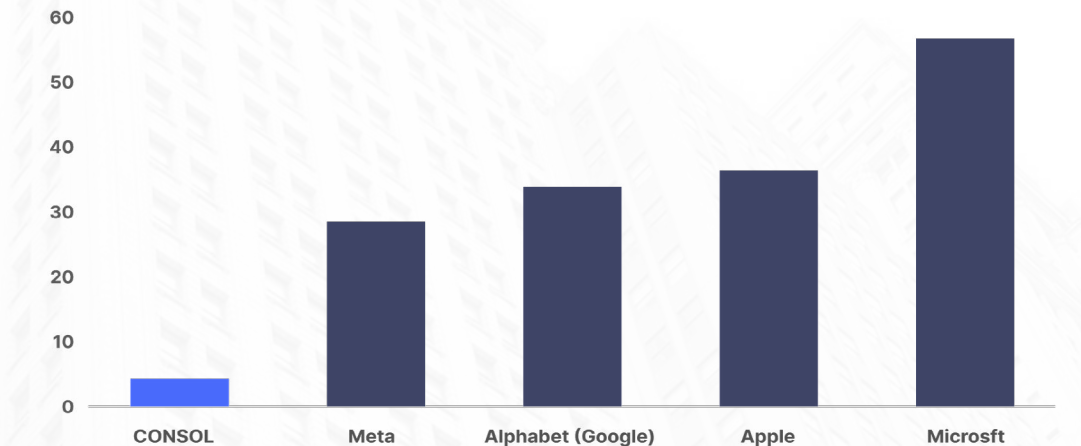


Source: Bloomberg

Despite CONSOL's impressive profit margins, it gets little respect on Wall Street. Many hedge funds, pension funds, and market index providers simply won't own coal stocks for fear of being labeled "non-woke."

At Porter & Co. we're more than happy to capitalize on the folly of the woke ideologues. Wall Street's dislike of coal stocks has created a tremendous opportunity in shares of CEIX, which trade at a deeply discounted valuation of just 5x free cash flow. In contrast, today's much-loved mega-cap technology stocks command valuations of 30x to 60x free cash flow multiples. While there are admittedly big differences between coal-mining and technology companies that warrant different industry valuations, the cash these industries generate still spends the same.

Mr. Market Loves Big Tech But Hates Coal Price to Free Cash Flow Multiple (Trailing 12 Months)



Source: Bloomberg

This dirt-cheap valuation makes CONSOL one of the most unloved, underappreciated winners of the parallel-computing revolution.

The key thing to understand about investing in U.S. thermal coal producers is that domestic consumption has been on a steady downward trend for nearly two decades. This has given rise to a widespread misperception that U.S. mining is a dying industry that will soon go extinct.

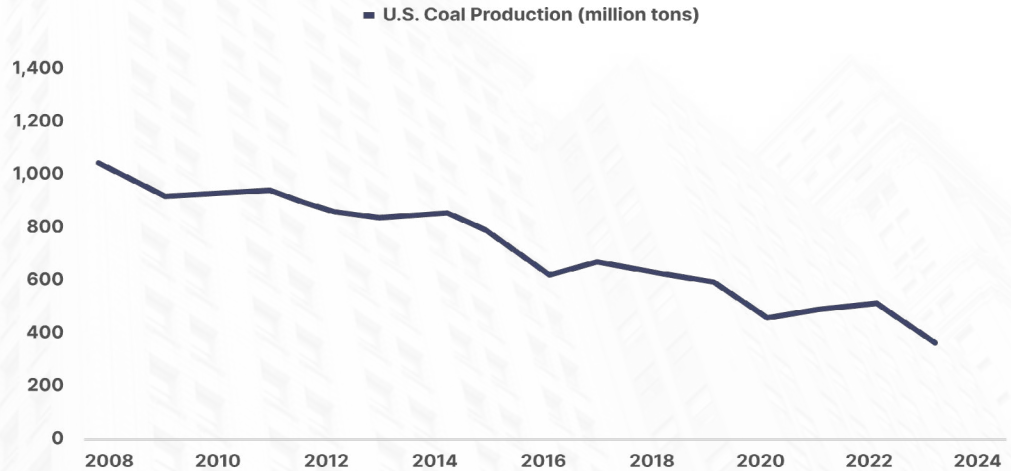
But the truth is, this industry backdrop has enabled top tier producers like CONSOL to thrive. To understand why, let's briefly review the supply/demand trends in the overall market.

Coal Is Dead... Long Live the Coal Miners

Unlike metallurgical coal, which has no viable substitute for its use in steelmaking, there are a number of alternatives to thermal coal – natural gas, nuclear power, wind generation, and solar – all of which produce electricity with significantly fewer (or zero) direct carbon emissions.

Since 2008, environmental mandates have forced U.S. utilities to shut down hundreds of coal plants in favor of these lower-carbon alternatives. As a result, U.S. thermal coal consumption used in power generation has declined by roughly 60% since 2008, resulting in a similar decline in mining output:

Less Coal Is Being Mined

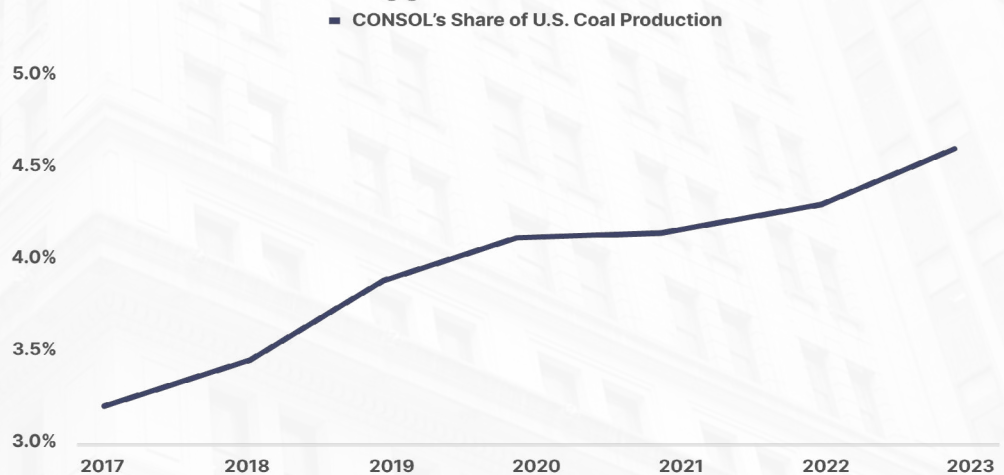


Source: Energy Information Administration (EIA)

CONSOL has remained immune from the broader decline in the U.S. domestic coal market by tapping into overseas markets, with exports making up nearly two-thirds of its sales (discussed in greater detail below).

At the same time, there's a silver lining within this industry decline. For the best-in-class U.S. coal miners, declining domestic demand has eliminated the competition and the excess supply coming from the weaker players in the industry. The chart below shows how the number of active U.S. coal mines has fallen by 72% since 2008:

Bigger Piece of the Pie

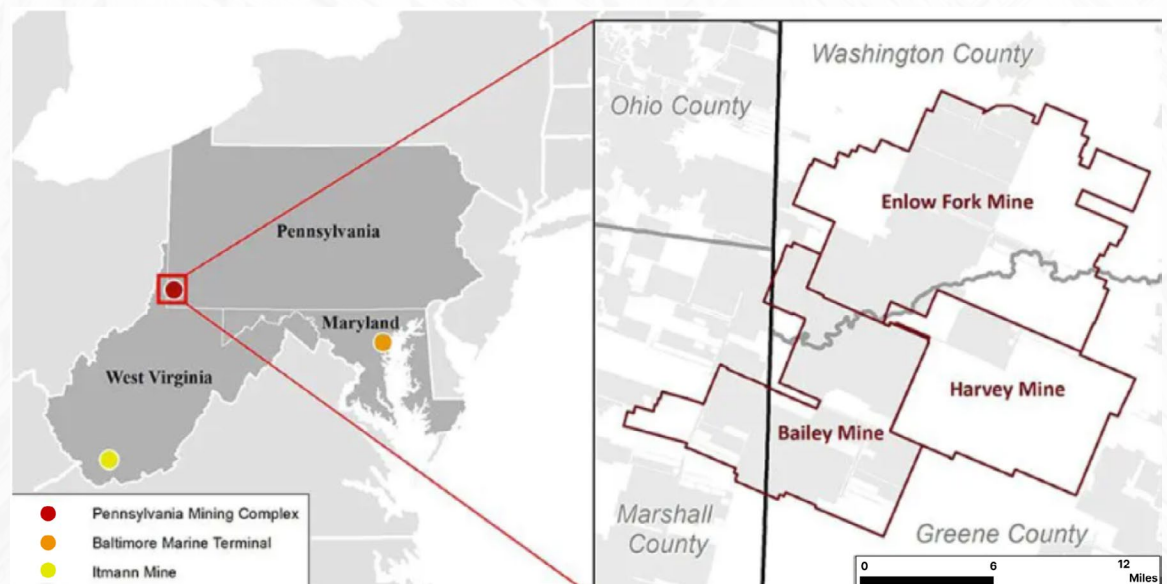


Source: Energy Information Administration (EIA)

One of the key factors behind CONSOL's resilience is the superior quality of its mining assets.

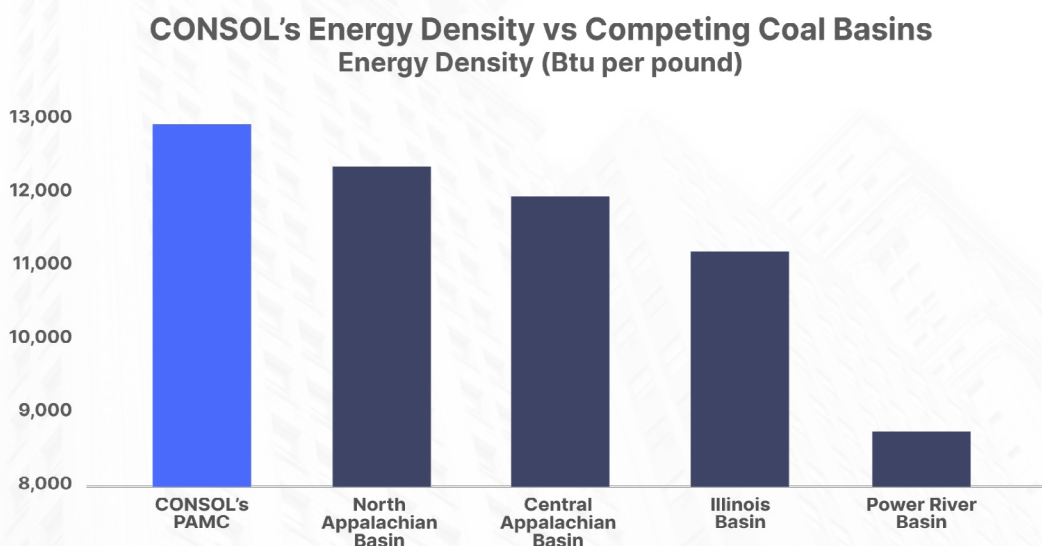
The Secret to CONSOL's Success: Energy Density

CONSOL's core cash cow, responsible for 99% of its coal production, is a collection of mining properties that make up the Pennsylvania Mining Complex ("PAMC"). The PAMC assets include the Bailey, Enlow Fork, and Harvey mines, each located in the southwestern corner of Pennsylvania. Together, these three mines generated a total of 26.1 million tons of coal last year:



The first key feature of these three mines are their location, in the northern part of the Appalachian coal basin. Appalachia is home to some of the most energy-rich thermal coal in the U.S., and the energy density increases toward the northern end of the basin.

CONSOL's PAMC mines in northern Appalachia contain some of the most energy-rich coal among all major U.S. coal basins, with an average of 12,972 British thermal units (Btu) per pound. This is up to 50% more energy-rich than other major U.S. thermal coal basins, including Central Appalachia (in Kentucky, Virginia, West Virginia, and Tennessee), the Illinois Basin (in Illinois, Indiana, and Kentucky) and the Powder River Basin (in Montana and Wyoming):



Source: Consol Filings

Energy density is critical for two reasons. First, energy-rich coal commands premium pricing because it generates more electricity per pound. The second advantage is that denser coal produces more energy per unit of carbon dioxide emissions – a byproduct of coal combustion that utilities seek to minimize, in order to comply with environmental regulations. CONSOL's energy-rich coal allows it to sell to utility operators that operate some of the cleaner-burning coal plants. This provides it with a more stable customer base that's at lower risk of going out of business compared with its competitors that sell less energy-rich coal to utilities with higher emission profiles.

Six of CONSOL's top domestic power plant consumers, which each purchase over 500,000 tons of coal each year (2% of CONSOL's output), have been customers for at least five consecutive years. Securing long-term relationships with stable utility operators is one key reason why CONSOL has managed to grow its coal volumes more than 5% from 24.8 million tons in 2017 to 2023, even as the overall industry has suffered double-digit volume declines over that same period.

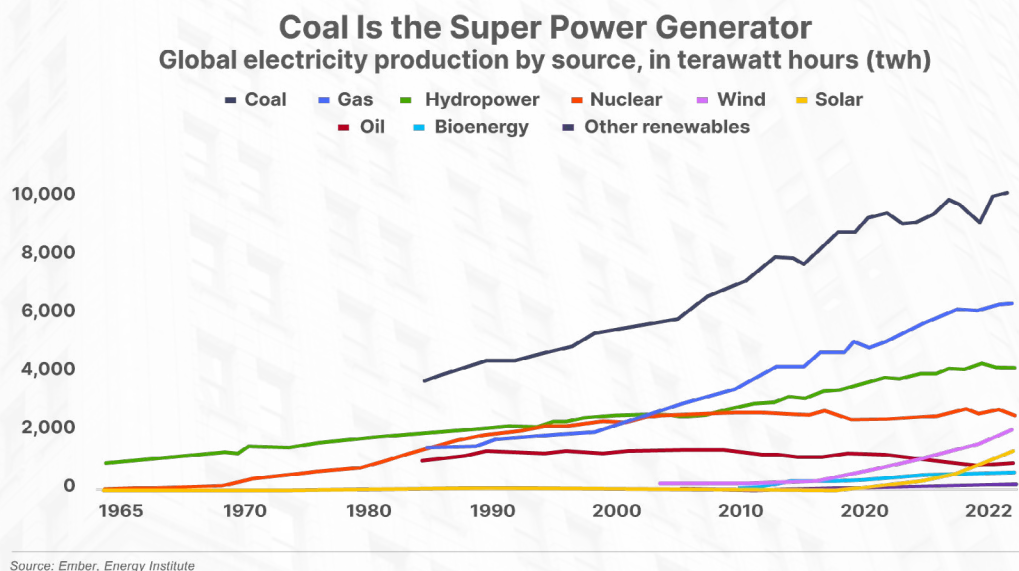
A Low-Cost Leader

The other advantage of CONSOL's PAMC mines is that pulling coal from this area is a low-cost operation. That's because of the Pittsburgh Number 8 Coal Seam, the geological formation that hosts PAMC's energy-rich coal. Coal seams are long, continuous rock formations that enable what's known as "longwall" mining. This process involves shearing off large, slices of coal-containing rock from a long face (or wall) of a geological formation in a single pass.

Longwall mining is safer, faster, and more economically efficient than underground mining methods, like the “room and pillar” method, which requires digging into an underground coal formation, creating a mining “room” for extracting coal, while leaving large “pillars” of the formation in place to support the roof.

By eliminating the need to dig elaborate underground structures, it requires less man and machine power per unit of coal mined. Underground mining methods like room and pillar typically only recover about 50% to 60% of the available coal deposit, compared with more than 75% that longwall mining extracts.

And CONSOL’s future as a coal miner isn’t limited to a declining U.S. market. Coal offers the cheapest, most reliable form of baseload energy in the world. So even as climate alarmists have hurt demand in the U.S., the rest of the world continues building new coal-fired power plants. That’s why coal consumption recently hit all-time highs in 2022, following a brief decline in 2020-2021 when global economic activity slowed during the COVID-19 pandemic:



Most experts forecast that global coal demand for power generation will continue growing through at least 2030. The key drivers of this demand will come from India and China, which together make up one-third of the world’s population. In 2023 alone, China grew its coal capacity by 48.4 GWs (or 4%), while India added 14 GWs of capacity.

The massive (and growing) global market for thermal coal means that, even in the ultimate bear case scenario where U.S. coal consumption goes to zero, CONSOL can still thrive.

That's all thanks to CONSOL's ownership of a key export terminal, strategically located to deliver a low-cost advantage for coal shipments into international markets.

How CONSOL Gets Coal to the World

Perhaps CONSOL's most valuable asset is its Marine Terminal, located in the Port of Baltimore. This is the only major east coast coal terminal that can receive shipments from two railroad operators, Norfolk Southern and CSX. The terminal includes 19.3 miles of railway track, with three railway sidings, which are short tracks used for loading and unloading freight that do not interfere with the main line operations. This infrastructure allows the CONSOL Marine Terminal to seamlessly load coal directly from rail cars to shipping vessels, with a capacity of up to 9,000 tons of coal per hour (or 78 million tons per year, or around three times CONSOL's total annual production).

Ownership of this port infrastructure provides several key competitive advantages for CONSOL. The first advantage is the port's location, only 250 miles from the PAMC mining complex in Northern Appalachia. This short hauling distance provides CONSOL with one of the lowest transportation costs for moving its coal from the mine site to export ships, at an average cost of just \$18 to \$19 per ton, which is 15% to 20% cheaper than the \$21 to \$25 cost of moving coal from other key U.S. basins to alternative export terminals. In addition, CONSOL doesn't have to pay a third party to handle its coal at the terminal, which provides further cost savings.

Since 2017, CONSOL has doubled its export coal sales from 8.3 million tons (or 32% of its total volume) to 16.2 million tons in 2023 (or 61% of total volumes).

A Diamond in the Rough

With stock prices trading at record-high valuations across the board, CONSOL is an exception, offering a rare, deep value opportunity.

With its rich asset base of low-cost mines in the heart of America's richest coal basin, plus its strategically located Port of Baltimore marine terminal, CONSOL has produced positive free cash flows every year since going public in 2017 – including in 2020, when coal prices collapsed during the COVID-19 outbreak.

The company's steady cash flows support a pristine balance sheet with more cash than debt, allowing it to funnel its excess cash to investors. CONSOL's shareholder-friendly management team has committed to returning 75% of cash flow to investors, primarily in the form of share repurchases. In the last two years alone, the company has reduced its share count by nearly 20%.

The combination of growing production volumes and cash flows, plus a falling share count, has propelled CONSOL's earnings per share nearly 10-fold since going public, from \$2 in 2017 to \$19.64 in 2023.

Even though the company gets little attention on Wall Street, and thus trades at a deeply discounted valuation, its share price has handily outperformed the market. Since 2017, CONSOL has delivered a 364% total return, or 27.6% compounded annual growth rate ("CAGR"). Over the same period, the S&P 500 has gained 106%, or a 13.6% CAGR.

Given its deeply depressed valuation of just under 5× 2023 free cash flow, CONSOL is one of our top stocks to watch that will capitalize on today's parallel computing boom. Plus, a recent deal has further brightened the long-term prospects for CONSOL.

On August 21, CONSOL announced it reached a merger agreement with fellow coal miner Arch Resources (NYSE: ARCH) to form a new entity called Core Natural Resources.

The deal terms state that CONSOL shareholders will own 55% of the merged entity, with Arch shareholders owning the remaining 45%. Arch investors will receive 1.326 shares of CONSOL in exchange for each share of Arch owned as of August 30. When the deal closes, CONSOL shares will be converted to the new entity Core Natural Resources.

The companies expect the merger will close by the end of Q1 2025, pending approval by shareholders of both companies and U.S. regulators.

We like this deal for two reasons.

1. Arch is one of the leading low-cost producers of metallurgical coal – the type used in steelmaking. Unlike thermal coal, which is being phased in the U.S. and Europe due to environmental restrictions in favor of cleaner-burning fuel sources, metallurgical coal has no viable substitute in the steelmaking industry. As a result, the long-term demand for metallurgical coal will continue rising with global economic growth indefinitely. The newly combined entity will thus have a highly diversified portfolio that will ensure decades of future demand ahead.
2. It will eliminate operational redundancies between the two companies, unlocking an estimated \$110 million to \$140 million of cost savings within six to 18 months of closing the transaction. As a result, the deal is expected to generate positive free cash flow for both Arch and CONSOL in year one of the merger.

Following the news of the merger on August 21, CONSOL shares rose 5% to \$100 per share (or a \$3.0 billion market capitalization) while Arch rallied 3% to \$130 per share (or a \$2.4 billion market capitalization). At these prices, this implies a combined market value for the merged entity of \$5.4 billion. Additionally, both companies have a positive net cash position totaling \$260 million, which puts their

combined enterprise value (market capitalization plus net debt) at just under \$5.2 billion.

This is a compelling valuation considering both companies generated a combined total of \$1.8 billion in EBITDA (earnings before interest, taxes, depreciation, and amortization) and \$1.4 billion in free cash flow last year. Adding in the expected cost savings of \$125 million (at the midpoint of CONSOL management's guidance), this puts the implied valuation of Core Natural Resources at approximately 2.7x EV/EBITDA and 3.5x EV-to-free cash flow.

We view this is a compelling valuation of the newly combined entity based on the current share prices for both CONSOL and Arch. Longer term, we're optimistic about the prospects of Core Natural Resources as a leading, low-cost producer of both thermal and metallurgical coal.

As a result, we are recommending investors hold shares of CONSOL in order to eventually own shares of Core Natural Resources following the closing of the merger in Q1 2025.

For CONSOL investors, no action is needed. The CONSOL shares will be converted automatically to stock in the newly formed Core Natural Resource after the deal closes.

Action to Take: Buy Core Natural Resources (NYSE: CNR) up to \$120 per share. For the latest updates on our open positions, please visit our live portfolio [here](#).

Please note, the Arch deal closed on January 15, 2025, and CONSOL shares were converted to the new entity Core Natural Resources.



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Stevenson, MD

P.S. If you'd like to learn more about the Porter & Co. team, you can get acquainted with us [here](#). You can follow me (Porter) on X here: [@porterstansb](#)