



November 13, 2013
Company Report
Rating: BUY
TP: HK\$ 16.29

H-Share price (HK\$) 14.68
Est. share price return 10.99%
Est. dividend yield 3.71%
Est. total return 14.7%

Previous Rating & TP HOLD:
HK\$ 16.29
Previous Report Date July 17, 2013

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Key Data

52Wk H/L (HK\$)	45.70/11.60
Issued shares (mn)	3,254
H Shares (mn)	326
B Shares (mn)	1,328
Unlisted Shares (mn)	1,600
Market cap	
H-shares (HK\$ mn)	4,786
B-shares (US\$ mn)	2,258
3-mth avg daily turnover (HK\$ mn)	3.6
Major shareholder (%):	
Inner Mongolia Yitai Group Co., Ltd.	49.17
Source(s): Company, ABCI Securities	

Revenue composition in FY12 (%)

Coal	94.8
Transportation	0.8
Coal Chemical	4.3
Others	0.1
Source(s): Company, ABCI Securities	

Share performance (%)

	Absolute	Relative*
1-mth	0.55	0.73
3-mth	(11.03)	(14.72)
6-mth	(64.37)	(59.44)

*Relative to HSCEI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg

Yitai Coal (3948 HK)

Low cost, high resilience; upgrade to BUY

- Yitai Coal has the lowest unit cost and the highest GPM / ROE among its H-share peers. These justify its high valuation amid a lackluster market
- The Group suffered heavily in the price war in 3Q13, slashing its FY13E EPS. However, with the cessation of the price war and recovery in the spot market in 4Q13, its revenue is expected to rebound
- The stock is currently trading at 1.39x FY14E P/B, which is attractive and we believe the negatives have already been priced in. Upgrade to BUY with TP unchanged at HK\$ 16.29

Business landscape has improved for the Group. Yitai Coal reported a substantial EPS drop in 9M13 (-47%YoY) mainly due to the declines in spot market prices. As its coal resources are located in Inner Mongolia, which is far away from the high-demand regions in eastern China and coastal area, the lack of any self-owned national railways has posed limit on its transportation capacity. With the cessation of price war and recovery of spot market prices in 4Q13, the business landscape has improved for the Group.

Lowest unit cost among peers means resilience in downturn. Yitai enjoyed the lowest unit cost among its H-share peers. Its unit cost is RMB87/ton in 1H13, much lower than China Shenhua (RMB122/ton), China Coal (RMB216/ton) and Yanzhou Coal (RMB316/ton). Its GPM is high at 39.19% in 9M13, while China Shenhua, China Coal and Yanzhou Coal recorded GPMs of 34.96%, 32.77%, and 21.71%, respectively. Despite its 9M13 EPS declined by 47% YoY, the drop was less than that of China Coal (-54%) and Yanzhou Coal (-112%).

Coal spot prices to stabilize in FY14. We believe the thermal coal sector has bottomed out. We expect spot prices will stabilize in FY14, as China Shenhua and China Coal both increased their spot prices, and overseas prices are starting to recover. The Group's low cost, which enable it to price its products more flexibly, will help enlarge sales.

Upgrade to BUY. The stock is currently trading at 1.39x FY14E P/B., higher than the sector average of 0.91x FY14E P/B. However, its FY14E ROE is the highest among peers at 24.98%. We believe the negatives have already been priced in and downside is limited. Upgrade to **BUY** with TP at HK\$16.29 unchanged, reflecting 1.5x FY14E P/B.

Risk factors: 1) Further declines in coal prices; 2) Imbalance in supply and demand; 3) Business cycles of downstream industries; 4) Cost rebound; 5) FY13E DPS may drop.

Results and Valuation

FY ended Dec 31	2010A	2011A	2012A	2013E	2014E
Revenue (RMB mn)	13,854	27,003	31,584	29,325	33,090
Chg (% YoY)	35.1	94.91	16.96	(7.15)	12.84
Net Profit (RMB mn)	5,015	7,683	6,454	4,675	6,236
Chg (% YoY)	64.8	53.20	(15.99)	(27.57)	33.39
EPS (RMB)	3.08	2.36	1.98	1.44	1.92
Chg (% YoY)	64.7	(23.34)	(15.99)	(27.57)	33.39
BVPS (RMB)	8.45	6.02	6.06	7.03	8.32
Chg (% YoY)	44.6	(28.79)	0.68	16.01	18.33
P/E (x)	—	4.90	5.83	8.05	6.03
P/B (x)	—	1.92	1.91	1.64	1.39
DPS (RMB)	—	1.35	1.25	0.43	0.57
Yield (%)	—	—	10.81	3.71	4.95
ROE (%)	—	46.11	32.86	21.96	24.98
ROA (%)	—	22.85	15.60	11.66	13.90

Source(s): Bloomberg, ABCI Securities estimates



Consolidated income statement (2010A-2014E)

FY Ended Dec 31 (RMB mn)	2010A	2011A	2012A	2013E	2014E
Revenue	13,854	27,003	31,584	29,325	33,090
Coal	13,360	na	29,956	27,620	31,205
Tran Operations, RMB mn	435	na	243	250	258
Coal related chemical, RMB mn	-	na	1,362	1,430	1,602
Others, mn RMB	58	na	23	25	26
Cost of sales	(5,999)	(14,937)	(20,454)	(20,527)	(22,170)
Gross profit	7,855	12,066	11,129	8,797	10,920
Other income	152	345	619	482	551
SG&A	(1,495)	(2,308)	(2,752)	(2,844)	(2,882)
Other operating expenses, net of	(239)	(265)	(480)	(374)	(428)
Share of profits/losses of associates	3	20	34	27	31
Pre-tax profit	6,275	9,857	8,551	6,088	8,190
Profits tax	(959)	(1,628)	(1,399)	(996)	(1,340)
Net profit	5,316	8,229	7,151	5,092	6,850
Profit attributable to:					
Minority interests	301	546	697	417	614
Equity shareholders of the Company	5,015	7,683	6,454	4,675	6,236
EPS (Basic)-IPO adjusted	3.08	2.36	1.98	1.44	1.92
DPS, RMB	1.35	1.35	1.25	0.43	0.57

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2010A-2014E)

As of Dec 31 (RMB mn)	2010A	2011A	2012A	2013E	2014E
Property, plant and equipment	17,698	21,610	24,269	25,004	26,854
Available-for-sale investments	2,108	2,871	3,808	3,808	3,808
Intangible assets	17	18	51	51	51
Other assets	821	1,295	2,054	1,673	1,865
Total non-current assets	20,644	25,794	30,183	30,536	32,578
Inventories	460	1,015	873	1,025	1,163
Trade and bills receivable	573	1,408	2,690	2,225	3,011
Prepaid expenses and other current assets	454	934	1,277	1,100	1,290
Restricted cash		27	30	29	29
Cash and cash equivalents	0	4,453	6,315	5,165	6,805
Current assets	5,230	7,837	11,185	9,544	12,299
Total assets	25,874	33,631	41,367	40,080	44,877
Total current liabilities	(3,465)	(5,588)	(10,395)	(8,218)	(10,430)
Trade and bills payables	(919)	(762)	(1,345)	(1,038)	(1,291)
Other payables and accruals	(279)	(2,416)	(7,424)	(4,920)	(6,172)
Interest-bearing loans	(1,946)	(2,206)	(1,582)	(2,136)	(2,884)
Taxes payable	(321)	(204)	(43)	(123)	(83)
Total non-current liabilities		(6,494)	(9,034)	(6,411)	(4,329)
Interest-bearing loans		(6,101)	(7,803)	(5,299)	(3,458)
Long term bonds		0	(1,001)	(800)	(600)
Other long term liabilities		(394)	(230)	(312)	(271)
Total liabilities	(10,577)	(12,082)	(19,428)	(14,629)	(14,759)
Non-controlling interests	1,551	1,972	2,229	2,586	3,060
Equity of the firm	13,745	19,577	19,710	22,866	27,058
Total equity	15,297	21,549	21,939	25,451	30,118
BVPS (RMB)-IPO adjusted	8.45	6.02	6.06	7.03	8.32

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2010A-2014E)

FY ended Dec 31 (RMB mn)	2010A	2011A	2012A	2013E	2014E
Profit before income tax	6,275	9,857	8,551	6,088	8,190
DD&A	602	979	1,712	1,443	1,716
Financial cost	172	286	430	358	394
Financial income	(26)	(38)	(35)	(37)	(36)
(Increase) decrease in inventories	(144)	(373)	130	(152)	(138)
Decrease in trade and bills receivables	102	(244)	(1,306)	464	(786)
Others	(620)	(1,661)	(1,301)	1,947	(2,615)
CF Operating	6,361	8,806	8,180	10,112	6,726
Capex	(3,524)	(4,097)	(4,700)	(6,158)	(6,786)
Others	(276)	(721)	(4,245)	(860)	(908)
CF Investing	(3,800)	(4,818)	(8,945)	(7,018)	(7,694)
Net debt financing	(1,181)	(2,342)	(653)	(73)	2,816
Dividend payout	(732)	(611)	(207)	(207)	(207)
Others	(212)	(1,433)	3,545	(4,000)	0
CF Financing	(2,125)	(4,386)	2,685	(4,280)	2,608
Net change in cash	436	(399)	1,920	(1,186)	1,640
Cash at the beginning*	3,270	4,829	4,431	6,351	5,165
Exchange difference	0	0	0	0	0
Cash at the end	3,707	4,431	6,350	5,165	6,805

Source(s): Company, ABCI Securities estimates

Financial ratios (2010A-2014E)

FY ended Dec 31 (RMB mn)	2010A	2011A	2012A	2013E	2014E
Profitability (%)					
Gross profit margin	56.70	44.69	35.24	30.00	33.00
EBT margin	45.30	36.51	27.07	20.76	24.75
Net Profit Margin	36.20	28.45	20.44	15.94	18.84
ROA	-	46.11	32.86	21.96	24.98
ROE	-	22.85	15.60	11.66	13.90
Cost ratio (%)					
Admin/Sales	10.79	8.55	8.71	9.70	8.71
Effective tax rate	15	17	16	16	16
Leverage					
Current Ratio	1.51	1.40	1.08	1.16	1.18
Quick Ratio	0.17	1.05	0.87	0.90	0.94
Cash Ratio	0.00	0.80	0.61	0.63	0.65
Total debt/total equity (%)	69.15	56.07	88.56	57.48	49.00
Total debt/total asset (%)	40.9	35.9	47.0	36.5	32.9
Net debt/total equity					
Working capital data and Ratios					
Inventory turnover	15.45	20.25	21.66	21.62	20.26
Receivables turnover	22.31	27.25	15.41	11.93	12.64
Payables turnover	6.69	18.43	19.28	17.35	19.16
Days' inventory on hand	23.62	18.03	16.85	16.88	18.02
Days' of sales outstanding	16.36	13.39	23.68	30.59	28.88
Days' payables	54.58	19.80	18.93	21.04	19.05
Cash conversion cycle	(14.60)	11.62	21.60	26.43	27.85

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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