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Coal Giant Peabody Files for Bankruptcy

By Brigid McCurdy, J.D. Candidate 2017 | April 18, 2016

Peabody Energy Corp, the world's biggest private-sector coal producer, filed for Chapter 11 bankruptcy in St. Louis last week. Although American coal companies have struggled recently, with Alpha Natural Resources and Arch Coal also filing for bankruptcy, Peabody is the largest coal company to file for bankruptcy to date.

In Peabody's bankruptcy filing, the company estimated its assets at $11 billion and its liabilities at $10.1 billion. The filing did not include a specific plan for cutting debt, but so far Peabody has agreed to $800 million in debtor-in possession financing, including a $500 million term loan, a $200 million bonding accommodation facility for cleanup costs, and a $100 million letter of credit. Shares of Peabody closed at $2.07 per share upon news of the bankruptcy, and trading of the stock was eventually halted. Since its 2008 peak, Peabody share price has declined over 99%.

A variety of factors led to Peabody's bankruptcy. In 2011, Peabody completed a $5.1 billion leveraged buyout of Macarthur Coal, betting on an increased Asian demand for Australian metallurgical coal. However, the Chinese economic downturn and falling demand for metallurgical coal hurt Peabody. Additionally, the shale boom in the United States made natural gas more competitive with coal, and new environmental regulations increased operating costs. In 2015, total coal sales from mining fell 7% in the United States, and sales are down 9% since 2011.

Beyond the financial ramifications of Peabody's bankruptcy filing, many are concerned about the environmental impact. Although Peabody has announced its intention to continue operating its mines despite the bankruptcy, there are concerns that coal companies will not be able to pay mine cleanup costs if there are continued bankruptcy filings and mine closures. In the event that Peabody could not pay for mine cleanup, many are worried that taxpayers would be forced to cover the billions in reclamation costs.

The controversial practice of self-bonding has changed the way that coal companies finance mine reclamation and increased environmentalists' concerns. Under this practice, coal companies do not have to post bonds for mine reclamation upfront and can "self bond" for the cost of future mine cleanup. Peabody has a total of $1.1 billion in self-bonding across four states.

With Peabody's bankruptcy filing, coal producers accounting for about 45% of United States coal output have filed for bankruptcy. While Peabody is optimistic about the future of coal, the global shift away from fossil fuels and the recent natural gas boom indicate that the company may face more problems ahead.