

Yancoal Australia (3668 HK)

Further risk reduction after prepayment of US\$1bn debts

We are encouraged by Yancoal's decision to repay US\$1bn (~A\$1.56bn) of debt in advance. We estimate the interest cost savings will increase net profit in 2022E/23E/24E by 0.3%/1%/1%. Most importantly, it will significantly reduce the potential risk arising from the strong US\$ and interest rate hike. We estimate the prepayment will not hinder Yancoal from achieving 50% dividend payout ratio this year, given the strong free cash flow (~A\$4bn based on our estimate). Based on our existing coal price assumptions, Yancoal's net cash will reach A\$3bn by end-2023E, equivalent to 40% of the current market cap. Reiterate **BUY** and NPV-based TP of HK\$53. The stock is attractively trading at 1.7x 2022E P/E or 21% yield.

- Details of the debt prepayment.** Over the weekend, Yancoal announced that it planned to prepay US\$1bn of debts on 4 Oct, consisting of syndicated loans and unsecured related-partly loans. Yancoal estimates the prepayment will save US\$207mn (~A\$323mn) of finance cost over the loan periods.
- Substantial reduction of debts.** Including this latest prepayment, Yancoal paid down a total of US\$2.3bn of debts over the past 12 months, taking the gross debt down to only US\$792mn (A\$1.23bn). Since Jul, Yancoal has been maintaining a net cash position.
- A safe haven to hedge against the fx / geopolitical risk.** First, Yancoal is a beneficiary of the strong US\$ as the coal price is settled in US\$ while the cost items are largely settled in A\$. Second, the mounting geopolitical tension and energy crisis in Europe will continue to lend support to the global coal price.
- Key risks:** (1) Decline in coal price; (2) easing geopolitical tension; (3) higher-than-expected production cost.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Turnover (A\$ mn)	3,473	5,403	11,293	10,311	9,501
Change (YoY)	-22.1	55.6	109.0	-8.7	-7.9
Core net profit (A\$ mn)	-1,040	791	4,538	3,800	3,245
Core EPS (A\$)	-0.79	0.60	3.44	2.88	2.46
Change (YoY)	n/a	n/a	475.7	-16.3	-14.6
Consensus EPS (A\$)	n/a	n/a	n/a	n/a	n/a
EV/EBITDA (x)	-80.3	3.4	1.0	1.1	1.3
PE (x)	n/a	8.3	1.7	2.0	2.4
PB (x)	1.4	1.1	0.8	0.7	0.6
Yield (%)	0.0	9.9	20.8	17.4	14.9
ROE (%)	-18.3	13.9	59.7	39.0	29.1
Net gearing (%)	68.7	31.6	Net cash	Net cash	Net cash

Source: Company data, CMBIGM estimates

Note 1: Thermal coal price assumptions: A\$350/300/250 per tonne in FY22E/23E/24E.

Note 2: Dividend yield is net of dividend tax of 30%.

BUY (Maintain)

Target Price	HK\$53.0
(Previous TP)	HK\$53.0)
Up/Downside	+82%
Current Price	HK\$29.05

Coal Mining

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Stock Data

Mkt Cap (HK\$ mn)	38,359
Avg 3 mths t/o (HK\$ mn)	112
52w High/Low (HK\$)	47.26/11.67
Total Issued Shares (mn)	1,320

Source: Bloomberg

Shareholding Structure

Yankuang Energy	62.26%
China Cinda AM	13.74%
Others	23.99%

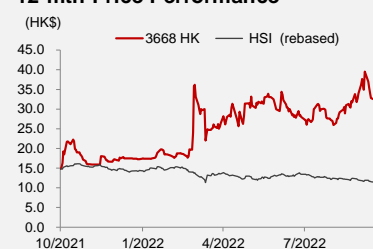
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-11.7%	2.3%
3-mth	3.8%	31.7%
6-mth	16.2%	50.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

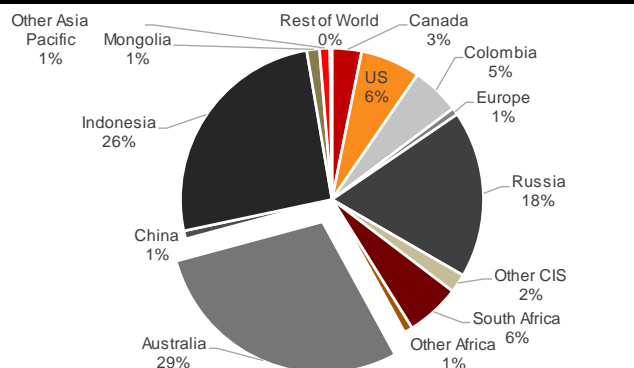
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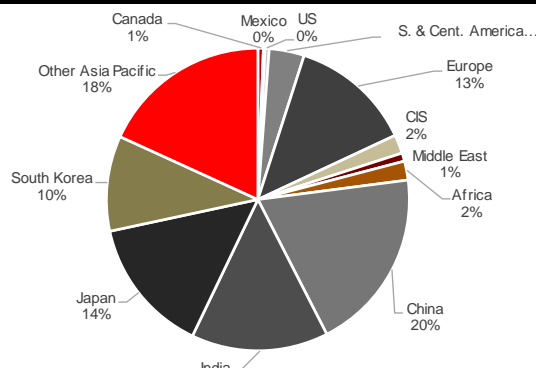
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Figure 1: Australia is the largest exporter of coal



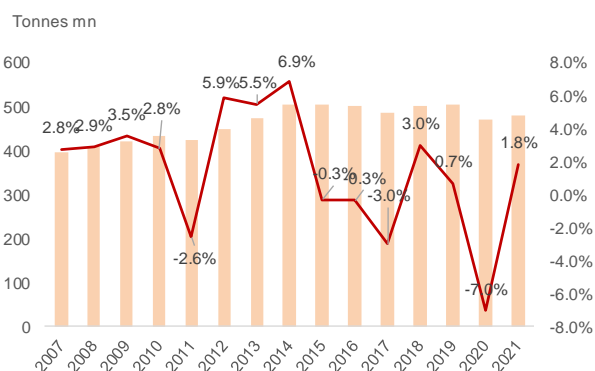
Source: BP, CMBIGM
Note: Figures in 2021

Figure 2: Coal import by regions



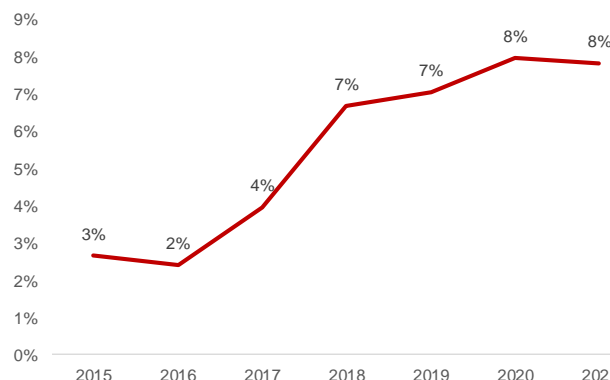
Source: BP, CMBIGM
Note: Figures in 2021

Figure 3: Coal production in Australia



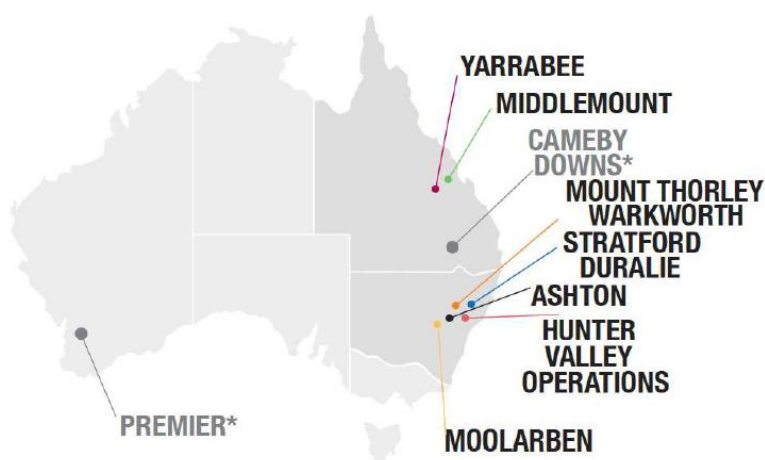
Source: BP, CMBIGM

Figure 4: Market share of YAL in Australia



Source: BP, Company data, CMBIGM estimates
Note: Based on YAL's attributable production

Figure 5: Location of YAL's coal mines



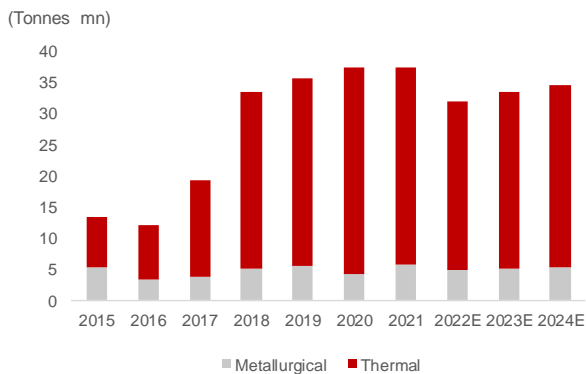
Source: Company data, CMBIGM

Note*: Managed mines

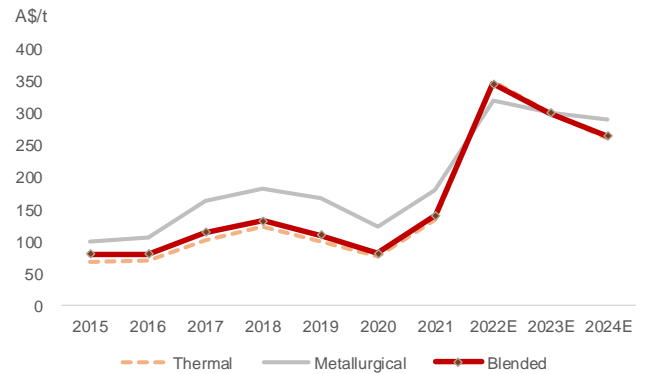
Figure 6: Key operating assumptions

	2017	2018	2019	2020	2021	2022E	2023E	2024E
Marketable coal production (mn tonnes) (100 % equity basis)								
Consolidated mines								
HVO	14.8	13.3	13.7	12.0	10.6	11.5	12.0	13.0
Mount Thorley Warkworth (MTW)	11.8	12.1	12.1	11.9	11.2	7.7	8.0	9.0
Moolarben	12.4	16.5	17.8	19.7	18.4	17.0	18.0	18.5
Stratford Duralie	0.7	0.5	0.8	0.5	0.8	0.6	0.6	0.0
Yarrabee	2.9	2.6	2.8	3.0	2.6	2.0	2.0	2.0
Ashton	1.2	1.1	2.2	1.8	1.2	1.0	1.0	1.0
Total	43.8	46.1	49.4	48.9	44.8	39.8	41.6	43.5
Attributable sales volume (mn tonnes)								
Thermal	15.5	28.4	30.1	33.2	31.7	27.2	28.4	29.5
Metallurgical	3.8	5.1	5.5	4.2	5.8	4.8	5.0	5.2
Total	19.3	33.5	35.6	37.4	37.5	32.0	33.5	34.7
Growth (YoY)								
Thermal	76.1%	83.2%	6.0%	10.3%	-4.5%	-14.2%	4.5%	3.6%
Metallurgical	15.2%	34.2%	7.8%	-23.6%	38.1%	-17.2%	4.5%	3.6%
Average	59.5%	73.6%	6.3%	5.1%	0.3%	-14.7%	4.5%	3.6%
ASP (A\$/tonne)								
Thermal	102	123	100	76	134	350	300	260
Metallurgical	163	183	167	123	180	320	300	290
Blended	114	132	110	82	141	346	300	265
ASP growth (YoY)								
Thermal	45.8%	20.0%	-18.3%	-23.8%	75.4%	161.3%	-14.3%	-13.3%
Metallurgical	53.6%	12.2%	-8.8%	-26.3%	46.5%	77.8%	-6.3%	-3.3%
Blended	42.9%	15.4%	-16.2%	-26.1%	72.9%	144.9%	-13.2%	-11.8%
Cash operating cost breakdown (A\$/tonne)								
Unit cash operating cost	-71	-73	-73	-67	-77	-112	-110	-107
Change (YoY)	3.5%	2.6%	-0.9%	-8.2%	16.2%	45.3%	-2.2%	-2.2%
Unit cash operating cost (excluding government royalties)	-62	-63	-64	-60	-66	-85	-86	-86
Change (YoY)	-1.1%	0.7%	1.6%	-5.4%	9.5%	28.3%	1.2%	0.2%

Source: Company data, CMBIGM estimates

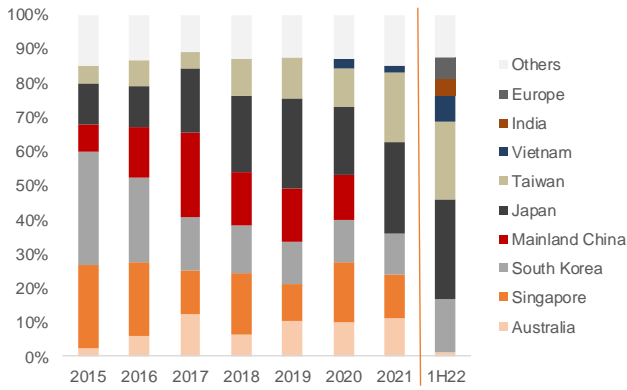
Figure 7: YAL's sales volume projection

Source: Company data, CMBIGM estimates

Figure 8: YAL's ASP assumptions

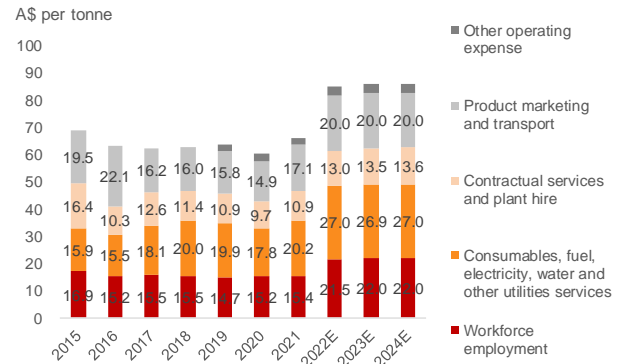
Source: Company data, CMBIGM estimates

Figure 9: YAL's regional revenue breakdown



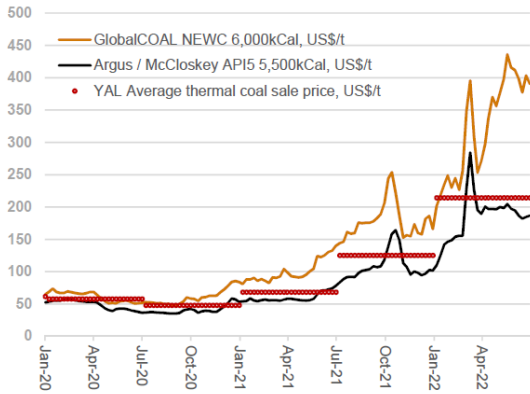
Source: Company data, CMBIGM estimates

Figure 10: YAL's unit cash cost breakdown



Note: Excluding government royalties
Source: Company data, CMBIGM estimates

Figure 11: Thermal benchmarks vs YAL thermal coal ASP



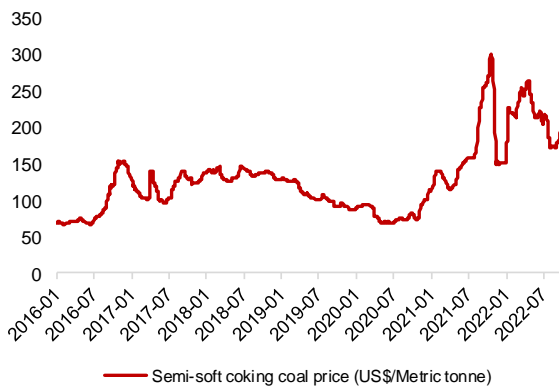
Source: YAL, Argus/McCloskey, GlobalCOAL, CMBIGM

Figure 12: Newcastle Port thermal 6,000 kcal/kg FOB price



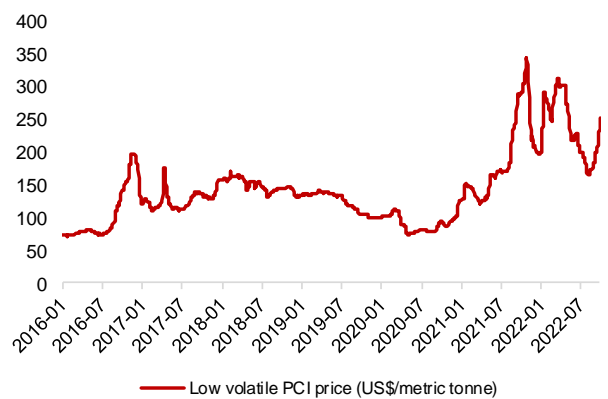
Source: Bloomberg, CMBIGM

Figure 13: Seaborne Semi-soft Coking Coal (SSCC) price



Source: Wind, CMBIGM

Figure 14: Seaborne pulverised coal injection (PCI) price



Source: Wind, CMBIGM

Valuation

Reiterate **BUY** with **TP of HK\$53**. We value YAL by employing net present value (NPV), a common methodology for valuing miners. The future cash flow of all the reserves based on their effective mine life is calculated and discounted to reach our TP.

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 2% p.a.
- WACC of 5.9%, based on risk free rate of 3.7% (10-year Australian government bond yield), risk premium of 7%, 0.3x beta, and 10% debt/capital ratio;
- AUD/HKD rate of HK\$5.3.

Figure 15: TP sensitivity

WACC	LT coal thermal coal price (A\$/t)				
	80	100	120	140	160
3.9%	22.9	38.1	53.3	68.5	83.7
4.9%	26.6	40.0	53.5	66.9	80.4
5.9%	29.3	41.3	53.3	65.2	77.2
6.9%	31.4	42.1	52.8	63.5	74.2
7.9%	32.9	42.6	52.2	61.8	71.5

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

WACC	LT metallurgical coal price (A\$/t)				
	120	140	160	180	200
3.9%	47.6	50.5	53.3	56.1	59.0
4.9%	48.5	51.0	53.5	56.0	58.4
5.9%	48.9	51.1	53.3	55.5	57.7
6.9%	48.9	50.9	52.8	54.8	56.7
7.9%	48.7	50.5	52.2	54.0	55.7

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

Source: Company data, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (A\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	3,473	5,403	11,293	10,311	9,501
Other income	-703	-36	56	52	48
Change in inventories	12	-60	0	0	0
Raw materials and consumables	-666	-757	-864	-900	-936
Employee benefits	-568	-578	-688	-736	-763
Transportation	-556	-642	-640	-669	-693
Contractual services	-364	-410	-416	-452	-471
Government royalties	-232	-421	-880	-803	-740
Coal purchase	-302	-162	-204	-185	-169
Other operating expenses	-183	-202	-331	-320	-308
Dep & amortization	-804	-831	-835	-841	-819
EBIT	-893	1,305	6,493	5,456	4,649
Finance expenses	-191	-259	-132	-45	-30
Share of profit of JV & associates	-59	57	32	17	18
Pretax profit	-1,143	1,103	6,392	5,428	4,636
Income tax	103	-312	-1,854	-1,628	-1,391
After tax profit	-1,040	791	4,538	3,800	3,245
MI	0	0	0	0	0
Net profit	-1,040	791	4,538	3,800	3,245
Core net profit	-1,040	791	4,538	3,800	3,245
D&A	804	831	835	841	819
EBITDA	-89	2,136	7,328	6,298	5,468

Cash flow summary

YE 31 Dec (A\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Pretax profit	-1,143	1,103	6,392	5,428	4,636
Finance cost	191	259	132	45	30
Interest income	-84	-21	-68	-82	-152
Share of profit or loss of associates	59	-57	-32	-17	-18
Depreciation & amortization	804	831	835	841	819
Income tax paid	0	0	-1,854	-1,628	-1,391
Change in working capital	25	-193	-717	943	-1,316
Others	868	151	0	0	0
Cash flow from operation	720	2,073	4,689	5,530	2,609
Net capex on PP&E	-238	-268	-580	-550	-550
Investment in JV/associates	0	0	0	0	0
Investment in subsidiaries	-204	-100	0	0	0
Investment in intangibles	-27	-6	0	0	0
Dividend received	11	11	5	3	3
Interest received	64	7	68	82	152
Others	-133	57	0	0	0
Cash flow from investing	-527	-299	-507	-465	-395
Equity financing	0	0	0	0	0
Net bank borrowings	1	-494	-2,413	-500	0
Net repayment of borrowings from associates	0	0	0	0	0
Dividend paid	-280	0	-1,626	-2,428	-1,775
Interest paid	-179	-180	-132	-45	-30
Others	-35	-267	0	0	0
Cash flow from financing	-493	-941	-4,171	-2,973	-1,805
Change in cash	-300	833	10	2,092	409
Cash at beginning of the year	962	637	1,495	1,505	3,597
Exchange gains/(losses) and others	-25	25	-0	0	0
Cash at the end of the year	637	1,495	1,505	3,597	4,006

Balance sheet

YE 31 Dec (A\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	9,712	9,269	9,041	8,764	8,510
PP&E	3,302	3,232	3,294	3,299	3,276
Mining tenements	4,872	4,608	4,296	4,006	3,765
Investment in JV/associates	257	303	330	344	359
Exploration and evaluation	709	541	541	541	541
Loan to an associate	0	0	0	0	0
Trade and other receivables	221	239	239	239	239
Intangible assets	135	138	133	128	122
Others	15	10	10	10	10
Deferred tax assets	0	0	0	0	0
Royalty receivable	201	198	198	198	198
Current assets	1,343	2,531	3,313	4,478	6,236
Inventories	312	264	318	298	323
Trade receivables	344	707	1,397	524	1,819
Royalty receivables	16	23	51	17	46
AFS investments	2	0	0	0	0
Others	32	42	42	42	42
Cash	637	1,495	1,505	3,597	4,006
Current liabilities	1,199	826	881	897	930
Trade and other payables	665	743	798	814	847
Non-contingent royalty payable	13	0	0	0	0
Interest-bearing liabilities	496	66	66	66	66
Provisions	25	17	17	17	17
Non-current liabilities	4,663	4,828	2,415	1,915	1,915
Interest-bearing liabilities	3,709	3,369	956	456	456
Deferred tax liabilities	135	516	516	516	516
Provisions	813	935	935	935	935
Non-contingent royalty payable	0	0	0	0	0
Others	6	8	8	8	8
Equity	5,193	6,146	9,058	10,430	11,900
Shareholders' equity	5,191	6,144	9,056	10,428	11,898
MI	2	2	2	2	2

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Sales of coal	98.7	100.1	99.9	99.3	98.5
Sea freight	1.8	1.5	0.7	0.8	0.8
Fair value of losses recycled from	(5.6)	(2.8)	(1.7)	(1.5)	(1.6)
Interest income	2.4	0.4	0.6	0.8	1.6
Mining services fees	1.3	0.0	0.0	0.0	0.0
Other	1.3	0.9	0.5	0.6	0.6
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratio (%)					
EBITDA margin	(2.7)	40.0	65.6	61.9	58.9
EBIT margin	(25.7)	24.1	57.5	52.9	48.9
Net profit margin	(30.0)	14.6	40.2	36.9	34.2
Core net profit margin	(30.0)	14.6	40.2	36.9	34.2
Growth (%)					
Revenue	(22.1)	55.6	109.0	(8.7)	(7.9)
EBITDA	(105.5)	(2,493.5)	243.1	(14.1)	(13.2)
EBIT	(187.2)	(246.1)	397.7	(16.0)	(14.8)
Net profit	(244.7)	(176.0)	474.1	(16.3)	(14.6)
Core net profit	(308.1)	(176.0)	474.1	(16.3)	(14.6)
Balance sheet ratio					
Current ratio (x)	1.1	3.1	3.8	5.0	6.7
Receivable turnover days	42	36	34	34	45
Inventory turnover days	55	53	50	51	50
Payable turnover days	109	101	100	100	100
Net debt / total equity (%)	68.7	31.6	Net cash	Net cash	Net cash
Profitability (%)					
ROA	(9.4)	6.9	37.6	29.7	23.2
ROE	(18.3)	13.9	59.7	39.0	29.1
Per share data					
EPS (A\$)	-0.79	0.60	3.44	2.88	2.46
BVPS (A\$)	3.93	4.65	6.86	7.90	9.01
DPS (A\$)	0.00	0.70	1.72	1.44	1.23

Source: Company data, CMBIGM estimates

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