

Key Data

Share price (HK\$)	11.96
52Wk H/L(HK\$)	23.6/ 11.02
Issued shares (mn)	4918.4
- H Shares (mn)	1958.4
- A Shares (mn)	2960
Market cap	
- H Shares (HK\$m)	23,422
- A Shares (Rmbmn)	55,263
30-day avg vol (HK\$m)	247.13
Major shareholder (%):	
Yankuang Group	52.86

Source: Company, Bloomberg, ABCI Securities

Revenue composition in FY11 (%)

Coal	96
Railway	1.01
electricity power	0.7
methanol	2.25
heat supply	0.04

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	3.5	1.1
3-mth	(6.9)	(13.8)
6-mth	(36.4)	(30.0)

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

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Yanzhou Coal (1171 HK) – Unrated China Coal & Consumable Fuels Industry

Volatile in the spot price movement

Due to its heavy weight of spot market sale (about 80% in 2011), the 1H12 income of Yanzhou Coal is expected to be negatively affected by the spot market price slump between May and July. Weak business performance will hurt its ROAE and validate the stock to trade at low P/B of 1.1.

Long-term contract price protects large coal producers, but without Yanzhou Coal. One of the largest IPPs (independent power producers) in China, Datang International Power (991 HK) announced in 1H2012 interim results conference (21 Aug) that over 91% long-term contracts would be fulfilled this year, which is consistent with the prediction of other IPPs.

We believe that it is relative good news for large coal producers since the contract price is now even higher than spot price, and thus provides protection for the coal producers. However, Yanzhou Coal, due to its traditional heavy weight of spot market sale, about 80% in 2011 and still high in 2012 (according to our channel check), will not benefit from long-term contract buffer.

International coal price still weak. Besides its high exposure to the spot market, Yanzhou Coal is also vulnerable to the slowdown of international coal price. Recent interim results show that its subsidiary Yancoal Australia (weighted 10% of the total revenue in 11FY) encountered serious drop in revenue (-19% yoy) and EPS (-84.8% yoy).

Short-term outlook: Although int'l and domestic coal prices have stabilized in Aug, the recovery signal of the coal industry has yet to appear. Weak domestic demand and increase in over-supply risk add further business risk of the group for the rest of this year. The stock is justified to trade at low P/B, and will benefit most from spot market recovery.

Risk factors: 1) Coal price risk; 2) Imbalance of supply and demand; 3) Business cycles of downstream industries.

Performance and Valuation

FY ended Dec 31	FY07A	FY08A	FY09A	FY10A	FY11A
Turnover (Rmb mn)	15,110	24,903	20,677	33,944	47,066
Net Income (Rmb mn)	3,230	6,489	4,117	9,281	8,928
Chg (% YoY)	36.1	100.9	(36.5)	125.4	(3.8)
EPS (Rmb)	0.66	1.32	0.840	1.890	1.820
Chg (% YoY)	37.5	100.0	(36.4)	125.0	(3.7)
P/E (x)	—	—	—	—	5.3
P/B (x)	—	—	—	—	1.1
Dividend yield (%)	—	—	—	—	5.9
ROAE (%)	16.0	26.9	14.7	27.9	22.3
Net debt/total equity (%)	Net Cash	Net Cash	37.4	37.0	39.3

Source: Company, Bloomberg, ABCI Securities estimates

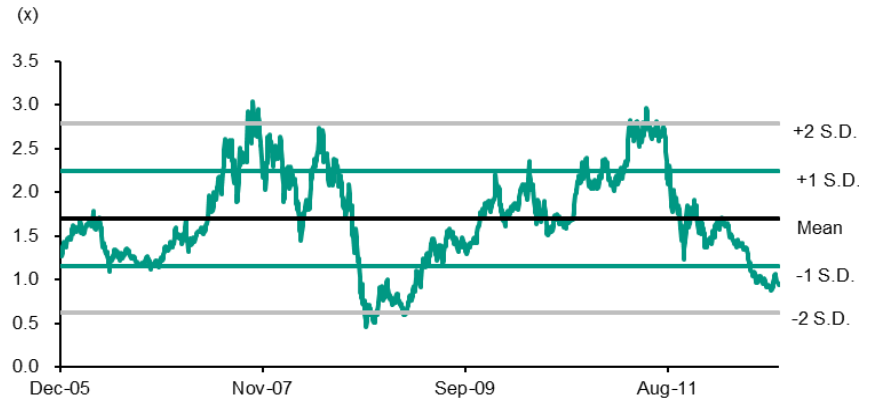


Exhibit 1: Yanzhou Coal P/B band chart



Source: Bloomberg, ABCI Securities

Exhibit 2: Yanzhou Coal P/E band chart



Source: Bloomberg, ABCI Securities



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