



August 8, 2013  
Company Report  
Rating: SELL  
TP: HK\$ 4.16

H-Share price (HK\$) 5.36  
Est. share price return (22.39%)  
Est. dividend yield 0.26%  
Est. total return (22.13%)

Previous Rating & TP SELL; HK\$ 4.47  
Previous Report Date July 10, 2013

Analyst: Mark Chen  
Tel: (852) 2147 8819  
Email: markchen@abci.com.hk

**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)	10,497
A-Shares (HK\$ mn)	29,866
3-mth avg daily turnover (HK\$ mn)	187.1
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	(3.60)	(6.17)
3-mth	(34.71)	(19.70)
6-mth	(58.26)	(39.12)

\*Relative to HSCEI

Source(s): Bloomberg, ABCI Securities

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



Source(s): Bloomberg

Yanzhou Coal (1171 HK)  
Risks on all fronts - Maintain SELL

- Yanzhou Coal's overall ASP dropped significantly in 2Q13 due to weak downstream demand and recent price war. The situation is likely to worsen due to another round of price war, sluggish coal demand and declining coal prices
- It will take the Group longer than expected to achieve cost efficiency, and GPM will slide further
- The stock is trading at 8.37x FY14E P/E – which is overly optimistic in our view. Maintain SELL with TP at HK\$4.16, equivalent to 6.5x FY14E P/E

**Price war continues to do harm.** China Shenhua (1088 HK) slashed its long-term contract coal price by about RMB 8/t in the first week of Aug, according to *21<sup>st</sup> Century Business Herald*, a leading Chinese financial newspaper. The reported price decline during the peak seasonal indicates coal demand has been lukewarm. We expect the price war will weigh on Yanzhou Coal's financials further as its coal sales will be negatively impacted. The Group reported its 2Q13 overall ASP of RMB 466.58/t, which was much lower than its 1Q13 ASP of RMB 550.34/t. The Group issued a profit warning on July 29, estimating a loss of RMB 2,350mn for 1H13.

**Downstream demand is still weak.** QHD coal inventory remains high, reaching 7.3mnt on Aug 3, one of the highest levels since Mar 30. We believe thermal coal prices have yet to bottom out, as the Australian BJ thermal coal prices continued to decline and reached US\$ 77.15/t on Aug 1, down 17.3% YTD.

**Cost-cut to delay.** The fallen ASP will be detrimental to the Group's effort to improve cost efficiency. Due to recent management changes and the ongoing price war, we expect it will take the Group longer than expected to achieve its cost-cutting aims announced early this year. Thus, we lower its FY13E overall ASP/t by 10% (from RMB 544.23 to RMB 495.11) and reduce its FY13E GPM by 5ppt. We also revise down its FY14 EPS to RMB 0.51 (from RMB 0.69 previously).

**Maintain SELL.** The stock is trading at 8.37x FY14E P/E. Considering the reduced EPS and ROE for FY14E, we believe the current valuation is still overly optimistic. Maintain SELL with TP at HK\$4.16, reflecting 6.5x FY14E P/E.

**Risk factors:** 1) Coal price decline; 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 Income (RMB mn)	9,281	8,928	6,219	174	2,498
Chg (% YoY)	125.42	(3.81)	(30.34)	(97.21)	1,339.74
EPS (RMB)	1.89	1.82	1.26	0.04	0.51
Chg (% YoY)	124.65	(3.81)	(30.34)	(97.21)	1,339.74
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	120.57	8.37
P/B (x)	--	--	0.46	0.46	0.44
DPS(RMB)	0.59	0.57	0.36	0.01	0.16
Yield (%)	--	--	8.46	0.26	3.70
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

## Disclosures

### Analyst Certification

I, CHEN Yibiao, Mark, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

### Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates may pursue financial interests to the companies mentioned in the report.

### 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.

### Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities

Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

ABCI Securities Company Limited and/or its affiliates may pursue financial interests to the companies mentioned in the report.

ABCI Securities Company Limited and/or its affiliates, within the past 12 months, have investment banking relationship with one or more of the companies mentioned in the report.

---

Copyright 2013 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

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

**Tel: (852) 2868 2183**