



Site Visit Notes

Yitai Coal (3948 HK) – BUY China Coal & Consumable Fuels Industry 12-month target price: HK\$50.54

Key Data

Target Price (HK\$)	50.54
H-Share price (HK\$)	43.35
Upside potential (%)	16.5
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\$m)	7,082
- B Shares (USD mn)	3,576
3-mth avg daily turnover (HK\$m)	1.06
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 Chemical	4.10
Others	0.22

Source: Company

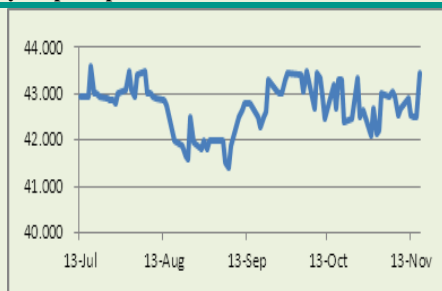
Share performance (%)

	Absolute	Relative*
1-mth	0.3	1.5
3-mth	3.5	(1.7)
6-mth	NA	NA

*Relative to Hang Seng Index

Source: Bloomberg

1 year price performance



Source: Bloomberg

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Previous report

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Rating - Buy

Key takeaways from site visit

Our visit to Yitai's mines and coal-to-oil project strengthens our confidence on 2012 sales and output growth in 2013. The group has cost advantage and transportation edge. Its coal-to-oil project is a long-term upside catalyst. The counter is trading at est. FY2013 PER of 8.01x and PB of 1.98x. We maintain our BUY rating with a TP of HK\$50.54, representing 9.3x 2013 PER.

Site visit: We visited Yitai's Dadijing Coal mine, Zhundong Railway and its Coal-to-oil project. After we had held thorough discussion with the management and front staffs, we had the following comments.

Stable 4Q 2012 sales. The winter peak season comes earlier-than-expected and thermal coal demand will be boosted. Its coal sales in 4Q will be lifted.

Coal-to-oil project runs smoothly. For the first 9mth, its coal-to-oil project has produced 128,400 tonnes of oil and related products, realizing 80% of its annual capacity and generating net income of Rmb145mn. The project's gross profit margin and net profit margin are 36.25% and 14.13% respectively.

Price liberalization not affected. Management expects that the de-regulation of coal prices won't hurt large coal producers such as Yitai as they have low cost advantage, logistic edge, and good business relationship with clients and the MOR (Ministry of Railways).

Valuation: Yitai is trading at est. 2013E PER of 8.01x and PB of 1.98x. We maintain BUY rating with TP of HK\$50.54, representing 9.3x 2013 PER.

Risk factors: 1) coal price risk; 2) demand risk due to slow down of economic growth; 3) regulatory and policy risk; 4) change of tax regimes; 5) M&A terms and schedule.

Performance and Valuation

FY ended Dec 31	2009A	2010A	2011A	2012E	2013E
Turnover (Rmb mn)	10,252	13,854	16,516	23,711	26,915
Chg (%.yoy)	NA	35.1	19.2	43.6	13.5
Net Income (Rmb mn)	3,043	5,015	5,464	5,674	6,685
Chg (%.YoY)	NA	64.8	9.0	3.8	17.8
EPS (Rmb)_IPO adj.	1.87	3.08	3.36	3.49	4.41
Chg (%.YoY)	NA	64.7	9.1	3.8	26.4
BVPS (Rmb)-IPO adj.	5.84	8.45	10.46	14.92	17.80
Chg (%.yoy)	NA	44.6	23.8	42.7	19.3
P/E (x)	—	—	10.51	10.13	8.01
P/B (x)	—	—	3.38	2.37	1.98
Dividend yield (%)	—	—	—	3.0	3.5
ROAE (%)	38	43	36	27	25

Source: Company, Bloomberg, ABCI Securities estimates (assuming Rmb1.0=HK\$1.23)



Key notes and our view

Coal sales in 4Q2012 remain stable. As winter comes earlier-than-expected in northern China, demand for thermal coal is mounting and demand for railway services to deliver coal from Inner Mongolia to other provinces is rising as well. Previously, market expected Yitai's coal sales to slide in 4Q in view of weak economic growth. Management hints the coal sales are unlikely to decline in this quarter and coal sales in local market are rising as well.

Although the traditional peak season comes early, we estimate the annual sales volume of its self-produced coal will increase mildly by 2%yoy to 34.4mn tonnes which is 13.3% below its annual budget. The negative variance is caused by the weak sales volume during 2Q-3Q.

Coal-to-oil project runs smoothly. For the first nine months this year, Yitai's coal-to-oil project has produced 128,400 tonnes of oil and related products, achieving approx. 80% of its annual capacity and generating net income of Rmb145mn. The project recorded gross profit margin and net profit margin of 36.25% and 14.13% respectively. Local government encourages to enlarge the production capacity to 2mn tonnes of coal-transferred oil products in coming several years.

Currently, the project produces each ton of oil or related products from five tonnes of coal and generates net income of Rmb1,127 per ton of oil product. If it expand its production scale to 2mn tonnes of oil products, the potential net income will fetch to Rmb2,254mn (or 39% of Yitai's net profit for FY11). Although local government encourages to expand the output of the project, we believe it takes time to conduct environmental evaluation and to seek the NDRC approval. This project is a long-term upside catalyst to Yitai, but its short-term upside has been factored into FY12 result and is constrained by existing production capacity.

Competitiveness not affected by price liberalization. According to the management, China will suspend the dual price system and allow coal producers to negotiate and set coal prices with downstream customers such as power producers. If this is the case, coal selling prices in the future will be more sensitive to the downstream demand change and import coal prices.

To our knowledge, details on the new pricing mechanism and transportation arrangement have yet been decided. But a consensus of the sector is that the price and national railway transportation quota will be based on previous dealing records. In previous years, Yitai's transportation quota kept growing and its contract sales grow at approx 4% annual growth rate during 2009~2011. Besides, Yitai will have more edges in the transportation because it has two self-owned railways in Inner Mongolia.

Valuation: The counter is trading at est. FY2013 PER of 8.01x and PB of 1.98x. We maintain BUY rating with TP of HK\$50.54, representing 9.3x 2013 PER.



Exhibit: Location of Yitai's mines, the target mines and self-owned railways



Source: Company data

- Coal mines owned by Yitai and Yitai Group are located in western Inner Mongolia, near the boundary of Shaanxi and Shanxi provinces, and within China’s largest coal-producing region.
- Yitai owns an integrated railway network connecting its mines with the national rail transportation system, which provides Yitai with competitive advantages in securing allocation of coal transportation capacity in the national railway system and facilitating its coal sales to the major customers in China’s developed coastal regions.



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Inner Mongolia Yitai Coal Co., Ltd.

Exhibit: one of Yitai's coal mines



Source: site visit (taken on Nov. 11, 2012)



Exhibit: Yitai's self-owned railways (Zhundong Railway)



Source: site visit (taken on Nov. 11, 2012)



Exhibit: Yitai's coal-to-oil company and its products



Source: site visit (taken on Nov. 12, 2012)





Financial analysis and projection

Consolidated income statements forecast

FY ended Dec 31 (Rmb mn)	2009A	2010A	2011A	2012E	2013E
Revenue	10,252	13,854	16,516	23,711	26,915
Coal	9,676	13,360	15,197	21,370	24,380
Tran Operations, mn Rmb	535	435	604	957	1,100
Coal related chemical, mn Rmb	-	-	678	1,356	1,400
Others, mn Rmb	42	58	36	30	35
Cost of sales	(5,235)	(5,999)	(8,101)	(14,645)	(16,418)
Gross profit	5,017	7,855	8,415	9,066	10,497
Other income and gains	132	152	350	309	310
SG&A	(1,152)	(1,495)	(1,727)	(1,813)	(1,960)
Other operating expenses	(65)	(100)	(64)	(67)	(70)
Other costs	(283)	(237)	(278)	(370)	(402)
Pre-tax profit	3,714	6,275	6,760	7,192	8,445
Profits tax	(565)	(959)	(1,011)	(1,083)	(1,272)
Net profit	3,148	5,316	5,749	6,109	7,173
Minority interests	106	301	285	435	488
Equity shareholders of the Company	3,043	5,015	5,464	5,674	6,685
EPS (Basic)-IPO adjusted	1.87	3.08	3.36	3.49	4.41
Dividend-IPO adjusted	0.45	1.35	1.35	1.05	1.23

Source: Company data, ABCI Securities estimates

Balance sheet forecast

FY ended Dec31 (Rmbmn)	2009A	2010A	2011A	2012E	2013E
Property, plant and equipment	15,623	17,698	20,371	23,616	26,761
Available-for-sale investments	1,339	2,108	2,871	2,952	2,952
Intangible assets	19	17	17	16	16
Other assets	705	821	990	1,194	1,273
Total non-current assets	17,687	20,644	24,249	27,777	31,001
Inventories	316	460	677	800	960
Accounts and bills receivable	669	573	751	3,500	4,200
Prepaid expenses and other current assets	660	454	836	1,930	1,930
Cash and cash equivalents	3,290	3,742	3,556	10,347	11,405
Current assets	4,935	5,230	5,820	16,577	18,495
Total assets	22,622	25,874	30,069	44,354	49,496
Short-term borrowings and current portion of long-term borrowings	(1,753)	(919)	(2,206)	(2,500)	(3,500)
Accounts and bills payable	(270)	(279)	(543)	(1,600)	(1,930)
Accrued expenses and other payables	(2,147)	(1,946)	(1,886)	(2,000)	(2,400)
Other short-term liabilities	(237)	(321)	(161)	(436)	(600)
Total current liabilities	(4,406)	(3,465)	(4,797)	(6,536)	(8,430)
Total non-current liabilities	(7,464)	(7,112)	(6,488)	(11,687)	(6,985)
Total liabilities	(11,870)	(10,577)	(11,285)	(18,223)	(15,415)
Total equity	10,752	15,297	18,783	26,131	31,059
Non-controlling interests	1,245	1,551	1,768	1,852	2,100
Equity of the firm	9,507	13,745	17,016	24,279	28,959
Book value/share (Rmb)-IPO adjusted	5.84	8.45	10.46	14.92	17.80

Source: Company data, ABCI Securities estimates



Consolidated cash flow statements forecast

FY ended Dec 31 (Rmb mn)	2009A	2010A	2011A	2012E	2013E
Profit before income tax	3,714	6,275	6,760	7,192	8,445
DD&A	513	602	789	969	969
Financial cost	280	172	285	396	395
Financial income	(36)	(26)	(34)	(70)	(40)
(Increase) decrease in inventories	60	(144)	(217)	(123)	(92)
Decrease in trade and bills receivables	154	102	(149)	(2,749)	(1,343)
Others	(960)	(620)	(723)	(1,231)	(1,490)
CF Operating	3,725	6,361	6,712	4,384	6,844
Capex	(3,971)	(3,524)	(4,028)	(3,245)	(3,570)
Others	230	(276)	(725)	(668)	(254)
CF Investing	(3,741)	(3,800)	(4,753)	(3,913)	(3,824)
Net debt financing	372	(1,181)	394	2,129	439
Dividend payout	(732)	(732)	(2,196)	(1,702)	(2,006)
Others	(259)	(212)	(351)	5,129	(395)
CF Financing	(619)	(2,125)	(2,152)	5,555	(1,962)
Net change in cash	(635)	436	(193)	6,026	1,058
Cash at the beginning*	3,906	3,270	3,707	2,838	10,326
Exchange difference	—	0	—	—	—
Cash at the end	3,270	3,707	3,514	10,326	11,384

Source: Company data, ABCI Securities estimates

Scenario analysis on the acquisition from parent companies

By the end of 2012E	Before Acq.		After Acq.2012E	After Acq., 2013E
	Group	TG Est.	Enlarged Est.	
Revenue, mn Rmb	23,711	10,903	34,252	38,880
Gross Profit, mn Rmb	9,066	3,124	12,709	14,729
Gross Profit Margin, %	38.24	28.65	37.11	37.88
Net Income, mn Rmb	5,674	1,960	6,634	9,464
EPS, Rmb	3.49	1.22	4.08	5.82
BVPS, Rmb	14.92	n.a.	13.48	20.02
PE (x)	10.13	n.a.	8.66	6.07
PB (x)	2.37	n.a.	2.62	1.76

Source: Company data, ABCI Securities estimates



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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	$2.6 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility}$
High	$1.5 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 2.6$
Medium	$1.0 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 1.5$
Low	$180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 1.0$

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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