

Yancoal Australia (3668 HK)

Decline in 2023 net profit largely expected; Valuation to be supported by attractive yield

YAL's net profit in 2023 came in at A\$1.82bn, down 49% YoY but 5% above the consensus estimates. We are encouraged that YAL achieved >20% YoY unit cost reduction in 2H23, on the back of accelerated volume growth (3Q23: +28% YoY; 4Q23: +46% YoY). YAL declared final dividend (fully franked) of A\$0.325/share. This, together with the interim dividend, implies a full-year payout ratio of 50.5% and ~13% yield based on the current price. We only slightly revise our NPV-based TP to HK\$40 (from HK\$42), as we have not trimmed our LT coal price assumptions (starting 2026E) despite resetting the earnings forecast in 2024E/25E (-38%/-49%) on lower coal price. The stock is still trading at <6x 2024E P/E under our new earnings forecast. Maintain **BUY**.

- **Key highlights on 2023 results.** Revenue dropped 26% YoY to A\$7.8bn, as the 13% YoY coal sales volume growth (to 33.1mt) was more than offset by the 39% YoY decline in blended coal ASP (to A\$232/t). EBIT declined 52% to A\$2.6bn due to operating de-leveraging. On the positive side, finance expenses substantially decreased 89% YoY to only A\$53mn. Net profit dropped 49% YoY to A\$1.82bn. In 2H23, revenue/net profit dropped 34%/54% YoY to A\$3.8bn/A\$846mn. As at end-2023, YAL had net cash of A\$1.25bn, equivalent to ~15% of the current market cap.
- **Reduction of unit cost in 2H23.** Based on our calculation, the unit cash cost (excluding royalties) increased 2% YoY to A\$100/t in 2023. This implies that the unit cost was reduced 24% YoY to A\$86/t in 2H23. The cost reduction was helped by production volume recovery (+37% YoY in 2H23).
- **2024E guidance:** (1) Attributable saleable production: 35-39mn tonnes (up 5%-17% YoY); (2) operating cash cost (excluding royalties): A\$89-97/t (-7% to +1% YoY); (3) capex: A\$650-800mn (up 5%-29% YoY)
- **Key risks:** (1) further decline in coal price; (2) rebound of unit cost; (3) unfavourable weather that affects production.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (AUD mn)	10,548	7,778	6,979	6,715	6,805
YoY growth (%)	95.2	(26.3)	(10.3)	(3.8)	1.3
Net profit (AUD mn)	3,587.0	1,818.7	1,381.4	1,215.1	1,287.5
EPS (Reported) (AUD)	2.72	1.38	1.05	0.92	0.98
YoY growth (%)	355.0	(49.3)	(24.0)	(12.0)	6.0
Consensus EPS (AUD)	na	na	1.10	0.80	na
P/E (x)	1.9	3.8	5.8	6.6	6.3
P/B (x)	0.8	0.8	0.9	0.8	0.8
Yield (%)	24.0	13.3	8.6	7.5	8.0
ROE (%)	50.6	22.1	15.8	13.0	12.9
Net gearing (%)	(25.2)	(14.8)	(25.7)	(30.6)	(39.6)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$40.00**

(Previous TP) **HK\$42.00**

Up/Downside **27.4%**

Current Price **HK\$31.40**

China Energy

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Stock Data

Mkt Cap (HK\$ mn)	41,461.8
Avg 3 mths t/o (HK\$ mn)	50.8
52w High/Low (HK\$)	36.00/22.25
Total Issued Shares (mn)	1320.4

Source: FactSet

Shareholding Structure

Yankuang Energy	62.3%
China Cinda AM	13.7%

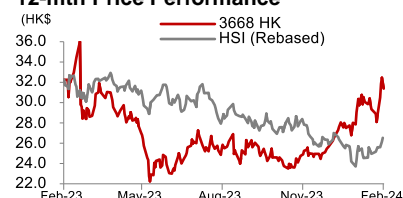
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	8.1%	-0.8%
3-mth	26.1%	35.0%
6-mth	21.5%	29.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: ShineWing Australia

Related Reports

1. Yancoal Australia (3668 HK) – 1H23E preview: Expect profit decline on weak coal price – 14 Jul 2023
2. Yancoal Australia (3668 HK) – ASP offset the decline in sales volume in 1Q23; Expect improvement in volume – 20 Apr 2023
3. Yancoal Australia (3668 HK) – Inclusion in Stock Connect a re-rating driver – 6 Mar 2023

Figure 1: 2023 results highlights

YE Dec 31 (A\$ mn)	2022	2023	Change (YoY)	1H22	1H23	Change (YoY)	2H22	2H23	Change (YoY)
Revenue									
Sales of coal	10,536	7,584	-28.0%	4,799	3,853	-19.7%	5,737	3,731	-35.0%
Sea freight	87	79	-9.2%	38	42	10.5%	49	37	-24.5%
Fair value of losses recycled from hedge reserve	-239	-1	-99.6%	-170	0	n/a	-69	-1	-98.6%
Sub-total	10,384	7,662	-26.2%	4,667	3,895	-16.5%	5,717	3,767	-34.1%
Other revenue									
Interest income	103	82	-20.4%	67	52	-22.4%	36	30	-16.7%
Mining services fees	0	0		0	0		0	0	
Royalty revenue & others	61	34	-44.3%	42	29	-31.0%	19	5	-73.7%
Total (other revenue)	164	116	-29.3%	109	81	-25.7%	55	35	-36.4%
Total revenue	10,548	7,778	-26.3%	4,776	3,976	-16.8%	5,772	3,802	-34.1%
Other income/(loss)	-132	26	n/a	97	25	-74.2%	-229	1	n/a
Change in inventories of finished goods & work in progress	35	42	20.0%	-22	-19	-13.6%	57	61	7.0%
Raw materials and consumables used	-969	-1,104	13.9%	-428	-549	28.3%	-541	-555	2.6%
Employee benefits	-662	-730	10.3%	-329	-348	5.8%	-333	-382	14.7%
Transportation	-678	-783	15.5%	-321	-401	24.9%	-357	-382	7.0%
Contractual services and plant hire	-457	-539	17.9%	-204	-260	27.5%	-253	-279	10.3%
Government royalties	-967	-685	-29.2%	-406	-365	-10.1%	-561	-320	-43.0%
Coal purchase	-183	-183	0.0%	-73	-94	28.8%	-110	-89	-19.1%
Other operating expenses	-297	-334	12.5%	-161	-153	-5.0%	-136	-181	33.1%
Depreciation and amortisation	-834	-881	5.6%	-420	-411	-2.1%	-414	-470	13.5%
EBIT	5,405	2,607	-51.8%	2,509	1,401	-44.2%	2,896	1,206	-58.4%
Finance expenses	-459	-53	-88.5%	-126	-29	-77.0%	-333	-24	-92.8%
Share of profit of JV and associates	146	29	-80.1%	72	16	-77.8%	74	13	-82.4%
Pretax profit	5,092	2,583	-49.3%	2,455	1,388	-43.5%	2,637	1,195	-54.7%
Income tax	-1,505	-764	-49.2%	-717	-415	-42.1%	-788	-349	-55.7%
After tax profit	3,587	1,819	-49.3%	1,738	973	-44.0%	1,849	846	-54.3%
MI	0	0		0	0		0	0	
Net profit	3,587	1,819	-49.3%	1,738	973	-44.0%	1,849	846	-54.3%
D&A	834	881	5.6%	420	411	-2.1%	414	470	13.5%
EBITDA	6,239	3,488	-44.1%	2,929	1,812	-38.1%	3,310	1,676	-49.4%

Source: Company data, CMBIGM estimates

Figure 2: 4Q23 operating statistics

	1Q22	1Q23	Chg (YoY)	2Q22	2Q23	Chg (YoY)	3Q22	3Q23	Chg (YoY)	4Q22	4Q23	Chg (YoY)
Marketable coal production (mn tonnes)												
(100 % equity basis)												
Mines												
HVO	2.7	1.8	-33%	2.9	2.4	-17%	2.4	3.0	25%	1.6	3.3	106%
Mount Thorley Warkworth (MTW)	2.0	2.0	0%	1.7	2.6	53%	2.1	3.3	57%	2.3	3.4	48%
Moolarben	4.3	2.6	-40%	4.1	4.8	17%	3.4	4.5	32%	3.1	4.8	55%
Stratford Duralie	0.2	0.1	-50%	0.1	0.1	0%	0.2	0.2	0%	0.2	0.2	0%
Yarrabee	0.5	0.4	-20%	0.5	0.5	0%	0.5	0.5	0%	0.6	0.5	-17%
Middlemount	0.8	0.5	-38%	0.6	0.5	-17%	0.7	0.6	-14%	0.5	0.6	20%
Ashton	0.2	0.3	50%	0.2	0	-100%	0.3	0.0	-100%	0.2	0.1	-50%
Total	10.7	7.7	-28%	10.1	10.9	8%	9.6	12.1	26%	8.5	12.9	52%
Marketable coal production (mn tonnes)												
(Attributable basis)												
Total	8.1	5.9	-27%	7.4	8.5	15%	7.3	9.3	27%	6.6	9.7	47%
Attributable sales volume (mn tonnes)												
Thermal	6.7	4.7	-30%	6.6	7.3	11%	5.8	7.7	33%	5.5	8.7	58%
Metallurgical	1.1	1.2	9%	1.3	1.2	-8%	0.9	0.9	0%	1.4	1.4	-2%
Total	7.8	5.9	-24%	7.9	8.5	8%	6.7	8.6	28%	6.9	10.1	46%
ASP (A\$/tonne)												
Thermal	243	338	39%	353	197	-44%	489	178	-64%	430	180	-58%
Metallurgical	349	383	10%	446	403	-10%	434	360	-17%	389	292	-25%
Blended	258	347	34%	368	226	-39%	481	197	-59%	422	196	-54%
Revenue (A\$ mn)												
Thermal	1,628	1,589	-2%	2,330	1,438	-38%	2,836	1,371	-52%	2,369	1,566	-34%
Metallurgical	384	460	20%	580	484	-17%	391	324	-17%	556	409	-27%
Total ex-mine coal revenue	2,012	2,048	2%	2,910	1,922	-34%	3,227	1,695	-47%	2,926	1,975	-32%

Source: Company data, CMBIGM estimates

Figure 3: Change in key operating assumptions and earnings forecast

	2024E	Old 2025E	2026E	2024E	New 2025E	2026E	2024E	Change 2025E	2026E
Marketable coal production (mn tonnes) (100 % equity basis)									
Consolidated mines									
HVO	13.0	14.0	-	13.0	14.0	15.0	0.0%	0.0%	-
Mount Thorley Warkworth (MTW)	9.0	10.0	-	13.0	13.5	13.8	44.4%	35.0%	-
Moolarben	18.5	18.5	-	18.5	19.0	19.5	0.0%	2.7%	-
Stratford Duralie	0.0	0.0	-	0.0	0.0	0.0	n/a	n/a	-
Yarrabee	2.0	2.0	-	2.0	2.0	2.0	0.0%	0.0%	-
Middlemount	2.7	3.8	-	2.7	3.0	3.3	0.0%	-21.1%	-
Ashton	1.0	1.0	-	0.3	0.3	0.3	-70.0%	-70.0%	-
Total	46.2	49.3	-	49.5	51.8	53.9	7.1%	5.1%	-
Sales volume (mn tonnes)									
Thermal	28.8	30.6	-	32.1	33.3	33.9	11.4%	8.7%	-
Metallurgical	5.9	5.4	-	5.2	5.4	6.0	-11.4%	0.3%	-
Total	34.7	36.0	-	37.3	38.7	39.9	7.5%	7.4%	-
ASP (A\$/t)									
Thermal	220	220	-	170	155	150	-22.7%	-29.5%	-
Metallurgical	240	240	-	270	260	260	12.5%	8.3%	-
Blended	223	223	-	184	170	167	-17.6%	-23.9%	-
Cash operating cost breakdown (A\$/tonne)									
Unit cash operating cost	-111	-109	-	-106	-103	-101	-4.2%	-5.4%	-
Unit cash operating cost (excluding government royalties)	-90	-88	-	-90	-88	-86	0.2%	0.2%	-
Unit cash margin (excluding government royalties)	134	135	-	94	82	80	-29.6%	-39.5%	-
Net profit (A\$ mn)	2,219	2,380	-	1,381	1,215	1,287	-37.8%	-48.9%	-

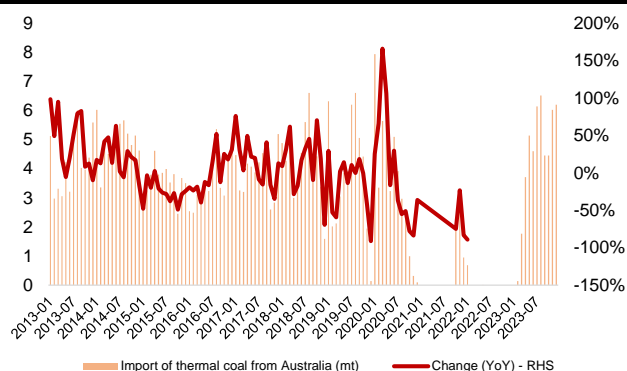
Source: Company data, CMBIGM estimates

Figure 4: Key operating assumptions

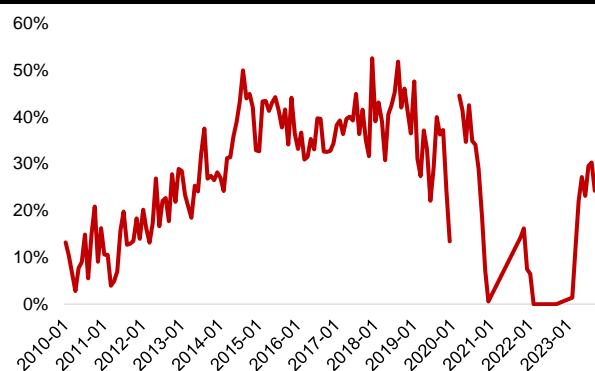
	2017	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
Marketable coal production (mn tonnes) (100 % equity basis)										
Mines										
HVO	14.8	13.3	13.7	12.0	10.6	9.6	10.5	13.0	14.0	15.0
Mount Thorley Warkworth (MTW)	11.8	12.1	12.1	11.9	11.2	8.1	11.3	13.0	13.5	13.8
Moolarben	12.4	16.5	17.8	19.7	18.4	14.9	16.7	18.5	19.0	19.5
Stratford Duralie	0.7	0.5	0.8	0.5	0.8	0.7	0.6	0.0	0.0	0.0
Yarrabee	2.9	2.6	2.8	3.0	2.6	2.1	1.9	2.0	2.0	2.0
Middlemount	3.9	3.8	2.7	2.9	3.7	2.6	2.2	2.7	3.0	3.3
Ashton	1.2	1.1	2.2	1.8	1.2	0.9	0.4	0.3	0.3	0.3
Total	47.7	49.9	52.1	51.8	48.5	38.9	43.6	49.5	51.8	53.9
Attributable sales volume (mn tonnes)										
Thermal	15.5	28.4	30.1	33.2	31.7	24.6	28.4	32.1	33.3	33.9
Metallurgical	3.8	5.1	5.5	4.2	5.8	4.7	4.7	5.2	5.4	6.0
Total	19.3	33.5	35.6	37.4	37.5	29.3	33.1	37.3	38.7	39.9
Growth (YoY)										
Thermal	76.1%	83.2%	6.0%	10.3%	-4.5%	-22.4%	15.4%	12.9%	3.8%	2.0%
Metallurgical	15.2%	34.2%	7.8%	-23.6%	38.1%	-19.0%	0.0%	11.1%	3.8%	10.6%
Average	59.5%	73.6%	6.3%	5.1%	0.3%	-21.9%	13.0%	12.6%	3.8%	3.2%
ASP (A\$/tonne)										
Thermal	102	123	100	76	134	372	211	170	155	150
Metallurgical	163	183	167	123	180	405	356	270	260	260
Blended	114	132	110	82	141	377	232	184	170	167
ASP growth (YoY)										
Thermal	45.8%	20.0%	-18.3%	-23.8%	75.4%	177.4%	-43.3%	-19.3%	-8.8%	-3.2%
Metallurgical	53.6%	12.2%	-8.8%	-26.3%	46.5%	125.0%	-12.1%	-24.2%	-3.7%	0.0%
Blended	42.9%	15.4%	-16.2%	-26.1%	72.9%	167.3%	-38.5%	-20.6%	-7.8%	-1.9%
Cash operating cost breakdown (A\$/tonne)										
Unit cash operating cost	-71	-73	-73	-67	-77	-131	-121	-106	-103	-101
Change (YoY)	3.5%	2.6%	-0.9%	-8.2%	16.2%	69.6%	-8.0%	-12.0%	-2.8%	-2.0%
Unit cash operating cost (excluding government royalties)	-62	-63	-64	-60	-66	-98	-100	-90	-88	-86
Change (YoY)	-1.1%	0.7%	1.6%	-5.4%	9.5%	48.5%	1.9%	-10.3%	-2.0%	-2.0%

Note: Our unit cost figures are slightly different from the company's due to the difference in transportation cost calculation

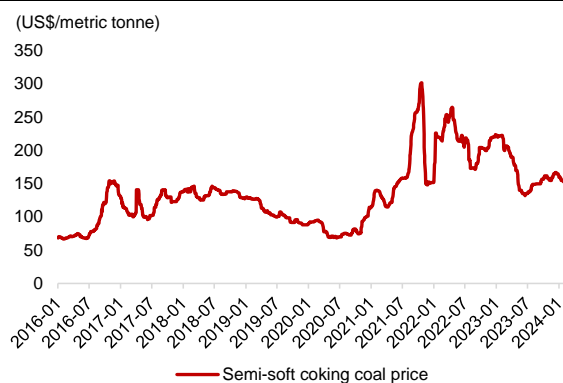
Source: Company data, CMBIGM estimates

Figure 5: China's monthly coal imports from Australia


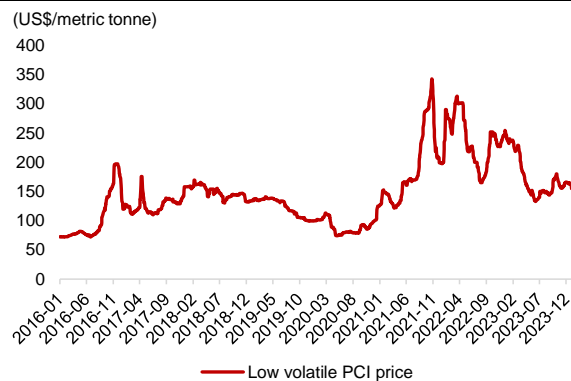
Source: China Customs, Wind, CMBIGM

Figure 6: Australian coal as % of China's total coal imports


Source: China Customs, Wind, CMBIGM

Figure 7: Seaborne semi-soft coking coal (SSCC) price


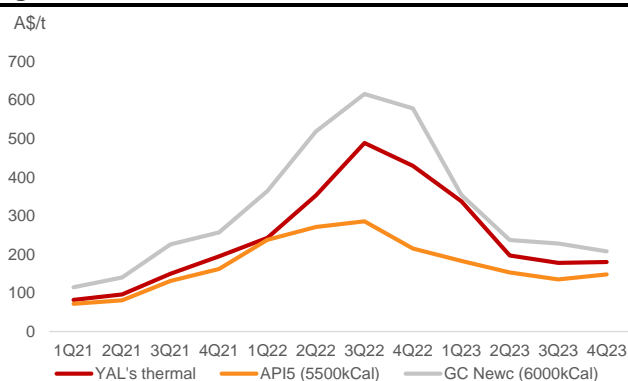
Source: Wind, CMBIGM

Figure 8: Seaborne pulverised coal injection (PCI) price


Source: Wind, CMBIGM

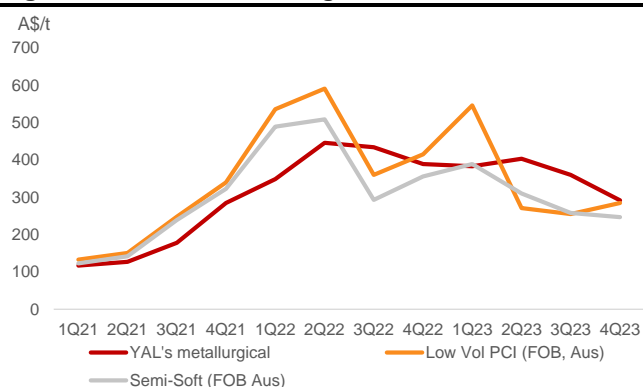
Figure 9: GC Newc (6000/kCal) pricing


Source: Company, Argus/McCloskey, GlobalCOAL, CMBIGM

Figure 10: YAL's thermal ASP vs benchmarks


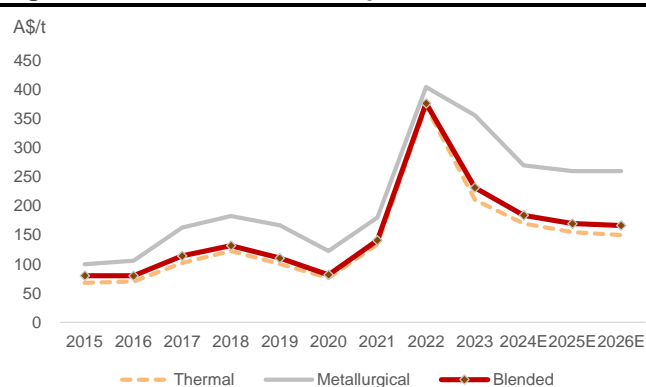
Source: Company data, Argus/McCloskey, GlobalCOAL, CMBIGM

Figure 11: YAL's metallurgical ASP vs benchmarks



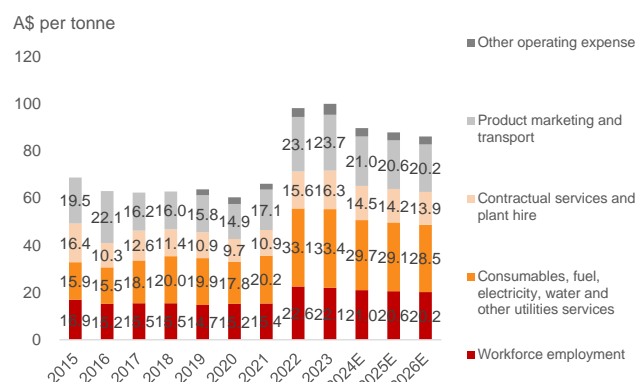
Source: Company data, Argus/McCloskey, GlobalCOAL, CMBIGM

Figure 12: YAL's ASP assumptions



Source: Company data, CMBIGM estimates

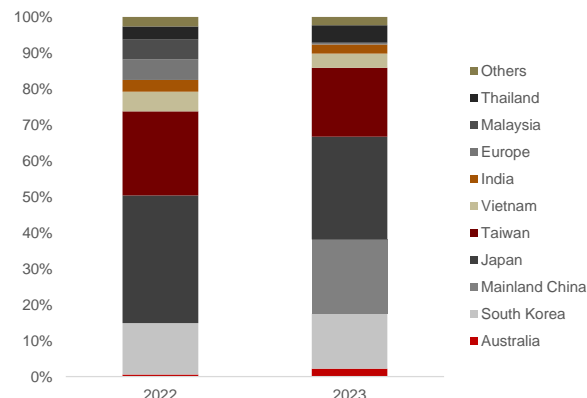
Figure 13: YAL's unit cash cost breakdown



Note: Excluding government royalties

Source: Company data, CMBIGM estimates

Figure 14: YAL's unit cash cost breakdown



Source: Company data, CMBIGM

Valuation

Maintain BUY with a new TP of HK\$40 (previous HK\$42). 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 2026E) of A\$125/t and A\$200/t respectively;
- Long-term unit cash cost inflation of 1% p.a.;
- WACC of 6.9%, based on risk-free rate of 4.2% (10-year Australian government bond yield), risk premium of 6%, 0.5x beta, and 10% debt/capital ratio;
- AUD/HKD rate of HK\$5.1.

Figure 15: TP sensitivity to coal price

WACC	LT coal thermal coal price (A\$/t)				
	85	105	125	145	165
4.9%	20	32	45	58	71
5.9%	20	31	42	54	65
6.9%	20	30	40	50	60
7.9%	20	29	37	46	55
8.9%	20	28	36	44	52

Note: Assuming LT thermal coal price = A\$125/t

WACC	LT metallurgical coal price (A\$/t)				
	160	180	200	220	240
4.9%	41	43	45	48	50
5.9%	38	40	42	44	46
6.9%	36	38	40	42	43
7.9%	34	36	37	39	41
8.9%	33	34	36	37	38

Note: Assuming LT metallurgical coal price = A\$200/t

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (AUD mn)						
Revenue	5,403	10,548	7,778	6,979	6,715	6,805
Royalties and other related payments	(421)	(967)	(685)	(615)	(591)	(599)
Staff costs	(578)	(662)	(730)	(783)	(796)	(805)
Others	(2,232)	(2,548)	(2,901)	(2,814)	(2,850)	(2,862)
Other income	(36)	(132)	26	35	34	34
EBITDA	2,136	6,239	3,488	2,802	2,511	2,573
Depreciation	(831)	(834)	(881)	(859)	(800)	(750)
EBIT	1,305	5,405	2,607	1,943	1,711	1,822
Interest expense	(259)	(459)	(53)	(8)	(8)	(8)
Others	57	146	29	26	22	14
Pre-tax profit	1,103	5,092	2,583	1,962	1,726	1,828
Income tax	(312)	(1,505)	(764)	(580)	(510)	(541)
After tax profit	791	3,587	1,819	1,381	1,215	1,287
Minority interest	0	0	0	0	0	0
Net profit	791	3,587	1,819	1,381	1,215	1,287

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (AUD mn)						
Current assets	2,531	3,810	2,533	3,435	4,196	5,211
Cash & equivalents	1,495	2,699	1,397	2,476	3,098	4,227
Account receivables	707	736	662	600	614	616
Inventories	264	330	416	307	427	315
Other current assets	65	45	58	52	57	53
Non-current assets	9,269	8,991	8,721	8,575	8,287	8,043
PP&E	3,232	3,486	3,582	3,774	3,761	3,744
Right-of-use assets	5,149	4,642	4,278	3,930	3,646	3,416
Deferred income tax	0	0	0	0	0	0
Investment in JVs & assos	303	413	431	444	455	462
Intangibles	138	133	131	128	125	122
Other non-current assets	447	317	299	299	299	299
Total assets	11,800	12,801	11,254	12,010	12,482	13,254
Current liabilities	826	2,532	1,048	1,162	1,073	1,181
Short-term borrowings	66	48	44	44	44	44
Account payables	743	863	734	848	759	867
Other current liabilities	17	1,621	270	270	270	270
Non-current liabilities	4,828	2,239	1,764	1,764	1,764	1,764
Long-term borrowings	3,369	625	102	102	102	102
Other non-current liabilities	1,459	1,614	1,662	1,662	1,662	1,662
Total liabilities	5,654	4,771	2,812	2,926	2,837	2,945
Total shareholders equity	6,144	8,028	8,440	9,082	9,643	10,307
Minority interest	2	2	2	2	2	2
Total equity and liabilities	11,800	12,801	11,254	12,010	12,482	13,254

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (AUD mn)						
Operating						
Profit before taxation	1,103	5,092	2,583	1,962	1,726	1,828
Depreciation & amortization	831	834	881	859	800	750
Tax paid	0	0	(2,123)	(580)	(510)	(541)
Change in working capital	(193)	80	(129)	292	(229)	222
Others	332	759	(10)	(102)	(128)	(129)
Net cash from operations	2,073	6,765	1,202	2,430	1,659	2,130
Investing						
Capital expenditure	(268)	(544)	(611)	(700)	(500)	(500)
Acquisition of subsidiaries/ investments	(100)	0	0	0	0	0
Others	69	287	97	96	125	130
Net cash from investing	(299)	(257)	(514)	(604)	(375)	(370)
Financing						
Dividend paid	0	(1,626)	(1,413)	(740)	(653)	(624)
Net borrowings	(494)	(1,320)	(496)	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Others	(447)	(2,465)	(95)	(8)	(8)	(8)
Net cash from financing	(941)	(5,411)	(2,004)	(748)	(661)	(632)
Net change in cash						
Cash at the beginning of the year	637	1,495	2,699	1,397	2,476	3,098
Exchange difference	25	107	14	0	0	0
Cash at the end of the year	1,495	2,699	1,397	2,476	3,098	4,227
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	55.6%	95.2%	(26.3%)	(10.3%)	(3.8%)	1.3%
EBITDA	na	192.1%	(44.1%)	(19.7%)	(10.4%)	2.5%
EBIT	na	314.3%	(51.8%)	(25.5%)	(12.0%)	6.5%
Net profit	na	353.7%	(49.3%)	(24.0%)	(12.0%)	6.0%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
EBITDA margin	39.5%	59.1%	44.8%	40.2%	37.4%	37.8%
Return on equity (ROE)	13.9%	50.6%	22.1%	15.8%	13.0%	12.9%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	0.3	(0.3)	(0.1)	(0.3)	(0.3)	(0.4)
Current ratio (x)	3.1	1.5	2.4	3.0	3.9	4.4
Receivable turnover days	35.5	25.0	32.8	33.0	33.0	33.0
Inventory turnover days	53.3	47.4	52.2	52.0	52.0	52.0
Payable turnover days	100.8	99.4	87.3	87.0	87.0	87.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	4.2	1.9	3.8	5.8	6.6	6.3
P/B	0.5	0.8	0.8	0.9	0.8	0.8
Div yield (%)	28.2	24.0	13.3	8.6	7.5	8.0

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

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