



# Company Report

## Yitai Coal (3948 HK)

July 17, 2013

**Rating: HOLD**

**TP: HK\$ 16.29**

Previous Rating & TP: BUY, HK\$25.27

Previous Report: May 15, 2013

### Key Data

H-Share price (HK\$)	16.78
Upside potential (%)	(2.9)
52Wk H/L(HK\$)	22.85/11.60
Issued shares (mn)	3,254
H Shares (mn)	326
B Shares (mn)	1,328
Unlisted Shares (mn)	1,600
Market cap	
H-shares (HK\$ mn)	5,470
B-shares (USD mn)	3,191
3-mth avg daily turnover (HK\$ mn)	7.6
Major shareholder (%):	
Inner Mongolia Yitai Group Co., Ltd.	49.17

Sources: Company, Bloomberg, ABCI Securities

### Revenue composition in FY12 (%)

Coal	94.8
Transportation	0.8
Coal Chemical	4.3
Other	0.1

Sources: Company, ABCI Securities

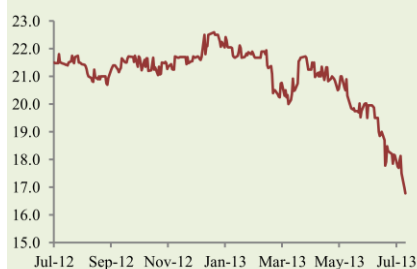
### Share performance (%)

	Absolute	Relative*
1-mth	(13.95)	(15.59)
3-mth	(20.66)	(19.47)
6-mth	(23.81)	(14.96)

\*Relative to HSCEI

Sources: Bloomberg, ABCI Securities

### 1-Year price performance (HK\$)



Sources: Bloomberg, ABCI Securities

### Analyst Information

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### Suffer from price war

We expect ASP of Yitai Coal to decline by ~10% in FY13E due to weak downstream demand and recent price war among the large coal suppliers. Accordingly, we revise down our FY13E forecasts for the Group's ASP and gross profit margin (GPM), and EPS fell to RMB 0.55 (from RMB 0.72 previously). With the recent stock price adjustment, its present valuation of 9.24x FY13E P/E is very close to our estimate at 9x FY13E P/E. Downgrade from Buy to HOLD with TP at HK\$16.29.

**ASP fell on price war.** According to Wind data, the free on rail price in Donsheng (Ordos) hit the lowest level of RMB400/t on July 12, falling by 20% YoY and was the lowest in four months. The mine mouth coal price also declined to RMB245/t, down 25.7% YoY. It was reported that Yitai Coal had lowered its ASP in the recent price war. We expect that the Group will suffer significantly on the ongoing price war and the weakening downstream demand.

**Sector transformation to ensue.** The price war will transform the playing field among the coal players. We believe the process will continue in the near term as our sources indicate that major SOE coal producers have not adjusted down their output schedule.

**Revise down FY13E EPS.** We expect the weakening downstream demand would weigh on Yitai's coal sales in the recent price war. We expect its FY13E coal ASP will drop ~10% YoY, while GPM will fall by 5ppt. Therefore, we lower its FY13E EPS from RMB 1.95 to RMB 1.44.

**Downgrade from Buy to HOLD, TP at HK\$16.29.** Yitai's stock price has adjusted in recent months and we believe its present valuation of 9.24x FY13E P/E is very close to our estimate. We thus downgrade the stock from Buy to HOLD with TP of HK\$16.29, reflecting 9x FY13E P/E.

**Risk factors:** 1) Declining coal prices; 2) Supply-demand imbalance; 3) Business cycles of downstream industries.

### Results and Valuation

FY ended Dec 31	2011RS	2012A	2013E	2014E
Revenue (RMB mn)	27,003	31,584	29,325	33,090
Chg (% YoY)	94.91	16.96	-7.15	12.84
Net Income (RMB mn)	7,683	6,454	4,675	6,236
Chg (% YoY)	53.20	(15.99)	(27.57)	33.39
EPS (RMB)	2.36	1.98	1.44	1.92
Chg (% YoY)	-	(15.99)	(27.57)	33.39
BVPS (RMB)	6.02	6.06	7.03	8.32
Chg (% YoY)	-	0.68	16.01	18.33
P/E (x)	-	6.69	9.23	6.92
P/B (x)	-	2.12	1.89	1.60
DPS (RMB)	1.35	1.25	0.86	0.57
Yield (%)	-	9.42	3.23	4.31
ROE (%)	46.11	32.86	21.96	24.98
ROA (%)	22.85	15.60	11.66	13.90

Sources: Company, Bloomberg, ABCI Securities estimates (RMB1.0=HK\$1.26)



Consolidated Income Statements (2011RS-2014E)

FY ended Dec 31 (RMB mn)	2011RS	2012A	2013E	2014E
<b>Revenue</b>	27,003	31,584	29,325	33,090
Coal	na	29,956	27,620	31,205
Tran Operations	na	243	250	258
Coal related chemical	na	1,362	1,430	1,602
Others	na	23	25	26
Cost of sales	(14,937)	(20,454)	(20,527)	(22,170)
<b>Gross profit</b>	<b>12,066</b>	<b>11,129</b>	<b>8,797</b>	<b>10,920</b>
<b>Other income</b>	<b>345</b>	<b>619</b>	<b>482</b>	<b>551</b>
SG&A	(2,308)	(2,752)	(2,844)	(2,882)
Other operating expenses, net of	(265)	(480)	(374)	(428)
Share of profits/losses of associates	20	34	27	31
<b>Pre-tax profit</b>	<b>9,857</b>	<b>8,551</b>	<b>6,088</b>	<b>8,190</b>
Profits tax	(1,628)	(1,399)	(996)	(1,340)
<b>Net profit</b>	<b>8,229</b>	<b>7,151</b>	<b>5,092</b>	<b>6,850</b>
<b>Profit attributable to:</b>				
Minority interests	546	697	417	614
<b>Equity shareholders of the Company</b>	<b>7,683</b>	<b>6,454</b>	<b>4,675</b>	<b>6,236</b>
<b>EPS (Basic), RMB</b>	<b>2.36</b>	<b>1.98</b>	<b>1.44</b>	<b>1.92</b>
<b>DPS, RMB</b>	<b>1.35</b>	<b>1.25</b>	<b>0.86</b>	<b>0.57</b>

Source: Company, ABCI Securities estimates



Consolidated Balance Sheet (2011RS-2014E)

FY ended Dec31 (RMB mn)	2011RS	2012A	2013E	2014E
Property, plant and equipment	21,610	24,269	25,004	26,854
Available-for-sale investments	2,871	3,808	3,808	3,808
Intangible assets	18	51	51	51
Other assets	1,295	2,054	1,673	1,865
<b>Total non-current assets</b>	<b>25,794</b>	<b>30,183</b>	<b>30,536</b>	<b>32,578</b>
Inventories	1,015	873	1,025	1,163
Trade and bills receivable	1,408	2,690	2,225	3,011
Prepaid expenses and other current assets	934	1,277	1,100	1,290
Restricted cash	27	30	29	29
Cash and cash equivalents	4,453	6,315	5,165	6,805
<b>Current assets</b>	<b>7,837</b>	<b>11,185</b>	<b>9,544</b>	<b>12,299</b>
<b>Total assets</b>	<b>33,631</b>	<b>41,367</b>	<b>40,080</b>	<b>44,877</b>
<b>Total current liabilities</b>	<b>5,588</b>	<b>10,395</b>	<b>8,218</b>	<b>10,430</b>
Trade and bills payables	762	1,345	1,038	1,291
Other payables and accruals	2,416	7,424	4,920	6,172
Interest-bearing loans	2,206	1,582	2,136	2,884
Taxes payable	204	43	123	83
<b>Total non-current liabilities</b>	<b>6,494</b>	<b>9,034</b>	<b>6,411</b>	<b>4,329</b>
Interest-bearing loans	6,101	7,803	5,299	3,458
Long term bonds	0	1,001	800	600
Other long term liabilities	394	230	312	271
<b>Total liabilities</b>	<b>12,082</b>	<b>19,428</b>	<b>14,629</b>	<b>14,759</b>
Total equity	21,549	21,939	25,451	30,118
Non-controlling interests	1,972	2,229	2,586	3,060
Shareholders' equity	<b>19,577</b>	<b>19,710</b>	<b>22,866</b>	<b>27,058</b>
<b>BVPS (RMB)</b>	<b>6.02</b>	<b>6.06</b>	<b>7.03</b>	<b>8.32</b>

Source: Company, ABCI Securities estimates



Consolidated Cash Flow Statement (2011A-2014E)

FY ended Dec 31 (RMB mn)	2011RS	2012A	2013E	2014E
<b>Profit before income tax</b>	<b>9,857</b>	<b>8,551</b>	<b>6,088</b>	<b>8,190</b>
DD&A	979	1,712	1,443	1,716
Financial cost	286	430	358	394
Financial income	(38)	(35)	(37)	(36)
(Increase) decrease in inventories	(373)	130	(152)	(138)
Decrease in trade and bills receivables	(244)	(1,306)	464	(786)
Others	(1,661)	(1,301)	1,947	(2,615)
<b>CF Operating</b>	<b>8,806</b>	<b>8,180</b>	<b>10,112</b>	<b>6,726</b>
Capex	(4,097)	(4,700)	(6,158)	(6,786)
Others	(721)	(4,245)	(860)	(908)
<b>CF Investing</b>	<b>(4,818)</b>	<b>(8,945)</b>	<b>(7,018)</b>	<b>(7,694)</b>
Net debt financing	(2,342)	(653)	(73)	2,816
Dividend payout	(611)	(207)	(207)	(207)
Others	(1,433)	3,545	(4,000)	0
<b>CF Financing</b>	<b>(4,386)</b>	<b>2,685</b>	<b>(4,280)</b>	<b>2,608</b>
<b>Net change in cash</b>	<b>(399)</b>	<b>1,920</b>	<b>(1,186)</b>	<b>1,640</b>
Cash at the beginning	4,829	4,431	6,351	5,165
Exchange difference	0	0	0	0
<b>Cash at the end</b>	<b>4,431</b>	<b>6,350</b>	<b>5,165</b>	<b>6,805</b>

Sources: Company, ABCI Securities estimates



## Disclosures

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### Definition of equity rating

Rating	Definition
Buy	Stock return $\geq$ Market return rate
Hold	Market return $- 6\% \leq$ 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	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 2.6
Medium	$1.0 \leq$ 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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