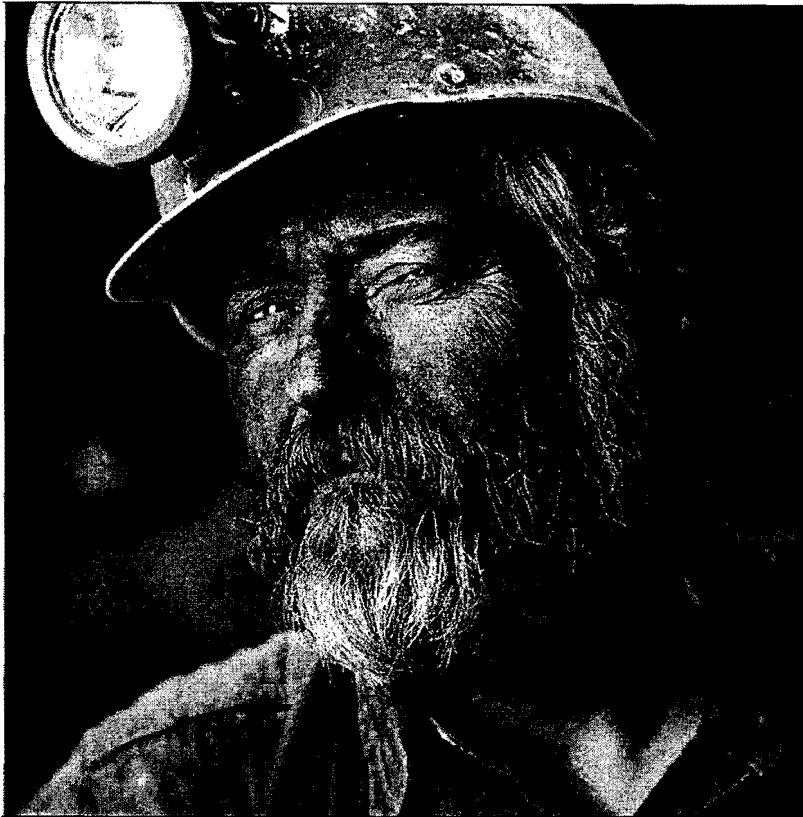


## UBS Investment Research

## The Coal Miner



13 December 2010

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**The World Needs US Coal**

- **Met Benchmark Settled; Supply Constraints Prompt Upside Risk**
- **Thermal Coal Remains Intriguing as Exports to Europe Pick-Up**
- **Rolling Forward NAV Models; Cash Flow is Very Appealing**
- **Met/Thermal Hybrids: MEE, PCX, ANR; Thermal: CNX, & JRCC**

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This report has been prepared by UBS Securities LLC

**ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 17.**

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## Investment Summary

**Met Coal:** The met coal supply/demand outlook remains constrained with the continuing Asian steel demand and absence of meaningful new supply sources in the near-term. Supply constraints are further compounded by the weather related issues in Australia, a major supply source. The tight supply/demand balance opens up the risk for a demand or supply shock which could push met pricing up materially (possibly above the \$305/t record set in 2008). As a result, we are lifting our 2011 met coal pricing to \$225/t from \$223/t, while acknowledging that pricing could be higher should the US or Europe capacity utilization surprise to the upside.

**Thermal Coal:** We remain positive on US thermal coal as inventories are closer to normal following a supply cut led inventory cleanse during 2010. While production is up in recent months, it remains well below peak production levels as demand for generation continues to improve. Furthermore, September generation data suggests the US may have approached peak fuel switching in the east given the current NatGas strip (too early to confirm the trend). Additionally, during the UBS mini coal conference, producers confirmed new shipments to Europe given the recent rise in API2 pricing. This suggests that European demand may arrive earlier than expected, increasing the likelihood that our \$100/t price forecast for 2012 CAPP coal will be realized.

**Valuations:** With this report, we are updating our 2013 and 2014 met coal pricing forecasts to \$173/t and \$166/t from our long-term normalized pricing assumption of \$160/t. Additionally as is customary with the New Year quickly approaching, we are also rolling forward our NAV models to include a cash flow target for 2015. Our forecasts for 2011/12 suggest that the average company in our universe will generate 20% of its market cap in free cash flow thus giving us the confidence to lower our WACC assumptions across our coverage universe akin to a multiple expansion.

**M&A and Commodity Price Impact on Valuation:** M&A discussions have been fueled by statements by many of the companies in our coverage universe as well as by the recent WTN/WLT merger which was negotiated at an implied \$208/t met price. Additionally recent chatter of a Riversdale acquisition by RIO has further fueled these expectations, further arguing for an M&A multiple expansion. Moreover, when commodity pricing advances quickly, the stocks tend to price the current spot pricing into perpetuity across valuation (please see Table 4 which illustrated price targets pricing spot through our NAV).

**What Now?** The group has advanced 66% over the past several months reflecting the improving pricing outlook and M&A activity. Given our positive outlook, we believe there is still some room on the met trade recognizing that valuations may approach a level where the perpetual met price reflects the \$208/t implied by the most recent transaction which should benefit WLT, MEE, ANR, PCX and ICO. The recent increase in API2 (which could tail-off once the cold snap alleviates) suggests that inventories for thermal coal are tightening in Europe. Combined with increased demand for thermal coal from Asia and lack of additional supply from South Africa, this suggests that global thermal demand may begin to influence CAPP pricing (especially considering the tightening US inventory outlook). Hence, the thermal opportunity remains intriguing to us and should benefit US thermal producers including CNX, JRCC, ACI and CLD as well as the hybrids which include PCX, MEE, ANR and ICO. However, given the recent 66% surge absent a correction may present better entry points in the near future.

Supply or demand shock could quickly imbalance very tightly balanced global met market.

Too early to declare a trend; however, recent data begs two questions: 1) Has Fuel Switching reached its peak for CAPP coal? and 2) Will European exports move higher?

M&A activity, rising pricing and free cash flow, supports higher valuations




Still room on the met coal trade...

...however, recent move in API2 and rising international demand when contrasted against falling inventories in the US – makes the thermal trade intriguing

## The Miner Summary

The *Coal Miner* is our periodic publication offering commentary, insight, and analysis on the coal markets. In this report, we 1) update our met coal price deck; 2) review thermal pricing potential; 3) roll-forward our NAV models; 4) update WACC estimates; and 5) analyze implications of recent M&A activity.

Table 1: Canary In The Coal Mine

Indicator	Trend	Bottom Line
Pricing		<ul style="list-style-type: none"> <li>The 1Q11 benchmark settlement at \$225/t (quarterly) was a 7.7% increase over the 4Q10 settlement, however, came in just under our estimate of \$230/t. We forecast low-vol PCI to settle at \$180/t fob and SSCC to settle at US\$160/t fob.</li> <li>Thermal producers have closed mines, eliminated high-cost shifts, and aggressively trimmed volumes; this should help balance supplies and set the stage for above-trend U.S. thermal pricing. Falling stockpiles have been positive drivers of pricing trends.</li> <li>As expected, 2010 has been an inventory cleansing year that we believe will lead to a robust 2011 with the assistance of production cuts taken. The pace of exports has increased; however, natural gas prices remain tepid, reigniting CAPP pricing pressures. Despite NatGas weakness, we have seen a partial reversal of non-gas related fuel switching in 2010.</li> </ul>
Inventories		<ul style="list-style-type: none"> <li>Steepest production cuts combined with a recovering industrial economy should result in a tight supply/demand balance for 2011. Accordingly, pricing should benefit.</li> <li>We believe producers had faced the following fundamental challenges: 1) GDP-induced generation decline; 2) competition from low-priced fuel sources (principally natural gas); and 3) production support from previously locked-in contracts. Most factors have ceased and are beginning to reverse.</li> <li>Stockpile draw of 30mm tons during the summer burn was notable compared to the prior year draw of 4mm tons. Eastern stockpiles are falling deeper into y/y deficit and western inventories hit a tenth consecutive month of y/y deficit.</li> </ul>
Valuation		<ul style="list-style-type: none"> <li>Coal equities sold-off in April/May due to fears associated with the decision by China to tighten lending requirements, further tightening from China could be a risk for near term met performance. Thermal names have generally underperformed and could present an opportunity.</li> <li>Met and thermal fundamentals continue to improve, translating into higher met pricing expectations; although, valuation has only just begun to catch up.</li> <li>Given our met / thermal outlooks, met hybrids MEE, PCX, BTU, ANR, and ICO likely present the best exposure. ACI remains our preferred thermal play followed by CNX and JRCO.</li> </ul>

Source: UBS

## Metallurgical Coal

### Jan-Mar 2011 Met Benchmark Settled

In early December, the Jan-Mar 2011 LV-HCC contract was settled at \$225/t, +7.7% q/q vs. the Oct-Dec deal of \$209/t and roughly inline with UBSe \$230/t. Also, LV-PCI appears to be settling at around US\$180/t fob (both deals correspond with Jul-Sep's numbers). We believe the deals are being based entirely on market fundamentals, knowing that actual reported losses can be offset by higher prices within a few months (recovered in Apr-Jun 2011 deals) – not after 12 months, as under the old benchmark mechanism.

Table 2: Historical Settlements

Coal Product	2Q10a	3Q10a	4Q10a	1Q11	
Hard Coking	\$200/t	\$225/t	\$209/t	\$225/t	<== actual
PCI	\$170/t	\$180/t	\$150/t	\$180/t	<== estimate
Semi-Soft	\$167/t	\$172/t	\$143/t	\$160/t	<== estimate

Source: UBSa, Platts

The latest met coal settlements are broadly in line with UBS's recent forecasts, but they do not seem to fully factor in the potential impact of persistent, high rainfall in Queensland. The market is expecting much higher prices, so why are they settling at these levels?

We suspect that the producers are not compelled to push for higher prices to offset lost production as they did in recent years – most notably, the super-spike of US\$300/t fob for HCC's JFY08 annual benchmark contract. We believe this is because the producers can seek a higher price within months after any shock event; they do not need to wait another 12 months like they used to under the old benchmark pricing culture (e.g. claw-back losses in the Apr-Jun deal).

Also, the steel mills will be less inclined to panic-buy like the Jan-Feb 2008 tropical cyclone event, when they were led to believe that up 15-20 million tons of output was lost to trade. Shorter-term contracts create options for both parties: deals are likely to be based entirely on market fundamentals for now; if producers suffer actual reported losses associated with 'exogenous factors' like rain, tropical cyclones, etc. – they can seek higher prices in a later quarter.

**Supply/Demand Shock in the Making?**

The met coal supply/demand outlook remains constrained with the continuing Asian steel demand and absence of meaningful new supply sources in the near-term. Supply constraints are further compounded by the weather related issues in Australia (a major supply source), prompting several producers to declare force majeure. The tight supply/demand balance opens up the risk for a demand or supply shock which could push met pricing up materially (possibly above the \$305/t record set in 2008).

As a result, we have adjusted our supply-demand numbers to reflect reduced production and delivery rates out of Australia. Our forecast deficit in the traded metallurgical coal market (includes all hard to semi-soft coking coals; PCI) has increased by 1 million tons to 6 million tons in 2011. The model reports deficits out to 2014 – by which time, Mongolian & Mozambican coal allays the shortfall, and prices ease. Met coal demand is forecast to lift 4.8% to 277 million tons in 2011, lifting a further 2%/y/y in 2012 (China's imports expand further), then by 1- 2% per year out to 2015, when it totals 284 million tons.

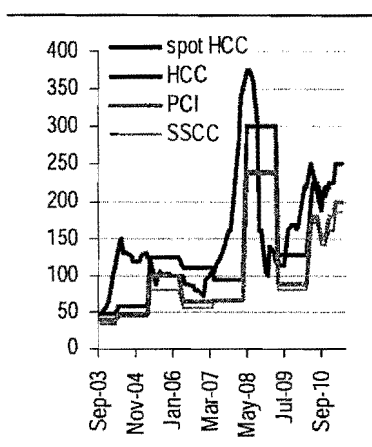
Key drivers of this outlook include China's net imports (moves from 2% to 15% by 2015, >30Mtpa indefinitely) and India (>10%/year out to 2015 to almost 50Mtpa; offers greatest upside risk to our numbers), while Europe's demand is set to expand at a modest 2% per year over the same period.

Met coal's total supply is forecast to lift 3.9% in 2011 to 267 million tons. This is dominated by Australia, now delivering roughly 60% of the seaborne total, and expanding 1-2% per year to 163 million tons by 2015 – pushing global supply of trade to 282 million tons (+18% or 25 million tons extra coal over five years; +2% per year).

The key risks to our supply outlook are the expansion plans for Mongolia & Mozambique. After recent trips to these new coal provinces, we have revised our forecast supply. Mongolia is exporting 7-8 million tons in 2010, up to 15 million tons by 2015. Constraints on Mongolia's supply growth include frustrated rail infrastructure development, and the government's other obligations to water and farming rights.

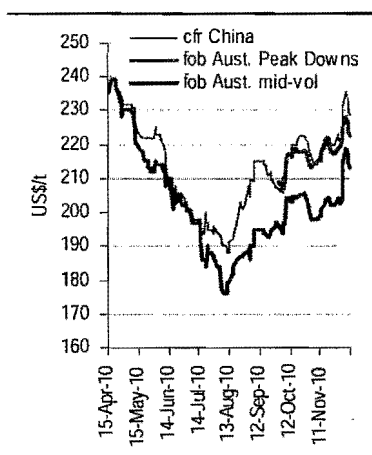
We now have a tight market over the next 5-years, with the model reporting a modest, yet persistent deficit of 2-10 million tons, returning to surplus in 2016.

Chart 1: Historical Settlements



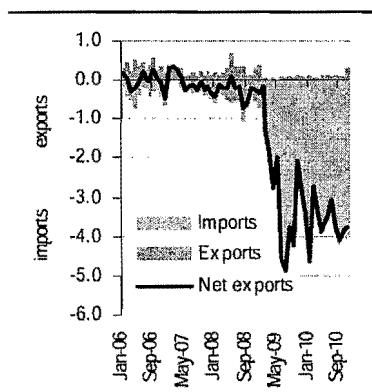
Source: CRU, UBS

Chart 2: Met Spot Pricing



Source: Platts

Chart 3: China's Met-Coal Trade (Mt/mth)



Source: Tex Report, Bloomberg

As a result, we are lifting our 2011 met coal pricing to \$225 per metric ton from \$223 per metric ton, while acknowledging that pricing could be higher should the US or Europe capacity utilization surprise to the upside. Specifically, we are increasing our 2Q11 forecast as Asian steel demand remains strong and meaningful new sources of met coal have yet to come to market. This quarter's forecasts represent the peak in our profile; we expect high rainfall will impact the prices of this quarter, mostly. Prices from this point ease, reflecting the positive supply-side response to these relatively high price levels. Our 2012 met coal estimates remain unchanged as the recent supply constraints are likely to be short-term in nature. Inline with our NAV model roll-forward we are introducing our 2013 met coal price forecast. We expect 2013 to continue the backwardation trend from 2012 as supply reaches the market and rebalances.

Table 3: Revised Met Coal Price Deck

Coal Product	2011e				2012e				2013e			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Hard Coking	\$225/t	\$250/t	\$220/t	\$205/t	\$210/t	\$205/t	\$190/t	\$180/t	\$185/t	\$180/t	\$165/t	\$160/t
PCI	\$180/t	\$200/t	\$175/t	\$145/t	\$150/t	\$145/t	\$138/t	\$135/t	\$138/t	\$135/t	\$130/t	\$128/t
Semi-Soft	\$160/t	\$185/t	\$160/t	\$135/t	\$138/t	\$132/t	\$129/t	\$125/t	\$128/t	\$124/t	\$122/t	\$120/t

Source: UBS, Platts

### Key Risks to Met Coal Price Forecasts

- Rain persists in Queensland, impairing production capacity: BULLISH
- Weakness in USD, prompting producers to seek larger price lifts: BULLISH
- Constraints on economic activity by China's central government (lifting bank reserve ratios, restricting credit market liquidity): BEARISH
- China ramps up domestic coal production capacity, undermining demand for coal imports: BEARISH
- Supply from Mongolia/Mozambique is greater than forecast: BEARISH

### What is the Spot Market Saying?

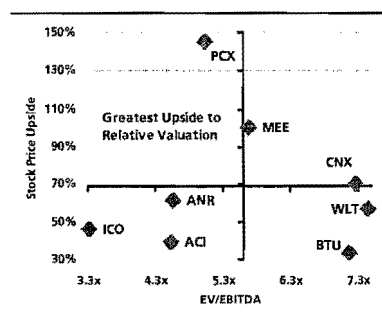
We have noted when commodity pricing advances quickly, the stocks tend to price the current spot pricing into perpetuity across valuation. We recently witnessed such an event with the WLT/WTN deal implying roughly \$208/t (inline with the 4Q10 settlement at \$209/t). Accordingly, the following table summarizes potential valuation implications assuming perpetual met coal pricing is in line with current spot trading levels of roughly \$237.

Table 4: Valuation @ Met Spot

	Current Stock Price	Stock Price @ \$237/t	Upside	Implied EV	Implied 2015 EBITDA	Implied EV/EBITDA
ACI	\$ 33.05	\$ 46.00	39%	\$ 9,084	\$ 2,011	4.5x
ANR	\$ 53.88	\$ 87.00	61%	\$ 10,665	\$ 2,338	4.6x
BTU	\$ 62.85	\$ 84.00	34%	\$ 23,951	\$ 3,343	7.2x
CNX	\$ 44.63	\$ 76.00	70%	\$ 20,772	\$ 2,857	7.3x
ICO	\$ 8.53	\$ 12.50	47%	\$ 2,661	\$ 802	3.3x
MEE	\$ 51.85	\$ 104.00	101%	\$ 11,401	\$ 2,009	5.7x
PCX	\$ 17.52	\$ 43.00	145%	\$ 4,158	\$ 826	5.0x
WLT	\$ 118.48	\$ 186.00	57%	\$ 9,800	\$ 1,315	7.5x

Source: FactSet (prices intra-day as of December 13, 2010), UBS

Chart 4: Valuation @ Met Spot



Source: UBS

# Global Met Coal Market

Table 5: Global Metallurgical Coal Market

		2008	2009	2010e	2011e	2012e	2013e	2014e	2015e
<b>Global crude steel production</b>	Mt	1,303	1,200	1,325	1,402	1,469	1,548	1,626	1,710
growth	%	-1.7%	-7.9%	10.4%	5.8%	4.8%	5.3%	5.0%	5.2%
<b>Total traded met-coal demand</b>	Mt	238	224	265	277	282	283	284	284
YoY growth	%	3.2%	-5.9%	18.2%	4.6%	1.8%	0.3%	0.3%	0.1%
Japan imports	Mt	61	45	53	53	54	53	53	52
YoY growth	%	0.5%	-27.2%	19.3%	-0.9%	1.4%	-1.7%	0.2%	-0.8%
Europe net imports	Mt	66	49	56	55	56	56	56	58
YoY growth	%	-1.1%	-26.6%	14.2%	-0.6%	0.4%	0.5%	0.9%	2.5%
India imports	Mt	24	28	34	41	45	47	48	48
YoY growth	%	15.2%	15.9%	19.8%	20.0%	10.0%	5.0%	1.0%	1.0%
Brazil net import trend	Mt	17	17	16	18	18	19	19	20
YoY growth	%	14.1%	-2.9%	-0.6%	7.0%	3.0%	3.0%	3.0%	3.0%
China net import trend	Mt	3	34	44	41	39	37	35	33
growth	%	-8%	896%	29%	-5%	-5%	-6%	-6%	-6%
<b>Total traded met-coal supply</b>	Mt	238	224	263	267	275	276	278	282
YoY growth	%	3.2%	-5.8%	17.2%	1.7%	2.8%	0.5%	0.7%	1.2%
Australia exports	Mt	135	135	148	147	156	158	160	163
Canada exports	Mt	27	22	27	25	25	24	25	25
US exports	Mt	35	32	45	48	44	36	34	30
<b>Balance</b>	Mt	0.1	0.4	-1.7	-9.5	-7.1	-6.5	-5.4	-2.3
Market's product split: HCC	%	62%	61%	66%	67%	67%	66%	65%	64%
Market's product split: LV-PCI	%	15%	16%	14%	14%	14%	14%	15%	15%
Market's product split: SSSC	%	23%	23%	20%	19%	20%	20%	20%	21%
Hard coking coal price (CY, JBM)	US\$/t	248.8	171.8	190.8	225.0	196.3	172.5	158.8	147.8
LV_PCI price (CY, JBM)	US\$/t	196.9	127.5	147.5	175.0	142.0	132.8	125.8	124.6
premium HCC vs. PCI	%	26%	35%	29%	29%	38%	30%	26%	19%
Semi-soft coking coal price (CY, JBM)	US\$/t	192.3	118.8	140.5	158.8	130.8	123.5	116.0	113.6
premium HCC vs. SSSC	%	29%	45%	36%	42%	50%	40%	37%	30%
<b>China's Metallurgical Coal Market</b>									
<b>Steel Production</b>									
China	Mt	500	565	590	610	630	663	697	733
Global ex-China	Mt	803	635	735	792	839	884	929	977
<b>China's trade</b>									
Imports	Mt	7	34	45	43	41	39	37	35
Exports	Mt	3	1	1	1	1	2	2	2
Net imports	Mt	3	34	44	41	39	37	35	33
<b>Global trade, ex-China</b>									
Supply	Mt	235	190	219	226	236	239	243	249
Demand	Mt	234	190	221	235	243	246	249	251
Balance	Mt	0.1	0.4	-1.7	-9.5	-7.1	-6.5	-5.4	-2.3
<b>Net export growth</b>									
China	Mt	-3	-34	-44	-41	-39	-37	-35	-33
Global ex-China	Mt	143	122	141	147	155	158	160	164
YoY growth	%	7%	-15%	16%	4%	6%	1%	2%	2%

Source: UBS Research

# US Thermal Coal

## The Thermal Opportunity Remains Intriguing

The supply demand outlook with the US continues to improve. We expect YE2010 inventories to fall roughly 160 million tons well below the 203.4 million ton peak recorded last November. The primary reason for the inventory cleanse was the decision by producers to cut production. The inventory outlook was aided by a modest recovery in generation resulting from a modest improvement in GDP.

Several developments in the past few months have made the thermal coal trade more intriguing:

- 1) In September total generation was up 5.3% y/y, while coal fired was up 7.5% and NatGas generation was up 1.1%. While too early to call a trend its intriguing nonetheless as it implies that coal fired generation was able to capture market share despite low NatGas prices.
- 2) API2 (proxy for European pricing for thermal coal) surged in the past few weeks on the back of a severe cold snap in Europe, the pricing boost suggests that European traders are concerned that inventories and production will be unable to respond to a sustainable pick up in generation demand. Notably, during the UBS mini coal conference, several producers confirmed that they were shipping prompt deliveries for December and signed contracts for 1Q deliveries into Europe.

The biggest pushback we get on our thermal call remains fear of natural gas switching as NatGas fuel switching has eliminated roughly 43mm tons of demand in 2010 relative to 2008; however, signs that coal is able to recapture market share from NatGas suggests at current pricing level the risk for further demand loss for fuel switching will likely be less than incremental demand from further GDP growth and exports to Europe, the recent increase in NatGas pricing above \$4/MMbtu is also encouraging. The key to maintaining a tight inventory environment with increased demand will have to come from future production discipline.

We maintain our \$77 average CAPP pricing forecast for 2011 and \$100 view for 2012, as they are in part premised on production falling short of US demand in 1H of 2011 and demand for exports into Europe in the back half of 2011 and 2012. Recent European buying likely is a reflection of the recent cold snap; however, it does signify that inventories have likely fallen in Europe. With Asian thermal demand back to pre-2008 levels and limited supply growth from traditional supply sources (South Africa recently moved to restrict coal export growth) suggests a return of Europe into the seaborne market could significant ramifications on the US export market given available supply and proximity to Europe.

Several months ago we raised our PRB forecast for 2011 to \$15.00 from \$13.50 on the back of falling inventories. While pricing has fallen in recent weeks for the PRB we believe its more a function of limited spot volumes as is typical this time of year and maintain our bullish \$15/\$16/\$17 view for 2011/12/13.

Given our expectation for exports out of CAPP and recent reports of ILB/Midwest coal being exported out of the Gulf of Mexico (partially offset by production growth) we are increasing our ILB/Midwest pricing to \$48 for 2011.

Inline with our annual NAV model roll-forward, we are introducing our 2013 estimates and revising the long-term normalized forecast to reflect cost inflation impact on margins. Table 6 below illustrates our current pricing outlook for the major producing regions.

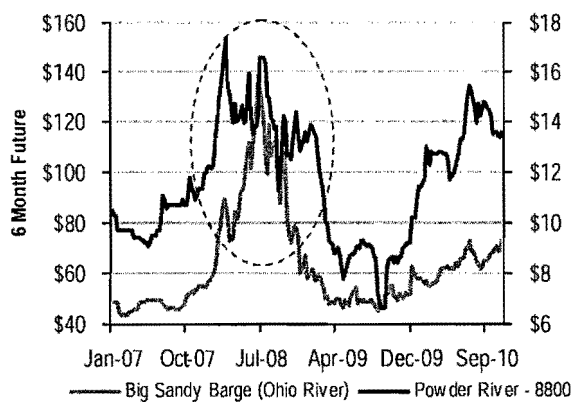
Table 6: US Thermal Price Forecast

Coal Product	2011E	2012E	2013E	LT Normalized
CAPP	\$77.00/t	\$100.00/t	\$75.00/t	\$78.00/t
NAPP	\$77.00/t	\$100.00/t	\$75.00/t	\$78.00/t
Midwest (2lb)	\$48.00/t	\$60.00/t	\$45.00/t	\$47.00/t
PRB 8800	\$15.00/t	\$16.00/t	\$17.00/t	\$17.75/t
PRB 8400	\$13.00/t	\$13.25/t	\$14.00/t	\$14.75/t

Source: UBS estimates

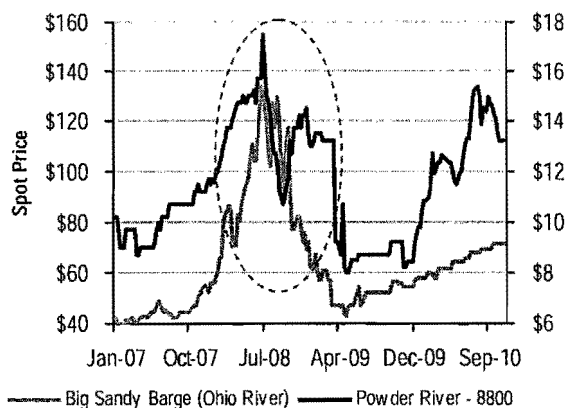
As we approach the winter burn period, we believe spot pricing will rise to \$74/t before moderating to \$71/t during the spring stockpile build period. By mid 2011, we believe a strong summer burn period will result in a \$77/t spot price that will rise to \$85/t upon European demand resurgence. The average of these price points results in our revised \$77/t CAPP/NAPP price forecast.

Chart 5: Coal Futures



Source: Bloomberg, UBS

Chart 6: Coal Spot



Source: Bloomberg, UBS

Please see page 9 we provide our current US Supply/Demand model including all of our assumptions for generation growth, net exports and our expectation for production growth as pricing begins to recover.

Table 7: US Supply Demand Model

Thousands Tons	2008	2009	2010E				2011E				2011E	2012E	09/08	10/09	11/10	12/11	
			Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec							
<b>Supply</b>																	
Appalachian	390,119	339,300	83,941	83,943	84,750	84,942	337,596	85,620	86,902	86,869	89,189	348,579	365,562	-13.0%	-0.5%	3.3%	4.9%
Interior	146,801	146,802	37,507	37,585	37,133	36,800	149,025	38,632	38,713	38,247	37,904	153,496	158,101	0.0%	1.5%	3.0%	3.0%
Western	633,597	584,530	143,290	142,840	152,580	152,436	591,146	151,887	151,410	164,786	165,393	633,477	645,128	-7.7%	1.1%	7.2%	1.8%
Refuse Recover	1,362	2,120	579	744	247	247	1,817	249	249	261	263	1,022	1,052	56%	-14%	-44%	3%
<b>Total Production</b>	<b>1,171,879</b>	<b>1,072,752</b>	<b>265,317</b>	<b>265,132</b>	<b>274,710</b>	<b>274,424</b>	<b>1,079,583</b>	<b>276,388</b>	<b>277,274</b>	<b>290,163</b>	<b>292,749</b>	<b>1,136,574</b>	<b>1,169,843</b>	<b>-8.5%</b>	<b>0.6%</b>	<b>5.3%</b>	<b>2.9%</b>
Imports	34,208	22,639	4,803	5,058	4,680	4,957	19,498	4,611	4,856	4,493	4,758	18,718	17,958	-33.8%	-13.9%	-4.0%	-4.1%
Waste Coal Supplied	13,743	12,435	3,101	3,228	3,022	3,019	12,413	3,040	3,050	3,192	3,220	12,502	12,868	-9.5%	-0.2%	0.7%	2.9%
Coal Producer and Distributor	27,311	41,257	43,692	42,206	43,731	43,685	43,685	43,998	44,139	46,191	46,602	46,602	47,686				
Δ Producer & Distributor Stocks	(6,666)	13,946	2,435	(1,486)	1,525	(45)	2,428	313	141	2,052	412	2,917	1,084				
<b>Total Supply</b>	<b>1,226,496</b>	<b>1,093,880</b>	<b>270,786</b>	<b>274,948</b>	<b>280,887</b>	<b>282,445</b>	<b>1,109,066</b>	<b>283,727</b>	<b>285,039</b>	<b>295,796</b>	<b>300,316</b>	<b>1,164,877</b>	<b>1,199,585</b>	<b>-10.8%</b>	<b>1.4%</b>	<b>5.0%</b>	<b>3.0%</b>
<b>Losses and Unaccounted For</b>	<b>19,154</b>	<b>14,524</b>	<b>3,791</b>	<b>3,704</b>	<b>(178)</b>	<b>(198)</b>	<b>7,120</b>	<b>3,791</b>	<b>3,704</b>	<b>(178)</b>	<b>(198)</b>	<b>7,120</b>	<b>8,222</b>				
<b>Demand</b>																	
Electric Power Sector	1,041,602	936,536	246,888	240,159	266,661	244,402	988,110	252,283	228,994	263,097	255,001	999,375	1,021,992	-10.1%	5.5%	1.1%	2.3%
Coke Plants	22,069	15,326	4,857	5,353	4,830	5,095	20,135	5,164	5,691	5,135	5,417	21,407	22,771	-30.6%	31.4%	6.3%	6.4%
Industrial	54,535	45,352	12,335	11,660	12,005	11,876	47,877	12,841	12,138	12,497	12,363	49,839	53,016	-16.8%	5.6%	4.1%	6.4%
Commercial & Institutional	3,506	3,210	1,036	607	673	875	3,191	1,071	628	696	905	3,299	3,442	-8.4%	-0.6%	3.4%	4.3%
<b>Total Consumption</b>	<b>1,121,712</b>	<b>1,000,424</b>	<b>265,116</b>	<b>247,779</b>	<b>284,169</b>	<b>262,248</b>	<b>1,059,312</b>	<b>271,359</b>	<b>247,451</b>	<b>281,425</b>	<b>273,686</b>	<b>1,073,921</b>	<b>1,101,221</b>	<b>-10.8%</b>	<b>5.9%</b>	<b>1.4%</b>	<b>2.5%</b>
Steam	38,971	21,836	3,628	6,353	5,261	6,007	21,249	3,810	6,670	6,050	6,908	23,439	29,298	-44.0%	-2.7%	10.3%	25.0%
Met	42,549	37,262	14,178	15,612	15,564	14,252	59,607	14,462	15,925	15,875	14,537	60,799	61,407	-12.4%	60.0%	2.0%	1.0%
<b>Total Exports</b>	<b>81,512</b>	<b>59,097</b>	<b>17,807</b>	<b>21,965</b>	<b>21,074</b>	<b>20,259</b>	<b>80,856</b>	<b>18,272</b>	<b>22,595</b>	<b>21,926</b>	<b>21,445</b>	<b>84,237</b>	<b>90,705</b>	<b>-27.5%</b>	<b>36.8%</b>	<b>4.2%</b>	<b>7.7%</b>
<b>Total Demand</b>	<b>1,203,231</b>	<b>1,059,521</b>	<b>282,923</b>	<b>269,744</b>	<b>305,243</b>	<b>282,508</b>	<b>1,140,168</b>	<b>289,630</b>	<b>270,046</b>	<b>303,351</b>	<b>295,131</b>	<b>1,158,158</b>	<b>1,191,926</b>	<b>-12%</b>	<b>7.6%</b>	<b>1.6%</b>	<b>2.9%</b>
<b>Ending Inventory Balances</b>																	
Electric Stock	163,056	189,971	175,432	180,172	162,691	161,272	161,272	152,625	163,338	156,221	160,891	160,891	160,346	16.5%	-15.1%	-0.2%	-0.3%
Coke Stock	2,331	1,957	1,583	1,978	1,118	1,661	1,661	1,377	1,313	1,256	1,657	1,657	1,652	-16.0%	-15.1%	-0.2%	-0.3%
Other Industrial	6,007	5,109	4,153	4,274	3,599	4,337	4,337	3,613	4,228	4,044	4,327	4,327	4,312	-14.9%	-15.1%	-0.2%	-0.3%
Commercial and Institutional Users	498	529	470	506	370	449	449	409	434	415	448	448	447	6.2%	-15.1%	-0.2%	-0.3%
<b>Total Stocks</b>	<b>171,892</b>	<b>197,566</b>	<b>181,638</b>	<b>186,842</b>	<b>167,778</b>	<b>167,715</b>	<b>167,720</b>	<b>158,025</b>	<b>169,313</b>	<b>161,936</b>	<b>167,319</b>	<b>167,323</b>	<b>166,756</b>	<b>14.9%</b>	<b>-15.1%</b>	<b>-0.2%</b>	<b>-0.3%</b>

Source: EIA, UBS estimates

As noted in our latest Coal Train report, we expect current production trends to continue, resulting in a y/y supply increase of 5%. The majority of 2011 growth is derived from the Western region given current capacity and regulatory/geological issues faced in Appalachia. On the demand-side, we expect modest growth of 1.6% in 2011 and expect weather adjusted generation to move up inline with our UBSe 2011 GDP forecast of 2.7% due to our expectations for a 4.1% increase in industrial production and a 4% increase manufacturing capacity utilization. Additionally we expect a 5mm ton increase in demand due to fuel switching; however, our forecast is partially offset by a 20mm ton negative adjustment to weather normalize. Consistent with our pricing thesis, we expect net exports to continue to increase through 2012. Initially, growth will be weighted toward met coal; however, a European demand recovery is expected to prompt thermal export growth. It is important to note that a portion of coal currently exported is cross-over tonnage, and therefore can easily be brought back into the thermal market by the buyer.

# Global Thermal Coal

## Price-Driving Factors Converge

Everyone loves thermal coal now. The many factors that have supported the spot indices of this trade throughout 2010 have finally conspired to drive them higher in the last few weeks. On the supply-side, the trade's suffered rain-damaged production capability in Indonesia and Australia; underperforming rail infrastructure in South Africa & Australia; tension associated with Eskom's bid for South Africa's exports and China's NDRC nation-wide coal price cap policy. On the demand-side, robust import flows of India and China continues to pressure the trade; the Russians are incrementally switching tonnes out of Europe into the more lucrative Asia trade; and Indonesia's domestic market wants to use more of its own coal production.

Thermal coal's various spot prices broke through the ceiling of the long-standing, tight trading band of US\$85-105/t fob (Newcastle & Richards Bay) in mid-November – largely in response to China's massive, pre-snow restocking program.

Most critically for trade, Indonesia's wet season extended from May well into August, undermining its typically massive H2 ramp-up. As a result, we expect tonnes lost to 2010's trade. Perennial underperformer South Africa has offered no supply upside beyond 65Mtpa for years – and now Eskom has effectively announced (30-Nov-10) that it is lobbying the national government of South Africa to divert exports to the critically unsupplied domestic market.

Thermal coal's weakened supply growth outlook is now vulnerable to increasing demand pressure from India, lifting +9%/yr over the next five years alone – the largest single demand growth driver in the trade. What's happening in India? The national government is seeking imports across Asia and Australia in order to replace the country's failing domestic supply sources.

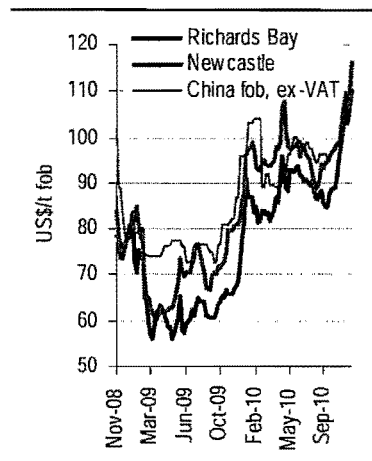
China was a key growth driver in 2009, but its trade with seaborne has settled down to a stable rate of 9.5Mt/month. Asia's traditional thermal consumers are also trading at stable rates, so the growth outlook depends entirely on India.

This trade is very tight now. The only obvious supply relief options available over the next few months is a significant recovery in Indonesia's production rates (but it soon enters the next wet season, Feb-May), and from China's own vast coal reserves (but post-Chinese New Year, once the snow melts).

### Supply-Demand Outlook

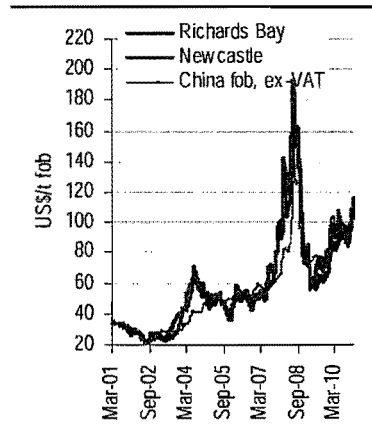
Global thermal coal (traded) demand is forecast to lift 1.3% in 2011 to 711Mt, and 2-3% per year out to 2015, to top 770Mt. Key drivers of this outlook include China's net imports (+171% y/y in 2009 to 92Mt; 120Mt in 2010; still >70Mtpa to 2015) and India, increasing at 10%/year out to 2015, to 100Mtpa. Apart from the recovery lift in imports in 2010, growth in Europe and the US is expected to remain subdued over the medium term: 1-3% per year.

Chart 7: Thermal Coal Prices



Source: globalCOAL, Bloomberg

Chart 8: Thermal Coal Prices – History



Source: globalCOAL, Bloomberg

Global thermal coal's supply is forecast to lift 3.2% in 2011 to 695Mt, and by 13% over the next five years to 773Mt – dominated by exports from Indonesia and Australia (55% of the seaborne total). Indonesia's protracted wet season (normally ends May; extended until September) has undermined 2010's supply. We now expect no growth in 2010 (230Mt), with supply's risk to the downside. Uncertainty over Indonesia's weather outlook and production rates is a key bull point for the trade this year.

Australia's supply is also threatened by persistent rain in Queensland and New South Wales, but to date, this is not as critical to the trade's outlook (Queensland is a predominantly met. coal state; more critical for that trade; NSW is a thermal coal state). Annualized production is 138Mt, +6%yoy, expanding at 5%/year out to 2015, to 168Mt: port loading capacity is no longer the constraint on Australia's growth, but rail services may be.

We expect seaborne prices to remain high over the medium term (cUS\$100/t fob), keeping North American and Colombian supply in our forecasts.

UBS forecasts deficits of 7-28Mtpa (<5% of forecast demand) to 2012 in thermal coal's international global markets – not returning to balance until after 2013. This reflects a wide range of emerging supply-side constraints, as well as strong import flows by China and India, all against a backdrop of trade recoveries among traditional, coal importing major economies.

### UBS Price Forecast

Our thermal coal price forecast is unchanged (Game changer, 18 October 2010), despite modest changes in supply-demand forecasts. We expect a JFY11 annual contract of US\$120/t fob, +20%yoy on the existing JFY10 \$98/t fob, set by Xstrata with Japan's biggest power utility, Chubu earlier this year.

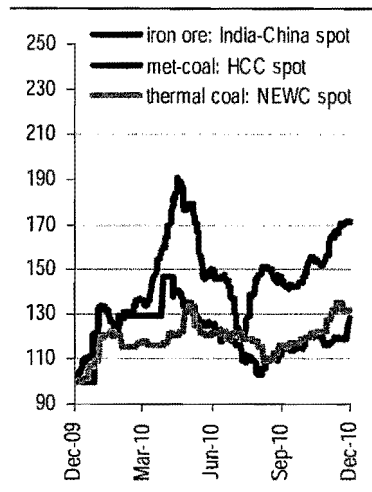
We also forecast that thermal's contract price will remain above US\$100/t fob for JFY11-12, falling below in JFY13 as the supply side finally responds to these higher prices, and as key infrastructure issues are resolved.

Where are the key spot prices? Newcastle is US\$116/t fob; Richards Bay US\$109/t fob. Our long-term price is unchanged at US\$85/t fob real (US\$98/t fob nominal).

### Risks to Thermal Coal Price Forecasts

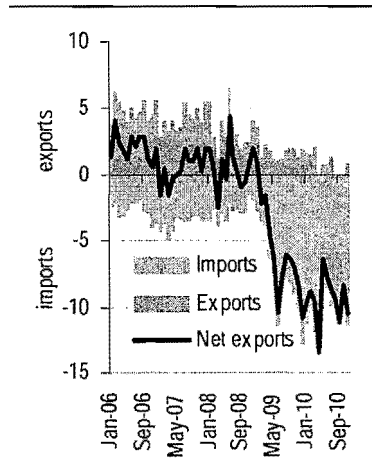
- Indonesia and South Africa redirect exports to domestic markets to supply growing domestic demand: BULLISH
- Rain persists in Indonesia and Australia: BULLISH
- Further weakness in the USD, requiring some producers to seek larger price lifts: BULLISH
- China ramps up domestic coal production capacity, undermining demand for coal imports: BEARISH
- Colombian/US deliveries into Asia lift at >US\$100/t fob prices: BEARISH

Chart 9: Bulks Price Indices



Source: Bloomberg, Platts

Chart 10: Thermal Coal Trade (Mt/mth)



Source: Tex Report, Bloomberg

## Global Thermal Coal Market

Table 8: Global Thermal Coal Market

		2008	2009	2010e	2011e	2012e	2013e	2014e	2015e
Global Power Generation	TWhr	19,187	20,064	20,940	21,455	21,970	22,484	22,999	23,514
YoY growth	%	2%	5%	4%	2%	2%	2%	2%	2%
Coal-fired power (major economies)	%	53%	51%	50%	51%	52%	52%	51%	51%
Weighted average efficiency	t/MWhr	0.474	0.473	0.474	0.475	0.475	0.476	0.476	0.476
<b>Total traded thermal coal demand</b>	<b>Mt</b>	<b>663</b>	<b>669</b>	<b>687</b>	<b>696</b>	<b>713</b>	<b>729</b>	<b>739</b>	<b>754</b>
YoY growth	%	1.2%	0.9%	2.7%	1.3%	2.4%	2.3%	1.4%	1.9%
Japan imports	Mt	128.1	110.9	124.7	126.4	127.7	129.6	130.9	132.8
India imports	Mt	36.3	53.1	63.8	70.1	77.2	84.9	91.7	99.0
EU net imports	Mt	80.6	59.1	35.6	37.3	40.8	44.9	47.6	50.4
US net imports	Mt	14.5	8.4	4.2	0.4	5.0	6.9	4.9	5.3
<b>Total traded thermal coal supply</b>	<b>Mt</b>	<b>662</b>	<b>668</b>	<b>681</b>	<b>695</b>	<b>721</b>	<b>742</b>	<b>757</b>	<b>773</b>
YoY growth	%	1.0%	0.9%	2.0%	1.9%	3.8%	3.0%	2.0%	2.1%
Indonesia exports	Mt	201.1	233.5	230.0	234.6	246.3	251.3	256.3	261.4
Australia exports	Mt	126.0	127.6	138.4	147.8	156.4	161.5	164.7	168.0
South Africa	Mt	65.6	63.6	63.4	66.6	66.9	73.6	77.3	81.1
Colombia	Mt	68.7	63.4	71.2	62.4	65.4	70.3	71.3	72.4
China net exports	Mt	2	-74	-100	-85	-75	-70	-65	-61
<b>Balance</b>	<b>Mt</b>	<b>-0.7</b>	<b>-1.1</b>	<b>-5.7</b>	<b>-1.0</b>	<b>8.1</b>	<b>13.0</b>	<b>17.9</b>	<b>19.1</b>
US total utility year-end inventories	Mt	163	207	163	162	162	162	162	162
Export thermal coal JFY contract price	US\$/t	125.0	71.0	98.0	120.0	110.0	100.0	98.0	95.6
Newcastle spot (CY avg)	US\$/t	129.5	68.7	96.9	114.5	112.5	102.5	98.5	95.9
Richards Bay spot (CY avg)	US\$/t	120.5	62.8	89.4	112.5	110.5	100.5	96.5	93.6

### China Thermal Coal Market

Power Production									
China	TWhr	3,222	3,712	4,201	4,432	4,663	4,894	5,124	5,355
Global ex-China	TWhr	15,965.5	16,352.0	16,738.5	17,022.6	17,306.6	17,590.7	17,874.7	18,158.8
China's trade									
Imports	Mt	34.0	92.1	116.2	100.0	95.0	90.3	85.7	81.5
Exports	Mt	35.8	18.5	16.0	15.0	20.0	20.4	20.5	20.6
Net imports	Mt	-1.8	73.7	100.2	85.0	75.0	69.9	65.2	60.8
Global trade, ex-China									
Supply	Mt	626.4	649.5	665.5	679.7	700.8	721.8	736.9	752.4
Demand	Mt	628.9	576.9	570.9	595.8	617.8	639.0	653.7	672.4
Balance	Mt	-2.5	72.6	94.6	84.0	83.1	82.8	83.2	80.0
Net export growth									
China	Mt	1.8	-73.7	-100.2	-85.0	-75.0	-69.9	-65.2	-60.8
Global ex-China	Mt	418.0	389.2	399.8	423.4	451.8	470.0	486.7	501.1
YoY growth	%	2%	-7%	3%	6%	7%	4%	4%	3%

Source: UBS Research

## Valuation

Given our improving outlook for met coal and increasingly improving outlook for exports to Europe we are reducing our WACC assumptions across our coverage universe akin to a multiple expansion which boosts our average price objective by 11% (please see Table 10 for WACC details across our universe).

Given our experience during 2008 when pricing last spiked, stock prices approached a level implying valuations that reflected spot priced into perpetuity. Table 4 in the met coal section illustrates how high valuations can go if current spot pricing for met was priced into perpetuity. While we are not ready to incorporate spot pricing into our long-term view, we recognize the potential for stocks to reflect spot pricing; hence, the exercise. Additionally the increased interest in M&A and recently announced deals especially considering the premium WLT paid for WTN is another source of valuation upside in the near term. Depending on met exposure should we price in a long-term normalized price objective of \$208/t inline with our estimate of the implied premium when compared with our \$160/t long-term normalized pricing assumptions it boosts our valuations for met sensitive names on average 37% (range of 10-67%) depending on met exposure.

### Rolling Forward

As is customary with the New Year quickly approaching, we are also rolling forward our NAV models to include a cash flow target for 2015. The table below summarizes EPS, Price Target, and Rating changes as a result of the met/thermal coal price deck change and model roll-forward.

Table 9: Summary Table

Ticker	2010 EPS		2011 EPS		2012 EPS		2013 EPS		Price Target		Rating	
	New	Former	New	Former	New	Former	New	Former	New	Former	New	Former
ACI	Unchanged	\$1.16	Unchanged	\$3.26	Unchanged	\$5.57	\$5.16	\$39.00	\$36.00	Unchanged	Buy	
ANR	Unchanged	\$2.65	\$4.79	\$4.77	Unchanged	\$8.31	\$6.15	\$66.00	\$61.00	Unchanged	Buy	
BTU	Unchanged	\$3.12	\$5.45	\$5.35	Unchanged	\$5.78	\$5.11	\$70.00	\$66.00	Unchanged	Buy	
CLD	Unchanged	\$1.90	Unchanged	\$2.20	Unchanged	\$3.53	\$4.11	\$25.00	\$23.00	Unchanged	Buy	
CNX	Unchanged	\$2.39	\$3.56	\$3.47	Unchanged	\$5.35	\$3.72	\$69.00	\$65.00	Unchanged	Buy	
IOO	Unchanged	\$0.24	\$0.67	\$0.65	Unchanged	\$1.95	\$1.07	\$10.00	\$8.50	Unchanged	Buy (CBE)	
JRCC	Unchanged	\$2.41	Unchanged	\$3.69	Unchanged	\$5.71	\$1.23	\$30.00	\$28.00	Unchanged	Buy (CBE)	
MEE	Unchanged	\$0.21	\$4.89	\$4.84	Unchanged	\$7.94	\$4.19	\$62.00	\$57.00	Unchanged	Buy (CBE)	
PCX	Unchanged	(\$1.67)	Unchanged	\$1.60	Unchanged	\$2.75	\$0.31	\$26.00	\$24.00	Unchanged	Buy (CBE)	
WLT	Unchanged	\$7.91	\$13.24	\$13.21	Unchanged	\$11.41	\$7.40	\$136.00	\$112.00	Unchanged	Buy	

Source: UBS

Our forecasts for 2011/12 suggest that the average company in our universe will generate 20% of its market cap and thus gives us the confidence to lower our WACC assumptions across our coverage universe akin to a multiple expansion. Hence, we adjusted our WACC assumptions and have summarized the changes in Table 10 below.

Table 10: Revised WACC

Ticker	Former WACC	Current WACC	Change	Beta
ACI	12.2%	10.6%	-1.6%	1.49
ANR	11.1%	9.1%	-2.0%	1.26
BTU	10.6%	9.5%	-1.1%	1.44
CLD	10.9%	9.6%	-1.3%	1.45
CNX	9.5%	8.6%	-0.9%	1.57
ICO	12.1%	11.2%	-0.9%	1.87
JRCC	13.3%	11.6%	-1.7%	1.98
MEE	11.5%	9.8%	-1.7%	1.57
PCX	13.4%	11.6%	-1.8%	1.89
WLT	8.4%	6.4%	-2.0%	1.28
<b>Average</b>	<b>11.3%</b>	<b>9.8%</b>	<b>-1.5%</b>	<b>1.58</b>

Source: UBS

### Group Valuation Hitting 52 Week Highs – Still Room for Growth?

On December 6, 2010, the group hit a high point for the year, up 66% since hitting a low point in June. With such a strong rally and lack of correction since June a better entry point may present itself (we would not be surprised to see some profit taking on the names up over 60% since last year, including ACI, ICO, and WLT). However, we believe there is still some room on the met trade recognizing that valuations approach a level where the perpetual met price reflects the \$208/t implied by the most recent transaction which should benefit WLT, MEE, ANR, PCX and ICO. On the thermal side, the recent increase in API2 (which could tail-off once the cold snap alleviates) suggests that inventories for thermal coal are tightening in Europe. Combined with increased demand for thermal coal from Asia and lack of additional supply from South Africa, this suggests that Global thermal demand may begin to influence CAPP pricing (especially considering the tightening US inventory outlook). Hence, the thermal opportunity remains intriguing to us and should benefit US thermal producers including CNX, JRCC, ACI and CLD as well as the hybrids which include PCX, MEE, ANR, and ICO.

Table 11: Downswings &gt; 20%

Date of Action		Downswings > 20%			
Peak	Trough	Peak	Trough	% Change	# of Days
05/11/06	09/20/06	1973.7	1024.3	-48%	91
05/30/07	08/03/07	1576.3	1151.1	-27%	46
06/30/08	10/15/08	3561.8	974.2	-73%	71
10/20/08	10/27/08	1351.2	878.3	-35%	5
10/31/08	11/20/08	1176.2	547.1	-53%	14
11/26/08	12/04/08	842.7	621.8	-26%	5
12/17/08	03/02/09	883.9	656.6	-26%	49
06/12/09	07/07/09	1218.0	920.7	-24%	16
01/08/10	02/08/10	1908.3	1507.2	-21%	20
04/23/10	06/07/10	1984.6	1405.4	-29%	30
<b>AVG:</b>				<b>-36%</b>	<b>35</b>

Source: FactSet, UBS

Table 12: Upswings &gt; 20%

Date of Action		Upswings > 20%			
Peak	Trough	Peak	Trough	% Change	# of Days
09/20/06	05/30/07	1024.3	1576.3	54%	172
08/03/07	06/30/08	1151.1	3561.8	209%	228
10/15/08	10/20/08	974.2	1351.2	39%	3
10/27/08	10/31/08	878.3	1176.2	34%	4
11/20/08	11/26/08	547.1	842.7	54%	4
12/04/08	12/17/08	621.8	883.9	42%	9
03/02/09	06/12/09	656.6	1218.0	86%	102
07/07/09	01/08/10	920.7	1908.3	107%	129
02/08/10	04/23/10	1507.2	1984.6	32%	52
06/07/10	12/06/10	1405.4	2329.7	66%	127
<b>AVG:</b>				<b>56%</b>	<b>82</b>

Source: FactSet, UBS

Note: average excludes 08/03/07-06/30/08 period

## Where's The Value?

Based on our projected 2011 gross profit margins and free cash flow levels, the following scatter plots identify potential value in the coal space using current EV amounts and projected 2011 EBITDA. We can see WLT demonstrates relative value to the group in Margin due to a strong met coal forecast for 2011; however, PCX demonstrates strong relative value to the group based on FCF generation in 2011.

Chart 11: Gross Profit Margin vs. EV/EBITDA

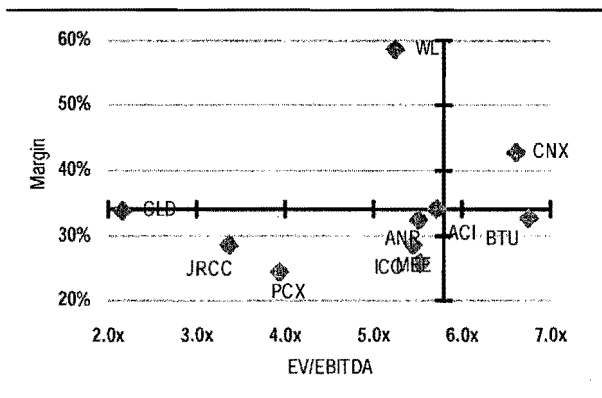
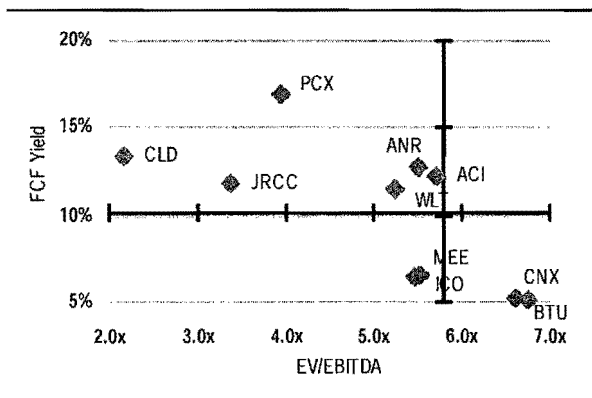


Chart 12: FCF Yield vs. EV/EBITDA



Source: FactSet, UBS

Note: CNX EV/EBITDA includes the NatGas business and may impair the comparability to the group

## Coal Comps Tables

Table 13: Coal Comps

Ticker	Price	Price Target	Rating	Shares Outstanding	Market Cap	Net Debt	Enterprise Value	Dividend Yield	Total Return Potential
ACI	\$33.05	\$39.00	Buy	162.4	\$5,367	\$1,614	\$6,981	1.2%	19.2%
ANR	\$53.88	\$66.00	Buy	121.5	\$6,546	\$95	\$6,641	0.0%	22.5%
BTU	\$62.85	\$70.00	Buy	268.6	\$16,882	\$1,389	\$18,270	0.5%	11.9%
CLD	\$21.74	\$25.00	Buy	30.6	\$665	\$216	\$881	0.0%	15.0%
CNX	\$44.63	\$69.00	Buy	225.8	\$10,077	\$3,612	\$13,689	0.9%	55.5%
ICO	\$8.53	\$10.00	Buy (CBE)	202.6	\$1,729	\$128	\$1,856	0.0%	17.2%
JRCC	\$23.50	\$30.00	Buy (CBE)	27.8	\$653	\$87	\$740	0.0%	27.7%
MEE	\$51.85	\$62.00	Buy (CBE)	101.6	\$5,268	\$834	\$6,102	0.5%	20.0%
PCX	\$17.52	\$26.00	Buy (CBE)	91.0	\$1,594	\$246	\$1,840	0.0%	48.4%
WLT	\$118.48	\$136.00	Buy	52.9	\$6,270	(\$43)	\$6,227	0.4%	15.2%
<b>Totals</b>					<b>\$55,050</b>	<b>\$8,178</b>	<b>\$63,228</b>	<b>0.4%</b>	<b>25.3%</b>

Source: FactSet (Prices intra-day as of December 13, 2010), UBS estimates

Table 14: Ratios

Ticker	EV/EBITDA		P/E		Debt/Cap		EBITDA/Interest		Free Cash Yield	
	2011E	2012E	2011E	2012E	2011E	2012E	2011E	2012E	2011E	2012E
ACI	5.8x	4.3x	10.1x	5.9x	49%	44%	8.7x	15.0x	13.3%	19.8%
ANR	5.4x	3.7x	11.2x	6.5x	21%	19%	18.7x	28.6x	11.5%	17.5%
BTU	6.8x	6.6x	11.5x	10.9x	36%	29%	15.5x	18.6x	8.2%	5.9%
CLD	2.2x	1.7x	9.9x	6.2x	34%	30%	8.4x	11.1x	12.9%	15.6%
CNX	6.8x	5.0x	12.5x	8.3x	70%	65%	9.1x	13.0x	5.0%	9.0%
KCO	5.7x	2.6x	12.8x	4.4x	34%	28%	8.4x	18.9x	6.4%	17.9%
JRCC	3.4x	2.3x	6.4x	4.1x	56%	45%	7.7x	11.7x	11.6%	21.2%
MEE	5.5x	3.8x	10.6x	6.5x	42%	35%	11.2x	16.7x	7.4%	14.5%
PCX	3.9x	2.7x	11.0x	6.4x	32%	32%	8.9x	13.0x	12.4%	14.1%
WLT	5.4x	6.5x	9.0x	10.4x	22%	12%	72.0x	67.9x	10.2%	8.9%
<b>Average</b>	<b>5.9x</b>	<b>4.6x</b>	<b>10.4x</b>	<b>7.0x</b>	<b>40%</b>	<b>34%</b>	<b>16.9x</b>	<b>21.4x</b>	<b>9.9%</b>	<b>14.4%</b>

Source: FactSet, UBS estimates

Table 15: Margins

Ticker	2011E				2012E				2013E			
	Price/Ton	Cost/Ton	Margin	Sales (Millions)	Price/Ton	Cost/Ton	Margin	Sales (Millions)	Price/Ton	Cost/Ton	Margin	Sales (Millions)
ACI	\$ 21.95	\$ 14.45	34%	170.5 Tons	\$ 24.21	\$ 14.81	39%	182.4 Tons	\$ 24.09	\$ 15.20	37%	186.7 Tons
ANR	\$ 47.10	\$ 31.82	32%	89.6 Tons	\$ 55.64	\$ 34.52	38%	93.5 Tons	\$ 48.20	\$ 32.21	33%	103.3 Tons
BTU	\$ 32.60	\$ 21.86	33%	255.2 Tons	\$ 33.92	\$ 22.52	34%	270.0 Tons	\$ 31.20	\$ 21.60	31%	293.6 Tons
CLD	\$ 13.21	\$ 8.74	34%	99.1 Tons	\$ 14.34	\$ 8.93	36%	107.2 Tons	\$ 15.45	\$ 9.24	40%	108.8 Tons
CNX	\$ 71.87	\$ 39.01	46%	63.7 Tons	\$ 86.55	\$ 43.88	49%	64.8 Tons	\$ 72.95	\$ 42.46	42%	67.2 Tons
KCO	\$ 76.20	\$ 56.18	26%	17.0 Tons	\$ 90.67	\$ 55.33	39%	20.7 Tons	\$ 74.94	\$ 54.48	27%	24.4 Tons
JRCC	\$ 77.92	\$ 55.48	29%	11.6 Tons	\$ 87.46	\$ 58.34	33%	12.2 Tons	\$ 67.44	\$ 52.88	22%	12.9 Tons
MEE	\$ 85.11	\$ 60.57	29%	46.0 Tons	\$ 93.39	\$ 62.26	33%	55.0 Tons	\$ 80.83	\$ 60.27	25%	57.9 Tons
PCX	\$ 71.66	\$ 54.05	25%	36.5 Tons	\$ 62.10	\$ 56.86	28%	37.4 Tons	\$ 73.10	\$ 57.12	22%	36.1 Tons
WLT	\$ 189.17	\$ 78.25	59%	10.8 Tons	\$ 164.75	\$ 75.31	54%	11.2 Tons	\$ 137.93	\$ 69.61	50%	10.7 Tons
<b>Totals</b>	<b>\$ 68.68</b>	<b>\$ 42.04</b>	<b>35%</b>	<b>801.9 Tons</b>	<b>\$ 73.30</b>	<b>\$ 43.47</b>	<b>39%</b>	<b>854.1 Tons</b>	<b>\$ 62.62</b>	<b>\$ 41.51</b>	<b>33%</b>	<b>903.5 Tons</b>

Source: FactSet, UBS estimates

Table 16: Earnings Estimates

Ticker	EBITDA						EBIT						EPS					
	2011E		2012E		2013E		2011E		2012E		2013E		2011E		2012E		2013E	
	UBSe	Con	UBSe	Con	UBSe	Con	UBSe	Con	UBSe	Con	UBSe	Con	UBSe	Con	UBSe	Con	UBSe	Con
ACI	\$ 1,203	\$ 1,058	\$ 1,641	\$ 1,302	\$ 1,584	\$ 1,339	\$ 786	\$ 637	\$ 1,216	\$ 916	\$ 1,152	\$ 1,231	\$ 3.26	\$ 2.65	\$ 5.57	\$ 3.68	\$ 5.16	\$ 8.35
ANR	\$ 1,224	\$ 1,107	\$ 1,811	\$ 1,347	\$ 1,473	\$ 1,309	\$ 844	\$ 741	\$ 1,411	\$ 1,046	\$ 1,061	\$ 1,123	\$ 4.79	\$ 4.15	\$ 8.31	\$ 5.51	\$ 6.15	\$ 5.70
BTU	\$ 2,889	\$ 2,426	\$ 2,786	\$ 2,822	\$ 2,525	\$ 3,398	\$ 2,210	\$ 1,887	\$ 2,308	\$ 2,280	\$ 2,001	\$ 2,188	\$ 5.45	\$ 4.58	\$ 5.78	\$ 5.50	\$ 5.11	\$ 7.05
CLD	\$ 396	\$ 358	\$ 522	\$ 408	\$ 585	\$ 645	\$ 252	\$ 235	\$ 374	\$ 294	\$ 434	\$ 512	\$ 2.20	\$ 2.16	\$ 3.53	\$ 2.62	\$ 4.11	\$ 4.79
CNX	\$ 2,024	\$ 1,797	\$ 2,727	\$ 2,361	\$ 2,145	\$ 3,567	\$ 1,418	\$ 1,243	\$ 2,085	\$ 1,780	\$ 1,469	\$ 2,007	\$ 3.58	\$ 2.85	\$ 5.35	\$ 4.40	\$ 3.72	\$ 8.35
KCO	\$ 327	\$ 306	\$ 716	\$ 410	\$ 484	\$ 482	\$ 221	\$ 200	\$ 609	\$ 363	\$ 374	\$ 369	\$ 0.67	\$ 0.59	\$ 1.95	\$ 0.94	\$ 1.07	\$ 1.06
JRCC	\$ 220	\$ 165	\$ 322	\$ 143	\$ 149	\$ 153	\$ 154	\$ 115	\$ 253	\$ 117	\$ 73	\$ 65	\$ 3.69	\$ 2.00	\$ 5.71	\$ 1.28	\$ 1.23	\$ 1.54
MEE	\$ 1,107	\$ 927	\$ 1,618	\$ 1,080	\$ 1,088	\$ 1,027	\$ 758	\$ 562	\$ 1,258	\$ 738	\$ 718	\$ 971	\$ 4.89	\$ 3.42	\$ 7.94	\$ 4.39	\$ 4.19	\$ 4.65
PCX	\$ 467	\$ 285	\$ 669	\$ 477	\$ 333	\$ 455	\$ 284	\$ 137	\$ 474	\$ 372	\$ 126	\$ 307	\$ 1.60	\$ (0.20)	\$ 2.75	\$ 1.44	\$ 0.31	\$ 1.30
WLT	\$ 1,144	\$ 957	\$ 959	\$ 953	\$ 700	\$ 678	\$ 1,034	\$ 875	\$ 849	\$ 866	\$ 584	\$ 576	\$ 13.24	\$ 10.60	\$ 11.41	\$ 10.81	\$ 7.40	\$ 6.00
<b>Totals</b>	<b>\$10,800</b>	<b>\$ 9,386</b>	<b>\$13,772</b>	<b>\$11,300</b>	<b>\$11,066</b>	<b>\$13,051</b>	<b>\$ 7,959</b>	<b>\$ 6,632</b>	<b>\$10,836</b>	<b>\$ 8,774</b>	<b>\$ 7,992</b>	<b>\$ 9,349</b>	<b>\$ 4.33</b>	<b>\$ 3.28</b>	<b>\$ 5.83</b>	<b>\$ 4.05</b>	<b>\$ 3.84</b>	<b>\$ 4.88</b>

Source: FactSet, UBS estimates

Table 17: Heat Map

	One Week	Two Weeks	Three Weeks	One Month	Two Months	Three Months	Six Months	One Year
ACI	2.4%	12.0%	9.1%	13.1%	24.3%	39.6%	50.1%	61.5%
ANR	-0.7%	6.9%	6.1%	12.3%	19.6%	34.1%	52.6%	35.4%
BTU	-0.7%	7.7%	6.1%	8.3%	21.4%	36.7%	58.4%	46.1%
CLD	0.7%	7.3%	-1.5%	3.9%	17.6%	29.9%		
CNX	-1.7%	6.5%	4.8%	5.9%	13.2%	29.6%	15.7%	-0.5%
ICO	6.6%	14.5%	21.7%	33.5%	50.2%	75.9%	113.3%	129.9%
JRCC	2.1%	15.2%	17.4%	27.6%	39.4%	40.8%	45.3%	31.4%
MEE	2.8%	4.7%	5.8%	12.6%	48.2%	62.8%	68.7%	38.7%
PCX	0.1%	7.6%	9.6%	15.2%	28.7%	48.1%	6.2%	39.6%
WLT	7.2%	13.9%	11.9%	22.6%	38.3%	57.6%	70.0%	68.1%
<b>Group</b>	<b>1.0%</b>	<b>8.5%</b>	<b>7.5%</b>	<b>12.1%</b>	<b>25.9%</b>	<b>42.0%</b>	<b>51.4%</b>	<b>41.9%</b>
<b>S&amp;P500</b>	1.3%	4.3%	3.4%	1.8%	6.5%	11.8%	14.1%	12.5%
<b>S&amp;P Energy</b>	0.3%	5.3%	3.5%	3.7%	12.0%	20.1%	20.9%	15.6%
	Denotes performance in top third							
	Denotes performance in bottom third							

Source: FactSet, UBS

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Factors which could put our coal company ratings and price targets at risk include: coal price levels, production levels, transportation constraints, cost pressures, labour availability, safety-related costs or operational problems, and environmental legislation or regulation. Additionally, environmentalists have targeted mountaintop removal methodologies for coal extraction, posing a risk to CAPP surface miners.

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Buy	Buy	51%	37%
Neutral	Hold/Neutral	40%	33%
Sell	Sell	9%	22%
UBS Short-Term Rating	Rating Category	Coverage <sup>3</sup>	IB Services <sup>4</sup>
Buy	Buy	less than 1%	20%
Sell	Sell	less than 1%	0%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2010.

## UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
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Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
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Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Alpha Natural Resources <sup>4, 6a, 13, 16</sup>	ANR.N	Buy	N/A	US\$52.87	10 Dec 2010
Arch Coal, Inc. <sup>2, 4, 6a, 16</sup>	ACI.N	Buy	N/A	US\$32.11	10 Dec 2010
Cloud Peak Energy Inc <sup>1, 5a, 16</sup>	CLD.N	Buy	N/A	US\$22.92	10 Dec 2010
CONSOL Energy, Inc. <sup>2, 4, 5a, 6a, 16</sup>	CNX.N	Buy	N/A	US\$43.99	10 Dec 2010
International Coal Group, Inc. <sup>2, 4, 6a, 6b, 7, 16, 20</sup>	ICO.N	Buy (CBE)	N/A	US\$8.45	10 Dec 2010
James River Coal Company <sup>4, 5a, 6a, 13, 16, 20</sup>	JRCC.O	Buy (CBE)	N/A	US\$22.84	10 Dec 2010
Massey Energy Company <sup>2, 4, 5a, 6a, 6b, 7, 13, 16, 20</sup>	MEE.N	Buy (CBE)	N/A	US\$51.98	10 Dec 2010
Patriot Coal Corp <sup>16, 20</sup>	PCX.N	Buy (CBE)	N/A	US\$17.30	10 Dec 2010
Peabody Energy Corp. <sup>16</sup>	BTU.N	Buy	N/A	US\$61.98	10 Dec 2010
Walter Energy Inc <sup>16</sup>	WLT.N	Buy	N/A	US\$117.24	10 Dec 2010
Western Coal <sup>5b, 20</sup>	WTN.TO	Neutral (CBE)	N/A	C\$12.00	10 Dec 2010

Source: UBS. All prices as of local market close.

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