



Dec. 8, 2014
Company Report
Rating: BUY
TP: HK\$ 10.83

H-Share price (HK\$)	9.43
Est. share price return	14.85%
Est. dividend yield	3.46%
Est. total return	18.31%

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Key Data

52Wk H/L(HK\$)	15/9.33
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)	3,152
B-shares (US\$ mn)	2,036
3-mth avg daily turnover (HK\$ mn)	0.4
Major shareholder (%):	
Inner Mongolia Yitai Group Co., Ltd.	49.17

Source(s): Company, ABCI Securities

Revenue composition in FY13 (%)

Coal	93.2
Transportation	0.7
Coal Chemical	6.0
Others	0.1

Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	(10.87)	(20.63)
3-mth	(20.76)	(22.80)
6-mth	(3.58)	(15.76)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Yitai Coal (3948 HK)

Low-cost producer with attractive valuation;
maintain **BUY**

- Yitai Coal increased the spot coal prices with China Shenhua to gain advantage in recent negotiation with IPPs. With the lowest unit cost among its H-share peers, the counter's higher valuation is justified despite a lackluster market.
- The prolonged price slump heavily slashed its FY14E EPS. However, with the elimination of many small and medium coal producers and significant progress in the coal chemical market in FY15, its revenue will resume growth.

The stock is currently trading at 1.01x FY15E P/B. We believe the negatives have already been priced in. Maintain **BUY** with TP revised down to HK\$ 10.83.

Business improved for the Group. Yitai Coal recently announced to increase its capital expenditure on a series of coal chemical projects in the coming years. The counter has entered into several coal chemical project construction contracts with Changzheng Engineering and Sinopec Tenth. We estimated that it would take ~3 years to complete the projects, which will triple its FY13 coal-chemical revenue by then.

Coal spot prices to stabilize in FY15. Yitai, China Shenhua (1088 HK) and China Coal (1898 HK) recently increased the spot price in their recent long-term contract negotiation with IPPs, showing that these large market players have decided to cease price war in the near future. We believe this will help stabilize the thermal coal prices in northern China. Both Bohai-Rim thermal coal prices index and mine-mouth coal prices in Inner Mongolia have regained support in recent weeks. Besides, China's move to reduce interest rate to lower financing costs for private firms will also support coal prices in the near future.

Solid long-term demand. Coal demand is unlikely to rally in 1H15 as China wishes to encourage more clean energy development. However, due to national energy safety consideration, about 60% of China's energy consumption will remain as thermal coal by 2020. Besides, China plans to promote cross-country railway constructions in the Silk Road Economic Region. If smoothly implemented, downstream demand around Inner Mongolia and Xinjiang regions will increase.

Lowest unit cost among peers means resilience in downturn. Yitai enjoyed the lowest unit cost among its H-share peers. Its unit cost is RMB 88/ton in 1H14, much lower than China Shenhua (RMB127/ton), China Coal (RMB216/ton) and Yanzhou Coal (RMB 265/ton for the domestic main coal mines). The Group enjoyed high quality coal mine reserves and high operation efficiency compared to its peers.

Results and Valuation

FY ended Dec 31	2012A	2013A	2014E	2015E	2016E
Turnover (RMB mn)	31,584	15,734	25,315	26,683	28,183
Chg (%.yoy)	16.96	(50.18)	60.89	5.40	5.62
Net Income (RMB mn)	6,454	3,428	2,533	2,793	3,200
Chg (%.YoY)	(15.99)	(46.90)	(26.10)	10.27	14.59
EPS (RMB)	1.98	1.05	0.78	0.86	0.98
Chg (%.YoY)	(15.99)	(46.90)	(26.10)	10.27	14.59
BVPS (RMB)	6.06	6.50	7.00	7.55	8.18
Chg (%.yoy)	0.68	7.30	7.69	7.87	8.36
P/E (x)	-	7.10	9.61	8.72	7.61
P/B (x)	-	1.15	1.07	0.99	0.91
DPS (RMB)	-	0.32	0.24	0.26	0.30
Yield (%)	-	4.28	3.16	3.49	3.99
ROE (%)	32.86	16.78	11.53	11.80	12.50
ROA (%)	15.60	7.54	4.84	4.93	5.44

Source(s): Bloomberg, ABCI Securities estimates

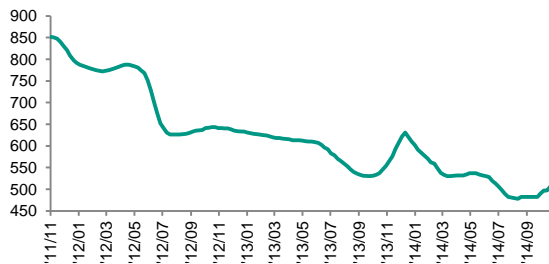
Oversupply and importing competition continue to present challenges.

The Group is a price leader in Inner Mongolia. Similar to China Shenhua, the Group decided to raise price in early Dec, reflecting its pricing power in the market. However, oversupply is still severe, many small and medium coal mines remaining in the market. Besides, the slump in international oil prices and reducing coal energy demand from developed countries put pressure on overseas coal markets, leading to significant decline in coal prices over the past few years. Importing coal will continue to pressure domestic coal prices, and we believe this trend will continue in FY15 until oil prices stabilize and international thermal coal supply-demand resumes balance.

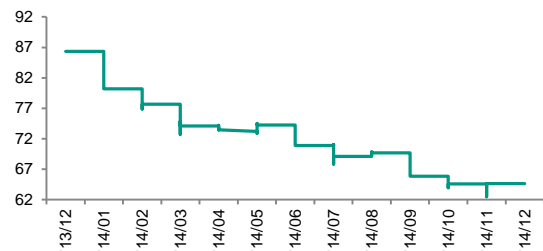
Market consensus is too bearish. Bloomberg-pollled consensus for the counter's FY15E net profit margin was only 7.6% (FY13: 16.78%; 1H14: 14%), reflecting the bearish sentiment on weak coal prices, long-term economic restructuring, energy reform in China, and significant competition from importing coals. Assuming a 12% net margin for both FY14E/FY15E, our ROAE estimates arrive at 11.53%/11.8%—which are relatively high among its peers. We believe our net margin estimates are conservative considering the Group's cost advantage, its net margin of 14% in 1H14 and that coal spot prices have increased twice in 4Q14. Our estimate excludes the potential increase in demand resulting from infrastructure construction under the "New Silk Road" initiative.

Recommend BUY with TP at HK\$ 10.83. The counter is currently trading at 1.01x FY15E P/B. We forecast its FY14E-FY16E ROE to be at ~ 12%, which will support its valuation at a higher level. We believe the negatives have already been priced in and downside is limited. Thus we recommend **BUY** with TP of HK\$10.83, representing 1.14x FY15E P/B.

Risk factors: 1) Fluctuation in coal prices; 2) Imbalance in supply and demand; 3) Business cycles of downstream industries; 4) Cost rebound; 5) FY14E DPS may fall.

Exhibit 1: Bohai-Rim thermal coal prices (RMB/ton)


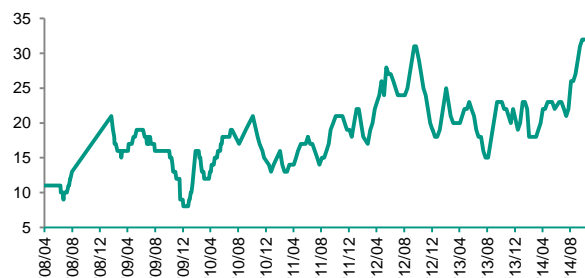
Source(s): Wind, ABCI Securities

Exhibit 2: Australia BJ thermal coal price Index (US\$/ton)


Source(s): Wind, ABCI Securities

Exhibit 3: Mine-mouth price (RMB/ton) in Inner Mongolia


Source(s): Wind, ABCI Securities

Exhibit 4: Coal inventory days at major IPPs (day)


Source(s): Wind, ABCI Securities



Consolidated income statement (2012A-2016E)

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014E	2015E	2016E
Revenue	31,584	15,734	25,315	26,683	28,183
Coal	29,956	14,660	23,587	24,766	26,005
Tran Operations, RMB mn	243	113	181	187	192
Coal related chemical, RMB mn	1,362	941	1,514	1,695	1,950
Others, mn RMB	23	20	33	34	36
Cost of sales	(20,454)	(16,085)	(17,847)	(18,945)	(19,728)
Gross profit	11,129	8,190	7,468	7,738	8,455
Other income	619	277	140	208	174
SG&A	(2,752)	(2,851)	(3,276)	(3,155)	(3,312)
Other operating expenses, net of	(480)	(1,001)	(820)	(916)	(874)
Share of profits/losses of associates	34	19	19	19	19
Pre-tax profit	8,551	4,634	3,531	3,894	4,462
Profits tax	(1,399)	(709)	(547)	(604)	(692)
Net profit	7,151	3,924	2,984	3,290	3,770
Profit attributable to:					
Minority interests	697	497	380	498	570
Equity shareholders of the Company	6,454	3,428	2,604	2,793	3,200
EPS (Basic)-IPO adjusted	1.98	1.05	0.78	0.86	0.98
DPS, RMB	1.25	0.32	0.24	0.26	0.30

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2012A-2016E)

As of Dec 31 (RMB mn)	2012A	2013A	2014E	2015E	2016E
Property, plant and equipment	24,269	28,458	28,736	28,883	29,098
Available-for-sale investments	3,808	4,006	5,008	4,507	4,758
Intangible assets	51	75	93	93	93
Other assets	2,054	2,590	3,488	2,902	3,195
Total non-current assets	30,183	35,130	37,326	36,386	37,144
Inventories	873	1,421	1,076	1,234	1,205
Trade and bills receivable	2,690	3,113	2,720	2,882	2,923
Prepaid expenses and other current assets	1,277	1,966	2,094	2,771	2,629
Restricted cash	30	40	35	37	36
Cash and cash equivalents	6,315	3,815	9,128	13,385	14,866
Current assets	11,185	10,355	15,052	20,308	21,659
Total assets	41,367	45,485	52,377	56,694	58,803
Total current liabilities	(10,395)	(4,536)	(5,469)	(5,417)	(5,570)
Trade and bills payables	(1,345)	(1,082)	(1,409)	(1,660)	(1,661)
Other payables and accruals	(7,424)	(2,641)	(2,516)	(2,579)	(2,548)
Interest-bearing loans	(1,582)	(1,012)	(1,622)	(1,317)	(1,469)
Taxes payable	(43)	199	78	138	108
Total non-current liabilities	(9,034)	(15,934)	(18,621)	(21,673)	(19,951)
Interest-bearing loans	(7,803)	(12,317)	(15,090)	(18,303)	(16,697)
Long term bonds	(1,001)	(3,495)	(3,355)	(3,221)	(3,092)
Other long term liabilities	(230)	(121)	(176)	(149)	(162)
Total liabilities	(19,428)	(20,470)	(24,090)	(27,089)	(25,520)
Non-controlling interests	2,229	3,865	13,110	5,032	6,656
Equity of the firm	19,710	21,150	15,175	24,569	26,624
Total equity	21,939	25,014	28,285	29,602	33,280
BVPS (RMB)-IPO adjusted	6.06	6.50	7.00	7.55	8.18

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement ((2012A-2016E)

FY ended Dec 31 (RMB mn)	2012A	2013A	2014E	2015E	2016E
Profit before income tax	8551	4634	3531	3894	4462
DD&A	1712	1946	2002	1998	2019
Financial cost	430	806	618	712	665
Financial income	(35)	(38)	(37)	(37)	(37)
(Increase) decrease in inventories	130	(564)	346	(158)	29
Decrease in trade and bills receivables	(1306)	(424)	393	(162)	(41)
Others	(1301)	(871)	(763)	(1449)	(320)
CF Operating	8180	5488	6089	4797	6776
Capex	(4700)	(5657)	(5178)	(5418)	(10763)
Others	(4245)	(5467)	(1907)	(1450)	(1678)
CF Investing	(8944)	(11125)	(7086)	(6867)	(12441)
Net debt financing	(653)	2778	6120	6743	7528
Dividend payout	(207)	(485)	(346)	(416)	(381)
Others	3545	1421	0	0	0
CF Financing	2685	3714	5774	6328	7147
Net change in cash	1,920	(1,922)	4,778	4,257	1,482
Cash at the beginning*	4,431	6,306	4,350	9,128	13,385
Exchange difference	(45)	(34)	(39)	(37)	(38)
Cash at the end	6,306	4,350	9,088	13,348	14,828

Source(s): Company, ABCI Securities estimates

Financial ratios ((2012A-2016E)

FY ended Dec 31 (RMB mn)	2012A	2013A	2014E	2015E	2016E
Profitability (%)					
Gross profit margin	35.24	52.05	29.50	29.00	30.00
EBT margin	27.07	29.45	13.95	14.59	15.83
Net Profit Margin	20.44	21.78	10.01	10.47	11.36
ROA	32.86	16.78	11.53	11.80	12.50
ROE	15.60	7.54	4.84	4.93	5.44
Cost ratio (%)					
Admin/Sales	8.71	18.12	12.94	11.83	11.75
Effective tax rate	16	15	16	16	16
Leverage					
Current Ratio	1.08	2.28	2.75	3.75	3.89
Quick Ratio	0.87	1.53	2.17	3.00	3.19
Cash Ratio	0.61	0.84	1.67	2.47	2.67
Total debt/total equity (%)	88.56	81.83	85.17	91.51	76.68
Total debt/total asset (%)	46.97	45.00	45.99	47.78	43.40
Net debt/total equity					
Working capital data and Ratios					
Inventory turnover	21.66	14.02	14.29	16.41	16.18
Receivables turnover	15.41	5.42	8.68	9.53	9.71
Payables turnover	19.28	13.71	14.05	12.45	11.86
Days' inventory on hand	16.85	26.04	25.54	22.25	22.56
Days' of sales outstanding	23.68	67.30	42.05	38.31	37.59
Days' payables	18.93	26.63	25.97	29.32	30.76
Cash conversion cycle	21.60	66.71	41.61	31.24	29.39
	35.24	52.05	29.50	29.00	30.00

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 2009-2013

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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