

Colonial Coal Share price Soaring on Bid Speculation

Colonial Coal (TSX.V: CAD)

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Colonial Coal	TSX.V : CAD
Stage	Exploration
Metals	Metallurgical coal
Market cap	C\$277 m @ C\$1.59
Location	British Columbia, Canada



Colonial Coal Peace River coalfield project locations

Colonial Coal Share price is Soaring due to the Metallurgical Coal Price Reaching Record Highs in China, and Bid Speculation.

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Colonial Coal's share price has raced away in recent trading sessions, and has tripled in a few short weeks after a recent bottom, on no news from the company.

On Wednesday 8th September the share price rose a whopping 55 cents, or 52.9%, with a phenomenal 2.6 million shares traded worth over C\$3.5 million.

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So why is Colonial Coal rising in price now?

It's a fair question, the company hasn't issued any news

recently, so what's been the trigger for the rise?

There are a few possible reasons;

Record high coal prices – Clearly the stratospheric prices been quoted by some media sources for top quality coal, CFR in China, have made people very optimistic for the company, as the asset in the ground currently valued at a mere C\$0.40 per ton is even more undervalued.

Fear of missing out – Investor perception of the likelihood of a takeover has increased, as it's well known that Colonial are seeking to complete a corporate transaction, management strength is in exploration, not mining.

A loyal shareholder base – Colonial is tightly held with a limited free float, so any buying strength will result in a rapidly increasing share price as volume is simply not available in the market.

Management experience – Colonial's management have achieved two successful corporate transactions in the past, creating significant shareholder value in the process. They are well equipped to manage such transactions.

A predator accumulating stock – This is a very plausible possibility, although given the steepness of the rise yesterday, I would have thought it would be more sensible for a potential bidder to make an outright bid for the company. *Management and insiders hold sufficient shares to prevent a hostile bid.*

What next?

This is a situation that needs following closely as things may move quickly if there is a bidder about.

CEO David Austin's biggest success was the sale of Western Canadian Coal to Walter Energy of the USA for US\$3.2 billion, and WCC only had a fraction of the circa 700 million tons of good quality coking coal Colonial currently has.

That takeover became frantic once the initial bid went down on the table, and if a bid emerges here, I would not be surprised to see competing bids arriving very quickly, with any bid friction working to shareholders' benefit.

[A US based investor research company has issued a newsflash to their clients, which can be accessed HERE](#)

[Colonial Coal's corporate website can be accessed HERE](#)

Coking coal price facts

I always use FOB Canada or Australia prices, as they were used in the Colonial Coal PEA.

As much as it looks better to use the high CFR prices for top quality coal being quoted in China, the reality is that Colonial, if they were exporting now, would receive around US\$300 currently for their coal FOB, or around C\$380.

This is simply a phenomenal margin for what is traditionally a bulk commodity, high tonnage, and low margin.

Imagine if CAD were actually mining the proposed 8 million tons per annum currently, with a margin of C\$230 per ton FOB at the port! What's the market cap?

Coking coal – The situation today

Australia is the world's largest exporter of coking coal, and was a major supplier to China, the world's biggest steelmaker, prior to Beijing's unofficial ban on imports.

The ban was put in place last year as part of a political dispute with Canberra that is still continuing.

The USA is the world's second-biggest shipper of coking coal, and prices of cargoes loading at the port of Hampton Roads are at record highs, according to price reporting agency Argus.

Low volatile coking coal at Hampton Roads ended at \$315.05 a tonne on Sept. 3, having exceeded its previous record high of \$295.40 from May 2011 on every trading day since Aug. 26, according to Argus, data that goes back to mid-2010.

The price has risen since September the 3rd.

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Disclosure

At the time of writing the author holds shares in Colonial Coal bought in the market at the prevailing price on the day of purchase.

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