



Company Report

Yanzhou Coal (1171 HK) – Hold

China Coal & Consumable Fuels Industry

May 15, 2013

Rating: Hold

TP: HK\$ 7.96

Key Data

H-Share price (HK\$)	8.00
Upside potential (%)	(0.5)
52Wk H/L(HK\$)	14.92/7.73
Issued shares (mn)	4,918
- H Shares (mn)	1,958
- A Shares (mn)	2,960
Market cap	
- H Shares (HK\$mn)	15,667
- A Shares (Rmb mn)	41,706
3-mth avg daily turnover (HK\$mn)	275
Major shareholder (%):	
Yankuang Group Company Limited	52.86%

Source: Company, Bloomberg, ABCI Securities

Revenue composition in FY12 (%)

Coal, %	96.65
Railway transportation service, %	0.80
Gross sales of electricity power, %	0.56
Gross sales of methanol, %	1.92
Gross sales of heat supply, %	0.07

Source: Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth performance	(10.91)	(16.58)
3-mth performance	(37.79)	(30.93)
6-mth performance	(28.83)	(36.99)

*Relative to HSCEI Index

Source: Bloomberg, ABCI Securities

1 year price performance



Source: Bloomberg, ABCI Securities

Analyst

Report Date: 15 May, 2013

Mark Chen

Previous report: 2 May, 2012

Tel: (852) 2147 8819

Email: markchen@abci.com.hk

Struggle to cut costs

Compared with its H-share peers, Yanzhou Coal enjoys geographic advantages and has more international market sources. But it suffers more from weak downstream demand and increasing costs. The coal price weakness could weight on earnings. We expect the group to take more time to improve its cost management. Therefore, we maintained our Hold rating with TP of HK\$7.96.

Downstream demand remains weak. Accordingly to National Bureau of Statistics of China, the monthly raw steel output growth slumped significantly to 6% YoY in March, 2013. We predict that this would put pressure on Yanzhou Coal's sales. Our channel check indicates that Yanzhou Coal was considering to reduce its selling prices for its clean coal products, which were mainly sold to downstream steel producers.

Surging costs are the main concern. The Company's 1Q13 cost of coal sales per tonne improved 3.34% YoY in headquarter, but worsened 35.5% YoY in Australia's subsidiary. This poses a great challenge for the management to reduce the subsidiary's annual unit cost by 15% YoY. Its unit cost (Rmb316.15/t in the headquarter) was the highest among all the H-share peers, about 160% higher than China Shenhua (1088 HK). The management has reiterated that they will keep the unit cost under control by all means. We predict that it will take time for the group to achieve the cost reduction goal.

Maintain our Hold rating and TP of HK\$7.96. After factoring into Yanzhou Coal's weak earnings growth factors and recent stock price adjustments, we maintain our Hold rating with TP of HK\$7.96. Our TP reflects FY13 forward PER of 8.8x.

Risk factors: 1) Coal price risk; 2) Imbalance of supply and demand; 3) Business cycles of downstream industries; 4) Surging costs.

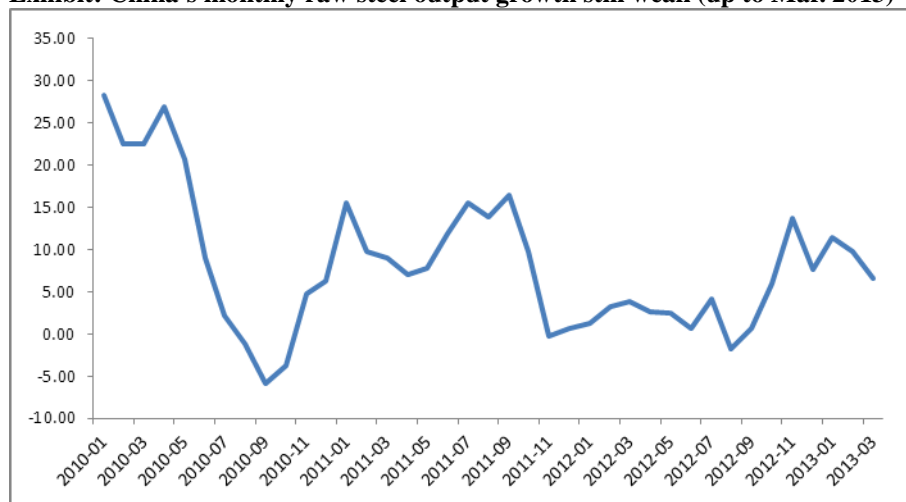
Results and valuation

FY ended Dec 31	2010A	2011A	2012A	2013E	2014E
Turnover (Rmb mn)	33,944	47,066	58,146	50,627	57,410
Turnover Chg (%yoy)	64.16	38.66	23.54	(12.93)	13.40
Net Income (Rmb mn)	9,281	8,928	6,219	3,531	4,348
Net Income Chg (%YoY)	125.42	(3.81)	(30.34)	(43.22)	23.12
EPS (Rmb)	1.89	1.82	1.26	0.72	0.88
EPS Chg (%YoY)	124.65	(3.81)	(30.34)	(43.22)	23.12
BVPS (Rmb)	7.59	8.67	9.32	9.55	9.89
BVPS Chg (%yoy)	28.06	14.20	7.49	2.53	3.56
P/E (x)	-	-	5.0	8.8	7.2
P/B (x)	-	-	0.68	0.66	0.64
Dividend Per Share, Rmb	0.59	0.57	0.36	0.22	0.27
Dividend yield (%)	-	-	5.7	3.5	4.3
ROAE (%)	27.9	22.3	14.1	7.6	9.1
ROAA (%)	13.7	10.5	5.7	3.0	3.7

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



Exhibit: China's monthly raw steel output growth still weak (up to Mar. 2013)



Source: Wind, ABCI Securities

Exhibit: Consolidated income statements forecast

As of Dec 31 (Rmb mn)	2011A	2012A	2013E	2014E
Revenue	47,066	58,146	50,627	57,410
Coal	45,181	56,201	48,714	55,280
Railway transportation service income	477	464	561	559
Gross sales of electricity power	328	324	304	355
Gross sales of methanol	1,059	1,118	1,017	1,183
Gross sales of heat supply , Rmb mn	20	40	31	33
Transportation costs of coal	(1,248)	(2,104)	(1,762)	(1,999)
Cost of sales and service provided	(25,725)	(41,962)	(35,146)	(39,855)
Cost of electricity power	(362)	(331)	(277)	(314)
Cost of methanol	(930)	(911)	(763)	(865)
Cost of heat supply	(14)	(25)	(21)	(24)
Gross profit	18,786	12,813	12,657	14,352
SG&A	(6,570)	(7,988)	(8,786)	(9,665)
Other income and gains	305	1,521	566	914
Pre-tax profit	12,521	6,346	4,436	5,602
Income tax	(3,545)	(124)	(887)	(1,232)
Net profit	8,976	6,222	3,549	4,369
Minority interests	48	3	18	22
Equity shareholders of the Company	8,928	6,219	3,531	4,348
EPS (Basic), Rmb	1.82	1.26	0.72	0.88
Dividend per share, Rmb	0.57	0.36	0.22	0.27

Source: Company, ABCI Securities estimates



Exhibit: Balance sheet forecast

As of Dec 31 (Rmb mn)	2011A	2012A	2013E	2014E
Property, plant and equipment	31,274	39,503	36,662	34,036
Prepaid lease payments	713	696	712	707
Intangible assets	26,206	33,634	26,491	28,777
Other non-current assets	8,528	18,587	14,164	15,550
Total non-current assets	66,720	92,420	78,030	79,070
Bank balances and cash	8,145	12,717	15,532	23,098
Bills and accounts receivable	7,312	7,460	6,333	7,186
Inventories	1,391	1,566	1,461	1,658
Prepayments and other receivables	3,625	4,197	3,773	4,205
Other current assets	9,958	4,343	5,944	6,778
Current assets	30,431	30,282	33,043	42,925
Total assets	97,152	122,702	111,073	121,995
Bills and accounts payable	(2,241)	(6,812)	(5,846)	(6,667)
Other payables and accrued expenses	(7,345)	(9,014)	(7,866)	(8,845)
Borrowings-due within one year	(19,588)	(7,713)	(9,305)	(12,202)
Other short-term liabilities	(5,547)	(5,085)	(5,065)	(4,973)
Total current liabilities	(34,721)	(28,623)	(28,082)	(32,687)
Borrowings-due after one year	(14,869)	(33,284)	(24,077)	(28,680)
Deferred tax liability	(3,895)	(7,730)	(5,813)	(6,771)
Other Non-current liabilities	(340)	(3,975)	(2,769)	(1,730)
Total non-current liabilities	(19,105)	(44,988)	(32,658)	(37,181)
Total liabilities	(53,827)	(73,611)	(60,740)	(69,868)
Total equity	43,325	49,091	50,333	52,126
Non-controlling interests	691	3,265	3,347	3,467
Equity of the firm	42,634	45,826	46,985	48,660
Book value/share, Rmb	8.67	9.32	9.55	9.89

Source: Company, ABCI Securities estimates



Exhibit: Consolidated cash flow statements forecast

As of Dec 31 (Rmb mn)	2011A	2012A	2013E	2014E
Profit before income tax	12,521	6,346	4,436	5,602
Depreciation of property, plant and equipment	2,266	2,819	2,637	2,438
Interest expenses	839	1,449	1,594	1,721
Interest income	(358)	(722)	(722)	(722)
Decrease (increase) in inventories	403	(59)	104	(197)
Decrease (increase) in bills and accounts receivable	2,800	(93)	1,127	(854)
Other adj. items	(495)	(3,236)	(5,530)	(2,554)
CF Operating	17,977	6,504	3,645	5,434
Purchases of property, plant and equipment	(8,620)	(6,230)	(12,005)	(8,952)
Others	(16,991)	3,043	141	(558)
CF Investing	(25,611)	(3,187)	(11,863)	(9,509)
Proceeds from bank borrowings	16,712	12,282	16,564	17,837
Dividend paid	(2,902)	(2,803)	(1,771)	(1,095)
Cash flows from other financing	(4,369)	(8,333)	(3,684)	(4,969)
CF from/(used) in Financing activities	9,441	1,145	11,109	11,773
Net change in cash	1,807	4,461	2,891	7,699
Cash at the beginning	6,771	8,145	12,717	15,532
Exchange difference	(433)	111	(76)	(133)
Cash at the end	8,145	12,717	15,532	23,098

Source: Company, 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

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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Office address : ABCI Securities Company Limited, 13/F Fairmont House,
8 Cotton Tree Drive, Central, Hong Kong.

Tel : (852) 2868 2183