Final Transcript

Q1 2022 Ramaco Resources, Inc. Earnings Call

Event Time: 05/12/2022 11:30 EST

Corporate Participants

Randall Atkins *Ramaco Resources, Inc. – Founder, Chairman, Chief Executive Officer*

Chris Blanchard *Ramaco Resources, Inc. – Chief Operations Officer*

Jason Fannin *Ramaco Resources, Inc. – Chief Commercial Officer*

Jeremy Sussman *Ramaco Resources, Inc. – Chief Financial Officer*

Conference Call Participants

David Gagliano *BMO Capital Markets — Analyst*

Nathan Martin *The Benchmark — Analyst*

Lucas Pipes *B. Riley Securities — Analyst*

Presentation

Operator

Ladies and gentlemen, welcome to the Ramaco Resources, Inc. First Quarter 2022 Earnings Conference Call.

[Operator instructions]

I would now like to turn the conference over to your host, Mr. Jeremy Sussman, Chief Financial Officer. Sir, please go ahead.

Jeremy R. Sussman — Chief Financial Officer

Thank you. On behalf of Ramaco Resources, I'd like to welcome all of you to our First Quarter 2022 Earnings Conference Call. With me this morning is Randy Atkins, our Chairman and CEO; Chris Blanchard, our Chief Operating Officer; and Jason Fannin, our Chief Commercial Officer.

Before we start, I'd like to share our normal cautionary statement. Certain items discussed on today's call constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements represent Ramaco's expectations concerning future events. These statements are subject to risks, uncertainties and other factors, many of which are outside of Ramaco's control, which could cause actual results to differ materially from the results discussed in the forward-looking statements.

Any forward-looking statement speaks only as of the date on which it is made, and except as required by law, Ramaco does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

I'd also like to remind you that you can find a reconciliation of the non-GAAP financial measures that we plan to discuss today in our press release. Lastly, I'd encourage everyone on this call to go on to our website, ramacoresources.com, and download today's investor presentation under the Events Calendar.

With that said, let me introduce our Chairman and CEO, Randy Atkins.

Randall W. Atkins — Founder, Chairman, and Chief Executive Officer

Thank you, Jeremy. As always, we look forward to discussing our Q1 results and some updates with everyone. These are indeed pleasant days to be in the met coal business, as long as you can dial out the noise from the stock market.

Despite the backdrop of the immediate market turmoil, our quarterly earnings were a record. Indeed, we generated more net income in Q1 than for the entire year of 2021. To those concerned about any miss from consensus estimates, we will address that head on with this call.

As of today, we have sold 2.4 million tons or about 70% of our 2022 sales. This assures us another record year. We still have 30% of remaining production, or over 1 million tons left to sell, basically at index prices and into export markets.

To address results, Q1 EBITDA of $64 million was not only a record quarter, but it was a double of our Q4 2021 earnings. Like every other coal producer, last quarter was a "would've, could've, should've" quality, based on substandard rail service. We were only able to load about 80% of planned shipments. The vast majority of the missed shipments were higher-priced export index price business. Had we been able to load on schedule as contracted that would have translated to an additional $23 million of EBITDA. These deferred earnings, so to speak, will now slip into future quarters.

So far, in 2022, of our 2.4 million tons of committed sales, roughly 90% have already shipped or have priced. These sales now translate into roughly $330 million of EBITDA generated year-to-date, $235 million of net income and roughly $530 of earnings per share. For perspective, three months into the New Year we now have greater than four times more EBITDA and almost six times more net income than we did for the entire year of

2021. Again, we still have roughly one-third of production left to sell to add to these figures. So looking beyond Q1, we expect to have an extremely strong and again record year on all fronts.

The next three quarters of '22 promised to improve on Q1. We expect to increase the cadence of both production and market-based index sales in the second half. We will also recognize additional cost savings from both that increased production and royalty and sales expense reduction, which we'll talk about in a moment.

Our remaining open sales tons should primarily head into export markets, which, of course, are still are at record index pricing levels. Spot index pricing levels for the Atlantic seaborne continue to hold well. Yesterday, low vol was at $474 a ton. Indeed, our last low vol shipment printed at a premium of $510 per ton with a $400 per ton mine netback.

We expect overall second half market conditions to remain strong. The underlying rationale for this stronger for longer dynamic, we think will continue to persist for some extended period. The factors are, of course, very limited existing supply with no meaningful near-term new supply, continued strong demand, and now we stir in some looming disruptions in Q3 when Russian coal shipments into the EU finally stop in August.

We are successfully executing on all our announced production increases and now hope to hit 3.4 million tons this year. We also hope to bump this to at least 4 million tons or more in '23.

We are well along in adding our new prep plant processing capacity. Once increases at our Elk Creek and new Berwind plants are complete, this will push our nameplate capacity to 5.5 million tons and possibly more. As I have said before, we can think of no other public coal group which is growing as fast, doubling current production, paying for from internal funds and simultaneously making meaningful shareholder returns of capital.

Indeed, this week, the Financial Times named us as the 303rd out of 500th fastest-growing companies in America. I self-servingly mentioned that fact, because Tesla was ranked behind us at only 314. It's a very nice company to keep.

We are also, of course, on this year to generate record levels of both free cash flow and cash buildup. This week, we announced our second regular base dividend. We also announced that we intend to register a new class of tracking stock, which is expected to receive a dividend based on the financial performance of the recently acquired assets of Ramaco Coal.

We intend to refer to this new business line as core resources, signifying its focus on carbon ore and rare earth elements. Since we will be filing a registration statement on this new security, I unfortunately cannot discuss it in any detail beforehand.

We also sent our first annual shareholder letter last month, which you might look at for some additional color. In it, I expounded on the fact that, unfortunately, from the standpoint of the stock market, the coal industry has a Rodney Dangerfield, “We don't get much respect” feel to it. When you look at both Ramaco and our peers, we all trade in an average EV multiple band of about two times consensus 2022 EBITDA. Even companies making massive special cash dividends and buybacks are trading for a fraction of the 5 times to 15 times EBITDA multiples of oil and gas, other energy groups, industrial or materials groups. And please do not get me started on commenting on multiples at rare earth element companies.

I contend one reason for the industry's valuation of lethargy is that the market does not deem that there is any effective “end game” to our business. What I mean is that, the larger coal industry has not been able to articulate a vision of how to transition in a world, which penalizes anything that remotely looks like a greenhouse gas emitting business. This is unfortunately true whether you say you're in the met coal business, much less, if you say you're a thermal producer.

Almost 10 years ago, before it was either fashionable or we had even heard of the term ESG, we at Ramaco started looking at alternative uses of coal beyond combustion. I want to comment on this as a lead-in to our approach to our recent Ramaco coal purchase.

We've been working for years with two of the national labs to develop some fascinating advanced carbon products and materials, which use coal as a precursor. We started to refer to coal used this way as carbon ore, and we have started to build what we also call a “Carbon Valley” for coal in Wyoming.

We've developed a large body of intellectual patent and licensing rights around these concepts. These advanced carbon products would basically allow for a much higher market price for coal as a base feedstock, because of the higher value of the end product. It could become a third leg of the stool, where coal or carbon ore, could be used for power, for steel, or in the future for carbon products and materials.

We've also built over the last 10 years a sizable fee-owned met coal reserve portfolio, which we now mine in the East. It throws off annual royalty income that should grow to over $20 million to $25 million per year over the next 24 months at the forward curve, and it will continue for another 20 or more years. Since Ramaco Resources now owns those reserves, it will let us avoid that royalty cost.

Lastly, for several years, we have been doing reserve assessments of our Powder River Basin coal in partnership with the DOE's National Energy Technology Lab. We discovered about two years ago that we may be sitting on some very high concentrations of rare earth elements at our 500 million ton permitted Brook Mine in Wyoming. These are valuable medium and heavy quality REs. They are found in both our coal seams as well as the clay over and under burdens. As we speak, we are currently doing an extensive coring analysis to determine a broader reserve assessment of both the extent and quantity of that reserve. We hope to have that assessment complete later this year.

Indeed, when you look at all of these new Ramaco Coal assets, they can produce basic royalty-like income streams that are a lower risk form of passive income. These should trade more like a royalty security and therefore at substantially higher multiples than coal companies. We will continue to look at ways to unlock that value and provide it back to shareholders.

And speaking of dividends, I realize that this has been a busy quarter on dividend and buyback announcements from other coal groups. Unfortunately, they have received mixed reaction from the markets. As I said, at Ramaco we are now on track to have our best year of cash generation, as you can calculate from the figures that I provided earlier. We still intend to consider an increase in our basic dividend level later this year, probably in the fourth quarter. At that time, we will also consider possible share buybacks, especially if our stock is in a low valuation environment.

In the meantime, in Q3, we expect to make a dividend of a percentage of the new tracking core resources shares post the registration of that stock.

Now with that, I'd like to turn the floor over to the rest of the team to dive into some more details on finances, operations and the market. So Jeremy, please run down our financial and some market metrics.

Jeremy R. Sussman — Chief Financial Officer

Thank you, Randy. I'll start by going over our first quarter 2022 financial highlights. Adjusted EBITDA of $64 million was our best quarter on record, up 103% from Q4 of $32 million, which was our previous quarterly record.

Unfortunately, as Randy mentioned, the rail transportation issues that we flagged on our last earnings call, persisted throughout the first quarter, causing us to build almost 85,000 tons of inventory. Had we shipped that coal, Q1 adjusted EBITDA would have been over one-third higher, or up an additional $23 million.

First quarter diluted EPS of $0.92 was up 121% from Q4 EPS of $0.42. We believe the transportation dynamics negatively impacted Q1 EPS by another $0.38. While our rail service has improved a bit to begin Q2, we would anticipate service to increase meaningfully in the back half of the year. As a result, we expect second quarter results to be modestly above first quarter results and second half earnings to be well above first half earnings.

Now turning to our full year 2022 outlook, I would like to touch on a few of the key areas in our guidance tables. First, on production and sales, we increased guidance from 3.0 million to 3.3 million tons, now up to 3.1 million to 3.4 million tons. We slightly beat Q1 in terms of internal -- our internal budget for production. However, Q1 shipments, as discussed, fell short of expectations due to transportation issues though we anticipate making these up throughout the year.

Second, on costs, despite inflationary pressures, we are maintaining our cost guidance of $82 to $90 per ton. We anticipate costs coming down throughout the year. This is based on a combination of economies of scale from increased production, plus the benefit of material savings in coal royalties on the back of the Ramaco Coal transaction, coupled with the Berwind Prep Plant coming online to reduce trucking costs.

To drill down, in Q1, we, of course, saw no meaningful benefit from royalty savings, because we did not own Ramaco coal. Had we owned Ramaco Coal, cash cost would have been around $100 per ton, despite mining on very little feed coal compared to normal.

Second, had our Berwind prep plant been up and running, which we anticipate this summer, overall cash cost would have come down another $3 per ton. Lastly, in Q1, we also saw meaningfully higher labor costs than we anticipate the rest of the year up $6 per ton from Q4 based on advanced hiring.

Simply put, we made the decision that it made sense to hire a lot of qualified miners in Q1 in anticipation of higher production as we ramp throughout the year. Indeed, our headcount is up by over 100 since year end.

While this negatively impacted Q1 costs per ton, we wanted to put ourselves in the best possible position to hit our production growth targets throughout the year. As we ramp production, unit costs should come down.

Lastly, we are increasing our capital expenditure guidance from $65 million to $85 million to $80 million to $95 million. Around one-third of the increase is due to general inflationary pressures, but the rest is due to the combination of pulling forward some planned 2023 capital into 2022 to buy available equipment and adding some incremental production at both Elk Creek and Knox Creek. The biggest new capital project is the addition of the second section at our #2 Gas mine at Elk Creek.

While these investments add around 100,000 tons to our 2022 guidance, I'd like to point you to slide number six in our investor deck, which gives our longer-term production outlook. Specifically, as it relates to 2023, we are now taking production guidance up from 3.7 million tons previously to 4 million tons, largely on the back of the increase of #2 Gas, which should add around 250,000 tons on an annualized basis. Simply put, we expect production to grow from up to 3.4 million tons this year by almost 20% to 4 million tons next year.

Lastly, I want to comment on shareholder returns. In early 2022, we hit our long-standing goal of becoming a dividend payer. I would remind everyone that we will meaningfully grow production in the next couple of years. We are proud to both grow and pay a meaningful dividend at the same time. In the back half of this year, we will assess the best use of cash. As Randy said, if our stock continues to trade at a discount to what we and our Board deem to be fair value, a meaningful share buyback program is certainly one option.

With that, I'd now like to turn the call over to our Chief Operating Officer, Chris Blanchard. Chris?

Chris Blanchard — Chief Operating Officer

Thank you, Jeremy. Well, as Randy and Jeremy have both indicated, it's been a very busy several months at Ramaco since we have last spoken. During the first quarter, we hit a number of operational milestones as we ramp and -- as we continue to ramp and increase in production this year by 50% over our 2022 levels -- or 2021 levels rather.

We completed rehabilitation and reinstallation of all infrastructure at the Laurel Fork mine, which was acquired as part of the Amonate transaction. This mine began production in March ahead of schedule and continues to ramp production and build their workforce.

We started our MP #1 Palatin mine at Elk Creek ahead of schedule and did all initial mining and set all permanent belts in the mine fan. We completed construction for Elk Creek's Crucible mine and became -- began operation early in the second quarter. This mine will provide a long-term and consistent product for the foundry and specialty coal markets.

At our Berwind plant, demolition of all obsolete components and infrastructure was largely completed during the first quarter and upgrades of equipment and installation of more efficient and modern circuitry began. The plant is still on schedule for a mid-summer 2022 start-up. Perhaps most importantly, our first production unit (inaudible) production and development projects and began mining at a rateable full productivity levels as we expected. The second mining unit is fully set up and will begin mining once our Triad Pocahontas #4 seam mine is exhausted later this year.

Despite the tightness of skilled labor, we continue to stay on track with hiring to support this growth, and we did manage to do some advanced hire in last quarter in anticipation of our further production ramp up throughout the year. Overall, Ramaco increased headcount at our mines by over 15% in the first quarter in a very competitive market for Central Appalachian coal miners.

There are certainly a number of challenges in the quarter as well. In addition to the rail issues we discussed, we are seeing the same inflationary pressures that are impacting everyone in the industry. Cost for steel products are up approximately 20% so far this year. Diesel fuel lubricants are up approximately 30%. Labor costs are up 15%. Contract trucking costs are up over 20% across our company. But as Jeremy mentioned, despite these headwinds on cost, we actually expect our mine cost to improve as we move throughout the year.

The now closed Ramaco royalty transaction will immediately lower royalty expense at our mines, and this will accelerate as the year progresses as the number of our sections move into now-fee coal areas.

Our first quarter costs were also elevated by the expected higher start-up costs of the new mines and sections that I discussed. As these mines reach their normalized productivity, these costs will come into line with existing operations and the entire company averages will decline.

Finally, the start-up at the Berwind preparation plant this summer will eliminate a substantial amount of the trucking expense for the Berwind and the Triad mines. As this complex continues to increase production, these savings will become material.

As Randy mentioned, the growth is not yet complete. At Elk Creek, we hope to bring on additional underground mining section into operation by mid-summer at our number two gas mine as we continue to work on expanding the overall capacity of the Elk Creek plant and CSX load out that are there. In fact, we continue to evaluate Elk Creek to see what the optimal and ultimate annual throughput of this operation should be and will be.

At our Berwind complex, we're finalizing plans to start a mid-volatile surface highwall miner operation that should also begin operation during the third quarter. This fully permitted mine was also acquired as a portion of the Aminata purchase in 2021.

To conclude, despite our share of challenges so far this year, we've been buoyed by a very favorable coal market worldwide with positive dynamics that appear to have some staying power. I'd now like to hand the call over to Jason Fannin, our Chief Commercial Officer, to discuss this in more detail. Jason?

Jason Fannin — Chief Operating Officer

Thanks, Chris, and good morning, everyone. In my remarks, I will share an overview of what we are seeing in the market and discuss our current and forward sales outlook.

The coking coal markets remain at historically high levels. The reason is persistent structural challenges on the supply side, coupled with continued strength in global steel demand and pricing.

On supply, first quarter coking coal export volumes from the US, Australia and Canada remain below those during the same period in 2021. They are even further below compared to pre-pandemic levels. On August 10th, the real fallout on the market from Russia's invasion of Ukraine kicks in when the EU's outright ban on Russian coal takes effect. That has already impacted our export business into Central and Eastern Europe where year-to-date we have already placed about 175,000 tons.

Geopolitical issues, COVID-19 impacts, logistical bottlenecks, weather events and labor shortages have all led to even further disruptions in trade flows and negatively impacted supply. Indeed, supply continues to fall from the simple fact of the prolonged underinvestment in coal mining, transportation and transloading facilities. We believe this supply imbalance will sustain a stronger for longer period in pricing than in past up cycles. Underscoring this, although US met coal index pricing has dropped less than 10% from the recent highs, the forward curve for the back half of this year has actually increased nearly $70 since then.

We see limited second half met coal supply growth expected from both Canada and Australia. Future use of Russian coal in the Western markets is, of course, problematic. As a result, we believe that US coking coal will continue to see growth in export demand and the global markets will remain tight for the foreseeable future.

On the demand side, we are seeing an increasing amount of requests and interest from long-time customers and new parties alike. The steel market fundamentals remain strong. The strong rebound during 2021 continues and is further intensified by the tragic events in Ukraine. This has led the large void in the global market in terms of steel, pig iron and iron ore supply, and of course, impacted spot prices in the US and Europe.

Today, the combination of energy cost increases and the shrinking supply and rising cost of scrap and pig iron continue to pressure many EAF producers here and abroad. This favors US and Canadian integrated steelmakers, particularly those with less complicated and in some cases captive, access to iron ore and coking coal. On a related note, we have recently had inquiries from domestic customers regarding supplemental 2022 volumes above their existing contracts.

Overall, we believe the protracted longer-term period of elevated coking coal pricing levels bodes particularly well for Ramaco. We now have roughly one million tons remaining to sell at the upper end of guidance into a strong export market during the remainder of 2022.

In terms of the cadence, given early transportation bottlenecks, as well as our production ramp schedule, the vast majority of those open tons for the second half are low and mid-vol and are expected to be sold into export markets. In Q1, over 75% of our export coal was shipped into Europe. Lastly, indicative of current market strength, as Randy has mentioned, our most recent low-vol export sale was booked at a premium to the current index, which nets back to roughly $400 per ton at the mine today.

With that said, I would now like to return the call to the operator for the Q&A portion of the call. Operator?

Questions and Answers

Operator

[Operator instructions]

And your first question comes from the line of David Gagliano from BMO Capital. Your line is open.

David Gagliano — Analyst, BMO Capital Markets

All right, thanks for taking my questions. I guess, I just want to ask more about, the Ramaco coal transaction. First of all, you gave us a number of the royalty income stream on a forward basis of somewhere around $20 million to $25 million. I think you said it was sustainably higher at that point, I think. How much of that is price dependent? And how much of that is just because of the location of the mining?

Randall W. Atkins — Founder, Chairman, and Chief Executive Officer

I'll let Jeremy take that, David.

Jeremy R. Sussman — Chief Financial Officer

Thanks, David. So yeah, I mean, of course, its royalty -- the royalty stream is going to be price dependent. When we -- let's use 2023, since that's a clean full year, of course, for us. So if we think about kind of where the forward curve is for 2023, which, on one hand, it's elevated compared to historical levels. On the other hand, it's well below where we are today, we'd be looking at around $5 a ton in royalty savings, which would net out to about $20 million. If you take spot, you're north of $30 million a year, which would be kind of $7 to $8, a ton. So again, it's price dependent, but as Chris mentioned, we are going to increase the amount of coal that is being mined by Ramaco Resources on historical Ramaco coal reserves. So that certain that cadence is going to help as well, and will protect us from certainly any downturn in pricing.

David Gagliano — Analyst, BMO Capital Markets

Okay. And I apologize, thanks for that answer, by the way. I apologize. I don't have the (inaudible) in front of me, but let's say, $200 sort of average world, let's say, the world normalizes, whatever that means, kind of a $200 Pacific Basin benchmark price, what would the royalties be in that scenario?

Jeremy R. Sussman — Chief Financial Officer

It's a good question. Obviously, so it would be certainly below the levels that we mentioned. I mean, I'm not sure we want to really go through sensitivity analysis on the phone. But needless to say, it would be meaningful. It would certainly be somewhere in the mid-teens, give or take, but we can certainly follow-up and work on kind of the sensitivity offline, if that helps.

David Gagliano — Analyst, BMO Capital Markets

Sure, and then, I'm just going to ask kind of a typical annoying question for me in terms of this particular transaction that you've mentioned, how do you address the perception of creating and giving shareholders a tracking stock that’s maybe frankly, illiquid and small.

If I -- and I'm probably thinking about it the wrong way, but here's the thought for me. You bought Ramaco Coal for $65 million. You've given us some numbers on royalties, maybe it's mid-teens on a normalized basis. Obviously, there's longer-term potential in rare earth, which I think is early stage from a resources perspective, perhaps, and then the -- I think it's the carbon coal initiative. But initially, that may not get as much value as arguably as they should.

So the question I'm wondering really is as of right now why is this tracking stock actually happening? And then number two, how do you address that if the shareholder concerns come up about what could be an illiquid small tracking product.

Randall W. Atkins — Founder, Chairman, and Chief Executive Officer

Sure. So David, I'll answer an annoying question with an annoying answer. So unfortunately, we can't talk very much at all about the tracking stock because of what I stated, which is that it's going to be registered and we can't get out in front of that. So our decision to address putting these assets into attracting stock was principally motivated by the fact that we thought we could get more value for our shareholders in that manner, because as I alluded to -- I think these will be able to trade at a substantial multiple to what coal stock typically trade, simply because it's a different type of income stream.

And I'm afraid that's probably all I can really go out on the limb to address to you on this. But certainly, as soon as we file the registration, we will be in a position to enlighten both you and the market much better.

David Gagliano — Analyst, BMO Capital Markets

Okay. That's helpful. Thanks. And I was wondering, just on operations and obviously, you got prices all over the place. I think you got a number -- a brief mention of a number, kind of, at current prices a minute ago for the second quarter. But given where we are, given the volatility in pricing, given where we are in the second quarter, at this point, we've got a decent amount of visibility on volumes. But can you give us a sense as to if the world stays where it is, given the mix and everything like that, what's a reasonable ZIP code for realized pricing in the second quarter?

Randall W. Atkins — Founder, Chairman, and Chief Executive Officer

Jason, I'll let you handle that, although I think, David, the simple suggestion is to obviously look at where the curve is. That's probably the most logical place to start in terms of trying to address where prices are. But, Jason, do you want to take a stab at that?

Jason Fannin — Chief Operating Officer

Yes. I mean, if you -- thanks, Randy. If you look at the forward curve, and here I'm kind of going from memory here a little bit as well, which, of course, is backward dated here from where we're at today, though it continues to have its own staying power. And I would think you're at the mine somewhere 350 plus in the -- say, through Q3 and potentially into Q4.

And of course, the curve has come up to meet kind of today-pricing, as we've gone through this year. And the -- now the US, the Atlantic indices have essentially held their own throughout the entire first quarter here, well into the second quarter where we've seen a lot more volatility. Pacific indices basis, some moves there on some sale tenders that immediately bounce back, as they have just yesterday and today.

But I think, well, it gives us some confidence as well, though, just the lesser volatility that we're seeing in the Atlantic basin. I think that's driven by what we're seeing going on in Europe, in particular, and in South America to a little bit lesser degree in terms of supply.

Jeremy R. Sussman — Chief Financial Officer

David, just to kind of follow up on Jason's answer, one of the reasons we said kind of Q2 will be modestly above Q1 and a much bigger second half than first half is Q2 is going to be our heaviest domestic quarter. It's about 70%, give or take, of our shipments will go domestic. So that's priced at about $1.88, give or take. So, obviously, take that domestic and then overlay that with kind of the 30% or so in terms of the pricing that Jason just mentioned on the export side.

Randall W. Atkins — Founder, Chairman, and Chief Executive Officer

And then on the back half, obviously, that's when our low-vol production increases come in.

Jeremy R. Sussman — Chief Financial Officer

Exactly. So back half, call it, more like a 50-50 mix with also a lot higher production in sales.

David Gagliano — Analyst, BMO Capital Markets

Okay. Yes, that's -- okay. That's very helpful color. I appreciate it. Thanks.

Randall W. Atkins — Founder, Chairman, and Chief Executive Officer

Sure.

Operator

The next question comes from the line of Lucas Pipes from B. Riley Securities. Your line is open.

Lucas Pipes — Analyst, B. Riley

Thank you very much, and good afternoon, everyone. Randy, I'm curious where The Financial Times sort of put you in the growth ranking if they had considered spot met coal prices, but we will leave that for next year.

Randall W. Atkins — Founder, Chairman, and Chief Executive Officer

And that ranking was basically for 2020, believe it or not. So I think we would have done a little better in 2021.

Lucas Pipes — Analyst, B. Riley

No. I mean, if there's such a lag, I think there's a potential you'll be in the top 10 or so next year or the year after that. So speaking about growth, Randy, I wondered if you kind of could provide a little bit of color here on the increase in the CapEx guidance for this year. What is -- what were the main drivers for that? And then, as we think about the growth to 5.1 million tons, what's the capital intensity for that growth from here on out over the time frame you're looking at those volumes? Thank you very much.

Randall W. Atkins — Founder, Chairman, and Chief Executive Officer

Sure. I'm going to talk about that. Thanks Lucas. I'm going to let Jeremy dive back into the CapEx granular question, which he kind of alluded to in his remarks. But the one thing that I guess I would highlight whenever you get a question on CapEx, the question is, where is the money coming from. And so, as I alluded to, our cash generation as we projected out over the next several years is rather significant, I think, the most polite way to express it. And so we're basically paying for all our CapEx from internal funds. But Jeremy, why don't you drill down on Lucas' question on a more granular basis.

Jeremy R. Sussman — Chief Financial Officer

Thanks Randy, and excellent question, Lucas. So when I think about sort of, let's call it, a $17 million increase at the midpoint of guidance this year. Around a third is just general inflationary pressures, equipment costs a little more, that sort of stuff. But really two-thirds of that is aimed to growth, roughly evenly split between -- and there's a couple of other small moving pieces, but I'll give you the two biggest, which are, the first, we'd be adding a second section at our number two gas mine at our Elk Creek complex. That will add about 250,000 tons sustainably. So, if you assume $5 million, $6 million, give or take, you asked about CapEx intensity. I mean that's a pretty darn good CapEx intensity. And of course, it's possible because we've got all the infrastructure in place.

The other third is effectively pulling forward some equipment frankly because we were able to secure it that we had planned in 2023 for our new RAM 3 surface mine that -- we mentioned that on our last call as part of the kind of Elk Creek preparation plant capacity expansion. That was the mine that's going to go in next year. So simply, that's really just frankly more of a timing thing, Lucas.

Lucas Pipes — Analyst, B. Riley

Got it, got it. Very helpful color. Thank you for that. And the 5.1 million ton target and the capital needed to get there, is there a rough ballpark to think about?

Jeremy R. Sussman — Chief Financial Officer

So we basically pointed you to kind of 4 million tons for next year, right? So, that -- you've got the guidance for that. So to kind of go from 4 to 4.3% in 2024. That's mostly adding a couple of sections at our Berwind mine, frankly, on the Amonata reserves, which is -- which, of course, we now own in fee. So when I think about the cadence, 2023 will be certainly elevated compared to just maintenance levels, but it will be below 2022, absent any new projects.

So I think to get from, let's call it, mid-4s to 5, we've got a couple of different options. The one that we pointed out on Slide 7, of course, is our drop-on mine, which is a pure high-vol A product that would feed our Knox Creek prep plant. So we've sort of talked about that in the past, which is mostly being equipment. So it's not very capital intensive. And certainly, I mean, while we could pay for it all upfront, we could get creative with financing if we wanted to. So, call it on the order of magnitude of, maybe an additional $15 million, give or take, for the job on mine. So, as you can see, I mean, I think the bulk of the capital to kind of get us to 5 million tons is frankly, in the rearview mirror, but we certainly will be above maintenance levels until we get there.

Lucas Pipes — Analyst, B. Riley

Got it. Super helpful. Thank you so much, Jeremy. My second question is on the rail side and thank you for the color there on the slippage in Q1. I wondered if you could provide an update on how rails are performing today? I think in response to Dave's question, you kind of already addressed kind of cadence of domestic risk is export volumes this year. But how should we think about the timing of making up these lost shipments? Thank you.

Jeremy R. Sussman — Chief Financial Officer

Okay. Jason, why don't see you handle that?

Jason Fannin — Chief Operating Officer

Yes, sure. Yes, Lucas, this is Jason. Yes, I think, again, we delineated well there, what it did to us there in the first quarter. And you recall in the previous quarter's conference call, we mentioned we also had some volume slip out of late '21 into Q1. Of course, those were made up. Then the rail issues we dealt with there in Q1, got us behind on new Q1 tons and Q1 contracted sales.

The performance is certainly better today than we saw in Q1. We do see it continuing to get better as they add the rail partners there add labor, which translates into more crews and, of course, more trains cycling in the coal fields. But as we sit here today, we're slowly gaining on catching up. Primarily, we see most of the catch-up completed as we get into Q3 and into Q4 as they again continue to add crews and cycle more trains to us.

Randall W. Atkins — Founder, Chairman, and Chief Executive Officer

So Lucas, the patient is stabilized, but we're not exactly well in terms of what I would call the optimal level of rail service.

Lucas Pipes — Analyst, B. Riley

Very helpful. Thank you. Thank you so much for all the color and Randy and team continued best of luck.

Randall W. Atkins — Founder, Chairman, and Chief Executive Officer

Thank you, Lucas.

Operator

The next question comes from the line of Nathan Martin from the Benchmark Company. Your line is open.

Nathan Martin — Analyst, The Benchmark

Hey, good morning, guys. Thanks for taking my questions. I think David and Lucas probably did a pretty good job checking most of my questions off my list. So maybe just a bit of clarification at this point. You guys called out 2Q results should be modestly above 1Q. Are we talking about EBITDA net income, or are we looking at shipments, realized pricing as well? Just maybe some quick clarification there.

Jeremy R. Sussman — Chief Financial Officer

Thanks, Nate. I'll take this. It's Jeremy. So yes, shipments, production, and I'll call it EBITDA, net income would be what we were referring to there.

Nathan Martin — Analyst, The Benchmark

Got it. Perfect. So kind of possible. And I think Jeremy, you called out the costs should trend down sequentially as we move through the years, right, for the reasons you mentioned, whether it's the Berwind prep plant towards the end of the year or obviously sitting on the royalty side with the Ramaco coal acquisition.

Jeremy R. Sussman — Chief Financial Officer

Exactly. So I think cost would trend down in Q2, but they should be lower in the second half, certainly than first half and even Q2, especially, as Chris said, the Berwind plant comes online this summer, which saves the trucking costs and incrementally as we move throughout the year, we'll get on to more kind of Ramaco coal, (inaudible) coal, which will help as well.

Randall W. Atkins — Founder, Chairman, and Chief Executive Officer

And Nate, one other way to look at it, we're ramping up production, obviously at both Berwind and our Knox Creek complexes. That's $1.2 million roughly of low-vol and mid-vol and most of that -- that increase is hitting in the second half.

Nathan Martin — Analyst, The Benchmark

Yes. Makes sense, Randy, obviously, higher shipments should do well for the cost per (inaudible).

So I guess maybe just one other question as I'm trying to think about a sense of shipments domestic versus export. In the first quarter, it was a 573,000 tons shipped. You guys have booked 1.8 million tons of domestic. Do you have any color on the split of domestic versus export in the first quarter? I think you mentioned that 2Q should be your heaviest domestic shipment quarter, I think, roughly 70% you guys mentioned. But again, just trying to get a sense of what's left on the domestic side of to ship for the rest of the year and kind of how that plays into your average realized sales price when mix with the higher priced export cuts? Thanks.

Randall W. Atkins — Founder, Chairman, and Chief Executive Officer

Good question, Nate. And I am going to let Jeremy take that.

Jeremy R. Sussman — Chief Financial Officer

Thanks, Nat. Excellent question. So in Q1, it was a little under 55% domestic with obviously the bulk being export -- the rest being export. Q2 is going to be our heaviest quarter domestic, call it, around 70%. And then in the back half of the year, as we ramp production, kind of, get to a nice 50-50 split. So a lot of -- as Jason said, a lot of low-vol and mid-vol open tons for the second half of the year, which we expect to go into the export market. So overall, that still kind of puts us in around a 55-ish percent domestic range for the full year.

Nathan Martin — Analyst, The Benchmark

Very helpful, Jeremy. I appreciate that. And then maybe just one final one. I think Jason, you mentioned some comments on the Russian -- I guess, the EU ban on Russian coal starting up in August. It sounds like you guys have already shipped some tons, I think it was 75,000 or so you mentioned to Europe year-to-date. I also heard some commentary about getting more inquiries on the domestic side. So as we think about, again, 1 million tons, plus or minus, left to sell, I'm sure the export market is where you guys are leaning heavily towards saving those tons, but would there be any option for domestic tons maybe as well to fill some of those inquiries, and obviously, you would be looking to get a margin, I would assume, close to what you get on the export side. Just any thoughts there?

Jason Fannin — Chief Operating Officer

Yes. Nate, this is Jason. Certainly, on the domestic side, some of these customers we have here are selling spot tons into spot markets, whether it's coke or steel. They certainly recognize where the seaborne levels are at now for the U.S. producers and sellers and I think our -- where the seller is going to be opportunistic, whether it's export or domestic, where they place those remaining tons. So I'd say at the end of the day for us, that's what it's going to come down to is where the margin's at as we build these tons out.

Nathan Martin — Analyst, The Benchmark

Got it. That's helpful, Jason. And maybe just one other thought I could get from you. With the rail service issues that we've already touched on, with your peers have had as well. Is there any potential for slippage of any domestic or export tons maybe into 2023 at this point? Do you see or do you fully expect to be able to ship everything in the back half of the year?

Jason Fannin — Chief Operating Officer

Yes. I think, today, this is bit early to worry about slippage into 2023. Typically, for any producer year-in, year-out, you're going to have a trainer vote or whatever slip over just due to normal timing issues. But again, what we're seeing out of our rail partners today is very earnest effort on the labor side, just as we've made on -- with our miners and expect them to be kind of back to more normal performance, certainly during the second half. And we're already again seeing some improvement here actually in April and on through this quarter. So I'd say nothing material that we concern ourselves about today as far as slippage in 2023.

Nathan Martin — Analyst, The Benchmark

Got it. Great. Great to hear. I appreciate that. I'll leave it there, and best of luck, guys.

Jeremy R. Sussman — Chief Financial Officer

Thanks Nate.

Operator

And we have a follow-up question from David Gagliano from BMO Capital. Your line is open.

David Gagliano — Analyst, BMO Capital Markets

Hi. Thanks, again. It's actually related to what Nate was just asking about the cadence of volumes and the commentary that you just mentioned. So just quick back of the envelope math, we see a 10% increase in second quarter volumes, that would imply to get to the midpoint of your full year, it would imply a second half, you need to move about 1 million tons a quarter, maybe a little bit more, just to get the midpoint. That's a pretty big jump. That's a 55% increase, and it would be, I think, the highest volume quarter you've had was at 680 or something like that in 2021. The question is, I mean, given all the rail challenges, like what's changing that's going to -- I know just like qualitatively, we're getting better performance, and that's great. But is it realistic to expect that order of magnitude of increase? And if so, why aren't we seeing it in the second quarter? And why such a big jump expected in the third and fourth quarter?

Jeremy R. Sussman — Chief Financial Officer

Thanks, David. Yeah, I mean, excellent question. So part of the jump is just related to our production ramp. Berwind certainly hitting its stride in the back half of the year, as we've guided for probably the better part of a couple of years now. So certainly, that will make a big difference. And I mean, look, Jason and I had a very productive in-person meeting with the rails a couple of weeks ago. And without getting into too much detail, the reality is they've got some pretty sizable planned increases for the specific area that the route that we ship on. So I mean, I know they struggled this year, but we're confident that they are making the necessary investments in people and they've got the railcars. So certainly came away from that meeting confident that the plant ramp in the back half of the year is certainly doable. So we feel pretty good about where things are at right now.

David Gagliano — Analyst, BMO Capital Markets

Okay. Understandable. And in terms of just back on the capital allocation, obviously, the focus is on buybacks. And I mean a nice -- in this environment, we know how long if you'll last, but obviously, quite a bit of free cash flow generation and buyback almost in our numbers, more than 50% of the free float in the next year. So the question just hypothetically, I guess, is there a limit on how much stock Ramaco would want to buy back? And how do you balance that with liquidity?

Randall W. Atkins — Founder, Chairman, and Chief Executive Officer

Well, I think you kind of asked a couple of questions at the same time. So first of all, of course, we're not going to make up our mind on what the buyback would look like if indeed we go forward with one until we get to that point, which is going to be toward the fourth quarter. Secondly, that will be dictated certainly in terms of size by a perception of where we see the stocks trading. Obviously, if we think it's trading at a discount, we would probably argue to ourselves that, that's a good use of our cash to buy an undervalued asset. And in terms of the amount of cash that we'd like to throw at it, the reason why I have suggested we'd like to get to the end of the year to see where we look is to obviously see what that amount looks like and then we can determine from there, what percentage is and how much of that we'd like to spend for an investment in our own stock. So that's kind of the way we look at it.

David Gagliano — Analyst, BMO Capital Markets

Okay. That's helpful. And just to round out that question, I know I asked this in the past, but why not -- or what's the -- would you consider a special dividend in addition to buybacks to kind of help balance that liquidity question, or is it still all buybacks?

Randall W. Atkins — Founder, Chairman, and Chief Executive Officer

Well, I think at this point, the way I'm looking at the market, you've seen a couple of companies that did massive special dividends and massive buybacks and their stock is now trading lower than it was before they announced it. So that doesn't strike me as something that is a path that I want to rush into.

So other than the fact that we would like to return cash to shareholders, we'll consider whatever is the best route to do so, whether we think in a gradual increase in the base dividend is appealing to long-term investors, because it implies a certain stability as well as a steadier benchmark for them to do their own planning for. Special dividends should be perhaps regarded as indeed what they're named special for circumstances that don't happen very often. We hope to be in a position as we're doubling our size over the next few years to be in a position to look at that more often than not. And we'll, again, make it an investment decision as to whether we think buying back stock makes more sense than simply giving cash out to shareholders, but we're not going to handicap that at this point.

David Gagliano — Analyst, BMO Capital Markets

Okay. Thanks for the answer.

Randall W. Atkins — Founder, Chairman, and Chief Executive Officer

Thank you.

Operator

Thank you. We have reached the end of our Q&A session. I would now like to hand the conference back to Mr. Randall Atkins for the closing remarks.

Randall W. Atkins — Founder, Chairman, and Chief Executive Officer

Great. Well, once again, thanks everyone for the interest in us. We look forward to the next quarter and to, as I said earlier, printing a record year, and we'll speak in another few months. Take care.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.