



# Company Report

## Yanzhou Coal (1171 HK)

July 10, 2013

**Rating: SELL**

**TP: HK\$ 4.47**

Previous Rating & TP: HOLD, HK\$7.96

Previous Report: April 15, 2012

### Key Data

H-Share price (HK\$)	5.19
Upside potential (%)	(13.8)
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)	10,164
A-shares (Rmb mn)	26,581
3-mth avg daily turnover (HK\$ mn)	229.5
Major shareholder (%):	
Yankuang Group Company Limited	52.86%

Source: 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: Company, ABCI Securities

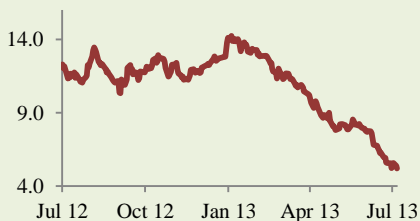
### Share performance (%)

	Absolute	Relative*
1-mth	(33.0)	(28.9)
3-mth	(46.9)	(40.8)
6-mth	(62.6)	(52.1)

\*Relative to HSCEI

Source: Bloomberg, ABCI Securities

### 1-Year price performance



Source: Bloomberg, ABCI Securities

### Analyst

Report Date: 10 July, 2013

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### Hard times ahead

Yanzhou Coal's ASP dropped significantly in 1H13 due to weak downstream demand. Compared with H-share peers, Yanzhou Coal suffered more from the weakening steel market, and is vulnerable to the recent thermal coal price war due to its high costs. We revised down the Group's EPS to Rmb0.55 (from Rmb0.72) to reflect recent price slump. Downgrade from Hold to SELL with TP at HK\$4.47.

**ASP encountered a big drop.** Accordingly to National Business Daily (NBD), a nationwide business newspaper in China, Yanzhou Coal has lowered its ASP by about 10% for clean coal products that are mainly sold to steel plants. Per our channel check, both the clean coal and thermal coal suffered from price slump. The overall ASP of Yanzhou Coal thus dropped significantly in 1H13.

**Surging costs as main concern.** The Company's 1Q13 unit cost (Rmb316.15/t in headquarters) was the highest among its H-share peers, and was about 160% higher than China Shenhua (1088 HK). We believe that the Company will be more adversely impacted by the recent price war.

**Revised down FY13E EPS.** The overall ASP drop is in line with our expectations. Moreover, we expect the weakening downstream demand would weigh on the Company's coal sales, esp. in the recent price war. We revised down its FY13E coal sales from 39.85mnt to 32mnt. Accordingly, we cut its FY13E EPS from Rmb0.72 to Rmb0.55.

**Downgrade from Hold to SELL, TP at HK\$4.47.** Despite Yanzhou Coal's stock price has adjusted considerably in recent months, its valuation of 7.8x FY13E P/E is still higher than its H-share peers. We expect its price has yet to bottom. We downgrade the stock from Hold to SELL with TP of HK\$4.47, reflecting a valuation of 6.5x FY13E P/E.

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

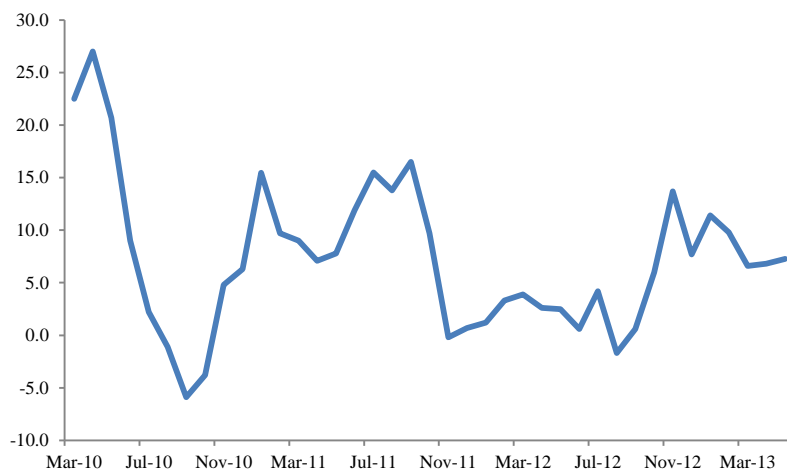
### Results and valuation

FY ended Dec 31	2010A	2011A	2012A	2013E	2014E
Revenue (Rmb mn)	33,944	47,066	58,146	46,379	52,610
Chg (% YoY)	64.16	38.66	23.54	(20.24)	13.43
Net Income (Rmb mn)	9,281	8,928	6,219	2,686	3,416
Chg (% YoY)	125.42	(3.81)	(30.34)	(56.81)	27.20
EPS (Rmb)	1.89	1.82	1.26	0.55	0.69
Chg (% YoY)	124.65	(3.81)	(30.34)	(56.81)	27.20
BVPS (Rmb)	7.59	8.67	9.32	9.44	9.65
Chg (% yoy)	28.06	14.20	7.49	1.28	2.29
P/E (x)	-	-	3.26	7.54	5.93
P/B (x)	-	-	0.44	0.44	0.43
DPS (Rmb)	0.59	0.57	0.36	0.17	0.22
Yield (%)	-	-	8.74	4.11	5.23
ROE (%)	27.92	22.33	14.06	5.82	7.28
ROA (%)	13.73	10.51	5.66	2.32	2.99

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



**Exhibit 1: China's monthly raw steel output growth (%) is still weak (as of May, 2013)**



Source: Wind, ABCI Securities

**Consolidated income statement (2011A-2014E)**

FY Ended Dec 31 (Rmb mn)	2011A	2012A	2013E	2014E
Revenue	47,066	58,146	46,379	52,610
Coal	45,181	56,201	44,627	50,659
Railway transportation service income	477	464	514	512
Gross sales of electricity power	328	324	278	325
Gross sales of methanol	1,059	1,118	932	1,084
Gross sales of heat supply, Rmb mn	20	40	29	31
Transportation costs of coal	(1,248)	(2,104)	(1,615)	(1,832)
Cost of sales and service provided	(25,725)	(41,962)	(32,198)	(36,523)
Cost of electricity power	(362)	(331)	(254)	(288)
Cost of methanol	(930)	(911)	(699)	(793)
Cost of heat supply	(14)	(25)	(19)	(22)
<b>Gross profit</b>	<b>18,786</b>	<b>12,813</b>	<b>11,595</b>	<b>13,153</b>
SG&A	(6,570)	(7,988)	(8,786)	(9,665)
Other income and gains	305	1,521	566	914
<b>Pre-tax profit</b>	<b>12,521</b>	<b>6,346</b>	<b>3,374</b>	<b>4,402</b>
Income tax	(3,545)	(124)	(675)	(968)
<b>Net profit</b>	<b>8,976</b>	<b>6,222</b>	<b>2,699</b>	<b>3,434</b>
Profit attributable to:				
Minority interests	48	3	13	17
<b>Equity shareholders of the Company</b>	<b>8,928</b>	<b>6,219</b>	<b>2,686</b>	<b>3,416</b>
<b>EPS (Basic) (Rmb)</b>	<b>1.82</b>	<b>1.26</b>	<b>0.55</b>	<b>0.69</b>
<b>DPS (Rmb)</b>	<b>0.57</b>	<b>0.36</b>	<b>0.17</b>	<b>0.22</b>

Source: Company, ABCI Securities estimates



**Exhibit: Balance sheet (2011A-2014E)**

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	14,018	15,385
<b>Total non-current assets</b>	<b>66,720</b>	<b>92,420</b>	<b>77,884</b>	<b>78,904</b>
Bank balances and cash	8,145	12,717	14,888	21,792
Bills and accounts receivable	7,312	7,460	5,801	6,586
Inventories	1,391	1,566	1,339	1,520
Prepayments and other receivables	3,625	4,197	3,457	3,853
Other current assets	9,958	4,343	5,944	6,778
<b>Current assets</b>	<b>30,431</b>	<b>30,282</b>	<b>31,428</b>	<b>40,529</b>
<b>Total assets</b>	<b>97,152</b>	<b>122,702</b>	<b>109,312</b>	<b>119,433</b>
Bills and accounts payable	(2,241)	(6,812)	(5,355)	(6,110)
Other payables and accrued expenses	(7,345)	(9,014)	(7,206)	(8,105)
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)
<b>Total current liabilities</b>	<b>(34,721)</b>	<b>(28,623)</b>	<b>(26,932)</b>	<b>(31,390)</b>
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)
<b>Total non-current liabilities</b>	<b>(19,105)</b>	<b>(44,988)</b>	<b>(32,658)</b>	<b>(37,181)</b>
<b>Total liabilities</b>	<b>(53,827)</b>	<b>(73,611)</b>	<b>(59,590)</b>	<b>(68,572)</b>
<b>Total equity</b>	<b>43,325</b>	<b>49,091</b>	<b>49,722</b>	<b>50,862</b>
Non-controlling interests	691	3,265	3,307	3,383
<b>Equity of the firm</b>	<b>42,634</b>	<b>45,826</b>	<b>46,415</b>	<b>47,479</b>
<b>BVPS (Rmb)</b>	<b>8.67</b>	<b>9.32</b>	<b>9.44</b>	<b>9.65</b>

Source: Company, ABCI Securities estimates

**Exhibit: Consolidated cash flow statement (2011A-2014E)**

<b>FY Ended Dec 31 (Rmb mn)</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>
<b>Profit before income tax</b>	<b>12,521</b>	<b>6,346</b>	<b>3,374</b>	<b>4,402</b>
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)	227	(181)
Decrease (increase) in bills and accounts receivable	2,800	(93)	1,658	(784)
Other adj. items	(495)	(3,236)	(6,576)	(2,946)
<b>CF Operating</b>	<b>17,977</b>	<b>6,504</b>	<b>2,190</b>	<b>3,928</b>
Purchases of property, plant and equipment	(8,620)	(6,230)	(12,005)	(8,952)
Others	(16,991)	3,043	288	(539)
<b>CF Investing</b>	<b>(25,611)</b>	<b>(3,187)</b>	<b>(11,717)</b>	<b>(9,490)</b>
Proceeds from bank borrowings	16,712	12,282	17,228	18,600
Dividend paid	(2,902)	(2,803)	(1,771)	(833)
Cash flows from other financing	(4,369)	(8,333)	(3,684)	(5,168)
<b>CF from/(used) in Financing activities</b>	<b>9,441</b>	<b>1,145</b>	<b>11,773</b>	<b>12,599</b>
<b>Net change in cash</b>	<b>1,807</b>	<b>4,461</b>	<b>2,246</b>	<b>7,037</b>
Cash at the beginning	6,771	8,145	12,717	14,888
Exchange difference	(433)	111	(76)	(133)
<b>Cash at the end</b>	<b>8,145</b>	<b>12,717</b>	<b>14,888</b>	<b>21,792</b>

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

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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