



Company Report

Yitai Coal (3948 HK) China Coal & Consumable Fuels Industry May 15, 2013

Rating: Buy
TP: HK\$50.54

Key Data

H-Share price (HK\$)	41.00
Upside potential (%)	23.3
52Wk H/L(HK\$)	45.7/39.5
Issued shares (mn)	1627
- H Shares (mn)	163
- B Shares (mn)	664
- Unlisted Shares (mn)	800
Market cap	
- H Shares (HK\$m)	6,683
- B Shares (USD mn)	3,568
3-mth avg daily turnover (HK\$m)	12
Major shareholder (%):	
Inner Mongolia Yitai Group Co., Ltd.	49.17

Source: Company, Bloomberg, ABCI Securities

Revenue composition in FY12 (%)

Coal	94.8
Transportation	0.8
Coal Chemical	4.3
Other	0.1

Source: Company, ABCI Securities

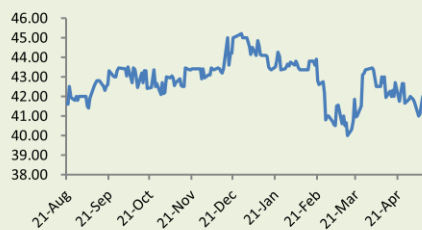
Share performance (%)

	Absolute	Relative*
1-mth performance	(2.96)	(8.63)
3-mth performance	(6.39)	0.47
6-mth performance	(3.53)	(11.70)

*Relative to HSCEI Index

Source: Bloomberg, ABCI Securities

price performance since IPO, (July, 2012)



Source: Bloomberg, ABCI Securities

Analyst

Report Date: 15 May, 2013

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Previous report: 26 March, 2012

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A cost-efficient & fast-growing player

Yitai Coal (3948 HK) is the sole H-share thermal coal company which achieved over 30% ROAE in 2012. The company's unit cost and gross profit margin are competitive in present bearish coal market. Though we expect it will suffer from present weak market, we are optimistic on its growth potential. Based on our FY13 EPS expectation, the group's valuation was attractive. We maintain our Buy rating on the stock with TP of HK\$50.54.

Highly-competitive unit cost of coal output. The average production cost of Yitai was Rmb94.6/tonne for FY12, the lowest among the H-share peers and was approximately 70%, 40% and 30% of that of China Shenhua (1088 HK), China Coal (1898 HK) and Yanzhou Coal (1171 HK), respectively. The competitive low unit cost benefited from its high quality coal mines, flexible employment policy as a private firm, as well as a favorable tax rate as a coal producer in Inner Mongolia.

Strong earnings growth with resources advantages. Because of successive internal consolidation and technological upgrades, Yitai recorded rapid production growth in the past years, as its total revenue and net profit increased by a CAGR of 32% and 21% during the four years period from FY09-12. The group's competitive edge is further sharpened by its self-owned railway lines which enhance transportation capacity.

Maintain our Buy rating with TP of \$50.54. We believe that the highest ROE and cost efficiency among its peers would help Yitai Coal rebound first when the coal prices start to rebound. Our TP reflects FY13 forward PER of 10.4x, with 23.3% upside potential.

Risk factors: 1) Continued slump in coal prices; 2) Imbalance of supply and demand; 3) Business cycles of downstream industries.

Performance and Valuation

FY ended Dec 31	2011RS	2012A	2013E	2014E
Turnover (Rmb mn)	27,003	31,584	31,150	34,765
Chg (%yoy)	94.9	16.96	(1.4)	11.6
Net Income (Rmb mn)	7,683	6,454	6,348	7,249
Chg (%YoY)	53.2	(16.0)	(1.7)	14.2
EPS (Rmb)_IPO adj.	4.72	3.97	3.90	4.46
Chg (%YoY)	53.3	(16.0)	(1.7)	14.2
BVPS (Rmb)-IPO adj.	12.03	12.11	14.75	17.74
Chg (%yoy)	42.4	0.7	21.7	20.3
P/E (x)	-	8.40	8.54	7.48
P/B (x)	-	2.75	2.26	1.88
Dividend Peshare	1.35	1.25	1.16	1.33
Dividend yield (%)	-	3.8	3.5	4.0
ROAE (%)	46.1	32.9	29.0	27.4
ROAA (%)	22.8	15.6	15.2	15.2

Source: Company, Bloomberg, ABCI Securities estimates (assuming Rmb1.0=HK\$1.26)



Consolidated income statements forecast

FY ended Dec 31 (Rmb mn)	2009A	2010A	2011A	2012A	2013E	2014E
Revenue	10,252	13,854	27,003	31,584	31,150	34,765
Coal	9,676	13,360	na	29,956	29,445	32,880
Tran Operations, Rmb mn	535	435	na	243	250	258
Coal related chemical, Rmb mn	-	-	na	1,362	1,430	1,602
Others, Rmb mn	42	58	na	23	25	26
Cost of sales	(5,235)	(5,999)	(14,937)	(20,454)	(20,173)	(22,515)
Gross profit	5,017	7,855	12,066	11,129	10,976	12,250
Other income	132	152	345	619	482	551
SG&A	(1,152)	(1,495)	(2,308)	(2,752)	(2,844)	(2,882)
Other operating expenses, net of	(283)	(237)	(265)	(480)	(374)	(428)
Share of profits/losses of associates	1	3	20	34	27	31
Pre-tax profit	3,714	6,278	9,857	8,551	8,267	9,521
Profits tax	(565)	(959)	(1,628)	(1,399)	(1,353)	(1,558)
Net profit	3,148	5,316	8,229	7,151	6,914	7,963
Minority interests	106	301	546	697	566	714
Equity shareholders of the Company	3,043	5,015	7,683	6,454	6,348	7,249
EPS (Basic)	1.87	3.08	5.25*	4.19*	3.90	4.46
Dividend per share, Rmb	0.45	1.35	1.35	1.25	1.16	1.33

Source: Company data, ABCI Securities estimates

* Company reported value, which is different with our IPO-adjusted value.

Balance sheet forecast

FY ended Dec31 (Rmb mn)	2009A	2010A	2011A	2012E	2013E	2014E
Property, plant and equipment	15,623	17,698	21,610	24,269	25,004	26,854
Available-for-sale investments	1,339	2,108	2,871	3,808	3,808	3,808
Intangible assets	19	17	18	51	51	51
Other assets	705	821	1,295	2,054	1,673	1,865
Total non-current assets	17,687	20,644	25,794	30,183	30,536	32,578
Inventories	316	460	1,015	873	1,089	1,263
Trade and bills receivable	669	573	1,408	2,690	2,364	3,253
Prepaid expenses and other current assets	660	454	934	1,277	1,168	1,355
Restricted cash	15	27	27	30	29	29
Cash and cash equivalents	3,275	3,715	4,453	6,315	6,523	9,199
Current assets	4,935	5,230	7,837	11,185	11,173	15,100
Total assets	22,622	25,874	33,631	41,367	41,709	47,678
Trade and bills payables	(1,753)	(919)	(762)	(1,345)	(1,103)	(1,356)
Other payables and accruals	(270)	(279)	(2,416)	(7,424)	(4,920)	(6,172)
Interest-bearing loans	(2,147)	(1,946)	(2,206)	(1,582)	(2,136)	(2,884)
Taxes payable	(237)	(321)	(204)	(43)	(123)	(83)
Total current liabilities	(4,406)	(3,465)	(5,588)	(10,395)	(8,283)	(10,495)
Interest-bearing loans	(7,368)	(7,012)	(6,101)	(7,803)	(5,606)	(4,180)
Long term bonds				(1,001)	(800)	(600)
Other long term liabilities	(96)	(101)	(394)	(230)	(312)	(271)
Total non-current liabilities	(7,464)	(7,112)	(6,494)	(9,034)	(6,718)	(5,050)
Total liabilities	(11,870)	(10,577)	(12,082)	(19,428)	(15,001)	(15,545)
Total equity	10,752	15,297	21,549	21,939	26,709	32,133
Non-controlling interests	1,245	1,551	1,972	2,229	2,713	3,264
Equity of the firm	9,507	13,745	19,577	19,710	23,995	28,868
BVPS (Rmb)-IPO adjusted	5.84	8.45	12.03	12.11	14.75	17.74

Source: Company data, ABCI Securities estimates



Consolidated cash flow statements forecast

FY ended Dec 31 (Rmb mn)	2009A	2010A	2011A	2012A	2013E	2014E
Profit before income tax	3,714	6,275	9,857	8,551	8,267	9,521
DD&A	513	602	979	1,712	1,443	1,716
Financial cost	280	172	286	430	358	394
Financial income	(36)	(26)	(38)	(35)	(37)	(36)
(Increase) decrease in inventories	60	(144)	(373)	130	(216)	(174)
Decrease in trade and bills receivables	154	102	(244)	(1,306)	326	(889)
Others	(960)	(620)	(1,661)	(1,301)	1,636	(2,899)
CF Operating	3,725	6,361	8,806	8,180	11,777	7,632
Purchase of PP&E	(3,971)	(3,524)	(4,097)	(4,700)	(6,158)	(6,786)
Others	230	(276)	(721)	(4,245)	(860)	(908)
CF Investing	(3,741)	(3,800)	(4,818)	(8,945)	(7,018)	(7,694)
Net debt financing	372	(1,181)	(2,342)	(653)	(380)	2,945
Dividend payout	(732)	(732)	(611)	(207)	(207)	(207)
Others	(259)	(212)	(1,433)	3,545	(4,000)	0
CF Financing	(619)	(2,125)	(4,386)	2,685	(4,588)	2,738
Net change in cash	(635)	436	(399)	1,920	172	2,676
Cash at the beginning*	3,906	3,270	4,829	4,431	6,350	6,522
Exchange difference	—	0	—	—	—	—
Cash at the end	3,270	3,707	4,431	6,350	6,522	9,199

Source: Company data, 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

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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