



November 13, 2013
Company Report
Rating: **SELL**
TP: HK\$ 5.82

H-Share price (HK\$) 7.46
Est. share price return (21.95%)
Est. dividend yield 6.13%
Est. total return (15.82%)

Previous Rating & TP SELL; HK\$ 4.16
Previous Report Date Aug 8, 2013

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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)	14,610
A-Shares (HK\$ mn)	28,712
3-mth avg daily turnover (HK\$ mn)	219.0
Major shareholder(s) (%):	
Yankuang Group Company Limited	52.86

Source(s): Company, Bloomberg, ABCI Securities

FY12 Revenue breakdown (%)

Coal	96.12
Railway transportation service	0.84
Gross sales of electricity power	0.69
Gross sales of methanol	2.33
Gross sales of heat supply	0.02

Source(s): Company, ABCI Securities

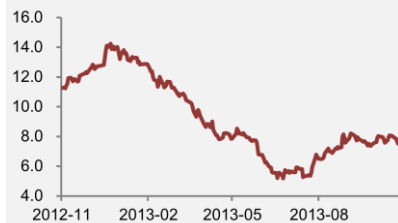
Share performance (%)

	Absolute	Relative*
1-mth	0.00	0.18
3-mth	13.89	7.51
6-mth	(9.25)	(2.32)

*Relative to HSCEI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg

Yanzhou Coal (1171 HK)

High-cost and overvalued; maintain SELL

- In 3Q13, Yanzhou Coal has achieved a significant cost cut. Net profit was RMB 1,808mn, reflecting an EPS of RMB 0.37, compared to a loss of RMB 0.585 per share in 2Q13
- Rebound in International coal prices will help increase 4Q13 revenue. Accordingly, we revise up our FY 13E/14E EPS.
- However, the Group's unit cost is the highest among peers while room for further cost cut is limited
- The counter has rallied 34.2% since July, and we believe its current valuation at 8.33x FY14E P/E is demanding. Maintain SELL. TP revised up from HK\$4.16, to HK\$5.82 (6.5x FY14E P/E) to reflect the sales potential

Coal price rebound in peak season. Both the domestic and foreign coal spot markets started to warm up in 4Q13. Bohai-Rim spot prices reached RMB 545 on Nov 6 (up by RMB 14/ton, or +2.64% since Sep 25) and Australia BJ prices were up by US\$4.9/ton, or +6.24% since Sep 26). Yanzhou Coal raised prices of some clean coal products in 4Q13. The mild recovery in the spot market is positive to the Group's negotiation for the 2014 contract price with the IPPs. Nonetheless, we predict downstream demand to remain weak.

Cost cut has been substantial but unsustainable. The Group's recorded significant cost cut in 3Q13 and unit cost fell 19.53% YoY in 9M13 in its headquarters, 26.99% YoY in Shanxi Neng Hua branch, 13.97% YoY in Heze Neng Hua branch, and 14.66% YoY in Yancoal Australia. At the same time, its sales rose 12.09% YoY in 9M13. However, we notice that the Group has significantly enlarged the sales of imported coal and ~37% of it's the unit cost cut achieved in 9M13 came from reduced salary – an unsustainable measure in the long run.

2H13 sales to offset loss in 1H13. The Group swung back into profit (~RMB1,808mn) in 3Q13, offsetting some of its loss in 1H13 that reached RMB 2,878mn. We predict its sales in 4Q13E and FY14E will continue to grow on recovering demand. Thus, we revised up its FY13E/14E EPS from RMB 0.04/0.51 to RMB0.38/0.71).

Maintain SELL. The stock is trading at 8.33x FY14E P/E, higher than the average of its H-share peers at 7.65x. Considering its low ROE, persistently weak coal demand and unsustainable cost-cutting measures that may lead to rebound in costs later on, we believe the counter is overvalued. Maintain **SELL** with TP at HK\$ 5.82, reflecting 6.5x FY14E P/E.

Risk factors: 1) Further declines in coal prices; 2) Imbalance in supply and demand; 3) Business cycles of downstream industries; 4) Costs rebound due to unsustainable cost-cutting measures; 5) FY13E DPS may drop.

Results and Valuation

FY ended Dec 31	2010A	2011A	2012A	2013E	2014E
Revenue (RMB mn)	33,944	47,066	58,146	52,893	60,093
Chg (% YoY)	64.16	38.66	23.54	(9.03)	13.61
Net Profit (RMB mn)	9,281	8,928	6,219	1,877	3,469
Chg (% YoY)	125.42	(3.81)	(30.34)	(69.82)	84.83
EPS (RMB)	1.89	1.82	1.26	0.38	0.71
Chg (% YoY)	124.65	(3.81)	(30.34)	(69.82)	84.83
BVPS (RMB)	7.59	8.67	9.32	9.58	10.07
Chg (% YoY)	28.06	14.20	7.49	2.85	5.12
P/E (x)	--	-	5.01	15.39	8.33
P/B (x)	-	-	0.68	0.61	0.58
DPS(RMB)	0.59	0.57	0.36	0.12	0.22
Yield (%)	-	-	5.68	2.01	3.72
ROE (%)	27.92	22.33	14.06	4.04	7.18
ROA (%)	13.73	10.51	5.66	1.60	2.95

Source(s): Bloomberg, ABCI Securities estimates



Quarterly financial briefing (1Q12-3Q13) (under China's GAAP)	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13
Total Operating Revenue(RMB mn)	14,396	14,813	12,903	17,562	10,771	15,417	15,267
Cost of Revenue, RMB mn	9,796	11,457	11,027	13,019	8,145	12,432	11,880
Total Operating Cost (RMB mn)	11,376	14,356	13,033	16,647	10,098	20,555	12,796
Operating Profit (RMB mn)	3,036	510	(167)	821	591	(5,332)	2,417
Total Profit (RMB mn)	3,051	1,905	(149)	754	598	(5,330)	2,504
Less: Income Tax (RMB mn)	843	(808)	(45)	(14)	177	(1,485)	622
Net Profit (RMB mn)	2,208	2,713	(105)	767	421	(3,845)	1,882
Net Profit Attributable to Parent Company Owner (RMB mn)	2,192	2,714	(80)	689	481	(2,878)	1,808
Diluted EPS(RMB)	0.446	0.552	(0.018)	0.142	0.098	(0.585)	0.368
Equity att. To the shareholders, RMB mn							
GPM	31.95%	22.66%	14.54%	25.87%	24.39%	19.36%	22.19%
Operating Margin	20.97%	3.09%	(1.01%)	5.21%	6.25%	(33.33%)	16.19%
Net profit margin	15.23%	18.32%	(0.62%)	3.92%	4.46%	(18.67%)	11.84%
Tax rate	28%	(42%)	30%	(2%)	30%	28%	25%

Source(s): Company, ABCI Securities estimates

Consolidated income statement (2010A-2014E)

FY Ended Dec 31 (RMB mn)	2010A	2011A	2012A	2013E	2014E
Revenue	33,944	47,066	58,146	52,893	60,093
Coal	32,591	45,181	56,201	50,894	57,864
Railway transportation service income	513	477	464	586	585
Gross sales of electricity power	186	328	324	317	371
Gross sales of methanol	629	1,059	1,118	1,063	1,238
Gross sales of heat supply , RMB mn	25	20	40	33	35
Transportation costs of coal	(1,160)	(1,248)	(2,104)	(1,964)	(2,176)
Cost of sales and service provided	(16,801)	(25,725)	(41,962)	(39,168)	(43,387)
Cost of electricity power	(196)	(362)	(331)	(309)	(342)
Cost of methanol	(717)	(930)	(911)	(851)	(942)
Cost of heat supply	(12)	(14)	(25)	(23)	(26)
COGS	(18,887)	(28,280)	(45,333)	(42,314)	(46,873)
Gross profit	15,058	18,786	12,813	10,579	13,221
SG&A	(5,094)	(6,570)	(7,988)	(8,786)	(9,665)
Other income and gains	2,514	305	1,521	566	914
Pre-tax profit	12,477	12,521	6,346	2,358	4,470
Income tax	(3,171)	(3,545)	(124)	(472)	(983)
Net profit	9,306	8,976	6,222	1,886	3,487
Profit attributable to:					
Minority interests	25	48	3	9	17
Equity shareholders of the Company	9,281	8,928	6,219	1,877	3,469
EPS (Basic), RMB	1.89	1.82	1.26	0.38	0.71
DPS, RMB	0.59	0.57	0.36	0.12	0.22

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	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	14,242	15,642
Total non-current assets	48,475	66,720	92,420	78,108	79,162
Bank balances and cash	6,771	8,145	12,717	15,706	24,065
Bills and accounts receivable	10,017	7,312	7,460	6,616	7,522
Inventories	1,646	1,391	1,566	1,527	1,736
Prepayments and other receivables	2,614	3,625	4,197	3,942	4,402
Other current assets	3,233	9,958	4,343	5,944	6,778
Current assets	24,281	30,431	30,282	33,735	44,503
Total assets	72,756	97,152	122,702	111,843	123,665
Bills and accounts payable	(1,554)	(2,241)	(6,812)	(6,107)	(6,979)
Other payables and accrued expenses	(3,821)	(7,345)	(9,014)	(8,218)	(9,258)
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)
Total current liabilities	(10,134)	(34,721)	(28,623)	(28,696)	(33,412)
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)
Total non-current liabilities	(25,184)	(19,105)	(44,988)	(32,658)	(37,181)
Total liabilities	(35,317)	(53,827)	(73,611)	(61,354)	(70,593)
Total equity	37,438	43,325	49,091	50,489	53,072
Non-controlling interests	107	691	3,265	3,358	3,530
Equity of the firm	37,332	42,634	45,826	47,131	49,542
BVPS, RMB	7.59	8.67	9.32	9.58	10.07

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	12,477	12,521	6,346	2,358	4,470
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)	39	(209)
Decrease (increase) in bills and accounts receivable	(5,286)	2,800	(93)	843	(906)
Other adj. items	(3,906)	(495)	(3,236)	(5,501)	(2,715)
CF Operating	5,400	17,977	6,504	1,247	4,077
Purchases of property, plant and equipment	(3,576)	(8,620)	(6,230)	(6,100)	(6,983)
Others	(2,308)	(16,991)	3,043	63	(572)
CF Investing	(5,884)	(25,611)	(3,187)	(6,037)	(7,555)
Proceeds from bank borrowings	1,111	16,712	12,282	13,310	16,545
Dividend paid	(1,230)	(2,902)	(2,803)	(1,771)	(582)
Cash flows from other financing	(1,242)	(4,369)	(8,333)	(3,684)	(3,993)
CF from/(used) in Financing activities	(1,361)	9,441	1,145	7,855	11,971
Net change in cash	(1,845)	1,807	4,461	3,065	8,492
Cash at the beginning	8,522	6,771	8,145	12,717	15,706
Exchange difference	94	(433)	111	(76)	(133)
Cash at the end	6,771	8,145	12,717	15,706	24,065

Source(s): Company, ABCI Securities estimates



Financial ratios (2010A-2014E)

FY ended Dec 31 (RMB mn)	2010A	2011A	2012A	2013E	2014E
Profitability ratio (%)					
Gross profit margin	44.36	39.91	22.04	20.00	22.00
EBT margin	36.76	26.60	10.91	4.46	7.44
Net profit margin	27.34	18.97	10.70	3.55	5.77
ROA	13.73	10.51	5.66	1.60	2.95
ROE	27.92	22.33	14.06	4.04	7.18
Cost ratio (%)					
Admin/Sales	15.01	13.96	13.74	16.61	16.08
Effective tax rate	25.41	28.32	1.95	20.00	22.00
Leverage (x)					
Current ratio	2.40	0.88	1.06	1.18	1.33
Quick ratio	2.23	0.84	1.00	1.12	1.28
Cash ratio	0.67	0.23	0.44	0.55	0.72
Total debt/total equity (%)	94.33	124.24	149.95	121.52	133.02
Total debt/total asset (%)	13.93	35.74	23.33	25.66	27.02
Working capital data and Ratios					
Inventory turnover	14.9	18.6	30.7	27.4	28.7
Receivables turnover	4.6	5.4	7.9	7.5	8.5
Payables turnover	13.4	14.8	10.1	6.5	7.2
Days' inventory on hand	24.5	19.6	11.9	13.3	12.7
Days' of sales outstanding	79.3	67.2	46.4	48.6	42.9
Days' payables	27.1	24.7	36.3	55.8	50.7
Cash conversion cycle	76.6	62.1	22.0	6.1	4.9

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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