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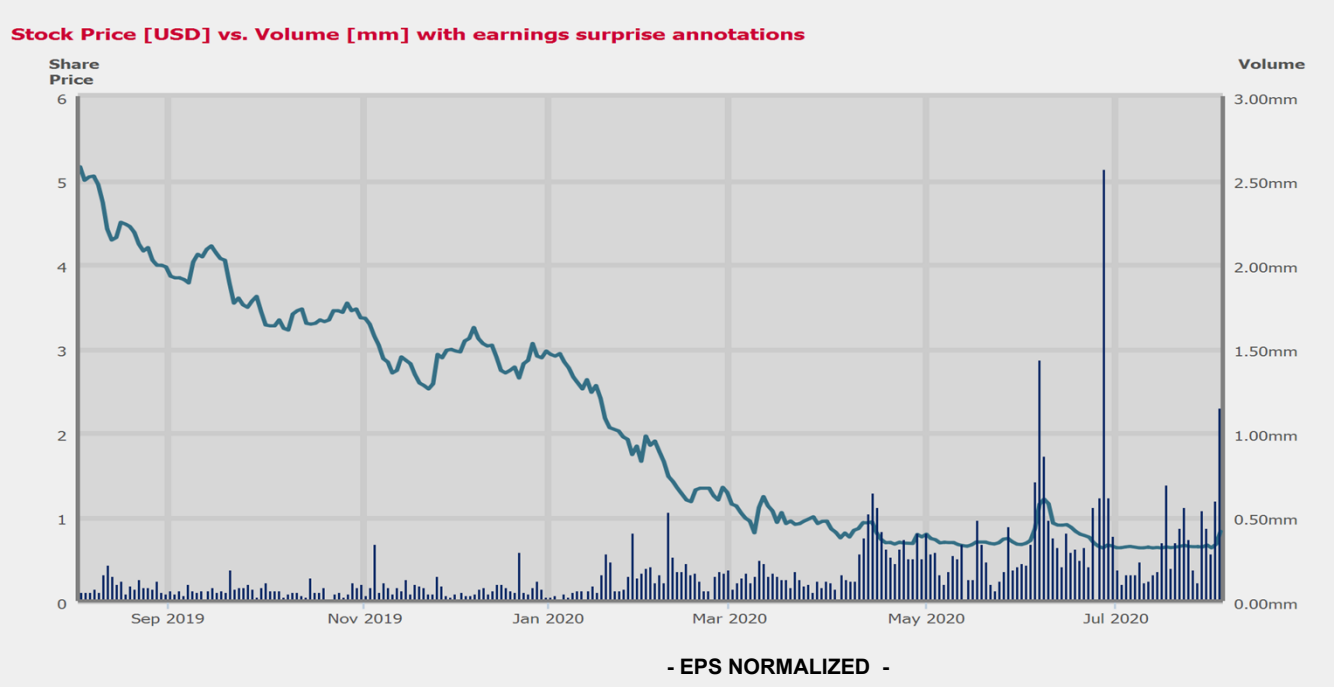
Hallador Energy Company NasdaqCM:HNRG FQ2 2020 Earnings Call Transcripts

Tuesday, August 04, 2020 6:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2020-			-FQ3 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.02	0.01	(50.00 %)	0.07	0.04	0.11
Revenue (mm)	60.50	52.08	(13.92 %)	70.60	264.30	245.80

Currency: USD
Consensus as of May-13-2020 7:30 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2019	0.08	(0.12)	NM
FQ4 2019	(0.01)	(0.02)	NM
FQ1 2020	0.02	(0.12)	NM
FQ2 2020	0.02	0.01	(50.00 %)

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Call Participants

EXECUTIVES

Brent K. Bilsland
President, CEO & Chairman

Lawrence D. Martin
Executive VP & CFO

Rebecca Palumbo
Director - Investor Relations

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Presentation

Operator

Good day, and welcome to Hallador Energy's Second Quarter 2020 Earnings Conference Call. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference over to Rebecca Palumbo, Director of Investor Relations. Please go ahead.

Rebecca Palumbo
Director - Investor Relations

Thank you, Chad. Thank you, everybody, for taking the time out of your day today to join us to discuss our second quarter 2020 financial and

[Audio Gap]

As a reminder, this event is being webcast live, and you will be able to access a replay of this call on our website. We filed our second quarter Form 10-Q yesterday afternoon, and it is also posted on our website.

Participating on today's call is Brent Bilsland, our President and CEO; and Larry Martin, our CFO. Larry will begin today with a financial overview of the quarter, followed by Brent with comments on operations and market perspective. After they complete their remarks, we will open the line up for Q&A.

Before we begin, a reminder of some of our remarks today may include forward-looking statements that are subject to a variety of risks and uncertainties that could cause actual results to differ materially, for example, our estimates of mining costs, future coal sales, regulations and other environmental initiatives. We do not undertake to update our forward-looking statements whether as a result of new information, future events or otherwise, except as may be required by law.

And with that, I'll turn the call over to Larry.

Lawrence D. Martin
Executive VP & CFO

Thank you, Becky, and good afternoon, everyone. Before I start, I would like to define some definitions that we have. Our free cash flow is defined as net income plus deferred income taxes. DD&A, reclamation obligation accretion, change in fair value of hedges, our stock compensation expense less maintenance CapEx and/or -- and plus or minus the effects of our equity method investments. We define adjusted EBITDA as EBITDA plus stock compensation plus reclamation obligation accretion or change in fair value of hedges less the effects of our equity method investments in Hourglass Sands.

For the quarter, we had net income of $250,000 or $0.01 a share. Year-to-date, we had a net loss of $3.4 million or $0.11 a share. Our free cash flow for the quarter was $6.3 million and $3.1 million year-to-date. Our adjusted EBITDA for -- $13.1 million year-to-date free cash flow.

Our adjusted EBITDA for the quarter was $13.2 million and for year-to-date, $27.1 million. We paid down debt of $6.9 million for the quarter and $19 million for the 6 months ended.

Our bank debt at June 30 was $161 million. Our net debt, including our cash on our balance sheet, was $153.7 million. And our leverage ratio debt-to-adjusted EBITDA was 2.97x.

I'll now turn the call over to our CEO, Brent Bilsland.

Brent K. Bilsland
President, CEO & Chairman

Thank you. Despite extreme and historic challenges brought on by the pandemic, Hallador was profitable in the second quarter. During the quarter, we took several actions to improve liquidity, reduce cost structure, pay down bank debt, all while helping our customers manage their inventory levels. Decisive actions enable us to increase our financial capabilities and ensure consistency at a time when the world was experiencing great volatility.

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In anticipation of second quarter shipment delays and potential production interruptions, Hallador amended its credit facility during the second quarter, allowing us to access our full revolver. This helped improve our liquidity to $52.6 million as of June 30. As Larry said, our leverage ratio remains under 3x, well within our covenant of 4x.

During the second quarter, we were able to reduce production costs $28.94 per ton, which is a 9% reduction over the prior quarter. These lower costs allowed us to generate solid cash flow which was used to pay down $6.9 million of bank debt for the quarter and $19 million for the first half of the year. This was accomplished even while our coal inventory grew by $13.8 million due to an expected slowdown in shipments during the quarter. Coal shipments have improved in June and July, and we expect to reduce our coal inventory later this year.

On April 16, Hallador received a $10 million loan under the Paycheck Protection Program, PPP. According to the current guidance from the SBA and the U.S. Treasury, Hallador has appropriately qualified and received said funds. Hallador utilized the PPP funds to pay 2 months of payroll and other covered expenses. The company expects a portion of the loan will be forgiven later this year.

Shipments for the quarter were 1,244,000 tons or just under a 5 million-ton annualized pace. We have 3.7 million tons contracted for the balance of the year.

We think the markets are improving. Thus far, Henry Hub natural gas prices have averaged $1.79 year-to-date, yet the balance of this year is $2.47. And if we look ahead to next year, it's $2.75. So that tells us that soon, coal will be dispatching in front of natural gas.

Now these improvements in gas prices are due -- the market anticipates less gas production in 2021 than we have certainly seen in, say, 2019. One indicator of less future gas production is the dramatic slowdown in oil and gas drilling. As evidence of this, oil and gas rigs as of July 24, 2020, were 251 versus the peak of 2018/'19 of 1,085, rigs. That's a 77% decline in roughly 18 months.

Gas-targeted rigs as of July 24 are 68 versus the peak in '18/'19 of 198. That's a 66% decline. We all know shale -- that shale oil and gas wells declined very quickly. So we don't think the pace of drilling is keeping up with the pace of decline, plus the increases in prices we see going forward.

From a coal export point of view, API 4 is above $60 in the first quarter of 2021, and API2 is above $60 in the third quarter of 2021. So we see improvement in gas. We see improvement in coal exports. The dramatic slowdown in the second quarter appears to us to be unwinding, and markets are improving.

In summary, despite the height of the pandemic occurring in the second quarter, Hallador was profitable, shipments are increasing and inventory -- excuse me, energy markets are improving. Hallador has a strong contract position, and we will work to continue generating positive cash flow and further reducing debt.

With that, I'll open up for questions on the line.

Operator

[Operator Instructions] This concludes our question-and-answer session. I'd like to turn the conference back over to Brent Bilsland for any closing remarks.

Brent K. Bilsland
President, CEO & Chairman

Thank you. Well, apparently, our remarks were very thorough. I appreciate everyone taking the time to listen to our call, and we'll get back to work. Thank you.

Operator
Thank you, sir. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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