

Digging Deeper Pockets

After falling 10% in the last month, \$BTU remains up over 37% YTD after rebounding from market uncertainty earlier this year. With the cancellation of the Anglo-American acquisition, the upcoming longwall operations of the Centurion mine, and persistent demand for coal in East Asia this upward trend is expected to continue. **We initiate with a BUY rating and a one-year PT of \$33.**

Thesis Point 1 Peabody’s Centurion mine, formerly known as North Goonyella, has been undergoing intensive redevelopment over recent years and is on schedule to begin full production via longwall mining in Q1 of 2026. Historically, this site was already among Peabody’s most profitable assets and after acquiring an adjacent coal deposit is expected to produce up to 5 million tons of premium metallurgical coal annually with an expected life of 25+ years. While the redevelopment has weighed on near-term results due to capital investment, the mine’s activation will serve as a major growth catalyst and reweigh Peabody towards higher-value metallurgical coal (a vital input in global steel making)

Thesis Point 2 Asia remains the dominant growth zone for both thermal and metallurgical coal demand, and Peabody Energy’s export-centric footprint gives it strong positioning to benefit. For example, the Asia-Pacific region accounted for 84% of global coal imports in 2023, with the region receiving ~481 Mt in China alone. With China accounting for 60% of global steel production, its demand for metallurgical coal is expected to continue while the recent AI boom and construction of datacenters will increase demand for thermal coal to meet energy demands. Peabody has a competitive advantage to meet these demands given its existing infrastructure and operations in Australia and the U.S.

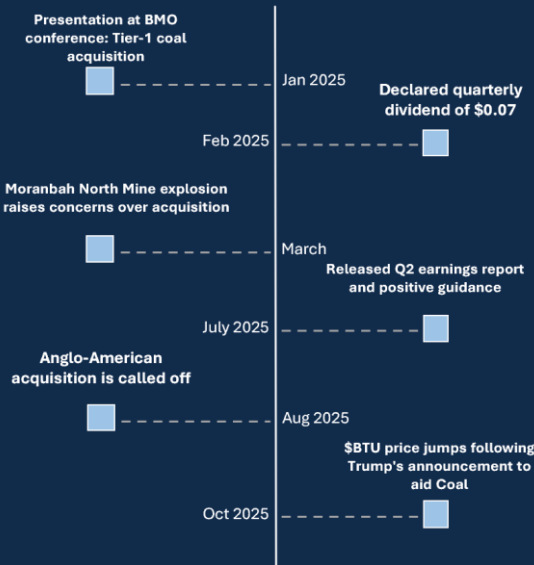
Company Overview Founded in 1883, Peabody Energy is one of the world’s largest private-sector producers of thermal and metallurgical coal. The company supplies coal primarily to electricity generators and steel manufacturers, making it a critical link in global energy and industrial supply chains. Peabody operates 17 active mine sites, with 10 located in the United States and 7 in Australia, giving it a balanced geographic footprint across two of the world’s most significant coal-producing regions. In 2024, approximately 90% of sales were generated from long-term coal supply agreements. These contracts help stabilize cash flow and reduce exposure to short-term commodity price volatility. The company benefits from its diversification across thermal coal (essential for power generation) and metallurgical coal. This dual-market exposure differentiates Peabody from smaller, more specialized peers and positions it to capture value in multiple demand cycles.



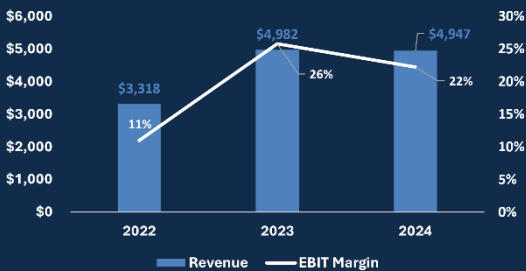
TICKER:	\$BTU
RATING:	BUY
PRICE:	\$29.43
PRICE TARGET:	\$33.00
MARKET CAP:	\$3.585bn/m
52-W RANGE:	\$9.61 - \$35.99
P/E:	26.65x
IMPLIED UPSIDE:	12%



Recent Events Timeline



EBIT Margin with Annual Revenue



Risk 1 As reported by the IEA, thermal coal prices fell earlier this year to levels last seen in 2019 while metallurgical coal prices fell below \$200 per ton. These slipping prices coinciding with a slight dip in demand from China and Europe as well as other macro conditions. While such conditions may inhibit the ability to generate returns given recent capital expenditures, this may just be a temporary stage of the cyclical coal market.

Risk 2 While metallurgical coal lacks viable substitutes, thermal coal continues to face competition from cleaner energy sources. In particular, global momentum for nuclear energy is accelerating, with over 60 new reactors under construction worldwide, and nuclear generation rising to nearly 10% of global electricity output in 2024. As thermal coal still represents roughly half of Peabody’s total revenue, any sustained shift toward low-carbon or nuclear power generation could offset gains made from its metallurgical segment and pressure long-term growth.

Catalysts Catalysts for the stock to move towards our price target include new U.S. legislation that favors coal over other energy sources which may increase the domestic thermal coal segment’s profitability and margins. Additionally, if 2025 Q4 guidance remains positive with lower-than-expected CapEx combined with an optimistic outlook on the profitability of Centurion may cause the stock to jump. The other primary catalyst is a sooner reversal in the coal market cycle. If the price of thermal and metallurgical coal rise to previous levels, Peabody is positioned to generate significant returns.

Valuation

DCF Analysis (\$mm)						
	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030
	12/31/2025	12/31/2026	12/31/2027	12/30/2028	12/30/2029	12/31/2030
Stub	0.84	1.84	2.84	3.84	4.84	5.84
Discount Period	0.08	0.66	1.66	2.66	3.66	4.66
Revenue	4,135	4,309	4,496	4,700	4,924	5,173
Revenue Growth	-2%	4%	4%	5%	5%	5%
Powder River Basin	1,125	1,159	1,191	1,220	1,248	1,273
Seabome Thermal	1,200	1,236	1,272	1,307	1,341	1,374
Seabome Metallurgical	1,000	1,080	1,177	1,295	1,437	1,610
EBIT	300	323	337	353	369	388
EBIT Margin	7%	8%	8%	8%	8%	8%
Tax Expense	75	81	84	88	92	97
Effective Tax Rate	25%	25%	25%	25%	25%	25%
NOPAT	225.00	242.37	252.91	264.38	276.97	290.97
D&A	350	345	337	329	320	310
Capex	350	345	315	282	246	207
Changes in NWC	100	86	45	0	(49)	(103)
UFCF	125	156	230	311	400	498
PV of FCF	124	149	206	260	313	364

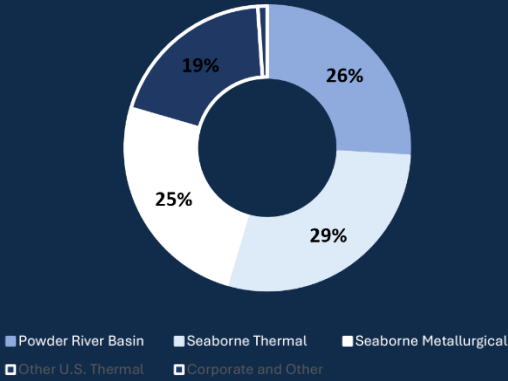
While our base case 5yr DCF model anticipates a slight dip in revenue for 2025, we expect to see major growth under the Seaborne Metallurgical segment driven by the longwall mining at Centurion. Following the completion of the project, we expect an increase in D&A with a taper off CapEx thus adding to free cash flow. Coinciding with that, EBIT margins will gradually expand as these operations meet the persisting demand in East Asia. Furthermore, we assume an EV/EBITDA exit multiple of 4.7x which remains conservative relative to peers yet retains an optimistic valuation.

Conclusion

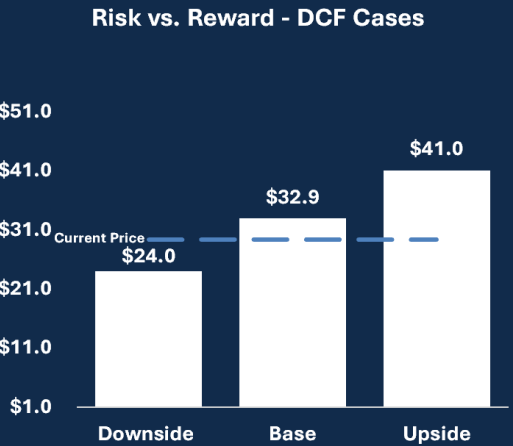
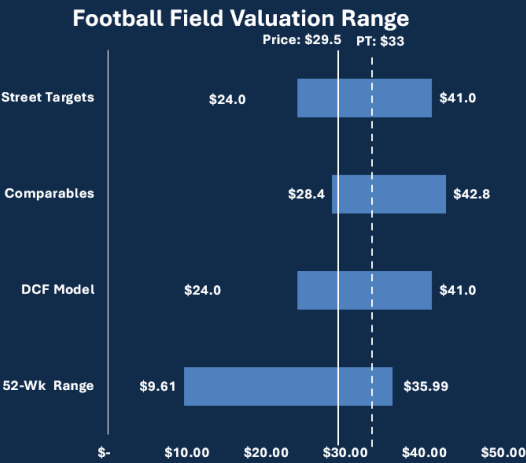
We believe Peabody has positioned itself strategically to tolerate current market conditions and optimize growth going forward. Given the recent pullback in price, but remaining positive outlook, we cautiously advise that Peabody is undervalued.

We initiate Peabody as a BUY rating with a PT of \$33, representing 12% upside in the next year.

Revenue Segments



Terminal Value	
Exit Multiple Method	
2034 EBITDA	\$698
EV/EBITDA Exit Multiple	4.7x
Terminal Value	\$3,282
PV of Terminal Value	\$2,397
PV of Projection Period	\$1,416
PV of Terminal Value	\$2,397
Implied TEV	\$3,813
(-) Debt	\$394
(+) Cash	\$586
Implied Equity Value	\$4,005
Diluted Shares Outstanding	122
Implied Share Price	\$32.94
Upside/Downside	12.4%



Income Statement (\$mm)	2024A	2025E	2026E	2027E	2028E	CAGR%
Revenue	4,237	4,135	4,309	4,496	4,700	2.6%
EBITDA	710	650	668	674	682	-1.0%
EBIT	370	300	323	337	353	-1.2%
NOPAT	261	225	242	253	264	0.3%

Margin & Growth Data	2024A	2025E	2026E	2027E	2028E	AVG%
EBITDA Margin	16.8%	15.7%	15.5%	15.0%	14.5%	15.5%
EBIT Margin	8.7%	7.3%	7.5%	7.5%	7.5%	7.7%
Revenue Growth	-14.4%	-2.4%	4.2%	4.3%	4.5%	-0.7%
EBIT Growth	-66.4%	-18.9%	7.7%	4.3%	4.5%	-13.7%

Valuation Metrics	2024A	2025E	2026E	2027E	2028E	AVG%
P/FCF	3966.2x	28.6x	22.9x	15.5x	11.5x	808.9x
EV/Sales	0.8x	0.8x	0.8x	0.8x	0.7x	0.8x
EV/EBITDA	4.8x	5.2x	5.1x	5.0x	5.0x	5.0x
FCF Yield	0.0%	3.5%	4.4%	6.5%	8.7%	4.6%

Comparable Companies

\$mm

Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
Core Natural Resources, Inc. (NYSE:CNR)	\$4,717	\$4,695	179.6x	\$3,276	\$529
Warrior Met Coal, Inc. (NYSE:HCC)	\$3,550	\$3,354	87.6x	\$1,221	\$195
Whitehaven Coal Limited (ASX:WHC)	\$3,755	\$4,294	8.7x	\$3,800	\$1,835
Alliance Resource Partners, L.P. (NasdaqGS:A)	\$3,149	\$3,590	13.5x	\$2,292	\$622
Peabody Energy	\$3,883	\$3,740	28.5x	\$4,038	\$564

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	Yr Rev Growth	Rate LI
Core Natural Resources, Inc. (NYSE:CNR)	8.9x	21.8%	16.2%	3.9%		47.1%
Warrior Met Coal, Inc. (NYSE:HCC)	17.2x	20.3%	16.0%	2.1%		(27.7%)
Whitehaven Coal Limited (ASX:WHC)	2.3x	23.6%	48.3%	9.1%		52.5%
Alliance Resource Partners, L.P. (NasdaqGS:A)	5.8x	31.0%	27.1%	14.1%		(8.6%)
Peabody Energy	6.6x	16.7%	14.0%	5.0%		(6.9%)

High	17.17x	31.0%	48.3%	14.1%	52.5%
75th Percentile	8.87x	23.6%	27.1%	9.1%	47.1%
Average	8.16x	22.7%	24.3%	6.8%	11.3%
Median	6.63x	21.8%	0.0%	5.0%	-6.9%
25th Percentile	5.77x	20.3%	16.0%	3.9%	-8.6%
Low	2.34x	16.7%	14.0%	2.1%	-27.7%

Peabody Energy

Implied Enterprise Value (25th Percentile)	\$	3,259
Implied Enterprise Value (Median)	\$	3,740
Implied Enterprise Value (75th Percentile)	\$	5,007

Implied Share Price (25th Percentile)	\$	28.38
Implied Share Price (Median)	\$	32.33
Implied Share Price (75th Percentile)	\$	42.76

Weighted Average Cost of Capital (\$mm)	
Market Risk Premium	4.33%
Beta	0.66
Risk Free Rate	4.39%
Cost of Equity	6.53%
Weighted Average Cost of Debt	6.00%
Tax Rate	25.00%
Cost of Debt	0.45%
Total Equity	\$3,562
Total Debt	(\$192)
Equity/Total Capitalization	90.04%
Debt/Total Capitalization	9.96%
WACC	6.98%

Downside Case: Our downside case assumes much slower growth in all sectors and the event the Centurion project incurs unforeseen complications. At a multiple of 3.7x, our downside case presents 18% downside with a PT of \$24.

Upside Case: Our upside case assumes continued growth in all sectors with very aggressive growth in the Seaborne Met sector driven by the success of the Centurion mine. Assuming this coincides with an upswing in the coal market and thus new highs in margins justifies an EV/EBITDA multiple of 5.7x, presenting a 38% upside and PT of \$41.

Disclosures and Ratings: Bluegrass Capital Research does not hold any professional relationships with the securities mentioned in this report. Our ratings are defined as follows: **Buy** (expected to outperform the market), **Hold** (expected to perform in line with the market), and **Sell** (expected to underperform the market), typically over a 12-month horizon. This report is for educational and informational purposes only and should not be considered as financial advice.