

Stock Statistics

Ticker	MEE
Exchange	NYSE
Financial Year End	December

Market Price *	\$11.52
Market Cap *	\$985 mln
52-Week Hi / Low	\$96.7 / \$9.6
Average Daily Volume	> 5,000,000

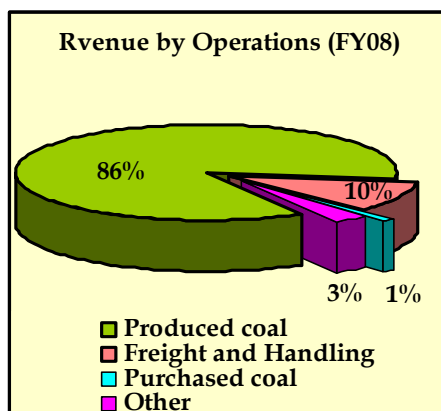
* As of previous day close



Source: Reuters

Company Description

Massey Energy Co. (MEE), incorporated in 1920, is a Virginia based minerals and mining company, and the fourth largest coal producer in the US. MEE produces, processes, and sells bituminous coal of steam and metallurgical grades, through its 23 processing and shipping centers called Resource Groups. By the end of January 2009, the company operated 66 mines, including 46 underground and 20 surface mines in West Virginia, Kentucky and Virginia. MEE also operates approximately 160 wells, 200 miles of gathering line, and a range of small compression facilities in the Appalachian Basin. MEE controls \$2.3 bln tons of high quality coal reserves and produced and sold nearly 41 mln tons of coal in FY08. The company employs more than 6,000 employees. Two-thirds of coal sold is utility and one-third is metallurgical and industrial.



Note: We follow 14 coal stocks. MEE is one of the smaller coal stocks with a market cap of just under \$1 bln. BTU, CNX and ACI are the three largest; see table on right. MEE was founded in 1912, but has only been publicly traded since its spin-off from FLR in 2001.

Investment Recommendation — Buy / Three-year target: \$25-\$30+

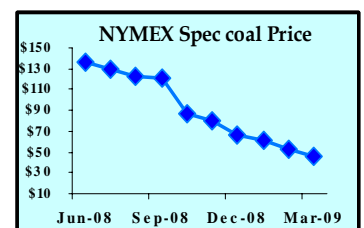
We added **MEE** to our (*buy and hold*) portfolio on March 30th and (we) may have picked the bottom there. MEE rose by 22% since the recommendation, but is still more than 85% off its 52-week high of \$96. This is a high risk-reward situation as MEE will need oil prices to remain elevated along with a rebound in the economy (as MEE is levered to metallurgical coal used in steel production). If we get both of these occurrences, as I expect we will in 2011-2012, **MEE should be able to retrace a significant amount of the \$85 that it is off from its high.** MEE ranked # 50 out of 140 stocks according to our 155-variable computer model in the April 6 Energy sector report – MEE ranked # 4 out the 14 coal industry stocks. The concerns and bad news is already reflected in the share price with **multiples on cash flow, sales, earnings and book value are all at all-time lows.**

Investment Summary

- **Metallurgical coal prospects encouraging** – The ongoing concerns regarding the weakening global economy and uncertainty with the economic outlook led to the sharp decline in international and domestic metallurgical coal prices. Many customers either cancelled their orders or renegotiated contract prices with MEE. However, in spite of these difficulties, MEE managed to report an increase in metallurgical coal volume and the average realized sales price during 4Q08. During FY08, metallurgical coal produced tons sold increased by 16% and produced coal revenue per ton sold increased by 34%. MEE management believes that when the global economy recovery gets started, developing economies will proceed with their economic expansion which will drive the demand of steel and uplift the global demand for metallurgical coal. Being the largest player from Central Appalachia, MEE seems to be well positioned to grab future opportunities arising from the US and global economic recovery.
- **Organic growth, MEE’s preferred development route** - The expansion plan announcement in late FY07 has allowed MEE to increase its production for a third straight quarter. MEE opened 19 new mines and added 10 new underground miner sections at existing mines. MEE has expanded production at 14 of its existing resources groups, started Inman Resource Group, re-started the Martin County and Coal Good Resources Groups. A few of the projects started in 2008 (including the construction of a new processing plant at Coal Good Resource Group and the addition of two new superior highwall miners) are expected to be completed in 1H09. These new operations and new members will add on to its production efficiency and are expected to work as the route for future development.
- **Long term contracts** - MEE has long-term contracts with most of its customers which provide greater predictability of sales volume and sales price to the company. By the end of FY08, ~ 97% of MEE coal sales volume was pursuant to long-term contracts and the company expects that FY09 will be comparable to FY08. As of February 2009, MEE has contractual sales commitments of approximately 101 mln tons. For FY09, ~ 60% of MEE projected sales tons are contracted to be sold to its 10 largest customers. These contracts, mostly locked at near- to peak-price levels) will help MEE to maintain its margins in near future.

Investment concerns / continued on Pages 2 & 3

- **Volatile coal prices** – A sharp fall in international coal prices coupled with the prevailing sluggish market conditions (globally), led to a decline in demand, depressing coal prices during 4Q08. Pricing for coal was approximately \$65 per ton as of Dec 31, 2008, an increase of 18% compared to ~ \$55 per ton on Dec 31, 2007 but a decrease of 47% compared to ~ \$123 per ton on September 30, 2008. On Apr 08, 2009 the coal price was just \$46.5 per ton. This reflects volatility in coal prices, the coal sector and the decrease in demand for coal from other sectors. Cutbacks from the steel industry forced shipments and prices of metallurgical coal lower during 4Q08 and this is expected to continue during 2009; this will adversely impact the stock price of MEE. That being said, this is already factored in the MEE share price.
- **Legal liabilities** - MEE mostly operates in underground mines where accidents can happen frequently and create legal liabilities on the MEE cash flow. During FY08, MEE paid ~ \$260 mln in litigation charges that significantly impacted its earnings with many other legal results still pending. These legal liabilities can create problems in its mining operations and restrain its production growth.
- **Lowered guidance** – MEE recently announced a downwards revision in its operating metrics guidance attributed to decreasing demand and pricing. MEE also advised that it would be lowering capital expenditures.



Peer Benchmarking -- additional comparisons on Page 4

Tick / Mkt Cap	% Debt : Cap	P / E (fwd)	P / Sales	EV/EBITDA
MEE / \$985M	59%	4.7 X	0.3 X	2.9 X
CNX / \$4.7B	24%	6.1 X	1.0 X	5.1 X
BTU / \$7.1B	52%	9.0 X	1.1 X	5.4 X
ACI / \$2.0B	44%	7.9 X	0.7 X	4.6 X

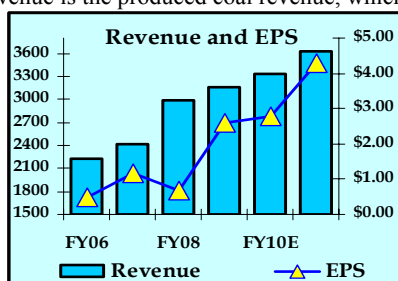
Financial Analysis

Management guidance - MEE management expects produced coal shipments for FY09 to be 44-46 mln tons, with average produced coal realization at \$65-\$67 per ton. For FY09, Average cash cost per ton is expected to be \$50-\$53. Capital expenditures should be ~ \$375 mln and DD&A expenses are expected to be ~ \$270-\$280 mln. For FY10, MEE expects produced coal shipments to be in the range of 45-47 mln tons at an average price of \$66-\$72 per ton.

Reuters estimates - FY09 revenue at \$3.15 bln, EBITDA at \$634.4 mln, net income at \$231.3 mln and EPS at **\$2.62**. For FY10, consensus estimate for revenue is at \$3.33 bln, EBITDA at \$665.6 mln, net income at \$230.2 mln and EPS at **\$2.74**. In FY11, revenue is estimated at \$3.5 bln, EBITDA at \$854 mln, net income at \$250.5 mln and EPS at **\$4.27**.

Note: The estimates in this Reuters section will not always match estimates on the right side, as those are from an independent forecasting service.

Solid revenue growth - MEE reported total revenue of \$2.98 bln for FY08 compared to \$2.41 bln in the previous year. In the last three years, ~ 85% of the total revenue is the produced coal revenue, which increased by 24.6% over the prior year and supported total revenue growth of 23.9%. During FY08, the produced coal revenue increase benefited from the higher coal price for both domestic and export sales, secured in new coal sales agreements as



lower priced contracts expired and the company shipped a larger percentage of higher priced metallurgical coal in FY08. MEE reported net income for FY08 of \$56.2 mln, or \$0.69 EPS, compared to \$94.1 mln net income, or \$1.17 EPS in FY07. FY08 net income was largely impacted by a slowdown in the fourth quarter of FY08 and the pre-tax charge of \$250.1 mln related to litigation with Wheeling (Pittsburgh) Steel Corporation.

Improving margins - For last three years, MEE gross and EBITDA margins have shown an improving trend. During FY08, MEE reported an increase of 380 basis points in its gross profit margin (24.9% versus 21.1% in FY07) supported by the increase in coal prices in mid-FY08. MEE registered an all-time record high EBITDA of \$640.6 mln in FY08. EBITDA margin for FY08 increased 440 basis points to 22.3% compared to 17.9% in FY07.

Balance sheet - MEE ended FY08 with \$646.4 mln in unrestricted cash, cash equivalents and short-term investments compared to \$877.7 mln at the end of 3Q08 and \$365.2 mln at the end of FY07. The decrease in cash compared to 3Q08 was largely the result of the cash payment to Wheeling (Pittsburgh) Steel in satisfaction of a legal judgment. Total debt at year end was \$1.47 bln as compared to \$1.49 bln at the end of 3Q08. Massey does not have significant debt repayments due until 2013, when \$756 mln of the company's 6.875% senior notes becomes due. The total debt-to-book capitalization ratio is nearly unchanged at 58.6% (FY08), versus 58.5% (FY07) and total net debt-to-book capitalization declined to 42.7% (FY08) versus 45.1% (FY07). The decline was the result of the equity issued by the company in August 2008. MEE also had \$99.5 mln available under its asset-based revolving credit facility.

High Capex makes free cash flow negative - As a result of MEE's aggressive expansion plan announced in late 2007, MEE free cash flow (FY 2008) was negative (\$345 mln) with total capex of \$736 mln versus \$270 mln in FY07.

Not the best time for stock offerings - On Feb 3, 2009, MEE filed a prospectus supplement with SEC allowing them to sell up to 5,000,000 mln shares of common stock from time to time. Funds from this offering are trusted to help the company for its business development, but given the currently sluggish stock markets the offering is unlikely to command any significant premium.

Financial Summary

	FY2008 A	FY2009 E	FY2010 E	FY2011 E
Summary Income Statement				
Revenue	2,990	3,154	3,334	3,620
Gross Profit	744	818	863	1,055
EBITDA	667	726	765	954
Interest Expense	96	130	128	127
Pre-tax Income	60	277	297	456
Net Income	56	221	238	365
EPS	\$0.69	\$2.60	\$2.79	\$4.28

	FY2008 A	FY2009 E	FY2010 E	FY2011 E
Summary Balance Sheet				
Cash and equivalents	646	506	506	506
Long-term Debt	1,464	1,464	1,464	1,464
Total Debt	1,466	1,768	1,735	1,731
Net Debt	819	1,262	1,229	1,225
Shareholders Equity	1,037	1,305	1,528	1,878
Total Assets	3,676	4,143	4,379	4,785

	FY2008 A	FY2009 E	FY2010 E	FY2011 E
Summary Cash Flow				
Cash from Operations	385	279	299	432
Capex	(737)	(545)	(585)	(765)
Capex, net	(731)	(255)	(279)	(441)
Free Cash Flow	(345)	24	20	(9)
Cash Dividends	13	14	14	15

	FY2008 A	FY2009 E	FY2010 E	FY2011 E
Key Ratios				
Revenue Growth Y/Y	23.9%	5.5%	5.7%	8.6%
EPS Growth Y/Y	-41.0%	276.8%	7.3%	53.4%
Gross Margin	24.9%	25.9%	25.9%	29.2%
EBITDA Margin	22.3%	23.0%	23.0%	26.4%
Debt/EBITDA	2.20x	2.44x	2.27x	1.81x
EBITDA/Interest exp.	6.91x	5.59x	5.98x	7.51x

\$ million, except EPS

NM: Not Meaningful

Significant Developments

02/18/09 **Dividend declared** - MEE declared a quarterly dividend of \$0.06 per share to be paid on March 31, 2009.

02/03/09 **FY09 and FY10 production guidance** - As a result of the continuing weakness in the global steel market, MEE expects pricing and demand for metallurgical coal to be significantly lower than previously forecast and adjusted its revenue and production forecast.

12/01/08 **Litigation charges** - Reuters reported that the U.S. Supreme Court has rejected an appeal by MEE of a \$100 mln jury award for punitive damages to Wheeling-Pittsburgh Steel over a contract dispute.

11/13/08 **Management changes** - MEE's Board of Directors has elected Baxter Phillips to be President of the Company, a position formerly held by Donald Blankenship.

10/02/08 **Acquisition** - MEE has completed the acquisition of the Mountaineer # 2 Mine in Greenbrier County, WV.

08/19/08 **Pricing of requisite consents** - MEE announced the determination of the total consideration offered pursuant to its cash tender offer and consent solicitation for any and all of its 6.625% senior notes due 2010.

08/07/08 **Pricing of concurrent offerings** - MEE announced pricing of its registered underwritten public offering of common stock and convertible Notes due 2015. MEE has agreed to sell 3,800,000 shares of its common stock at a public offering price of \$61.50 per share

06/19/08 **Indices changes** - MEE announced that it will become a component of the S&P 500 Index effective at the close of trading on June 20, 2008. MEE replaced OfficeMax.

Standpoint Research 155-Variable Model / Quantitative Analysis with Fundamental & Subjective Overlay

We ran 140 stocks from the energy sector through our model on April 4, 2009. Please refer to the "Legend" sheet in our Excel reports for the color code and description of all 155 variables used in our model. The 155-variable scoring is summarized in the 32 categories below (from roe through peg). The number in each of the cells, is the rank out of 140 stocks in the recent run in the respective category. The seven cells to the right of the peg cell are coded and for internal use. A weak score on P/S (ps) can be offset by a strong score in Net Profit Margin (npm). A weak score on return on equity (roe) can be offset by a strong score on price-to-book (pbk). A weak score on technical indicators (especially at the extremes), is looked at positively if it is combined with strong scores on fundamentals and valuation.

rank	ticker	roe	roa	roc	ebitda	npm	acct	eps m	rev gr	eps gr	beta	debt	stab gr
50 / 140	MEE	26	90	31	103	124	120	1	121	31	123	125	74

div I	pbk	base	rel-ma	inside	safe	pcf I	pcf II	fcf	div II	rel str	pr mo	ps	rel ps	off hi-lo
20	37	78	3	28	124	86	1	67	56	121	98	18	1	1

pred	pertix	perhis	blend	peg	deducts	t val	t fund	t prop	t misc	t tech	t score
137	2	1	7	6	4544	462	1963	725	1172	222	56.14%

We added **MEE** to our (*buy and hold*) portfolio on March 30th and we may have picked the bottom there. MEE rose by 22% since the recommendation and is still more than 85% off its 52-week high of \$96. My main concern is a correction (decline) in oil prices, now 65% off its low, may stop MEE in its tracks. Coal stocks could have an explosive move to the upside if oil prices go back to \$70-\$80. Coal stocks tend to out-perform oil when oil prices rise and under-perform in declines. Trailing two years, Oil is down 23%, while CNX, BTU, MEE and ACI dropped by 39%, 38%, 53% and 61% respectively.

The Obama administration is **not** coal-friendly in particular, especially when greenhouse gas emissions are involved, but that is already priced into the MEE share price (*as I mentioned in my notes last week*). What is not priced in is further **weakening** in the US\$, a recovery in emerging markets (MEE clients there), and an additional rise in oil prices, all of which should happen, *sooner or later*. In my opinion, the market will step in before then. Obama has made many statements over the years regarding coal. I recommend going to this web page link for a **detailed** archive on those comments. Obama is a proponent of alternative energy, but will make life difficult on those who are not playing by his "clean coal" rules.
http://www.sourcewatch.org/index.php?title=Barack_Obama_state_ments_on_coal

The addition of MEE to our (*buy and hold*) portfolio doubled our exposure in the coal industry as we were already 'long' Arch Coal **ACI**. MEE is one of the lowest quality (high-beta) names in the coal industry and is down 86% from its June 2008 high. MEE is levered towards metallurgical coal (used in steel) and that is not where you want to be in a recession ... it is where you want to be in a recovery. We decided to step in on March 30, even though there is not quite a light at the end of the economic tunnel.

MEE has dominant share in the Central Appalachia. CAPP is expensive to mine because of the difficult topography and its depleting reserves. CAPP is very high on carbon heat content. However, it is also high on sulfur content making it less attractive to the emission sensitive electricity generators. MEE locked in a major part of its current contracts at the near peak levels from last year. This will help the company maintain margins in the near-term. However, the margin contributions from its metallurgical coal last year will not be sustained given the steep decline in steel production levels and the consequent demand contraction for metallurgical coal. The proximity of CAPP to consuming centers should remain an advantage over Western coal. The high carbon CAPP is viable for export. So with the eventual recovery in emerging markets (*e.g.* China and India), we expect to see MEE benefiting in the long-run.

MEE has a mixed profile on our (155-variable) computer model. MEE ranked # 50 out of 140 stocks according to our 155-variable computer model in the April 6 energy sector report; MEE ranked # 4 out of the 14 coal industry stocks. **With the market near its lows and a rebound underway, it is actually the speculative, lower quality, high-beta stocks that will out-perform** our (S&P-1500 benchmark), and MEE is just that.

In my opinion, the bad news has already been more than priced in. There are quite a few red and orange marks in the MEE profile above - low net profit margins (8.8% versus 15.0%, 11.8% and 9.3% at BTU, ACI and CNX respectively); earnings purity (litigation costs and other "one-time charges"); high-beta (that could be a positive in a rising market); high debt-to-cap ratio and weak earnings predictability (to name a few concerns). Relative strength (which is actually a contrary indicator at this extreme) is now at 12 (and rising). There is poor earnings stability and earnings predictability as the share price is tied to volatile commodity prices. With regards to earnings predictability, there are 16 analysts who follow the company, and as a group, their estimates have been way off the mark. In Q1 '08, MEE delivered \$0.52 vs. \$0.33 (estimate); In Q2 '08, MEE delivered \$1.15 vs. \$0.77; In Q3 '08, MEE delivered \$0.86 vs. \$0.73; In Q4 '08, MEE delivered \$0.63 vs. \$0.79.

As you see in the grid below, MEE ranked "**# 1**" on off high-low, because it was at its 52-week **low** when we put out the recommendation (and that is a **positive** on our model). There is also a "**# 3**" ranking on *relative to its moving average* as it had dropped way below its moving averages relative to others - this is a sign of market over-reaction to bad news and that too is seen as a positive according to our model.

If we look out three years the company should easily be able to deliver US\$2.25-\$2.75 per share versus (\$2.50-\$3.00 in 2008-2009). I would attach a 10X-12X multiple in order to arrive at a price target (high \$20s-low \$30s) that is more than double the current quote. That target is still 65% below where the shares traded in Q2 2008, so my forecast (as usual) is quite conservative. MEE, when it has been in favor, has historically traded at multiples significantly higher than what I assigned. MEE is levered and will have trouble delivering EPS > \$2.00 if there is no economic recovery and/or if oil prices decline.

In the most recent MEE earnings call (02-09-09), MEE says it undertook a large expansion plan in late 2007, most of which is now complete. There have been growing pains, but MEE realized strong operational performance in 2008. The coal market weakened considerably in calendar Q3 and Q4. MEE has a record of outperforming its peers in difficult markets. MEE says visibility is difficult. That being said, ~ 95% of 2009 production is already under contract. In 2010, the market picture is less clear. About 50% is currently priced under contract.

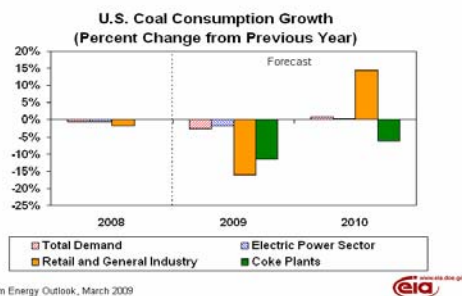
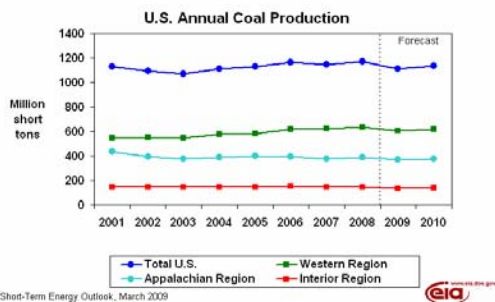
MEE has ~ 2.8 mln tons in inventory. Regarding 2010 contracts, MEE does not want to be too specific on pricing, but for steam it is ~ \$58, on the metallurgical side, it is ~ \$100 per ton, the majority of which is on a collar. Steel producers are seeking to renegotiate contracts, more from foreign producers rather than domestic. Utilities are not asking to renegotiate as much, it's more on the metallurgical side where customers are seeking to renegotiate. MEE stated that production in January was up sharply versus January 2008. MEE is running better than in 2H08 and there are no debt covenant issues coming up. MEE would look at acquisitions, but probably not in Central Appalachia.

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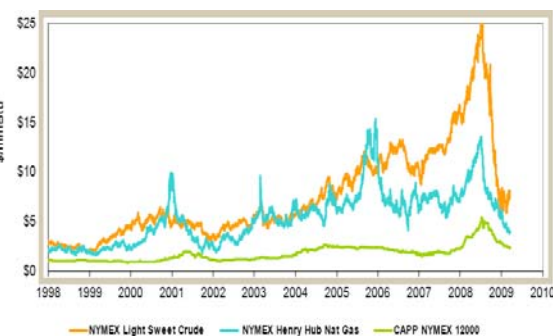
Weekly Investment Research: Massey Energy (MEE)

The global recession has led to a contraction in industrial activity and energy demand, resulting in lower electricity consumption and steel production. Coal is hit hard in both of its consuming segments - electricity and steel. Consumers are delaying their expansion projects and trimming production levels. The demand contraction - expected to be ~ 50 million tons in 2009 - is primarily due to lower electricity generation and diminished steel

production levels, and also because of the switching of fuel from coal to natural gas. EIA projects coal consumption for electricity would decline 1.7% in 2009 due to the projected decline in electricity consumption and the projected increase of other fuel sources. This demand contraction (and the consequent under-investment in supply and supply rationalization) is likely to spur the next upturn. Due to the credit squeeze, the supply of coal is tight which provides support to the current coal price and ensures a good rebound when the economy recovers.



The Obama administration's emphasis on reducing the carbon footprint through carbon cap-and-trade poses a long-term threat to the coal industry. Under this policy, an entity would have to purchase allowance units through an auction from the government which is estimated to be ~ \$20 per ton of carbon emission. Starting in 2012, the administration's cap-and-trade policy envisions a reduction in emissions by 14% below 2005 levels by 2020, and 83% below 2005 levels by 2050. It is expected that through this 2009 federal budget plan the government will raise ~ \$80 billion per year from selling carbon allowances which in turn will be used to fund carbon sequestration research and other 'green' projects. The \$20 per ton of carbon cost is estimated to result in additional costs of ~ \$0.015 per kwh of electricity and approximately \$0.22 cents of additional cost per gallon of gasoline. This level of incremental cost, in our view is not enough for the consumers to switch fuel sources away from coal. However, if the carbon cost goes up substantially, this may pose a serious threat to the coal industry.



		REVENUE	EARNINGS	ROE	PRICE	E'PRISE	% OF LT	P/E	
	MKT	5 YR HIST	5 YR HIST	5 YR	TO	VAL :	DEBT :	FWD	DIV
COMPANY NAME	CAP	GR RATE	GR RATE	AVG	BOOK	EBITDA	CAP	4 QTR	YIELD
PEABODY BTU	7147	14.0%	36.0%	22.9%	2.5	5.43	52.0%	9.0	0.9%
CONSOL CNX	4702	11.0%	35.0%	40.7%	3.2	5.11	24.0%	6.1	1.5%
ARCH COAL ACI	2030	10.0%	60.0%	14.1%	1.2	4.63	44.0%	7.9	2.5%
MASSEY MEE	985	11.0%	141.0%	8.1%	0.9	2.91	59.0%	4.7	2.1%
FOUNDAT'N FCL	680	-	-	12.0%	3.0	3.93	72.0%	6.2	1.3%
JAMES RIV JRCC	355	-	-	-	5.4	NM	70.0%	3.8	0.0%

End of Report

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