3 Semptember 2012

Equity Focus

Key Data

H-Share price (HK\$)	42.0	
52Wk H/L(HK\$)	43.9/41.0	
Issued shares (mn)	1627	
- H Shares (mn)	163	
- B Shares (mn)	664	
 Unlisted Shares (mn) 	800	
Market cap		
- H Shares (HK\$mn)	6,846	
- B Shares (USD mn)	3,616	
30-day ave. vol (HK\$mn)	NA	
Major shareholder (%):		
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

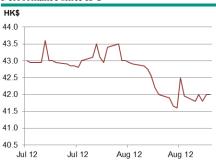
Share performance (%)

	Absolute	Relative*
1-mth	(3.2)	(2.3)
3-mth	NA	NS
6-mth	NA	NA)

Source: Bloomberg

*Relative to Hang Seng Index

Performance since IPO



Source: Bloomberg

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Yitai Coal (3948 HK) – Unrated

China Coal & Consumable Fuels Industry

Key takeaways from management roadshow briefing

Yitai Coal (3948 HK) unveiled its half-year revenue edged up 75.6% YoY. Its pre-tax profit and net profit improved 12.87% YoY and 9.05% YoY for 1HFY12 respectively. Half-year EPS were up 9.05% YoY to Rmb1.96 (share adj.) NBV inched up to Rmb11.07/share as of Jun 30. Half-year ROAE was 18.24%.

Better-than-expected performance: The newly listed group posted a promising revenue of Rmb 12,614.24 mn in 1H2012, up 75.6% Yo Y; NP was Rmb 3,193.94mn, up 9.05% Yo Y, better than management's expectation (Rmb3,095 mn) in the IPO prospectus.

Competitive low coal cost. According to the management, the average cost of the coal production is Rmb 83/tonne for 1HFY12, Rmb 33/tonne lower than China Shenhua (1088 HK, Buy). The counter benefits from its two own railway lines in the Inner Mongolia.

Coal prices stabilizing. Management argued that the coal price was near bottom due to: 1) stern output restriction in Inner Mongolia; 2) recover in downstream demand as cross-provincial transportation begun to rise. Generally we agree with the argument as Bohai-Rim steam coal price increased to Rmb627/tonne on Aug 29, the first rise the last 4 months.

Favorable tax rate extended. Under the PRC's policy, the counter enjoys favorable income tax rate of 15% until 2020.

Asset injection. As promised in the IPO prospectus, its parent will inject profitable coal asset into the group.

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	FY09A	FY10A	FY11A
Turnover(Rmbmn)	10,252	13,854	16,516
Net Income (Rmb mn)	3,043	5,015	5,464
Chg (%, YoY)	NA	65	9
EPS(Rmb)_IPOadj.	1.87	3.08	3.36
Chg (%, Yo Y)	NA	65	9
P/E(x)	_	_	10.16
P/B(x)	_	_	2.38
Dividend yield (%)	_	_	_
ROAE(%)	_	43	35
Net debt/total equity (%)	24.9	Net Cash	Net Cash

Source: Company, Bloomberg, ABCI Securities estimates



Interim result highlights of the group

By the end of Jun 30 (Rmb mn)	1H11	1H12	Chg (% YoY)
Revenues	7,206	12,614	75.1
Coal revenue	6,855	11,485	67.5
Transportation revenue	327	457	39.8
Coal-related Chemical revenues	-	659	NA
Others	24	15	(37.5)
Total cost of revenues	(2,962)	(7,820)	164
Gross profit	4,244	4,794	13.0
GPM	59%	38%	-21
SG&A	(665)	(748)	12.4
Profit before tax	3,596	4,059	12.8
Income tax	(550)	(611)	11.0
Profit for the period	3,046	3,448	13.1
Attributable to equity shareholders of the Company	2,929	3,194	9.0
Est. post-IPO EPS (Rmb)	1.80	1.96	9.0

Source: company data, ABCI Securities

Est. Post-IPO NBV

	Rmb
	(mn)
NBV at 30/06/2012	18,013.57
Net proceeds of issuing new H Shares in July and Aug.	5,487.99
Sub-total	23,501.56
Total Shares (mn)	1,627.00
Est. post-IPO NBV (Rmb/Share)	14.44
Or HKD/Share (assuming Rmb0.82/HKD)	17.62
Est. post-IPO PB(x) by Aug. 31	2.38

Source: company data, ABCI Securities



Disclosures

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq M arket return rate
Hold	Market return – $6\% \le \text{Stock return} < \text{Market return rate}$
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 (~15%)

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	$1.5 \le 180$ day volatility/180 day benchmark index volatility < 2.6
M edium	$1.0 \le 180$ day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0
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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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