



August 21, 2013  
Equity Focus  
Rating: SELL  
TP: HK\$ 4.16

H-Share price (HK\$) 6.52  
Est. share price return (36.2%)  
Est. dividend yield 0.21%  
Est. total return (35.99%)

Previous Rating & TP SELL; HK\$ 4.16  
Previous Report Date Aug 8, 2013

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**Key Data**

52Wk H/L(HK\$)	14.48/5.13
Issued shares (mn)	4,918
H-Shares (mn)	1,958
A-Shares (mn)	2,960
Market cap	
H-shares (HK\$ mn)	12,769
A-Shares (HK\$ mn)	30,873
3-mth avg daily turnover (HK\$ mn)	202.2
Major shareholder(s) (%):	
Yankuang Group Company Limited	52.86

Source(s): Company, Bloomberg, ABCI Securities

**FY12 Revenue breakdown (%)**

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(s): Company, ABCI Securities

**Share performance (%)**

	Absolute	Relative*
1-mth	16.01	11.17
3-mth	(20.39)	(8.94)
6-mth	(47.33)	(32.12)

\*Relative to HSCEI

Source(s): Bloomberg, ABCI Securities

**1-Year stock performance (HK\$)**



Source(s): Bloomberg

# Yanzhou Coal (1171 HK)

## The dark without the dawn; maintain SELL

- Yanzhou Coal's management believed coal price in 2H13 will fluctuate on low demand growth and additional capacity in 2013
- International coal prices will consolidate at low levels, and Indonesia's coal exports will continue to rise in 2H13
- The Group will slash CAPEX by 48.9% for FY13 and is expected to turn profitable in 3Q13
- The low FY14E EPS and the possibility of an asset provision in 2H13 prompt us to maintain SELL with TP at HK\$4.16, reflecting 6.5x FY14E P/E

**2H13 domestic coal price to fluctuate in narrow range.** Yanzhou Coal just raised prices of some of its clean coal product twice in the past two weeks, but management believed the domestic market was still beleaguered by low demand growth and additional capacity. Protective policies implemented by local governments could offer only limited help. Internationally, global coal prices remained weak, but demand in Asia (China and India) would increase steadily. The Group reported a total loss of RMB 2,073mn in 1H13 (vs. net profit of RMB 5223.1mn in 1H12) on weak coal prices, and expected no significant rebound in coal prices for 2H13.

**Cost-cut to meet target.** The Group's headquarters ASP was down 15.95% YoY in 1H13, and more severe declines were seen in its domestic subsidiaries. However, management was confident that they could meet the cost-cutting targets of reducing the headquarters' COGS by 5% (~5% in 1H13) and Yancoal Australia's COGS by 15% (~14% in 1H13).

**May turn profitable in 3Q13.** The management decided to cut reduce CAPEX by RMB 5.87bn to RMB 6.13bn for FY13. The Group expected 3Q13 net profit to be RMB 800mn based on the stabilizing coal prices and cost-cutting measures. However, they did not omit the possibility of an asset provision in 2H13 because of the weak international coal prices.

**Maintain SELL.** The stock is trading at 10.19x FY14E P/E. Considering the low FY14E EPS and the possibility of an asset provision in 2H13, we believe the counter is still overvalued. Maintain **SELL** with TP at HK\$4.16, reflecting 6.5x FY14E P/E.

**Risk factors:** 1) Further declines in coal prices; 2) Imbalance in supply and demand; 3) Business cycles of downstream industries; 4) Surging costs.

**Results and Valuation**

FY ended Dec 31	2010A	2011A	2012A	2013E	2014E
Revenue (RMB mn)	33,944	47,066	58,146	42,193	47,879
Chg (% YoY)	64.16	38.66	23.54	(27.44)	13.47
Net Profit (RMB mn)	9,281	8,928	6,219	174	2,498
Chg (% YoY)	125.42	(3.81)	(30.34)	(97.21)	1339.74
EPS (RMB)	1.89	1.82	1.26	0.04	0.51
Chg (% YoY)	124.65	(3.81)	(30.34)	(97.21)	1339.74
BVPS (RMB)	7.59	8.67	9.32	9.34	9.69
Chg (% YoY)	28.06	14.20	7.49	0.26	3.78
P/E (x)	--	--	3.36	146.67	10.19
P/B (x)	--	--	0.46	0.55	0.53
DPS(RMB)	0.59	0.57	0.36	0.01	0.16
Yield (%)	--	--	8.46	0.21	3.04
ROE (%)	27.92	22.33	14.06	0.38	5.34
ROA (%)	13.73	10.51	5.66	0.15	2.21

Source(s): Bloomberg, ABCI estimates



**Consolidated income statement (2010A-2014E)**

<b>FY Ended Dec 31 (RMB mn)</b>	<b>2010A</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>
<b>Revenue</b>	33,944	47,066	58,146	42,193	47,879
Coal	32,591	45,181	56,201	40,599	46,103
Railway transportation service income	513	477	464	467	466
Gross sales of electricity power	186	328	324	253	296
Gross sales of methanol	629	1,059	1,118	848	987
Gross sales of heat supply , RMB mn	25	20	40	26	28
Transportation costs of coal	(1,160)	(1,248)	(2,104)	(1,567)	(1,667)
Cost of sales and service provided	(16,801)	(25,725)	(41,962)	(31,244)	(33,239)
Cost of electricity power	(196)	(362)	(331)	(246)	(262)
Cost of methanol	(717)	(930)	(911)	(678)	(722)
Cost of heat supply	(12)	(14)	(25)	(19)	(20)
<b>COGS</b>	<b>(18,887)</b>	<b>(28,280)</b>	<b>(45,333)</b>	<b>(33,755)</b>	<b>(35,909)</b>
<b>Gross profit</b>	<b>15,058</b>	<b>18,786</b>	<b>12,813</b>	<b>8,439</b>	<b>11,970</b>
SG&A	(5,094)	(6,570)	(7,988)	(8,786)	(9,665)
Other income and gains	2,514	305	1,521	566	914
<b>Pre-tax profit</b>	<b>12,477</b>	<b>12,521</b>	<b>6,346</b>	<b>218</b>	<b>3,219</b>
Income tax	(3,171)	(3,545)	(124)	(44)	(708)
<b>Net profit</b>	<b>9,306</b>	<b>8,976</b>	<b>6,222</b>	<b>174</b>	<b>2,511</b>
<b>Profit attributable to:</b>					
Minority interests	25	48	3	1	13
<b>Equity shareholders of the Company</b>	<b>9,281</b>	<b>8,928</b>	<b>6,219</b>	<b>174</b>	<b>2,498</b>
<b>EPS (Basic), RMB</b>	<b>1.89</b>	<b>1.82</b>	<b>1.26</b>	<b>0.04</b>	<b>0.51</b>
<b>DPS, RMB</b>	<b>0.59</b>	<b>0.57</b>	<b>0.36</b>	<b>0.01</b>	<b>0.16</b>

Source(s): Company, ABCI Securities estimates

**Consolidated balance sheet (2010A-2014E)**

<b>As of Dec 31 (RMB mn)</b>	<b>2010A</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>
Property, plant and equipment	19,875	31,274	39,503	36,662	34,036
Prepaid lease payments	728	713	696	712	707
Intangible assets	19,633	26,206	33,634	26,491	28,777
Other non-current assets	8,239	8,528	18,587	13,874	15,222
<b>Total non-current assets</b>	<b>48,475</b>	<b>66,720</b>	<b>92,420</b>	<b>77,740</b>	<b>78,742</b>
Bank balances and cash	6,771	8,145	12,717	14,353	21,971
Bills and accounts receivable	10,017	7,312	7,460	5,278	5,993
Inventories	1,646	1,391	1,566	1,218	1,383
Prepayments and other receivables	2,614	3,625	4,197	3,145	3,507
Other current assets	3,233	9,958	4,343	5,944	6,778
<b>Current assets</b>	<b>24,281</b>	<b>30,431</b>	<b>30,282</b>	<b>29,937</b>	<b>39,632</b>
<b>Total assets</b>	<b>72,756</b>	<b>97,152</b>	<b>122,702</b>	<b>107,677</b>	<b>118,374</b>
Bills and accounts payable	1,554	2,241	6,812	4,872	5,560
Other payables and accrued expenses	3,821	7,345	9,014	6,556	7,376
Borrowings-due within one year	615	19,588	7,713	9,305	12,202
Other short-term liabilities	4,144	5,547	5,085	5,065	4,973
<b>Total current liabilities</b>	<b>10,134</b>	<b>34,721</b>	<b>28,623</b>	<b>25,798</b>	<b>30,112</b>
Borrowings-due after one year	22,401	14,869	33,284	24,077	28,680
Deferred tax liability	2,601	3,895	7,730	5,813	6,771
Other Non-current liabilities	182	340	3,975	2,769	1,730
<b>Total non-current liabilities</b>	<b>25,184</b>	<b>19,105</b>	<b>44,988</b>	<b>32,658</b>	<b>37,181</b>
<b>Total liabilities</b>	<b>35,317</b>	<b>53,827</b>	<b>73,611</b>	<b>58,456</b>	<b>67,293</b>
<b>Total equity</b>	<b>37,438</b>	<b>43,325</b>	<b>49,091</b>	<b>49,220</b>	<b>51,081</b>
Non-controlling interests	107	691	3,265	3,273	3,397
<b>Equity of the firm</b>	<b>37,332</b>	<b>42,634</b>	<b>45,826</b>	<b>45,947</b>	<b>47,683</b>
<b>BVPS, RMB</b>	<b>7.59</b>	<b>8.67</b>	<b>9.32</b>	<b>9.34</b>	<b>9.69</b>

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2010A-2014E)

FY ended Dec 31 (RMB mn)	2010A	2011A	2012A	2013E	2014E
<b>Profit before income tax</b>	<b>12,477</b>	<b>12,521</b>	<b>6,346</b>	<b>218</b>	<b>3,219</b>
Depreciation of property, plant and equipment	2,427	2,266	2,819	2,637	2,438
Interest expenses	603	839	1,449	1,594	1,721
Interest income	(187)	(358)	(722)	(722)	(722)
Decrease (increase) in inventories	(728)	403	(59)	348	(165)
Decrease (increase) in bills and accounts receivable	(5,286)	2,800	(93)	2,182	(716)
Other adj. items	(3,906)	(495)	(3,236)	(8,029)	(3,330)
<b>CF Operating</b>	<b>5,400</b>	<b>17,977</b>	<b>6,504</b>	<b>(1,774)</b>	<b>2,445</b>
Purchases of property, plant and equipment	(3,576)	(8,620)	(6,230)	(12,005)	(8,952)
Others	(2,308)	(16,991)	3,043	432	(520)
<b>CF Investing</b>	<b>(5,884)</b>	<b>(25,611)</b>	<b>(3,187)</b>	<b>(11,573)</b>	<b>(9,471)</b>
Proceeds from bank borrowings	1,111	16,712	12,282	20,514	20,985
Dividend paid	(1,230)	(2,902)	(2,803)	(1,771)	(54)
Cash flows from other financing	(1,242)	(4,369)	(8,333)	(3,684)	(6,154)
<b>CF from/(used) in Financing activities</b>	<b>(1,361)</b>	<b>9,441</b>	<b>1,145</b>	<b>15,059</b>	<b>14,777</b>
<b>Net change in cash</b>	<b>(1,845)</b>	<b>1,807</b>	<b>4,461</b>	<b>1,712</b>	<b>7,751</b>
Cash at the beginning	8,522	6,771	8,145	12,717	14,353
Exchange difference	94	(433)	111	(76)	(133)
<b>Cash at the end</b>	<b>6,771</b>	<b>8,145</b>	<b>12,717</b>	<b>14,353</b>	<b>21,971</b>

Source(s): 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

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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