農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

5 November 2012

Equity Focus

Yitai Coal (3948 HK) – Buy

China Coal & Consumable Fuels Industry

Enlarge coal resources and benefit from industrial reshape

We reiterate our positive views on Yitai Coal as we see: 1) in-depth industrial reshaping ahead; 2) the counter enlarged its coal resource; 3) spot coal prices rebound for 9 consecutive weeks; and 4) more and more positive macroeconomic signals emerge.

In-depth industrial reshaping ahead. On Oct. 31, SAWS (State Administration of Work Safety) announced a national safety investigation. Media reported that small coal mines, esp. those in Inner Mongolia, Shanxi, and Shaanxi will be closed during the 18^{th} NCCPC. As per our channel check, Yitai won't be affected. We foresee more strict policies ahead as the industry is in-depth reshaping. Large coal producers such as Yitai and China Shenhua (1088 HK, Buy) will benefit in the reshape.

Positive growth potential in 2013. Yitai's recent 3Q12 results are in line with our prediction. It has obtained approval for a new coal mine (with 6mn tonnes yearly output), which represent 15.7% of its first 9mth self-produced coal output in 2012 and will ensure its growth in 2013.

Domestic spot coal prices have been improved for 9 consecutive weeks. By 31 Oct, Bohai-Rim steam coal price index (5500 kcal/kg) has climbed up to Rmb643/ton, up 2.7% from Rmb626/ton on 22 Aug.

Coal inventory stabilized at low level. The inventory at Qinhuangdao Port slumped to 5.5 mn tonnes on Nov. 2, down 42% from June's peak. The reducing inventory is in line with recent macro-economic rebound as we see China's official PMI for October is 50.2, returning to above 50 and improved for 3 consecutive months.

Risk factors: 1) Weak power consumption growth on slowed economic growth; 2) policy risk; 3) the influx of foreign coal cap the rebound momentum of domestic coal prices.

Results and Valuation

FY ended Dec 31	2009	2010	2011	2012E*
Turnover (Rmb mn)	10,252	13,854	16,516	34,252
Net Income (Rmb mn)	3,043	5,015	5,464	7,841
Chg (%,YoY)	NA	65	9	NA
EPS (Rmb)_IPO adj.	1.87	3.08	3.36	4.82
Chg (%,YoY)	NA	65	9	NA
BVPS (Rmb)_IPO adj.	—	—	14.44	15.78
P/E (x)	—	—	10.40	7.25
P/B (x)	—	—	2.42	2.21
ROAE (%)	—	43	35	32
Net debt/total equity (%)	61	31	28	30

**After the acquisition of the target assets*
Source: Company, Bloomberg, ABCI Securities estimates (assuming 1Rmb=1.23HKD)

Key Data

Target Price (HK$)	50.54
H-Share price (HK$)	43
Upside potential (%)	17.5
52Wk H/L(HK$)	43.9/40.8
Issued shares (mn)	1627
- H Shares (mn)	163
- B Shares (mn)	664
- Unlisted Shares (mn)	800
Market cap	
- H Shares (HK$mn)	6,879
- B Shares (USD mn)	3,657
3-mth avg vol (HK$mn)	1.01
Major shareholder (%):	
Inner Mongolia Yitai Group Co., Ltd.	49.17

Source: Company, Bloomberg, ABCI Securities

Revenue composition in FY11 (%)

Coal	92.02
Transportation	3.66
Coal Chemial	4.10
Others	0.22

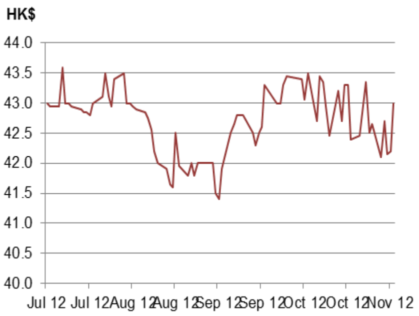
Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	(2.8)	(7.2)
3-mth	(2.8)	(13.7)
6-mth	NA	NA)

Source: Bloomberg
**Relative to Hang Seng Index*

Performance since IPO



Source: Bloomberg

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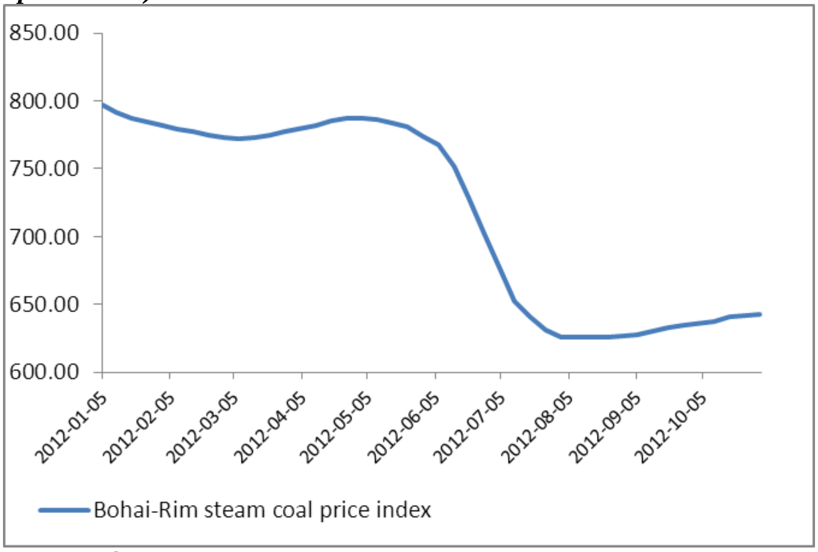
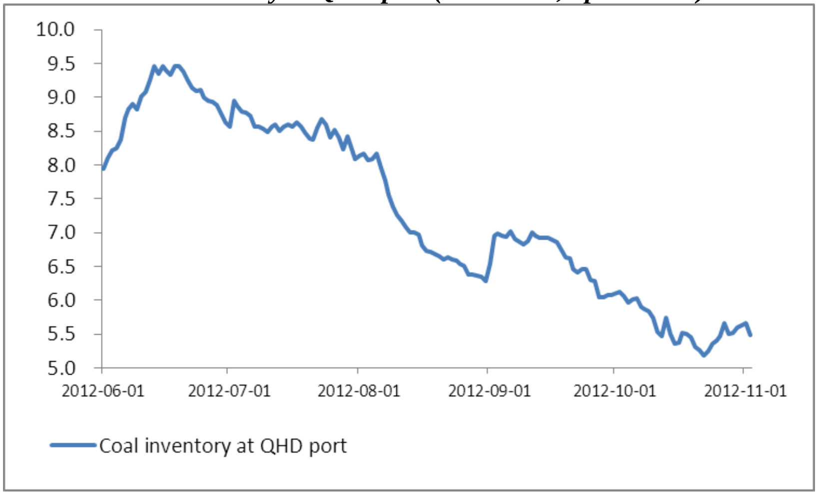
Previous report
Date: 10 October 2012
Rating - Buy

Exhibit 1: Bohai-Rim steam coal price index (5500 kcal/kg, Rmb/tonne, up to Oct. 31)



Source: Wind, ABCI Securities

Exhibit 2: Coal inventory at QHD port (mn tonnes, up to Nov.2)



Source: Wind, ABCI Securities

Disclosures

Analyst Certification

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Definition of equity rating

Rating	Definition
Buy	Stock return ≥ Market return rate
Hold	Market return – 6% ≤ Stock return < Market return rate
Sell	Stock return < Market return – 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2007-2011

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	2.6 ≤180 day volatility/180 day benchmark index volatility
High	1.5 ≤ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	1.0 ≤180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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