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Coronado Resources: Buy USD CRNAU 9.25% Oct 2029 bond at ~$80.0

By Patricia Gacis

Following the recent announcements in the past week bolstering its liquidity position by ~US$300M, we have moved to a strong conviction on Coronado's ability to get through this period of weak coal prices, deliver on its strategy and avoid further credit ratings downgrade or a default. Current bond prices continue to imply a near term default is imminent, but we think this will reprice towards the mid to high 80s as markets reassess this risk.

- On 10 June 2025, Coronado announced it had secured an agreement with Stanwell Corp to add up to US$150M of additional near-term liquidity, comprising a US$75M prepayment and ~US$75M of deferred rebate payments accrued over April to December 2025. As part of this agreement, Coronado will be paying 13% interest and will be settling this through physical coal delivery (800,000tpa) starting in 2027 over 5 years. 400Kt of this will be based on prevailing market prices, and 400Kt will be on a fixed forward curve that is higher than current market prices.

- As part of this agreement, Coronado has also renegotiated the terms of the Stanwell contract such that the entitlement that Stanwell receives at deeply discounted fixed prices reduces from up to 3.5mtpa to 2.2mtpa. This is expected to result in significantly lower costs, improved margins and cash generation for Coronado and is expected to amount to $150M in incremental annual cash flow commencing in 2027.

- The US$150M Stanwell agreement is in addition to a new US$150M ABL facility with Oaktree, and the covenant waivers on the existing ABL facility (with no time limit), both announced late last week.

- With total unencumbered cash of US160M, total liquidity immediately available is US$385M.

- While Coronado does not have to maintain the minimum US$100M cash covenant, it still needs to maintain at least US$50M-US100M for working capital and the planned US$80M of capex to expand its Buchanan and Curragh mines.

- We previously had assumed a cash burn rate of US$45M per month experienced in the last quarter when coal prices were at their bottom. However, we think moving forward this is likely closer to the US$25-30M area, thanks to the announced Stanwell rebate deferral between now and December 2025, and the improving outlook for coal prices from the second half of calendar 2025 (as implied by forward coal price curves). Recent updates from coal producers and coal infrastructure providers have also pointed to the start of the rebound in coal prices next half. We should get an update on the company's cash burn when at the Q2 25 results announcement next month. - Consequently, we estimate that Coronado should have enough liquidity for the next 12-18 months, which is just in time for the increased output from the planned expansions being sold at improved met coal prices, and the US$100M of planned cost reductions to come through. From 2027, the Stanwell contract will also be adding positively to cash flow and earnings rather than detracting in recent years.

- Stanwell's agreement to receive coal as repayment for the liquidity injection and rebate deferrals in two years' time, i.e. from 2027 over five years, is a vote of confidence in the value of Coronado's assets and its ability to deliver on its stated strategy and lends weight to our view that this is a recovering credit story.

We think that bonds will reprice towards the mid to high $80s in line with our base case expectation on recovery for bond holders, given our expectation of ~US$700M liquidation value of assets, less ~$340M of liquidity facilities and letters of credit ranking ahead of the bonds.

As the company completes its objectives over the next 12-24 months, we believe that credit ratings agencies will upgrade, and bond prices will improve further.

The main risks to this trade idea include the failure of the Oaktree facility from eventuating (remains subject to final Oaktree IC approvals), operational risks of Coronado in delivering these objectives and a further fall or significant delay in the recovery of coal prices.

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