

# Yancoal Australia (3668 HK)

## Inclusion in Stock Connect a re-rating driver

We hosted NDR for Yancoal ("YAL") in Hong Kong last week. We saw rising investors' interest in YAL. Key topics included dividend policy, Stock Connect, coal price expectation and cost trend. In our view, management provided clear answers to the questions during the meetings. On the other hand, HKEx released over the weekend the updated list of stock eligible for the Stock Connect and YAL is included for the first time. We expect it will boost the trading volume and potentially trigger a re-rating, given that YAL offers scarcity value for Mainland investors who are looking for exposure in seaborne coal sector, high dividend yield (20%) and low valuation (2.2x 2023E). Maintain **BUY** with NPV-based TP of HK\$48.

- **Key takeaways from NDR. Dividend yield:** Management believes that the current dividend pay-out (full year: 45%) takes into consolidation of several factors, including the need to repay the outstanding debts and capex. Beside, given that the final dividend is fully franked, no dividend withholding tax will be paid by Hong Kong investors. **Share buyback:** Management believes that improving liquidity is a key to enable YAL to join Stock Connect. Share buyback, on the contrary, will reduce free float and liquidity. **Coal price:** Management does not foresee a sharp decline of coal price due to limited new supply. **Cost trend:** YAL expects with an increase in sales volume every quarter, which will help bring the unit cost down sequentially this year.
- **Inclusion in Stock Connect.** HKEx announced the latest list of stock eligible for the Stock Connect. For the first time, foreign companies are included and YAL is one of them. The inclusion will come into effect on 13 Mar.
- **Key risk factors:** (1) decline in coal price; (2) further increase in unit cost; (3) unfavourable weather that affects production.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (AUD mn)	3,473	5,403	10,548	10,386	9,576
YoY growth (%)	(22.1)	55.6	95.2	(1.5)	(7.8)
Net profit (AUD mn)	(1,040.2)	790.6	3,587.0	3,576.5	3,143.4
EPS (Reported) (AUD)	(0.79)	0.60	2.72	2.71	2.38
YoY growth (%)	na	na	355.0	(0.3)	(12.1)
Consensus EPS (AUD cents)	na	na	0.00	0.00	0.00
P/E (x)	na	4.2	2.2	2.2	2.6
P/B (x)	0.6	0.5	1.0	0.8	0.7
Yield (%)	0.0	28.2	20.1	22.2	19.5
ROE (%)	(18.3)	13.9	50.6	40.0	29.6
Net gearing (%)	68.7	31.6	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Note: Thermal coal price assumptions: A\$350/300/250 per tonne in FY22E/23E/24E.

### BUY (Maintain)

Target Price	HK\$48.00
(Previous TP	HK\$48.00)
Up/Downside	48.8%
Current Price	HK\$32.25

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### Stock Data

Mkt Cap (HK\$ mn)	42,584.2
Avg 3 mths t/o (HK\$ mn)	32.0
52w High/Low (HK\$)	39.55/22.00
Total Issued Shares (mn)	1320.4

Source: FactSet

### Shareholding Structure

Yankuang Energy	62.3%
China Cinda AM	13.7%

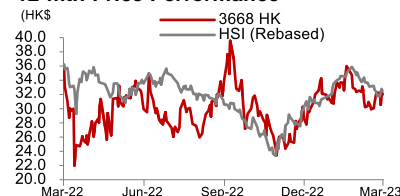
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-0.9%	4.3%
3-mth	12.4%	2.0%
6-mth	-5.1%	-11.3%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

### Auditor: ShineWing Australia

### Related Reports

1. Yancoal Australia (3668 HK) – Net profit +3.5x YoY in 2022 but below expectations; Attractive yield of 20% - 28 Feb 2023
2. Yancoal Australia (3668 HK) – Confirmation of price cap and volume to remove overhang – 14 Feb 2023
3. Yancoal Australia (3668 HK) – Thermal ASP in 4Q continued to beat benchmark – 20 Jan 2023
4. Yancoal Australia (3668 HK) – 3Q thermal coal ASP way above benchmark; a positive surprise - 21 Oct 2022
5. Yancoal Australia (3668 HK) - Further risk reduction after prepayment of US\$1bn debts – 3 Oct 2022

## Valuation

**Maintain BUY with TP of HK\$48.** We value YAL by net present value (NPV), calculated by the future cash flow of all the reserves based on their effective mine life.

Our key assumptions include:

- Long-term thermal and metallurgical coal price (starting 2025E) of A\$120/t and A\$160/t respectively;
- Long-term unit cash cost inflation of 1% p.a.
- WACC of 6.6%, based on risk free rate of 3.8% (10-year Australian government bond yield), risk premium of 6%, 0.5x beta, and 10% debt/capital ratio;
- AUD/HKD rate of HK\$5.3.

**Figure 1: TP sensitivity**

WACC	LT coal thermal coal price (A\$/t)				
	80	100	120	140	160
4.6%	20	35	50	65	80
5.6%	22	36	49	63	76
<b>6.6%</b>	24	36	<b>48</b>	61	73
7.6%	25	36	47	59	70
8.6%	26	36	47	57	68

Note: Assuming LT thermal coal price = A\$120/t

WACC	LT metallurgical coal price (A\$/t)				
	120	140	160	180	200
4.6%	45	47	50	53	56
5.6%	44	47	49	52	54
<b>6.6%</b>	44	46	<b>48</b>	51	53
7.6%	43	45	47	50	52
8.6%	43	45	47	49	50

Note: Assuming LT metallurgical coal price = A\$160/t

Source: Company data, CMBIGM estimates

**Figure 2: Peers comp table**

Ticker	Company	Price (local currency)	Market cap (US\$ m)	PE (x)		PB (x)		EV/EBITDA (x)		Dividend yield (%)
				FY1	FY2	FY1	FY2	FY1	FY2	FY1
Overseas listed										
YAL AU Equity	YANCOAL AUSTRALIA	6.20	5,696	2.2	2.2	1.0	0.8	0.9	1.0	20.1
WHC AU Equity	WHITEHAVEN COAL	7.49	4,634	2.1	2.6	1.1	0.9	0.9	1.2	9.7
NHC AU Equity	NEW HOPE CORPORATION	5.77	3,542	3.4	3.4	1.8	1.5	2.0	2.1	19.4
BTU US Equity	PEABODY ENERGY	28.03	4,043	4.4	8.0	n/a	n/a	2.0	3.1	n/a
GLEN LN Equity	GLENCORE PLC	523.00	80,285	6.9	7.7	1.6	1.6	4.3	4.6	9.0
BHP AU Equity	BHP BILLITON	48.32	170,294	11.0	11.2	3.6	3.3	5.8	5.7	6.3
AAL LN Equity	ANGLO AMERICAN	3,042.50	45,272	8.5	9.1	1.4	1.3	4.1	4.5	4.8
BANPU TB Equity	BANPU PUBLIC	10.90	2,727	3.3	5.5	0.7	0.7	3.5	4.8	8.1
ADRO IJ Equity	ADARO ENERGY TBK	3,020.00	6,372	4.2	6.0	0.9	0.9	1.5	2.0	15.2
Average				5.1	6.2	1.5	1.4	2.8	3.2	11.6

Source: Company data, CMBIGM estimates

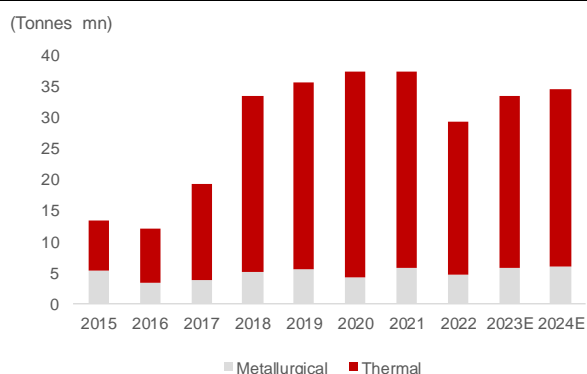
Figure 3: Key operating assumptions

	2017	2018	2019	2020	2021	2022	2023E	2024E
<b>Marketable coal production (mn tonnes)</b>								
(100 % equity basis)								
<b>Mines</b>								
HVO	14.8	13.3	13.7	12.0	10.6	9.6	12.0	13.0
Mount Thorley Warkworth (MTW)	11.8	12.1	12.1	11.9	11.2	8.1	8.0	9.0
Moolarben	12.4	16.5	17.8	19.7	18.4	14.9	18.0	18.5
Stratford Duralie	0.7	0.5	0.8	0.5	0.8	0.7	0.6	0.0
Yarrabee	2.9	2.6	2.8	3.0	2.6	2.1	2.0	2.0
Middlemount	3.9	3.8	2.7	2.9	3.7	2.6	2.7	2.7
Ashton	1.2	1.1	2.2	1.8	1.2	0.9	1.0	1.0
<b>Total</b>	<b>47.7</b>	<b>49.9</b>	<b>52.1</b>	<b>51.8</b>	<b>48.5</b>	<b>38.9</b>	<b>44.3</b>	<b>46.2</b>
<b>Attributable sales volume (mn tonnes)</b>								
Thermal	15.5	28.4	30.1	33.2	31.7	24.6	27.8	28.8
Metallurgical	3.8	5.1	5.5	4.2	5.8	4.7	5.7	5.9
<b>Total</b>	<b>19.3</b>	<b>33.5</b>	<b>35.6</b>	<b>37.4</b>	<b>37.5</b>	<b>29.3</b>	<b>33.5</b>	<b>34.7</b>
<b>Growth (YoY)</b>								
Thermal	76.1%	83.2%	6.0%	10.3%	-4.5%	-22.4%	12.9%	3.6%
Metallurgical	15.2%	34.2%	7.8%	-23.6%	38.1%	-19.0%	21.0%	3.6%
<b>Average</b>	<b>59.5%</b>	<b>73.6%</b>	<b>6.3%</b>	<b>5.1%</b>	<b>0.3%</b>	<b>-21.9%</b>	<b>14.2%</b>	<b>3.6%</b>
<b>ASP (A\$/tonne)</b>								
Thermal	102	123	100	76	134	372	300	260
Metallurgical	163	183	167	123	180	406	300	290
<b>Blended</b>	<b>114</b>	<b>132</b>	<b>110</b>	<b>82</b>	<b>141</b>	<b>377</b>	<b>300</b>	<b>265</b>
<b>ASP growth (YoY)</b>								
Thermal	45.8%	20.0%	-18.3%	-23.8%	75.4%	177.4%	-19.2%	-13.3%
Metallurgical	53.6%	12.2%	-8.8%	-26.3%	46.5%	125.5%	-26.1%	-3.3%
<b>Blended</b>	<b>42.9%</b>	<b>15.4%</b>	<b>-16.2%</b>	<b>-26.1%</b>	<b>72.9%</b>	<b>167.3%</b>	<b>-20.4%</b>	<b>-11.6%</b>
<b>Cash operating cost breakdown (A\$/tonne)</b>								
<b>Unit cash operating cost</b>	<b>-71</b>	<b>-73</b>	<b>-73</b>	<b>-67</b>	<b>-77</b>	<b>-131</b>	<b>-125</b>	<b>-115</b>
Change (YoY)	3.5%	2.6%	-0.9%	-8.2%	16.2%	69.6%	-4.6%	-8.3%
<b>Unit cash operating cost (excluding government royalties)</b>	<b>-62</b>	<b>-63</b>	<b>-64</b>	<b>-60</b>	<b>-66</b>	<b>-98</b>	<b>-97</b>	<b>-90</b>
Change (YoY)	-1.1%	0.7%	1.6%	-5.4%	9.5%	48.5%	-1.5%	-7.4%

Source: Company data, CMBIGM estimates

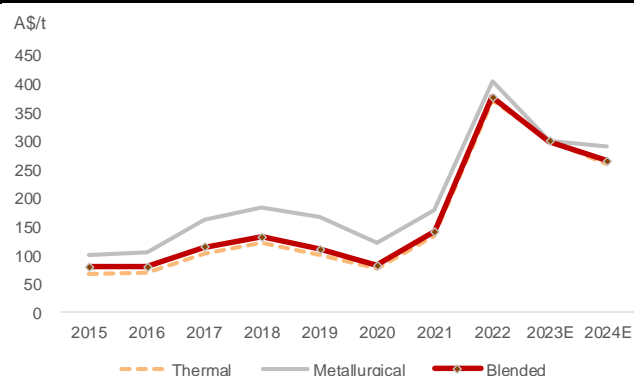
Note: Equity-accounting for Middlemount

Figure 4: YAL's sales volume projection



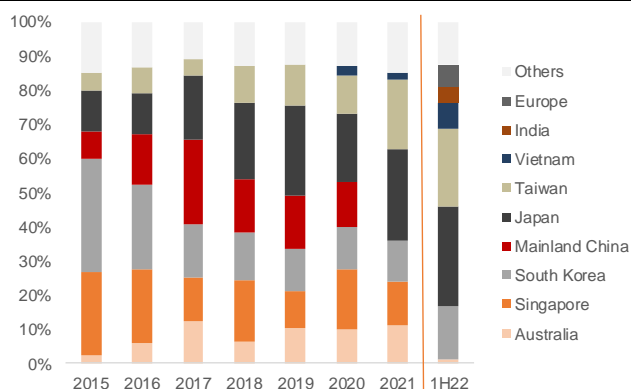
Source: Company data, CMBIGM estimates

Figure 5: YAL's ASP assumptions



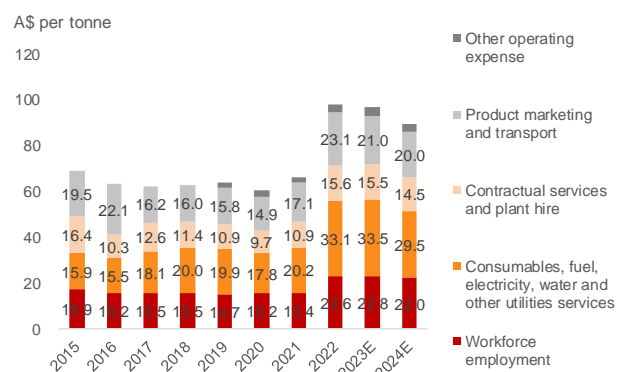
Source: Company data, CMBIGM estimates

Figure 6: YAL's regional revenue breakdown



Source: Company data, CMBIGM estimates

Figure 7: YAL's unit cash cost breakdown



Source: Company data, CMBIGM estimates

Note: Excluding government royalties

## Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (AUD mn)						
Revenue	4,460	3,473	5,403	10,548	10,386	9,576
Royalties and other related payments	(310)	(232)	(421)	(967)	(952)	(878)
Staff costs	(525)	(568)	(578)	(662)	(763)	(763)
Others	(2,095)	(2,059)	(2,232)	(2,548)	(2,844)	(2,682)
Other income	101	(703)	(36)	(132)	52	48
<b>EBITDA</b>	<b>1,631</b>	<b>(89)</b>	<b>2,136</b>	<b>6,239</b>	<b>5,879</b>	<b>5,302</b>
Depreciation	(607)	(804)	(831)	(834)	(859)	(864)
<b>EBIT</b>	<b>1,024</b>	<b>(893)</b>	<b>1,305</b>	<b>5,405</b>	<b>5,020</b>	<b>4,437</b>
Interest expense	(233)	(191)	(259)	(459)	(24)	(9)
Others	(24)	(59)	57	146	114	63
<b>Pre-tax profit</b>	<b>767</b>	<b>(1,143)</b>	<b>1,103</b>	<b>5,092</b>	<b>5,109</b>	<b>4,491</b>
Income tax	(48)	103	(312)	(1,505)	(1,533)	(1,347)
<b>After tax profit</b>	<b>719</b>	<b>(1,040)</b>	<b>791</b>	<b>3,587</b>	<b>3,576</b>	<b>3,143</b>
Minority interest	0	0	0	0	0	0
<b>Net profit</b>	<b>719</b>	<b>(1,040)</b>	<b>791</b>	<b>3,587</b>	<b>3,576</b>	<b>3,143</b>

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (AUD mn)						
<b>Current assets</b>	<b>1,773</b>	<b>1,343</b>	<b>2,531</b>	<b>3,810</b>	<b>5,178</b>	<b>6,596</b>
Cash & equivalents	962	637	1,495	2,699	4,049	5,640
Account receivables	453	344	707	736	744	621
Inventories	261	312	264	330	335	294
Other current assets	97	50	65	45	51	41
<b>Non-current assets</b>	<b>9,320</b>	<b>9,712</b>	<b>9,269</b>	<b>8,991</b>	<b>9,047</b>	<b>8,930</b>
PP&E	2,940	3,302	3,232	3,486	3,776	3,908
Right-of-use assets	4,602	5,581	5,149	4,642	4,326	4,033
Deferred income tax	0	0	0	0	0	0
Investment in JVs & assos	273	257	303	413	498	545
Intangibles	97	135	138	133	130	126
Other non-current assets	1,408	437	447	317	317	317
<b>Total assets</b>	<b>11,093</b>	<b>11,055</b>	<b>11,800</b>	<b>12,801</b>	<b>14,225</b>	<b>15,525</b>
<b>Current liabilities</b>	<b>2,112</b>	<b>1,199</b>	<b>826</b>	<b>2,532</b>	<b>2,608</b>	<b>2,456</b>
Short-term borrowings	1,267	496	66	48	48	48
Account payables	802	665	743	863	939	787
Other current liabilities	43	38	17	1,621	1,621	1,621
<b>Non-current liabilities</b>	<b>2,818</b>	<b>4,663</b>	<b>4,828</b>	<b>2,239</b>	<b>1,739</b>	<b>1,739</b>
Long-term borrowings	2,231	3,709	3,369	625	125	125
Other non-current liabilities	587	954	1,459	1,614	1,614	1,614
<b>Total liabilities</b>	<b>4,930</b>	<b>5,862</b>	<b>5,654</b>	<b>4,771</b>	<b>4,347</b>	<b>4,195</b>
<b>Total shareholders equity</b>	<b>6,161</b>	<b>5,191</b>	<b>6,144</b>	<b>8,028</b>	<b>9,876</b>	<b>11,328</b>
Minority interest	2	2	2	2	2	2
<b>Total equity and liabilities</b>	<b>11,093</b>	<b>11,055</b>	<b>11,800</b>	<b>12,801</b>	<b>14,225</b>	<b>15,525</b>

<b>CASH FLOW</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec (AUD mn)</b>						
<b>Operating</b>						
Profit before taxation	767	(1,143)	1,103	5,092	5,109	4,491
Depreciation & amortization	607	804	831	934	859	864
Tax paid	0	0	0	0	(1,533)	(1,347)
Change in working capital	28	25	(193)	80	59	21
Others	286	1,034	332	659	(233)	(245)
<b>Net cash from operations</b>	<b>1,688</b>	<b>720</b>	<b>2,073</b>	<b>6,765</b>	<b>4,261</b>	<b>3,783</b>
<b>Investing</b>						
Capital expenditure	(277)	(238)	(268)	(544)	(830)	(700)
Acquisition of subsidiaries/ investments	(42)	(204)	(100)	0	0	0
Others	18	(85)	69	287	172	208
<b>Net cash from investing</b>	<b>(301)</b>	<b>(527)</b>	<b>(299)</b>	<b>(257)</b>	<b>(658)</b>	<b>(492)</b>
<b>Financing</b>						
Dividend paid	(514)	(280)	0	(1,626)	(1,729)	(1,691)
Net borrowings	(698)	1	(494)	(1,320)	(500)	0
Proceeds from share issues	0	0	0	0	0	0
Others	(228)	(214)	(447)	(2,465)	(24)	(9)
<b>Net cash from financing</b>	<b>(1,440)</b>	<b>(493)</b>	<b>(941)</b>	<b>(5,411)</b>	<b>(2,253)</b>	<b>(1,700)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	1,031	962	637	1,495	2,699	4,049
Exchange difference	(16)	(25)	25	107	0	0
<b>Cash at the end of the year</b>	<b>962</b>	<b>637</b>	<b>1,495</b>	<b>2,699</b>	<b>4,049</b>	<b>5,640</b>
<b>GROWTH</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Revenue	(8.0%)	(22.1%)	55.6%	95.2%	(1.5%)	(7.8%)
EBITDA	(15.6%)	na	na	192.1%	(5.8%)	(9.8%)
EBIT	(27.4%)	na	na	314.3%	(7.1%)	(11.6%)
Net profit	(15.7%)	na	na	353.7%	(0.3%)	(12.1%)
<b>PROFITABILITY</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
EBITDA margin	36.6%	(2.6%)	39.5%	59.1%	56.6%	55.4%
Return on equity (ROE)	12.0%	(18.3%)	13.9%	50.6%	40.0%	29.6%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	0.4	0.7	0.3	(0.3)	(0.4)	(0.5)
Current ratio (x)	0.8	1.1	3.1	1.5	2.0	2.7
Receivable turnover days	41.1	41.9	35.5	25.0	26.0	26.0
Inventory turnover days	44.7	55.4	53.3	47.4	48.0	48.0
Payable turnover days	119.2	109.0	100.8	99.4	100.0	100.0
<b>VALUATION</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
P/E	5.9	na	4.2	2.2	2.2	2.6
P/B	0.7	0.6	0.5	1.0	0.8	0.7
Div yield (%)	9.9	0.0	28.2	20.1	22.2	19.5

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

# Disclosures & Disclaimers

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## CMBIGM Ratings

<b>BUY</b>	: Stock with potential return of over 15% over next 12 months
<b>HOLD</b>	: Stock with potential return of +15% to -10% over next 12 months
<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
<b>NOT RATED</b>	: Stock is not rated by CMBIGM

<b>OUTPERFORM</b>	: Industry expected to outperform the relevant broad market benchmark over next 12 months
<b>MARKET-PERFORM</b>	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
<b>UNDERPERFORM</b>	: Industry expected to underperform the relevant broad market benchmark over next 12 months

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