



Company Report

Yitai Coal (3948 HK) – BUY
China Coal & Consumable Fuels Industry
12-month target price: HK\$50.54

Key Data

Target Price (HK\$)	50.54
H-Share price (HK\$)	43.45
Upside potential (%)	16.32
52 Wk H/L(HK\$)	43.9/40.8
Issued shares (mn)	1627
- H Shares (mn)	163
- B Shares (mn)	664
- Unlisted Shares (mn)	800
Market cap	
- H Shares (HK\$mn)	7,083
- B Shares (USD mn)	3,600
3-mth avg vol (HK\$mn)	2.97
Major shareholder (%):	
Inner Mongolia Yitai Group Co., Ltd.	49.17

Source: Company, Bloomberg, ABCI Securities

Revenue composition in FY11 (%)

Coal	92.02
Transportation	3.66
Coal Chemical	4.10
Others	0.22

Source: Company

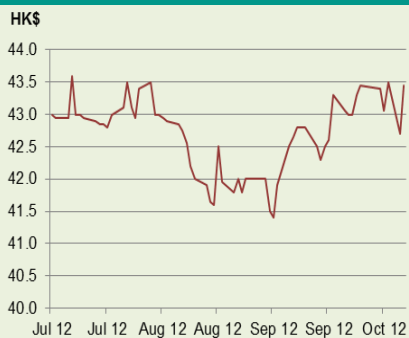
Share performance (%)

	Absolute	Relative*
1-mth	3.7	2.0
3-mth	NA	NA
6-mth	NA	NA

*Relative to Hang Seng Index

Source: Bloomberg

1 year price performance



Source: Bloomberg

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A competitor with strong potential

Yitai Coal, the major Inner Mongolia coal market player, will benefit from: 1) competitive low coal cost; 2) strong logistic capacity in Inner Mongolia; 3) potential high quality asset injection from parent group; 4) favorable tax policy. We initiate our coverage for Yitai Coal with a “BUY” recommendation and set target price at HK\$ 50.54/share.

Competitive low coal cost. The average production cost of Yitai was Rmb 83/tonne for 1HFY12, the lowest among the H-share peers or approx. Rmb 33/tonne lower than China Shenhua (1088 HK, BUY).

Strong logistic capacity and resources advantages. Its competitive edge is further sharpened by its self-owned railway lines and its high quality coal reserves.

Potential high quality injection from parent group. Its coal reserve will tripled to 4,746 mn tonnes after the assets injection of Hongqinghe Mine, a large coal mine with total coal reserve of 3,219.4mn tonnes.

Favorable tax rate. The group enjoys favorable income tax rate of 15% until 2020, the lowest among the H-share peers.

China’s coal market is recovering with the macro-economy. More and more positive signs (macro index, price, inventory, downstream demand etc.) indicate that the whole thermal coal industry is recovering.

We initiate our coverage for Yitai with a “BUY” recommendation. Our TP is based on P/B and forward PER at 2.3x and 10x, respectively, with 16.32% upside potential.

Risk factors: 1) coal price risk; 2) demand risk due to slow down of economic growth; 3) regulatory and policy risk; 4) change of tax regimes; 5) M&A terms and schedule.

Performance and Valuation

FY ended Dec 31	FY09A	FY10A	FY11A	FY12E	FY13E
Turnover (Rmb mn)	10,252	13,854	16,516	23,711	26,915
Chg (% YoY)	NA	35.1	19.2	43.6	13.5
Net Income (Rmb mn)	3,043	5,015	5,464	5,674	6,685
Chg (% YoY)	NA	64.8	9.0	3.8	17.8
EPS (Rmb)-IPO adj.	1.87	3.08	3.36	3.49	4.11
Chg (% YoY)	NA	64.7	9.1	3.8	17.8
BVPS (Rmb)-IPO adj.	5.84	8.45	10.46	14.92	17.80
Chg (% YoY)	NA	44.6	23.8	42.7	19.3
P/E (x)	—	—	10.51	10.13	8.60
P/B (x)	—	—	3.38	2.37	1.98
ROAA (%)	52	41	38	39	33
ROAE (%)	38	43	36	27	25

Source: Company, Bloomberg, ABCI Securities estimates (assuming Rmb1.0=HK\$1.23)



Contents

The thermal coal industry is recovering	3
Thermal coal prices stabilizing	3
Downstream coal demand is recovering	6
From long run, thermal power still most important in China	7
Short-term triggers for the coal price	9
Company analysis: a promising coal producer	10
The largest coal producer in Inner Mongolia	10
Most competitive coal cost among peers	12
Strong logistic capacity with self-owned railway lines	12
A winner in the industrial reshape	15
Benefit most from preferential tax treatment	15
Valuation & Recommendation	16
Forecast on business development	16
Valuation and target price	16
Financial analysis and projection	17
Peer Group Comparison	20
Risk factors	22
Disclosures	23



The thermal coal industry is recovering

Our analysis of the thermal coal industry in China has the following implications.

- ❖ Domestic thermal coal prices are stabilizing after sharp correction in Jul-Aug, 2012.
- ❖ Coal demand is recovering with China's macro-economy
- ❖ Coal is still the most important energy type in China in the long run

Thermal coal prices stabilizing

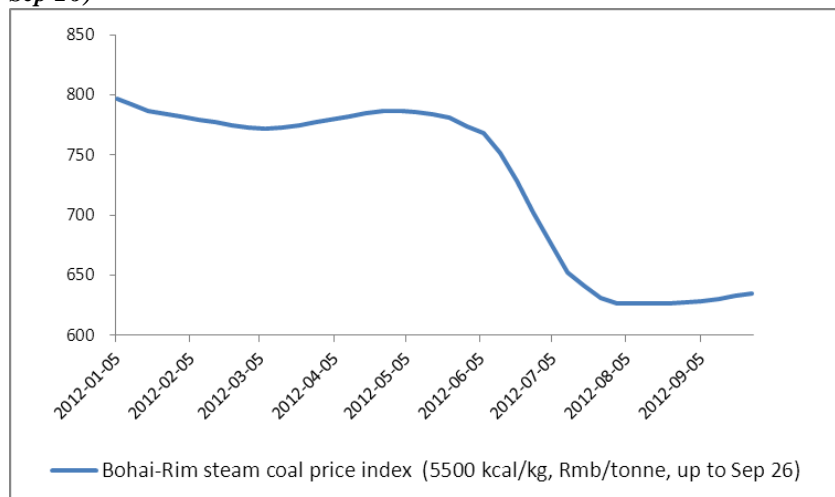
Domestic thermal coal prices are stabilizing in Sep and early Oct after sharp correction in Jul-Aug. The fiscal stimulus measures unveiled in 3Q will factor into underlying economy in 4Q. Demand for energy resources will be boosted subsequently.

By 26 Sep, Bohai-Rim steam coal price index (5500 kcal/kg) has climbed up to Rmb635/ton, from Rmb626/ton on 22 Aug and has been improved for five consecutive weeks.

In addition, the mine mouth price / free on rail price at Inner Mongolia has rebounded significantly from its bottom at July / August. We believe the recovery of coal demand and prices benefits Yitai Coal, the largest coal producer in Inner Mongolia.

From international perspective, the quantitative easing programs unveiled by EU, US and Japan in late 3Q will lend support to global energy prices when those programs are run in full swing in coming several months. The price gap between international coal and domestic coal will narrow.

Exhibit: Bohai-Rim steam coal price index (5500 kcal/kg, Rmb/tonne, up to Sep 26)

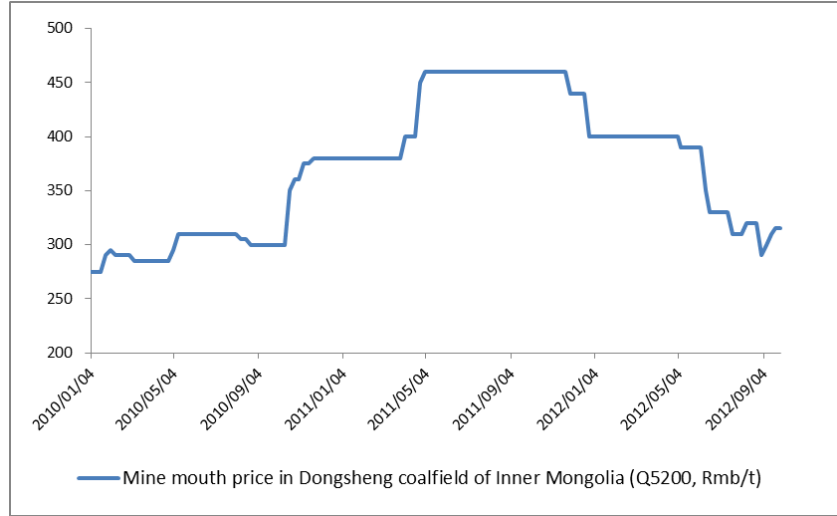


Source: Wind, ABCI Securities



The mine mouth price in Dongsheng coalfield of Inner Mongolia has rebounded from its bottom at July.

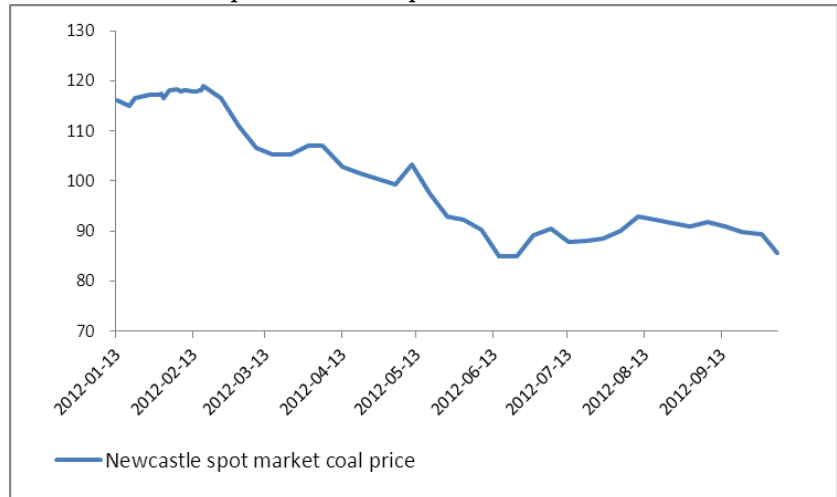
Exhibit: Mine mouth price in Dongsheng coalfield of Inner Mongolia (Q5200, Rmb/t)



Source: Wind, ABCI Securities

Int'l spot coal price slumped in May-Jun; while China's coal import surged during this period. Int'l spot coal price was stabilizing in 3Q. We predict that QE3 would fuel the energy and commodity price in 4Q.

Exhibit: Newcastle spot market coal price (USD/tonne)

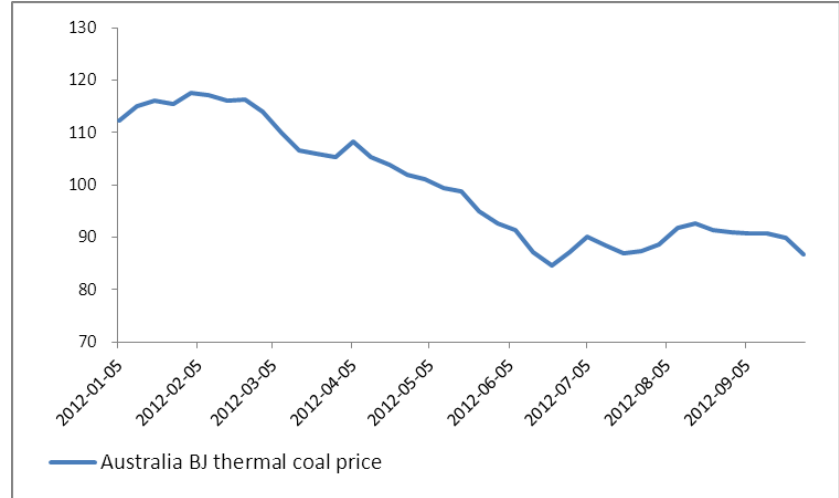


Source: Wind, ABCI Securities



In 3Q, China's coal import had reduced significantly. However, we predict that the influx of foreign coal cap the rebound momentum of domestic coal prices

Exhibit: Australia BJ thermal coal price (USD/tonne)



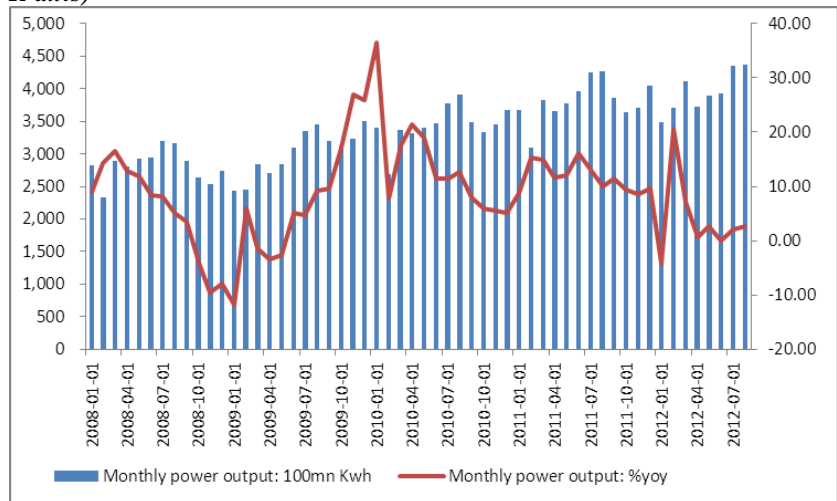
Source: Wind, ABCI Securities



Downstream coal demand is recovering

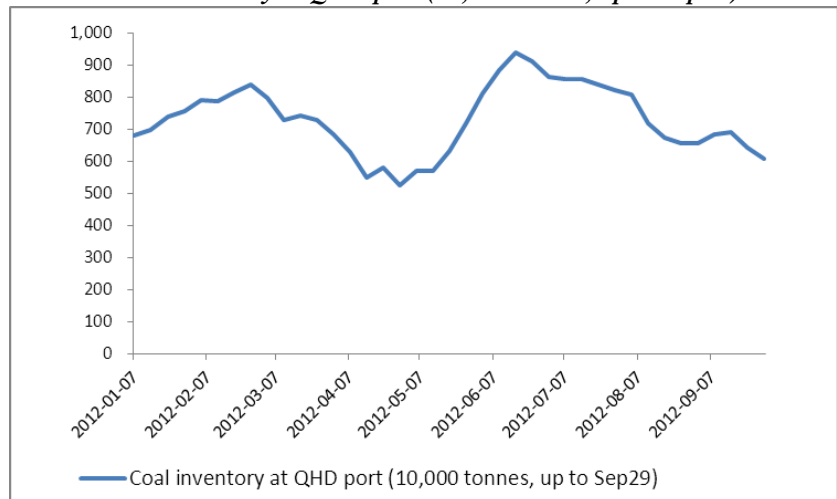
In late 3Q we noticed some positive signs of downstream demand recovering: 1) the absolute output of electricity and thermal power are both at historically high level and are still growing; 2) the coal inventories in major coal ports have reduced significantly; 3) China's PMI hit the bottom, indicating that the economy is stabilizing.

Exhibit: China's electricity output (100mn Kwh, L-axis) & growth (% , R-axis)



Source: WIND, ABCISecurities estimates

Exhibit: Coal inventory at QHD port (10,000 tonnes, up to Sep29)



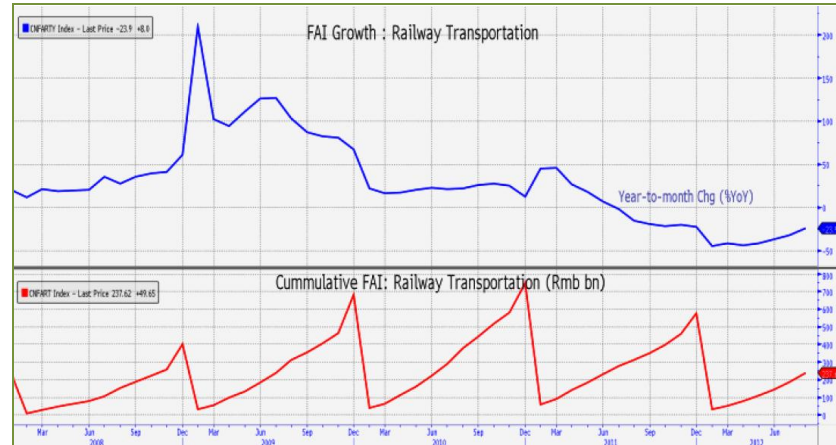
Source: Wind, ABCI Securities

Coal inventory reduced significantly in 3Q. The inventory at Qinhuangdao Port slumped to 6.08 mn tonnes on Sep. 29, reaching its 4-month-low since May 12, down 35% from June's peak.

The reducing inventory indicates that the downstream demand is recovering.



Exhibit: China's Railway transportation FAI amount (Rmb bn) and growth rate since 2008 (%)



Source: Wind, ABCI Securities

From long run, thermal power still most important in China

Though the prices slump in May and June cast some doubt on the future development of the coal industry, Chinese government still pays high attention to the coal development. In its 12th FYP, thermal power still ranks the 1st in all the power resources, which is consistent with China's thinking of "based on coal while diversify the energy resources".

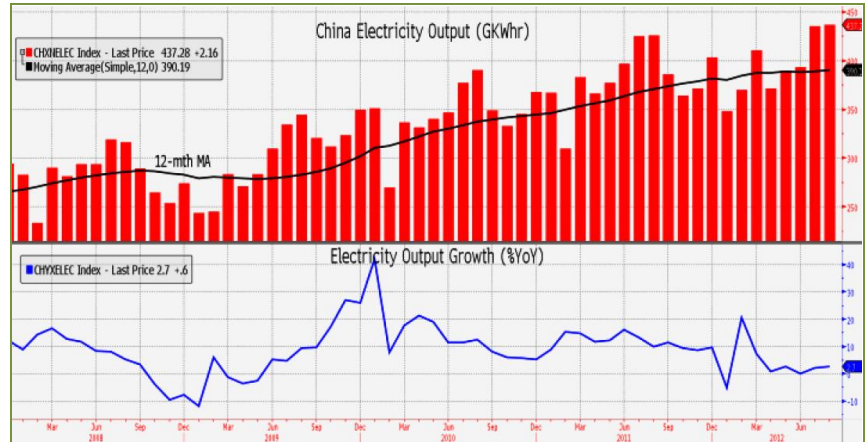
In a recent interview with China's official media, the president of CNCA (China National Coal Association) said that "coal is the top energy resource in China, and it is unlikely to change the status of coal by the end of 2050" and that "before China finds new renewable energy, it will abide to the present energy framework which is heavily rely on coal while diversify the energy resources."

NBSC reports that the thermal power industry generated a total of 2,982.8 bn Kwh in 2009 and 3,825.3 bn Kwh in 2011, achieving a CAGR of 13.2%. According to the U.S. Energy Information Administration, China's power industry is the 2nd largest in the world after that of the U.S. CEC reports that 72.5% of China's total installed capacity of power plants (1,055.8 GW at the end of 2011) was thermal power.

We believe that the composition of electricity generation will not change dramatically in the near future. Thermal power remains the main source of electricity generation in China and its demand will not significantly reduced in the long run as long as China needs secure and large volume of power supply to sustain the industrialization and urbanization of the country.

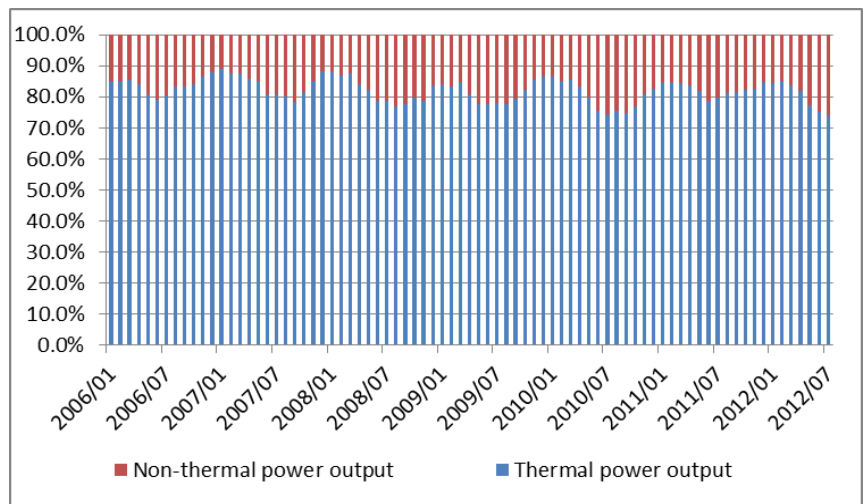


Exhibit: China power output (GKWhr) and its growth rate(%) since 2000



Source: Bloomberg, ABC Securities estimates

Exhibit: China power output composition (% , 2006~2012)



Source: Bloomberg, ABC Securities estimates



Short-term triggers for the coal price

i) Power plants in southern China accelerate the inventory-refill process to prepare for the coming winter peak season. This trend is more apparent in September, as we see that the coal inventory at Qinhuangdao port has reduced significantly, reaching its 4-month-low since May. The inventory in some major power plants in southern coastal provinces can last for approx. 11 days. To prepare for the coming winter peak season, the power plants are piling up their coal inventory, which will boost up demand for thermal coal and subsequently support the coal prices in the coming months.

ii) After the price slump in May and June, domestic thermal coal has become attractive to domestic users. Though coal prices have rebounded about Rmb10/tonne recently, it is still cheaper (how much cheaper?) compared with coals of similar quality from Australia and South Africa. Besides, according to our channel check, domestic power plants and cement producers prefer to domestic coal more since they believe that domestic coal quality is better and are more convenient to arrange the transportation.

iii) Most of China's economic stimulus will take into effect in 4Q, which will trigger the downstream demand from both electricity, manufactory industry and construction sectors. In early September, NDRC had accelerated approvals of various infrastructure construction projects with total amount of over Rmb1.0 trillion. Most of the projects are - highways, intercity railway systems, ports and airports construction. We expect that the projects will trigger significant demand for energy in cement and steel industries.

iv) Less competition from S&M coal mines. Price slump in 2Q caused many small & medium-sized coal miners to cease or reduce production, esp. those in Inner Mongolia and Shaanxi. The output restriction by NDRC regulated since July, 2012 further squeezes the market shares of the S&M competitors. We anticipate their market shares will be displaced by large miners such as Yitai. Its strong logistic operation is the edge of the business. Besides, with less coal capacity, the coal price would be supported in the medium term.



Company analysis: a promising coal producer

The largest coal producer in Inner Mongolia

Product	Contribution to revenue (%)
Coal	92.02
Coal Chemical	4.10
Transportation	3.66
Others	0.22

Source: Company, ABCI Securities

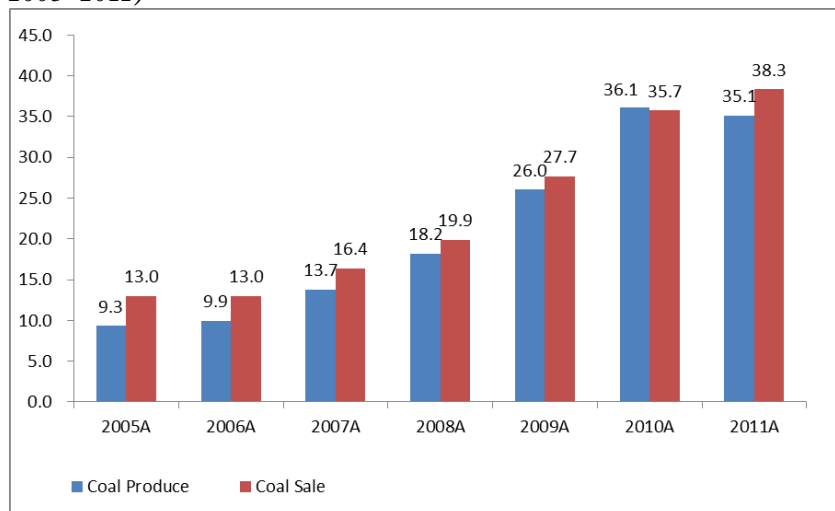
Yitai Coal is the largest local coal producer in Inner Mongolia and it is also one of the largest coal enterprises in China, with rapid growth during the track record period. It is the second Chinese company that issued both B-share and H-share

Its sales revenue recorded at Rmb 16,516 mn in 2011, representing a CAGR growth of 26.92% during the period of 2009~2011.

Due to fast growth of China's economy and electricity consumption, as well as the fast growing productivity of Yitai Coal, the coal production/sales volume surged from 9.3/13.0 mn tonnes in FY05 to 35.1/38.3 mn tonnes FY11, achieving a CAGR of 24.78/19.73%. At the end of FY11, Yitai has 1,433 mn tonnes coal reserves and is planning to acquire approx. 93.4 mn tonnes of coal serves from its parent (by issuing the H-shares). What's more, it seeks to acquire the Hongqinghe Mine, a large coal mine with about 3,219.4 mn tonnes of coal reserves, from its parent. We believe the asset injection from parent will provide high growing potential for Yitai.

From 2009 to 2011, the CAGR of the total coal production in China was 8.8% and the CAGR of the total coal production in the world was 6.0%, according to the BP Statistical Review 2012.

Exhibit: Yitai's commercial coal production and sales volume (mn tonnes, 2005~2011)



Source: Company data, ABCI Securities



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Inner Mongolia Yitai Coal Co., Ltd.

Exhibit: Coal resources of Yitai

	Suancangou	Nalinmiao No2	Hongjingta No1	Nalinmiao No1	Yangwangou	Fuhua	Kaida	Talahaio	Bulamao
Background data									
Location	Zhunge'er Coalfield	Dongsheng Coalfield	Dongsheng Coalfield	Dongsheng Coalfield	Zhunge'er Coalfield	Dongsheng Coalfield	Dongsheng Coalfield	Dongsheng Coalfield	Dongsheng Coalfield
Date of initial operation	Aug 8, 2008	Oct 1, 2006	Aug 12, 2007	Jan 1, 2008	Sep 24, 2009	Jul 1, 2008	Mar 17, 2008	—	—
Mining area (square kilometers)	49.8	21.0	28.4	9.4	1.0	8.6	5.5	42.6	40.2
In-place resource data (as of December 31, 2011) (million tonnes)									
Measured coal resources	389.9	25.2	43.0	14.5	8.7	2.9	6.0	498.0	23.1
Indicated coal resources	805.6	73.6	17.2	—	—	1.7	0.6	249.4	9.7
Inferred coal resources	—	2.3	—	—	—	—	—	9.6	1.5
Reserve data (as of December 31, 2011)									
Total proved and probable recoverable reserves (million tonnes)	659.9	71.9	40.4	10.1	6.2	2.8	5.2	616.0	20.5
Total proved and probable marketable reserves (million tonnes)	458.8	63.9	35.9	9.3	5.8	2.5	4.2	550.2	16.8
Number of mineable seams	4	3	2	3	2	1	2	6	4
Average seam thickness (meters)	6.6	4.5	4.1	3.7	6.9	2.0	2.0	3.3	1.8 West: 18 East: 9
Mine life	41	9	6	3	4	2	3	103	
Coal production (million tonnes)									
2009	6.4	6.9	7.5	2.4	0.3	1.2	1.4	—	—
2010	8.2	8.1	8.2	5.8	1.4	1.3	3.1	—	—
2011	8.4	8.1	7.3	6.6	1.0	1.4	2.4	—	—
Average mine operating costs (RMB per tonne)									
2009	64	57	53	102	201	90	95	—	—
2010	90	78	77	60	108	91	104	—	—
2011	104	91	65	54	137	85	127	—	—
Expiry date of the mining right									
	First: Dec 2033	July 2015	September 2036	November 2019	June 2015	November 2013	June 2013	—	—

Source: Company data, ABCI Securities

Note: By the end of FY11, Yitai's coal reserve was approx. 1,433 mn tonnes. According to its IPO prospectus, it will acquire 93.4 mn tonnes of coal resources from its parent after the IPO and seek to acquire the Hongqinghe Mine from its parent in the near future. Hongqinghe will enlarge its coal resources by approx. 3,219.4 mn tonnes and improve its output by about 15 mn tonnes/year.

Most competitive coal cost among peers

The average production cost of the group was Rmb83/tonne for 1HFY12, which is the lowest among the H-share peers or approx. Rmb33/tonne lower than China Shenhua (for more detailed comparison on coal cost, please refer to the Peer Comparison Section).

Yitai achieves its low cost by outsourcing its trucking transportation services and part of mining operations to third-party companies. This strategy works, especially in weak demand seasons, when fewer workforces are needed.

Besides, Yitai does not have to bear the burden of community facilities construction and compulsory services task in the mine region. In contrast, large SOE coal miners such as China Shenhua (1088 HK) and China Coal (1898 HK) have to bear social welfare burden in coal mining area.

The last but not the least, Yitai's cost advantage is further sharpened by its self-owned railway lines to transport its coal out Inner Mongolia.

Strong logistic capacity with self-owned railway lines

In China, coal-consuming enterprises are concentrated in the eastern and southern regions, which is geographically far away from the coal-production center. Rail transportation is the main bottleneck for coal trading in China. However, transportation doesn't form a major constraint to Yitai, because it is one of the two coal producers which own their own coal railway lines within Inner Mongolia (the other one is China Shenhua).

Presently, Yitai owns and operates two local railway lines, namely Yitai Zhundong and Huzhun Railway Lines, and a local railway branch line, namely Suancigou Railway Line, with a total main line length, constructed and under construction, of approximately 398.3 kilometers. Yitai also owns a 122.0-kilometer Caoyang Tollway.

Our channel check found that compared with its peers in Inner Mongolia, Yitai enjoys at least 90 Rmb/ton lower railway transportation cost per kilometer from the mine to national coal railway lines.

Exhibit: Yitai's self-owned railway lines

Railway/Branch Line	Length (km)	Origin	Terminus	Ownership (%)
Zhundong	191.8	Zhoujiawan	Zhunge'erzhao	100
Huzhun	179.7	Zhoujiawan	Huhhot	76.46
Suancigou	26.8	Suancigou	Zhoujiawan	52
Total	398			

Source: Company data, ABCI Securities

According to NDRC's 12th FYP, by 2015, the net coal amount that to be transported across provinces will rise to 1.66 bn tonnes, over 95% of which should be transported from of Inner Mongolia, Shaanxi, Shanxi etc. to the main receiving provinces/municipalities such as Beijing, Tianjin and Hebei provinces.

Coal enterprises, especially those in the West Area of China, rely heavily on the railway network and compete for the transportation quota. We believe Yitai will benefit from NDRC's plan.



Exhibit: Coal supply and demand distribution plan during the 12th FYP

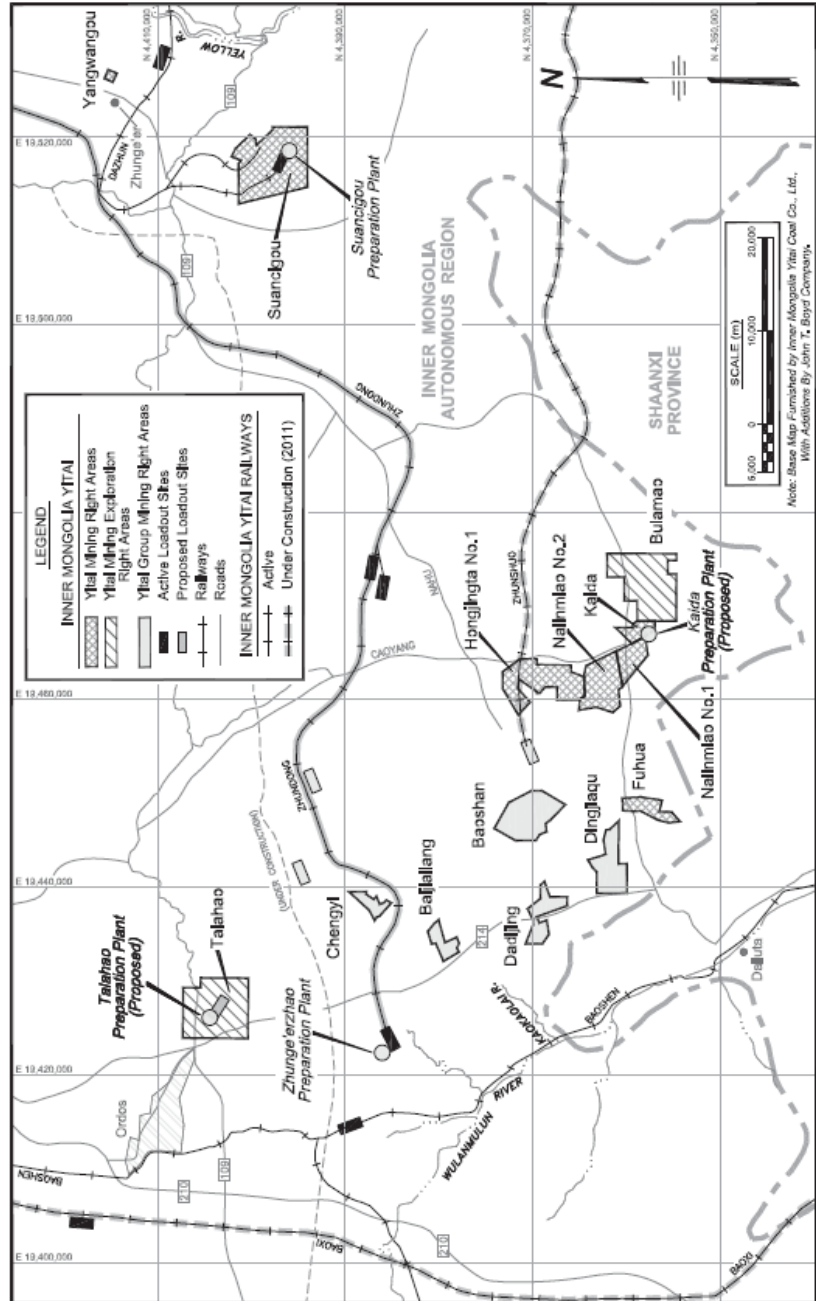


Source: NDRC



Exhibit: Location of Yitai's mines, the target mines and self-owned railways

- Coal mines owned by Yitai and Yitai Group are located in western Inner Mongolia, near the boundary of Shaanxi and Shanxi provinces, and within China's largest coal-producing region.
- Yitai owns an integrated railway network connecting its mines with the national rail transportation system, which provides Yitai with competitive advantages in securing allocation of coal transportation capacity in the national railway system and facilitating its coal sales to the major customers in China's developed coastal regions.



Source: Company data



A winner in the industrial reshape

i) China plans to reduce the coal capacity and supply of S&M coal producers and foster large competitors

China is restructuring coal industry by eliminating small and medium-sized coal miners and foster large and competitive coal groups. According to China's 12th FYP, the overall coal production should be controlled under 3.9 bn tonnes, indicating a slowed CAGR of 2.6% from 2011-2015.

However, this does not mean that all coal producers will reduce their production equally. Alternatively, China would vigorously promote mergers and reorganizations among coal mining enterprises, shut down small or unsafe mines, and develop large coal group companies. By the end of 2015, China plans to form ten 100-million-tonne-level large coal enterprise groups and ten 50-million-tonnes level large coal enterprise groups, output of which shall constitute more than 60% of the national output. We estimate that the market share of top 20 coal firms will improve to over 63% in FY15 (vs. 50% FY10).

As the largest coal producer in terms of coal production, coal sales and reserves in Inner Mongolia, Yitai sets to benefit from the government policy to consolidate the coal industry.

Our channel check finds that recent output restriction in Inner Mongolia does not negatively affect the output of Yitai. On the other way, we believe that the restriction policy by the NDRC will enable Yitai to take more market shares from its competitors in Inner Mongolia.

ii) Industrial entry barriers significantly improved

China has strictly limited the number of coal licence in the coal mine area in recent years. Based on the principle of "one developer for one coal mine area," mergers and reorganizations plans shall be made and implemented for each coal mine area, to reduce the number of coal mine developers.

Benefit most from preferential tax treatment

Generally, the statutory Chinese corporate income tax rate is 25% of taxable income. However, enterprises in western China (including Inner Mongolia) can enjoy a favorable corporate income tax of only 15% from January 1, 2011 to December 31, 2020, as long as the enterprises comply with certain requirement of the government.

Yitai and certain of its subsidiaries are entitled to enjoy a preferential corporate income tax rate of 15% for the ten years ending December 31, 2020. In fact, Yitai enjoys the lowest effective tax rate compared with its H-share peers.

Valuation & Recommendation

Forecast on business development

Yitai began to acquire the assets from its parent group after it successfully listed in Hong Kong. It has not completed the acquisition as far as this report is prepared. However, it has been granted the right to issue a 5-year bond with amount of about Rmb 3.5bn to finance the acquisition. Our main forecast reflects the facts that it can successfully issue the bond, but has not finished the acquisition. To provide a more comprehensive picture of the stock valuation, we also provide scenario analysis on the valuation after the M&A.

As we predicted in previous report (please refer to our report on China Shenhua on Aug. 23, 2012), due to the weak recovery from downstream consumption and the competition from import coal, coal prices did not jump up significantly in 3Q and 4Q. The cyclical downturn of spot coal market in 1H12 adversely affected the sales performance of Yitai. Although Yitai's 1H12 sales boomed up by 75% YoY to Rmb 12,614 mn, its net profit was up by 9% YoY to Rmb 3,194 mn.

We predict its revenue in FY12E and FY13E are Rmb 23,711 and Rmb 26,915 mn, respectively, representing 43.6% YoY and 13.5% YoY growth.

Valuation and target price

We use both PB and PE multiple methods to appraise the stock. Based on the PER rating, the stock is currently traded at 10.13x PE (or 2.37x PB) for FY12E.

We set the 12-month target price of HK\$50.54, which represents about 10x PE for FY13E, or 2.3x PB for 2013E, and is 16.32% higher than current price. We initiate with BUY rating.

To see how the on-going acquisition affects the valuation of the firm, we estimate its earnings and valuation sensitivities in FY12E as follows:

Exhibit: Sensitivity test on valuation before/after the acquisition

By the end of 2012E	Before M&A		After M&A
	Group	TG Est.	Enlarged Est.
Revenue, Rmb mn	23,711	10,903	34,252
Gross Profit, mn Rmb mn	9,066	3,124	12,709
Gross Profit Margin, %	38.24	28.65	37.11
Net Income, Rmb mn	5,674	1,983	7,841
EPS, Rmb	3.49	1.22	4.82
BVPS, Rmb	14.92	n.a.	15.78
PE (x)	10.13	n.a.	7.33
PB (x)	2.37	n.a.	2.24

TG: M&A target

Source: Company data, ABC Securities estimates



Financial analysis and projection

Exhibit: Key assumptions for revenue prediction and earnings outlook

	2010A	2011A	2012E	2013E
Coal sales and price				
Total sales (mn tonnes)	35.7	38.3	49	54
Weighted ASP (Rmb/t)	373.8	396.5	424.0	451.5
Contract and spot sales				
Long-term contract sales (mn tonnes)	21.7	19	30.6	34
Spot market sales (mn tonnes)	14	19.3	18.4	20
Long-term contract price (Rmb/t)	404.7	428.3	445	470
Spot market price (Rmb/t)	325.8	365.1	389	420
Weight of coal sector (%)				
Weight of coal sector (%)	96.4	92.0	90.1	90.6
Gross profit margin (%)				
Gross profit margin (%)	56.7	51.0	38.5	39.0

Source: company data, ABCI Securities

Earnings expectations and sensitivity tests on performance and valuation

We forecast net earnings for Yitai of Rmb5,674/6,685 mn in 2012/2013, about 3.8%/17.8% YoY respectively assuming 6.94%/6.49% YoY increase in its weighted average coal selling price. Below are the earnings sensitivities in our model to changes in coal price.

+/-5% change in contract price ~ 4.06/-4.06% change in net income

+/-5% change in spot market price ~ 4/-4.14% change in net income

Sensitivity test on 2012E estimated net income (Rmb mn)

Net Income	2012E	Rise5%	Chg	Down5%	Chg
Contract price chg	5,674	5,782	1.9%	5,565	-1.9%
Spot price chg	5,674	5,716	0.7%	5,632	-0.7%

Source: Company data, ABCI Securities estimates



Consolidated income statements forecast

FY ended Dec 31 (Rmb mn)	FY09A	FY10A	FY11A	FY12E	FY13E
Revenue	10,252	13,854	16,516	23,711	26,915
Coal	9,676	13,360	15,197	21,370	24,380
Tran Operations, Rmb mn	535	435	604	957	1,100
Coal related chemical, Rmb mn	-	-	678	1,356	1,400
Others, Rmb mn	42	58	36	30	35
Cost of sales	(5,235)	(5,999)	(8,101)	(14,645)	(16,418)
Gross profit	5,017	7,855	8,415	9,066	10,497
Other income and gains	132	152	350	309	310
SG&A	(1,152)	(1,495)	(1,727)	(1,813)	(1,960)
Other operating expenses	(65)	(100)	(64)	(67)	(70)
Other costs	(283)	(237)	(278)	(370)	(402)
Pre-tax profit	3,714	6,275	6,760	7,192	8,445
Profits tax	(565)	(959)	(1,011)	(1,083)	(1,272)
Net profit	3,148	5,316	5,749	6,109	7,173
Minority interests	106	301	285	435	488
Equity shareholders of the Company	3,043	5,015	5,464	5,674	6,685
EPS (Basic)-IPO adjusted	1.87	3.08	3.36	3.49	4.11
Dividend-IPO adjusted	0.45	1.35	1.35	1.05	1.23

Source: Company data, ABCI Securities estimates

Balance sheet forecast

FY ended Dec31 (Rmb mn)	FY09A	FY10A	FY11A	FY12E	FY13E
Property, plant and equipment	15,623	17,698	20,371	23,616	26,761
Available-for-sale investments	1,339	2,108	2,871	2,952	2,952
Intangible assets	19	17	17	16	16
Other assets	705	821	990	1,194	1,273
Total non-current assets	17,687	20,644	24,249	27,777	31,001
Inventories	316	460	677	800	960
Accounts and bills receivable	669	573	751	3,500	4,200
Prepaid expenses and other current assets	660	454	836	1,930	1,930
Cash and cash equivalents	3,290	3,742	3,556	8,836	8,383
Current assets	4,935	5,230	5,820	15,066	15,473
Total assets	22,622	25,874	30,069	42,843	46,474
Short-term borrowings and current portion of long-term borrowings	(1,753)	(919)	(2,206)	(2,500)	(3,500)
Accounts and bills payable	(270)	(279)	(543)	(1,600)	(1,930)
Accrued expenses and other payables	(2,147)	(1,946)	(1,886)	(2,000)	(2,400)
Other short-term liabilities	(237)	(321)	(161)	(436)	(600)
Total current liabilities	(4,406)	(3,465)	(4,797)	(6,536)	(8,430)
Total non-current liabilities	(7,464)	(7,112)	(6,488)	(10,176)	(6,985)
Total liabilities	(11,870)	(10,577)	(11,285)	(16,712)	(15,415)
Total equity	10,752	15,297	18,783	26,131	31,059
Non-controlling interests	1,245	1,551	1,768	1,852	2,100
Equity of the firm	9,507	13,745	17,016	24,279	28,959
Book value/share (Rmb)-IPO adj.	5.84	8.45	10.46	14.92	17.80

Source: Company data, ABCI Securities estimates



Consolidated cash flow statements forecast

FY ended Dec 31 (Rmb mn)	FY09A	FY10A	FY11A	FY12E	FY13E
Profit before income tax	3,714	6,275	6,760	7,192	8,445
DD&A	513	602	789	969	969
Financial cost	280	172	285	396	395
Financial income	(36)	(26)	(34)	(70)	(40)
(Increase) decrease in inventories	60	(144)	(217)	(123)	(92)
Decrease in trade and bills receivables	154	102	(149)	(2,749)	(1,343)
Others	(960)	(620)	(723)	(1,231)	(1,490)
CF Operating	3,725	6,361	6,712	4,384	6,844
Capex	(3,971)	(3,524)	(4,028)	(3,245)	(3,570)
Others	230	(276)	(725)	(668)	(254)
CF Investing	(3,741)	(3,800)	(4,753)	(3,913)	(3,824)
Net debt financing	372	(1,181)	394	618	(1,072)
Dividend payout	(732)	(732)	(2,196)	(1,702)	(2,006)
Others	(259)	(212)	(351)	5,129	(395)
CF Financing	(619)	(2,125)	(2,152)	4,045	(3,473)
Net change in cash	(635)	436	(193)	4,515	(453)
Cash at the beginning*	3,906	3,270	3,707	2,838	8,815
Cash at the end	3,270	3,707	3,514	8,815	8,362

Source: Company data, ABCI Securities estimates

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Inner Mongolia Yitai Coal Co., Ltd.

Peer Group Comparison

General business comparison (FY11 data)

FY11 Code	China Shenhua 1088	China Coal Energy 1898	Yanzhou Coal Mining 1171	Yitai 3948
Business summary				
Commercial coal production (mn tonnes)	281.9	102.79	50.911	35.1
Coal sales (mn tonnes)	387.3	134.7	64.25	38.3
Gross power generation (bn kwh)	179.97	0.427	1.367	NA
Total power output dispatch (bn kwh)	167.61	NA	0.933	NA
Coal resources (100 mn tonnes)	254	196.4	45.48	14.33
Coal production cost for saleable coal (Rmb/t)	118.7	344.7	288.5	83
Financial Data				
Revenues (Rmb mn)	208,197	87,773	47,066	16,516
Profit for the year (Rmb mn)	52,509	10,659	8,976	5,749
Profit to equity shareholders (Rmb mn)	45,677	9,802	8,928	5,464
Total assets (Rmb mn)	401,077	159,933	97,152	30,069
Total liabilities (Rmb mn)	136,763	63,968	53,827	11,285
ROAA	11.8	6.9	9.7	38
ROAE	21.2	12.6	20.5	36
Dividend (inclusive of tax) (Rmb per share)	0.9	0.215	0.57	1.35
Dividend Yield (%)	3.62	3.69	5.78	3.82
Basic EPS (Rmb per share)	2.296	0.74	1.82	3.36
BVPS (Rmb per share)	11.354	6.165	8.67	10.5

Source: Bloomberg, ABCISecurities



Comparison of coal sales volume (mn tonnes)

1H12	China	China	Yanzhou	Yitai	FY11	China	China	Yanzhou	Yitai
	Shenhua	Coal	Coal	Coal		Shenhua	Coal	Coal	Coal
	1088	1898	1171	3948		1088	1898	1171	3948
Commercial Coal					Commercial Coal				
Sales	155.8	55.24	29.48	17.2	Sales	281.9	102.79	50.91	35.1
Domestic sale	219.8	53.36	n.a	27.0	Domestic sale	381.7	99.41	n.a	38.3
Contract sale	88.9	23.52	n.a	15.6	Contract sale	171.7	51.78	n.a	19.0
Spot market sale	130.9	29.84	n.a	11.4	Spot market sale	210	47.63	n.a	19.3
Export	2.2	0.39	n.a	n.a	Export	5.6	0.74	n.a	n.a
Total sale volume	222.1	72.09	42.47	27.0	Total sale volume	387.3	134.7	64.25	38.3

Source: Company data, Bloomberg, ABCISecurities

Comparison of sector financial performance (1H12) and market prediction

1H12	China	China	Yanzhou	Yitai	2012E(Market)	China	China	Yanzhou	Yitai
	Shenhua	Coal	Coal	Coal		Shenhua	Coal	Coal	Coal
	1088	1898	1171	3948		1088	1898	1171	3948
Revenue, Rmb mn	121,468	45,407	28,286	12,614	Revenue, Rmb mn	234,328	90,860	52,628	25,668
GPM, %	35	21	27	38	GPM, %	36	19.3	31	n.a
Net Profit, Rmb mn	26,741	5,123	5,256	3,194	Net Profit, Rmb mn	46,783	8,585	6,637	5,930
EPS, Rmb	1.34	0.39	1.07	2.18	EPS, Rmb	2.35	0.65	1.36	3.95
BVPS, Rmb	11.78	6.32	8.99	14.44	BVPS, Rmb	12.91	6.49	9.51	15.63
ROAE, %	11.56	6.1	12.1	10.9	ROAE, %	18.9	10.2	14.2	25.9

Source: Company data, Bloomberg, ABCISecurities



Risk factors

Economic risk: If the macro economy worsens in 4Q, there would be weak power consumption growth on slowed economic growth. Though we believe that Chinese government would impose monetary and fiscal measures to boost the economy, we do not expect a U-shape recover. On the contrary, L-shape is the lucky one. Accordingly, the power generation, though will recover in 3Q and 4Q, will be still slowed on YoY basis.

Competition from foreign coal producers: The influx of foreign coal caps the rebound momentum of domestic coal prices. In addition, more and more American coal producers turn to India and China market, which would increase the supply of coal to China.

The proposed acquisition may adversely affect the results of operations: According to the IPO prospectus, the assets from the parent are less profitable compared with the listed firms, showing a lower pro forma gross profit margin. Whether the completion of the acquisition would significantly affect the whole group's financial performance needs further observation.

Policy risk: China is implementing its energy saving policy, and many more new measures would be implemented. One of the directions is to reduce the carbon emission and reduce the weight of thermal power generated in the overall power consumption. This would likely dampen coal consumption.

Resources tax: China is considering to change the coal resources tax system and the change may lead to increase in amount of resources tax. The profitability of the group may be adversely affected by the change in resources tax system

M&A risk: The group has intention to acquire coal assets from the parent. The terms and schedule of the M&A have yet to finalize. The M&A is connected transaction which is subject to approvals from minority shareholders and various regulatory bodies. The acquisition cost and the expected return of the acquired assets may be disadvantages to the group.

H-share share price risk: H-share price of Yitai on Oct 9, 2012 is at 3.4% premium to its B-share price quoted in Shanghai Stock Exchange. Foreign investors are allowed to buy B-shares or H-shares. Its B-shares offer alternative for foreign investors to invest into Yitai.



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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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