Top Canadian Coal Stocks of 2023

Description

Investing in coal stocks may seem like a risky business. After all, with so many countries (Canada included) pledging clean energy by 2030, the coal industry appears more and more like a relic of a dirty past.

Yet, notwithstanding the uncertain future, coal companies have proven to be resilient. In fact, contrary to expectations, the global consumption of coal increased 15% in 2021, rebounding after a 4.5% decrease in 2020.[1] The increase was driven by rapidly rising gas prices, most notably in Europe and North America, and huge demand in Asian countries, such as China. Though its long-term use will likely decline, for now, King Coal sits firmly in his seat of power.

For investors who want to take a contrarian position, coal stocks could be an interesting and profitable endeavour. Below we'll break down the risks and potential rewards of coal stocks and help you choose which coal companies might be best for you.

What are coal stocks?

Coal stocks are companies that mine, produce, and distribute the carbonaceous rock known as coal. Though we may think of coal as lumpy black rocks, it has two forms:

- **Met coal.** Also called metallurgical coal, this coal isn't used to generate electricity, but instead to make steel and coke. Because it's used to make steel (which is a major ingredient in recyclable metal and green energy infrastructure), demand for met coal is likely to remain high in the near future.
- **Thermal coal.** Thermal coal is the kind of coal most people think of. It's used in power plants to generate electricity and burned to keep people warm. Because of its excessive generation of carbon dioxide, thermal coal is facing an uncertain future.

Of these two kinds of coal, thermal is certainly the most mined. Thermal coal and lignite (a brown coal mined in Eastern Europe, China, and the U.S.) make up 86% of all mined coal, with met coal representing only 14%.[2]

Top coal stocks in Canada

Canada has roughly 90 coal mining companies, which pales in comparison to China (12,324), Brazil (3,412), Russia (2,850), Ukraine (1,733), and the United States (808).

For the top coal stocks in Canada and the U.S., the following three companies are some of the most highly valued.

Top Coal Stocks in Canada	Description
Teck Resources (TSX: TECK.B)	Major producer of met coal
Peabody Energy (BTU)	One of the world's largest coal producers
Alliance Resource PT (ARLP)	One of the largest producers of coal in the U.S.

1. Teck Resources Limited Ltd

Headquartered in Vancouver, Teck Resources is the second largest seaborne exporter of steelmaking coal. The company also mines for copper, zinc, silver, gold, and lead, though met coal is certainly its biggest operation.

Unlike other coal companies, Teck Resources is well poised to benefit from the development and expansion of green energy. For one, the company has plans to expand its copper mines in Chile by 80%.

Copper, along with nickel and lithium, is one of the primary ingredients in rechargeable batteries, and Chile has one of the world's largest copper reserves. Not only that but Teck mines for *met* coal, which is used in steelmaking. Considering that steel is required by many energy companies—from solar panels to EVs—Teck Resources will profit as demand for steel increases.

Teck has a strong financial outlook—its stock price has risen steadily year-over-year. It can be a good play for investors who want to capitalize off coal, but also would like to profit from green energy.

2. Peabody Energy

Peabody is one of the world's largest miners of thermal and met coal. The company currently has 17 mines in operation, and they sell coal to more than 25 countries.

Like other miners of thermal coal, Peabody's stock has been battered by poor investor sentiment and the switch by power stations from coal to natural gas and sustainable energy. The company recently saw some positive activity, however, when its price target rose from $25 a share to $36. This higher valuation was driven by higher demand for power, the war in Ukraine, and overall higher prices for commodities.

3. Alliance Resource PT

Alliance Resource is a major producer of thermal coal in the United States. The company also has oil and gas interests, and they've recently suggested they may start investing in met coal production, EV charging, and renewable energy.

Global demand for energy has given Alliance some heavy tailwinds to ride. Ever since conflict in the Ukraine led Western nations to decrease dependence on Russian energy, Alliance has enjoyed a massive surge in coal sales. Considering that coal prices could rise as much as 22% more than previously thought, Alliance could enjoy some hefty (and unexpected) revenues.

Does the coal industry have a future?

In short — it's complicated.

Coal certainly has a short-term future. Many large industrial countries, such as China and India, still depend heavily on coal for electricity generation. Even the world's greenest countries use coal to produce steel for infrastructure, wind turbines, and electric vehicles.

Nevertheless, the days of burning coal are likely numbered. Coal is dirty, horrible for the environment, and emits more carbon dioxide than any another other fossil fuel. By some estimates, coal is responsible for 0.3 C of the 1.0 C increase in average temperatures.

Because of its heavy carbonaceous nature, many nations have vowed to phase out burning coal completely before the end of 2040. That leaves the coal industry suspended in uncertainty, especially as many of these mining companies have no other minerals or metals to mine.

Pros of investing in coal stocks

- **Coal remains the world's largest source of electricity.** Though many countries are weaning themselves off fossil fuels, many others still depend on coal for electricity generation. Even those with EVs are using coal in a certain sense, as a portion of the electricity used to charge their cars will likely come from burning coal.
- **Many coal stocks pay dividends.** The price per share isn't much, but you can still earn passive income off coal stocks.
- **For the short-term, coal remains King.** The world's consumption of coal has hit record highs in 2022. This was mainly because the war in Ukraine caused the price of natural gas to skyrocket, which forced many countries to switch back to burning coal. However uncertain the future of coal, for now, coal is still in high demand.

Cons of investing in coal stocks

- **Global demand for coal is expected to fall.** By some estimates, demand is *alread*y falling. The only country that's still strongly demanding coal is China. And even their demand declined by at least 3% in the first half of 2022.
- **It's a dirty fuel.** Of all fossil fuels, coal generates the most carbon dioxide. As governments across the world lobby for cleaner energy, it's likely King Coal will eventually be dethroned.

Are coal stocks a good investment?

If you're an investor with a long-time horizon (say, longer than 15 years), coal stocks are likely a poor investment. Likewise, if your investing philosophy fits the ESG or growth stock model, coal stocks are likely not the right investment for you.

For value investors, however, the story is a bit different. Since many coal stocks are currently undervalued, you could find some unique opportunities to buy low and sell higher later.

Regardless of your investing philosophy, it's wise to expose only a small portion of your portfolio to coal. For proper diversification, consider adding coal stocks alongside other energy stocks, such as renewables, EV, or even oil and gas. You might even want to buy shares in a coal-focused ETF.

TICKERS GLOBAL

1. NYSE:BTU (Peabody Energy)
2. TSX:TECK.B (Teck Resources Limited)

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2. metienne
3. tmfbwelch

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