Keith De Lacy saddened by fall of US coal giant Peabody Energy

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Former Macarthur Coal chairman Keith De Lacy admits Peabody Energy bought the company right at the top of the mining boom. *Photo: Glenn Hunt*

Former Macarthur Coal chairman Keith De Lacy says he is saddened by the prospect of embattled coal operator Peabody Energy selling its Australian assets but admits the US miner overpaid in 2011 when it shelled out $4.9 billion to take control of Macarthur.

Fairfax Media revealed last week Peabody was selling most of its Queensland coal exploration portfolio, and it is understood production assets including its Macarthur Coal mines are also on the block at the right price.

Peabody is thought to be a willing seller following a calamitous 86 per cent plunge in its share price in the last 12 months, giving the former coal giant a market capitalisation of just $636 million.

Mr De Lacy, the former Queensland treasurer, told Fairfax Media he was shocked by the fall in value of Peabody but believes the coal company could recover as demand for coal rebounds later this decade.

"I watch the situation of Peabody with some sadness and the state of the coal industry with a great deal of sadness," Mr De Lacy said. "I have got a view that the underlying market is stronger than people realise and it will come back but that could take some time. I do not think it will ever get back to the highs of 2010 and 2011 however."

Peabody paid $4.9 billion in October 2011 to acquire Macarthur as part of a frenzy of deals by international companies looking to gain exposure to booming demand from Asian steel mills for high-quality Australian coal supplies.

However, a prolonged slump in the price of both coking and thermal coal has resulted in a dismal few years for Peabody and its peers amid falling demand from China.

The price for coking coal has been slashed to just $US93 a tonne from $US330 a tonne in 2011; while thermal coal is languishing at six-year lows of about $US63 a tonne, down from $US150 a tonne in 2011.

Mr De Lacy said although it was not obvious at the time, Peabody had undoubtedly paid too much for Macarthur.

"I didn't think they overpaid for it [at the time] but obviously they did but that's just a reflection of the market at the time and what the market was valuing us at."

Mr De Lacy presided over Macarthur from its listing in 2001 until its takeover in 2011 and said on reflection Peabody bought Macarthur at the absolute peak of the mining boom.

"Again we didn't know it at that time but it was right at the very peak of the boom. I would say it was almost the last days of the boom and within months things had started to turn."

Mr De Lacy said large diversified miners such as Rio Tinto or Anglo American could handle tough times for the coal sector due to their exposure to other commodities. However, Peabody has nowhere to hide.

"If your whole game is coal, it's very tough indeed. I was a great believer in the coal industry and wanted to see everyone do well and I still do but it is a tough cycle for the industry to go through."

Peabody said in May it would shed up to 210 jobs and cut production at its North Goonyella mine, as depressed prices for both thermal and coking coal continued to deteriorate.

South Korean steelmaker Posco, a former shareholder in Macarthur, is tipped to be interested in buying a stake in the mine.

Macarthur was the world's biggest producer of pulverised coal, which is injected into blast furnaces as a replacement for coke in the production of pig iron.

On Friday, Peabody shares fell to their lowest close since they started trading in 2001 after Moody's downgraded its credit rating, saying any material recovery in coal prices is unlikely in the next 18 months.

Peabody was unavailable for comment.