

Yancoal Australia (3668 HK)

Confirmation of price cap and volume to remove overhang

Yancoal confirmed this morning that a coal price cap advised by the New South Wales (NSW) Government will be effective for 15 months (1 Apr 2023 to 30 Jun 2024). Yancoal is compelled to make available up to 310k tonnes of coal per quarter to domestic power plants. We estimate this will translate into 3.0%/1.7% pretax earnings impact in 2023E/24E, which we think is not significant. Given that the policy of price cap has been in discussion for a while, we believe the confirmation of volume will help remove the overhang. We have left our earnings forecast unchanged as we are awaiting the full set of financial results on 27 Feb. Maintain **BUY** with NPV-based TP of HK\$53.

- What is new? Volume sold at price cap confirmed.** Back in mid-Jan, NSW Government introduced a policy to demand thermal coal miners to set aside as much as 10% of their output for domestic users at a price cap of A\$125/t. Such intervention aimed to avoid shortage in the domestic coal market. Yancoal was advised by the NSW Government about the price cap and coal reservation policy. Over weeks of discussion, Yancoal confirmed that 310k tonnes of coal (5,500kCal) per quarter will be set aside for domestic power plants at the aforementioned price cap.
- We estimate pretax earnings impact of 3.0%/1.7% in 2023E/24E.** The price cap of A\$125/t implies a reduction of A\$175/t and A\$125/t from our current ASP assumption of A\$300/t and A\$250/t, respectively, in 2023E and 2024E. Given the effective period from 1 Apr 2023 to 30 June 2024, the volume to be sold based on price cap will be ~0.93mn tonnes / 0.62mn tonnes in 2023E/24E. Such volume multiplied by the price difference will result in A\$163mn / A\$78mn of pretax profit reduction, implying 3.0%/1.7% of our current pretax profit forecast. Our estimates do not include any potential increase in logistic expense arising from the domestic sales.
- Post-results NDR on 1 Mar.** CMBI will arrange post-results NDR in Hong Kong on 1 Mar. Please contact your sales representative for details.
- 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)	n/a	3.5	1.0	1.2	1.4
PE (x)	n/a	8.6	1.7	2.1	2.4
PB (x)	1.4	1.1	0.9	0.8	0.7
Yield (%)	0.0	9.6	20.1	16.8	14.3
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	+76%
Current Price	HK\$30.10

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Stock Data

Mkt Cap (HK\$ mn)	39,745
Avg 3 mths t/o (HK\$ mn)	54.4
52w High/Low (HK\$)	47.26/16.87
Total Issued Shares (mn)	1,320

Source: Bloomberg

Shareholding Structure

Yankuang Energy	62.26%
China Cinda AM	13.74%
Others	24.00%

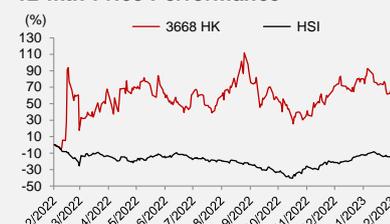
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-7.9%	-3.8%
3-mth	22.2%	7.7%
6-mth	4.5%	0.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: ShineWing Australia

Related Reports

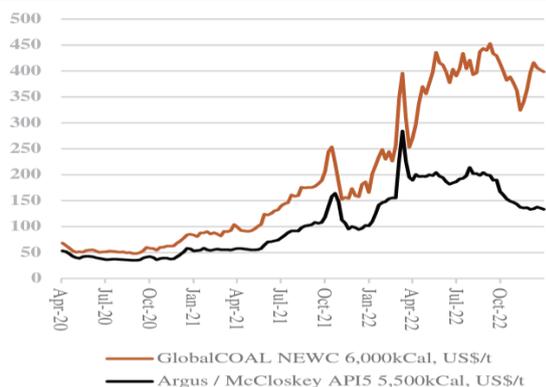
- Yancoal Australia (3668 HK) – Thermal ASP in 4Q continued to beat benchmark – 20 Jan 2023
- Yancoal Australia (3668 HK) – 3Q thermal coal ASP way above benchmark; a positive surprise - 21 Oct 2022
- Yancoal Australia (3668 HK) - Further risk reduction after prepayment of US\$1bn debts – 3 Oct 2022

Figure 1: 4Q22 operating statistics

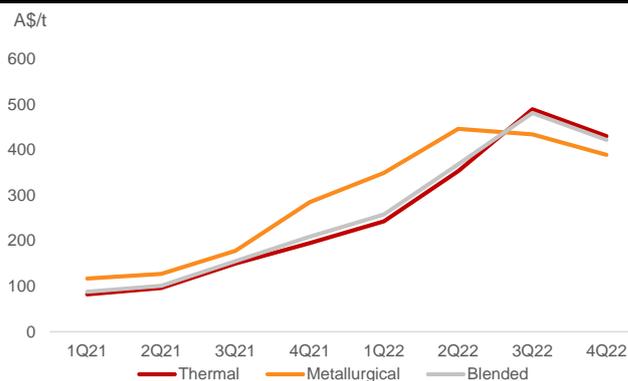
	1Q21	1Q22	Chg (YoY)	2Q21	2Q22	Chg (YoY)	3Q21	3Q22	Chg (YoY)	4Q21	4Q22	Chg (YoY)
Marketable coal production (mn tonnes)												
(100 % equity basis)												
Mines												
HVO	2.6	2.7	3.8%	2.5	2.9	16.0%	2.9	2.4	-17.2%	2.6	1.6	-38.5%
Mount Thorley Warkworth (MTW)	2.7	2	-25.9%	2.3	1.7	-26.1%	3.2	2.1	-34.4%	3	2.3	-23.3%
Moolarben	4.1	4.3	4.9%	5.1	4.1	-19.6%	4.6	3.4	-26.1%	4.6	3.1	-32.6%
Stratford Duralie	0.1	0.2	100.0%	0.2	0.1	-50.0%	0.2	0.2	0.0%	0.3	0.2	-33.3%
Yarrabee	0.8	0.5	-37.5%	0.4	0.5	25.0%	0.7	0.5	-28.6%	0.7	0.6	-14.3%
Middlemount	0.9	0.8	-11.1%	0.9	0.6	-33.3%	0.9	0.7	-22.2%	0.9	0.5	-44.4%
Ashton	0.4	0.2	-50.0%	0.2	0.2	0.0%	0.4	0.3	-25.0%	0.2	0.2	0.0%
Total	11.6	10.7	-7.8%	11.6	10.1	-12.9%	12.9	9.6	-25.6%	12.3	8.5	-30.9%
Marketable coal production (mn tonnes)												
(Attributable basis)												
Total	8.7	8.1	-6.9%	8.8	7.4	-15.9%	9.9	7.3	-26.3%	9.3	6.6	-29.0%
Attributable sales volume (mn tonnes)												
Thermal	7.2	6.7	-6.9%	7.3	6.6	-9.6%	8.8	5.8	-34.1%	8.3	5.5	-33.6%
Metallurgical	1.4	1.1	-21.4%	1.3	1.3	0.0%	1.6	0.9	-43.8%	1.6	1.4	-10.6%
Total	8.6	7.8	-9.3%	8.6	7.9	-8.1%	10.4	6.7	-35.6%	9.9	6.9	-29.9%
ASP (A\$/tonne)												
Thermal	82	243	196.3%	96	353	267.7%	150	489	226.0%	195	430	120.5%
Metallurgical	117	349	198.3%	127	446	251.2%	178	434	143.8%	285	389	36.5%
Blended	88	258	193.2%	101	368	264.4%	155	481	210.3%	209	422	101.9%
Revenue (A\$ mn)												
Thermal	590	1,628	175.8%	701	2,330	232.4%	1,320	2,836	114.9%	1,619	2,369	46.4%
Metallurgical	164	384	134.4%	165	580	251.2%	285	391	37.1%	456	556	22.0%
Total ex-mine coal revenue	754	2,012	166.8%	866	2,910	236.0%	1,605	3,227	101.1%	2,075	2,926	41.0%

Note: Equity-accounting for Middlemount

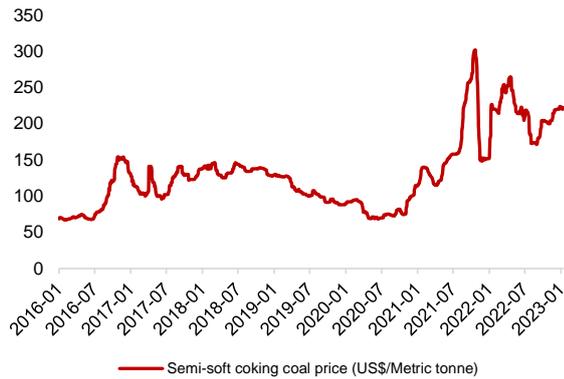
Source: Company data, CMBIGM estimates

Figure 2: Thermal pricing benchmarks

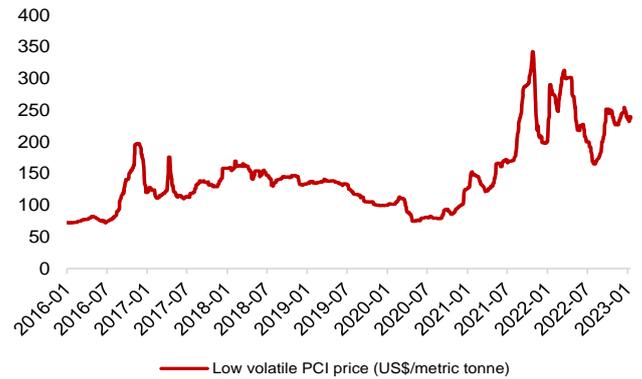
Source: Company, Argus/McCloskey, GlobalCOAL, CMBIGM

Figure 3: Yancoal quarterly ASP trend

Source: Company, CMBIGM

Figure 4: Seaborne Semi-soft Coking Coal (SSCC) price


Source: Wind, CMBIGM

Figure 5: Seaborne pulverised coal injection (PCI) price


Source: Wind, CMBIGM

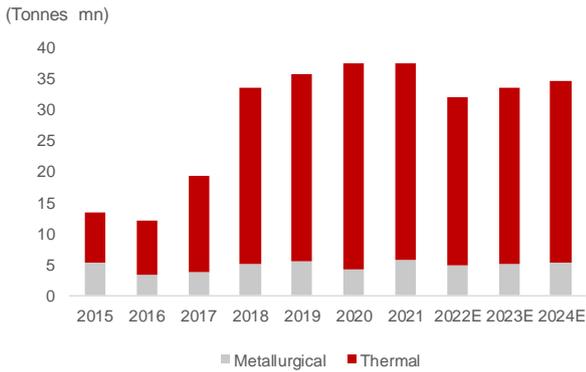
Figure 6: Key operating assumptions

	2017	2018	2019	2020	2021	2022E	2023E	2024E
Marketable coal production (mn tonnes)								
(100 % equity basis)								
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 Durialie	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
Middlemount	3.9	3.8	2.7	2.9	3.7	2.8	2.7	2.7
Ashton	1.2	1.1	2.2	1.8	1.2	1.0	1.0	1.0
Total	47.7	49.9	52.1	51.8	48.5	42.6	44.3	46.2
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%	45.2%	-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%

Note: Equity-accounting for Middlemount

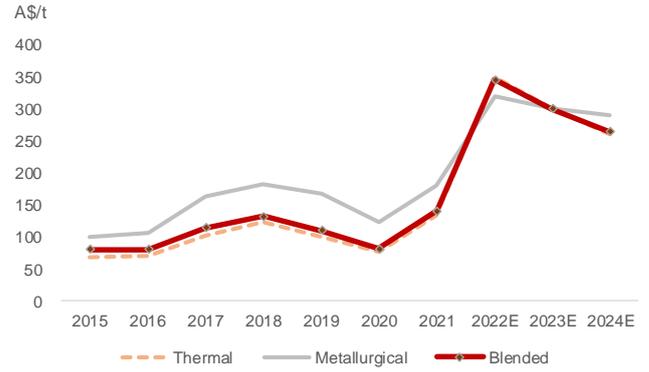
Source: Company data, CMBIGM estimates

Figure 7: YAL's sales volume projection



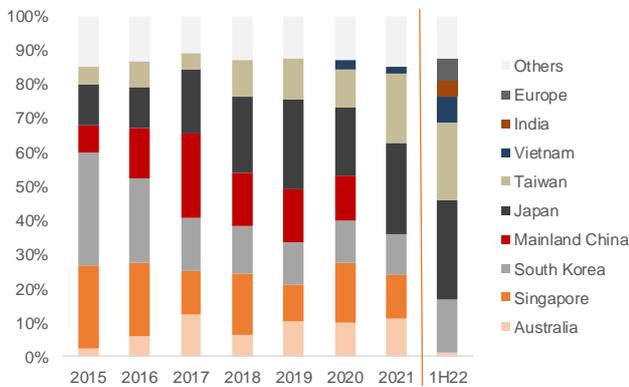
Source: Company data, CMBIGM estimates

Figure 8: YAL's ASP assumptions



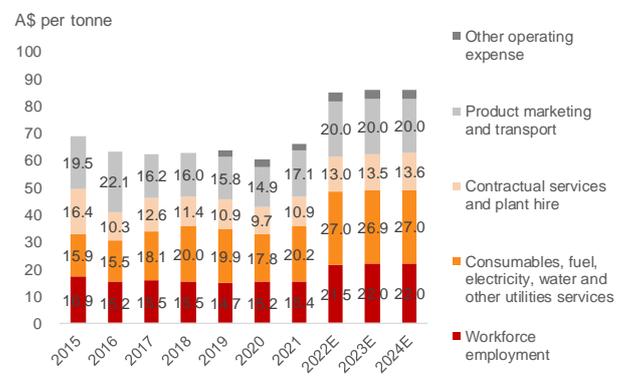
Source: Company data, CMBIGM estimates

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

Valuation

Maintain BUY with TP of HK\$53. 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 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 11: 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	n/a	n/a	243.1	(14.1)	(13.2)
EBIT	n/a	n/a	397.7	(16.0)	(14.8)
Net profit	n/a	n/a	474.1	(16.3)	(14.6)
Core net profit	n/a	n/a	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

Disclosures & Disclaimers

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