

Yancoal Australia (3668 HK)

1H23E preview: Expect profit decline on weak coal price

YAL will release its 2Q23E operating data on 19 Jul and 1H23E earnings in mid-Aug. We expect net profit to drop 12% YoY to A\$1.52bn in 1H23E, as the gradual volume growth was more than offset by a decline in coal price. We revised down our 2023E/24E earnings forecast by 27%/29%, after cutting our coal price assumptions by 15%/16%. Our NPV-based TP is revised down to HK\$42 (from HK\$48), due to (1) the dividend paid in Apr (HK\$3.74 per share) and (2) our lower earnings forecast. We maintain our **BUY** rating as we do not expect further significant decline in seaborne coal price versus our new assumptions, given the potential recovery of China's economy. We also expect China's import of Australian coal to accelerate following the lift of import ban early this year. In terms of valuation, even with our new earnings forecast, the stock is trading at 21% 2023E dividend yield (assuming 50% payout ratio) and only 2.4x 2023E P/E.

- **Expect a reverse of ASP and volume trend in 2Q23E.** In 1Q23, the attributable coal sales volume dropped 24% YoY while ASP increased 35% YoY. In 2Q23E, we expect the sales volume to grow 22% YoY given the gradual improvement of water storage issue. On the ASP side, we expect the ASP of thermal coal in 2Q23E to drop 30% YoY but outperform the GCNewc 6,000kCal benchmark (-54% YoY). We expect the ASP of metallurgical coal to drop 33% YoY in 2Q23E. We expect the overall decline in ASP will be less than that of the benchmark, underpinned by some contract pricing.
- **1H23E earnings preview.** We forecast the revenue to drop 6% YoY in 1H23E. Given that we expect the unit operating cost (ex-royalties) to stay high in 1H23E (A\$98/t, +15% YoY), we forecast the net profit to drop 12% YoY to A\$1.52bn.
- **Australian coal miners to benefit from recovery of China's import.** Following the improved relationship between China and Australia, China's import of Australian coal has gradually recovered. According to the China Customs, import of Australian thermal coal in Mar/Apr/May reached 1.8mt/3.7mt/5.1mt, representing 12%/22%/27% of China's total thermal coal import. Still, such percentage is far lower than the peak level of 50% in 2018. We expect the import from Australia will further accelerate. Australian miners, including YAL, will benefit from the potential volume growth.
- **Key risks:** (1) further decline in coal price; (2) increase in unit cost; (3) unfavourable weather that affects production.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (AUD mn)	5,403	10,548	8,844	8,072	8,413
YoY growth (%)	55.6	95.2	(16.2)	(8.7)	4.2
Net profit (AUD mn)	790.6	3,587.0	2,629.1	2,219.3	2,379.5
EPS (Reported) (AUD)	0.60	2.72	1.99	1.68	1.80
YoY growth (%)	na	355.0	(26.7)	(15.6)	7.2
Consensus EPS (AUD cents)	na	0.00	0.00	0.00	0.00
P/E (x)	4.2	1.9	2.4	2.8	2.6
P/B (x)	0.5	0.8	0.7	0.6	0.5
Yield (%)	11.5	24.0	21.1	17.8	19.1
ROE (%)	13.9	50.6	30.6	23.0	22.1
Net gearing (%)	31.6	(25.2)	(35.5)	(43.5)	(52.3)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$42.00
(Previous TP)	HK\$48.00)
Up/Downside	67.7%
Current Price	HK\$25.05

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Stock Data

Mkt Cap (HK\$ mn)	33,077.0
Avg 3 mths t/o (HK\$ mn)	33.9
52w High/Low (HK\$)	39.55/22.25
Total Issued Shares (mn)	1320.4
Source: FactSet	

Shareholding Structure

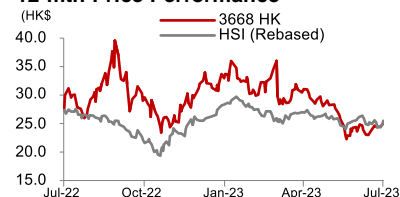
Yankuang Energy	62.3%
China Cinda AM	13.7%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	6.1%	7.1%
3-mth	-19.3%	-15.2%
6-mth	-25.7%	-16.5%

Source: FactSet

12-month Price Performance



Source: FactSet

Auditor: ShineWing Australia

Related Reports

1. Yancoal Australia (3668 HK) – ASP offset the decline in sales volume in 1Q23; Expect improvement in volume – 20 Apr 2023
2. Yancoal Australia (3668 HK) – Inclusion in Stock Connect a re-rating driver – 6 Mar 2023
3. Yancoal Australia (3668 HK) – Net profit +3.5x YoY in 2022 but below expectations; Attractive yield of 20% – 28 Feb 2023

Figure 1: Change in key operating assumptions

	2023E	Old 2024E	2024E	2023E	New 2024E	2025E	2023E	Change 2024E	2025E
Sales volume (mn tonnes)									
Thermal	28	29	-	28	29	31	0.0%	0.0%	-
Metallurgical	6	6	-	6	6	5	0.0%	0.0%	-
Total	33	35	-	33	35	36	0.0%	0.0%	-
ASP (A\$/t)									
Thermal	300	260	-	250	220	220	-16.7%	-15.4%	-
Metallurgical	300	290	-	280	240	240	-6.7%	-17.2%	-
Blended	300	265	-	255	223	223	-15.0%	-15.7%	-
Cash operating cost breakdown (A\$/tonne)									
Unit cash operating cost	-125	-115	-	-121	-111	-109	-3.4%	-3.5%	-
Unit cash operating cost (excluding government royalties)	-97	-90	-	-97	-90	-88	0.0%	0.0%	-
Unit cash margin (excluding government royalties)	203	176	-	158	134	135	-22.1%	-23.7%	-
Net profit (A\$ mn)	3,576	3,143	-	2,629	2,219	2,380	-26.5%	-29.4%	-

Source: Company data, CMBIGM estimates

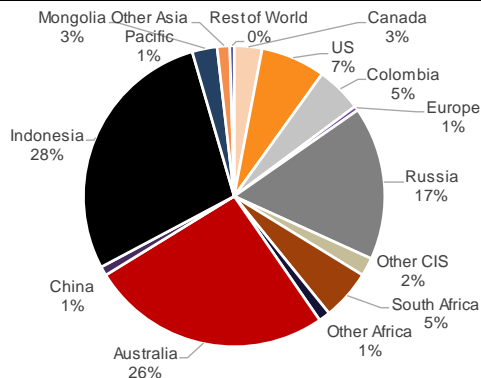
Figure 2: Key operating assumptions

	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Marketable coal production (mn tonnes) (100 % equity basis)									
Mines									
HVO	14.8	13.3	13.7	12.0	10.6	9.6	12.0	13.0	14.0
Mount Thorley Warkworth (MTW)	11.8	12.1	12.1	11.9	11.2	8.1	8.0	9.0	10.0
Moolarben	12.4	16.5	17.8	19.7	18.4	14.9	18.0	18.5	18.5
Stratford Durialle	0.7	0.5	0.8	0.5	0.8	0.7	0.6	0.0	0.0
Yarrabee	2.9	2.6	2.8	3.0	2.6	2.1	2.0	2.0	2.0
Middlemount	3.9	3.8	2.7	2.9	3.7	2.6	2.7	2.7	3.8
Ashton	1.2	1.1	2.2	1.8	1.2	0.9	1.0	1.0	1.0
Total	47.7	49.9	52.1	51.8	48.5	38.9	44.3	46.2	49.3
Attributable sales volume (mn tonnes)									
Thermal	15.5	28.4	30.1	33.2	31.7	24.6	27.8	28.8	30.6
Metallurgical	3.8	5.1	5.5	4.2	5.8	4.7	5.7	5.9	5.4
Total	19.3	33.5	35.6	37.4	37.5	29.3	33.5	34.7	36.0
Growth (YoY)									
Thermal	76.1%	83.2%	6.0%	10.3%	-4.5%	-22.4%	12.9%	3.6%	0.0%
Metallurgical	15.2%	34.2%	7.8%	-23.6%	38.1%	-19.0%	21.0%	3.6%	0.0%
Average	59.5%	73.6%	6.3%	5.1%	0.3%	-21.9%	14.2%	3.6%	0.0%
ASP (A\$/tonne)									
Thermal	102	123	100	76	134	372	250	220	220
Metallurgical	163	183	167	123	180	406	280	240	240
Blended	114	132	110	82	141	377	255	223	223
ASP growth (YoY)									
Thermal	45.8%	20.0%	-18.3%	-23.8%	75.4%	177.4%	-32.7%	-12.0%	0.0%
Metallurgical	53.6%	12.2%	-8.8%	-26.3%	46.5%	125.5%	-31.0%	-14.3%	0.0%
Blended	42.9%	15.4%	-16.2%	-26.1%	72.9%	167.3%	-32.3%	-12.4%	-0.2%
Cash operating cost breakdown (A\$/tonne)									
Unit cash operating cost	-71	-73	-73	-67	-77	-131	-121	-111	-109
Change (YoY)	3.5%	2.6%	-0.9%	-8.2%	16.2%	69.6%	-7.8%	-8.3%	-1.5%
Unit cash operating cost (excluding government royalties)	-62	-63	-64	-60	-66	-98	-97	-90	-88
Change (YoY)	-1.1%	0.7%	1.6%	-5.4%	9.5%	48.5%	-1.5%	-7.4%	-2.0%

Source: Company data, CMBIGM estimates

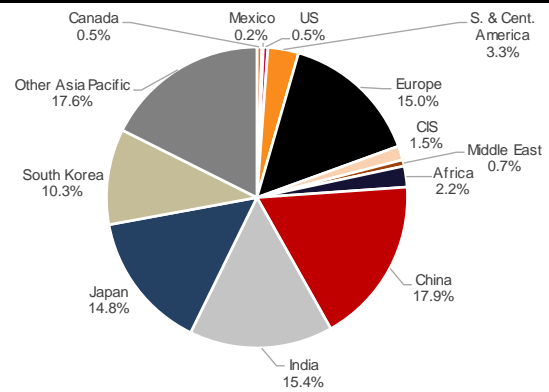
Note: Equity-accounting for Middlemount

Figure 3: Australia is the largest exporter of coal across the globe



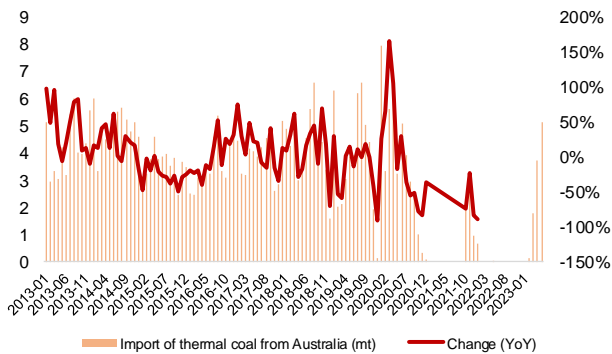
Source: BP, CMBIGM
Note: Figures in 2022

Figure 4: Global coal import by regions



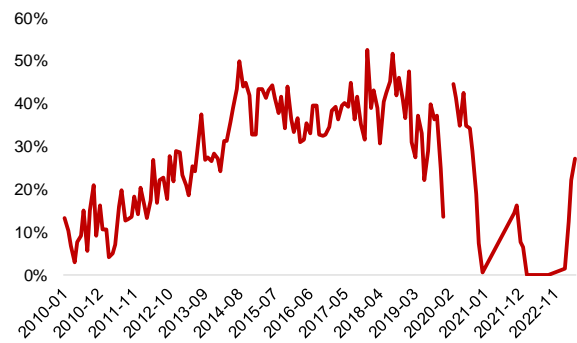
Source: BP, CMBIGM
Note: Figures in 2022

Figure 5: China's coal import from Australia



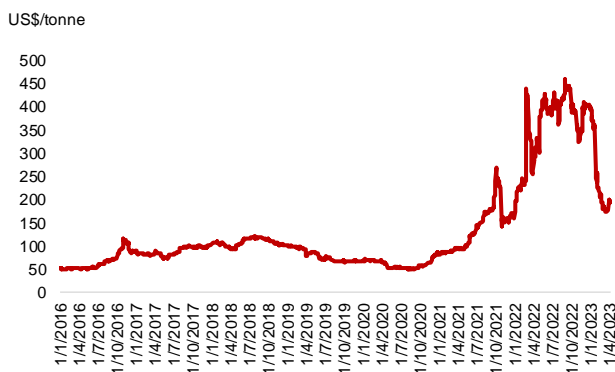
Source: China Customs, Wind, CMBIGM

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



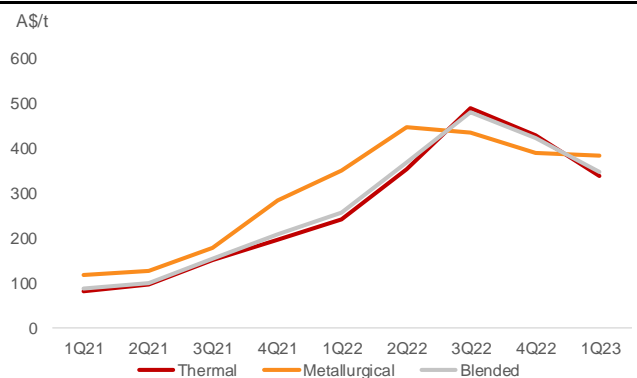
Source: China Customs, Wind, CMBIGM

Figure 7: GC Newc (6000/kCal) pricing

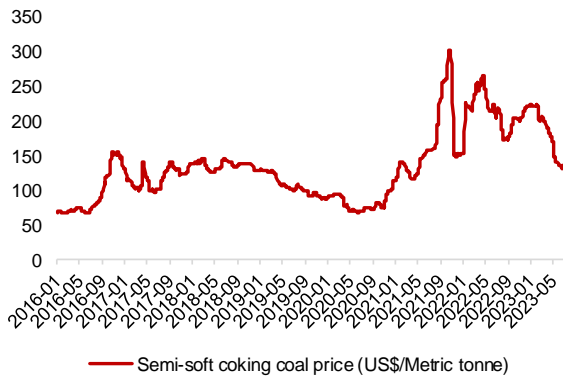


Source: Company, Argus/McCloskey, GlobalCOAL, CMBIGM

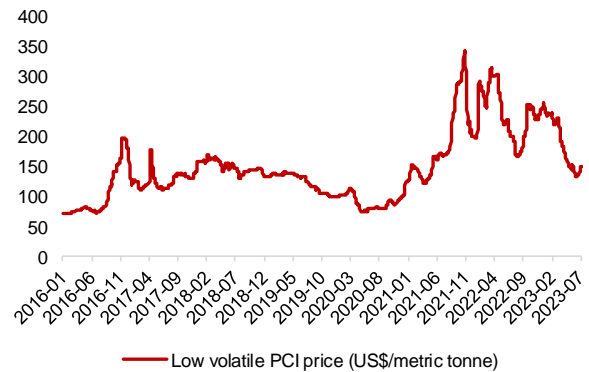
Figure 8: Yancoal quarterly ASP trend



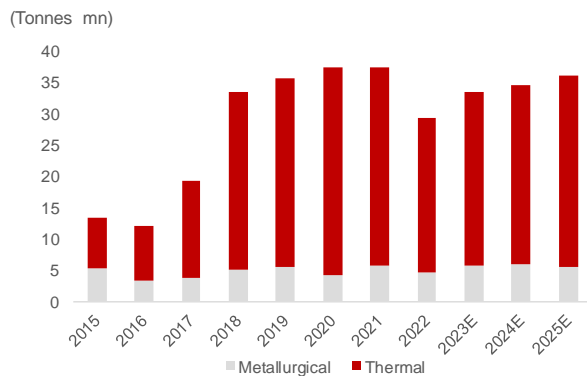
Source: Company, CMBIGM

Figure 9: Seaborne Semi-soft Coking Coal (SSCC) price


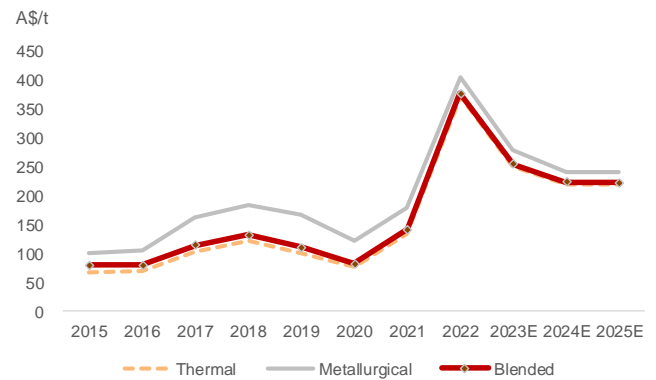
Source: Wind, CMBIGM

Figure 10: Seaborne pulverised coal injection (PCI) price


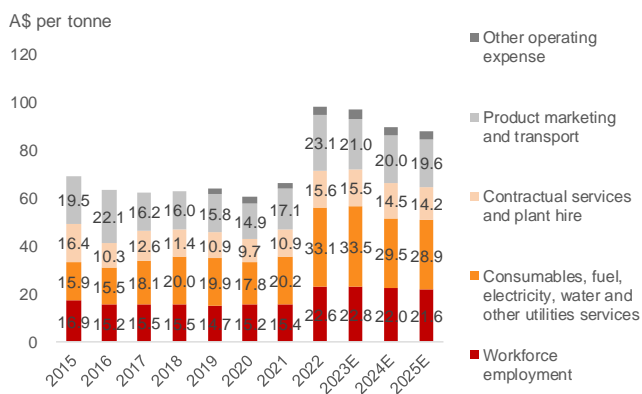
Source: Wind, CMBIGM

Figure 11: YAL's sales volume projection


Source: Company data, CMBIGM estimates

Figure 12: YAL's ASP assumptions


Source: Company data, CMBIGM estimates

Figure 13: YAL's unit cash cost breakdown


Source: Company data, CMBIGM estimates

Note: Excluding government royalties

Valuation

Maintain BUY with new TP of 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 lower TP (previous HK\$48) is attributable to the cash dividend (HK\$3.74) paid in Apr, as well as our lower earnings forecast.

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 14: TP sensitivity

WACC	LT coal thermal coal price (A\$/t)				
	80	100	120	140	160
4.6%	17	31	44	58	71
5.6%	19	31	43	55	68
6.6%	20	31	42	53	64
7.6%	21	31	41	51	61
8.6%	22	31	40	50	59

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

WACC	LT metallurgical coal price (A\$/t)				
	120	140	160	180	200
4.6%	39	42	44	47	49
5.6%	39	41	43	46	48
6.6%	38	40	42	44	46
7.6%	38	39	41	43	45
8.6%	37	39	40	42	44

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

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (AUD mn)						
Revenue	3,473	5,403	10,548	8,844	8,072	8,413
Royalties and other related payments	(232)	(421)	(967)	(811)	(740)	(771)
Staff costs	(568)	(578)	(662)	(763)	(763)	(776)
Others	(2,059)	(2,232)	(2,548)	(2,789)	(2,628)	(2,681)
Other income	(703)	(36)	(132)	44	40	42
EBITDA	(89)	2,136	6,239	4,526	3,982	4,227
Depreciation	(804)	(831)	(834)	(859)	(864)	(846)
EBIT	(893)	1,305	5,405	3,666	3,117	3,381
Interest expense	(191)	(259)	(459)	(24)	(9)	(9)
Others	(59)	57	146	114	63	28
Pre-tax profit	(1,143)	1,103	5,092	3,756	3,170	3,399
Income tax	103	(312)	(1,505)	(1,127)	(951)	(1,020)
After tax profit	(1,040)	791	3,587	2,629	2,219	2,380
Minority interest	0	0	0	0	0	0
Net profit	(1,040)	791	3,587	2,629	2,219	2,380

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (AUD mn)						
Current assets	1,343	2,531	3,810	4,411	5,407	7,116
Cash & equivalents	637	1,495	2,699	3,419	4,587	6,123
Account receivables	344	707	736	621	485	714
Inventories	312	264	330	327	294	234
Other current assets	50	65	45	44	42	45
Non-current assets	9,712	9,269	8,991	9,047	8,930	8,605
PP&E	3,302	3,232	3,486	3,776	3,908	3,819
Right-of-use assets	5,581	5,149	4,642	4,326	4,033	3,779
Deferred income tax	0	0	0	0	0	0
Investment in JVs & assos	257	303	413	498	545	566
Intangibles	135	138	133	130	126	123
Other non-current assets	437	447	317	317	317	317
Total assets	11,055	11,800	12,801	13,458	14,337	15,720
Current liabilities	1,199	826	2,532	2,575	2,457	2,607
Short-term borrowings	496	66	48	48	48	48
Account payables	665	743	863	906	788	938
Other current liabilities	38	17	1,621	1,621	1,621	1,621
Non-current liabilities	4,663	4,828	2,239	1,739	1,739	1,739
Long-term borrowings	3,709	3,369	625	125	125	125
Other non-current liabilities	954	1,459	1,614	1,614	1,614	1,614
Total liabilities	5,862	5,654	4,771	4,314	4,196	4,346
Total shareholders equity	5,191	6,144	8,028	9,142	10,138	11,372
Minority interest	2	2	2	2	2	2
Total equity and liabilities	11,055	11,800	12,801	13,458	14,337	15,720

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (AUD mn)						
Operating						
Profit before taxation	(1,143)	1,103	5,092	3,756	3,170	3,399
Depreciation & amortization	804	831	934	859	864	846
Tax paid	0	0	0	(1,127)	(951)	(1,020)
Change in working capital	25	(193)	80	162	53	(22)
Others	1,034	332	659	(220)	(213)	(230)
Net cash from operations	720	2,073	6,765	3,430	2,924	2,973
Investing						
Capital expenditure	(238)	(268)	(544)	(830)	(700)	(500)
Acquisition of subsidiaries/ investments	(204)	(100)	0	0	0	0
Others	(85)	69	287	159	176	219
Net cash from investing	(527)	(299)	(257)	(671)	(524)	(281)
Financing						
Dividend paid	(280)	0	(1,626)	(1,516)	(1,222)	(1,146)
Net borrowings	1	(494)	(1,320)	(500)	0	0
Proceeds from share issues	0	0	0	0	0	0
Others	(214)	(447)	(2,465)	(24)	(9)	(9)
Net cash from financing	(493)	(941)	(5,411)	(2,040)	(1,232)	(1,155)
Net change in cash						
Cash at the beginning of the year	962	637	1,495	2,699	3,419	4,587
Exchange difference	(25)	25	107	0	0	0
Cash at the end of the year	637	1,495	2,699	3,419	4,587	6,123
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	(22.1%)	55.6%	95.2%	(16.2%)	(8.7%)	4.2%
EBITDA	na	na	192.1%	(27.5%)	(12.0%)	6.2%
EBIT	na	na	314.3%	(32.2%)	(15.0%)	8.5%
Net profit	na	na	353.7%	(26.7%)	(15.6%)	7.2%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
EBITDA margin	(2.6%)	39.5%	59.1%	51.2%	49.3%	50.2%
Return on equity (ROE)	(18.3%)	13.9%	50.6%	30.6%	23.0%	22.1%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	0.7	0.3	(0.3)	(0.4)	(0.4)	(0.5)
Current ratio (x)	1.1	3.1	1.5	1.7	2.2	2.7
Receivable turnover days	41.9	35.5	25.0	28.0	25.0	26.0
Inventory turnover days	55.4	53.3	47.4	48.0	48.0	40.0
Payable turnover days	109.0	100.8	99.4	99.0	99.0	99.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	na	7.2	1.9	2.4	2.8	2.6
P/B	1.2	0.9	0.8	0.7	0.6	0.5
Div yield (%)	0.0	11.5	24.0	21.1	17.8	19.1

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

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OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
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