

Yancoal Australia (3668 HK)

3Q thermal coal ASP way above benchmark; a positive surprise

We are surprised that Yancoal achieved thermal coal ASP growth of 226% YoY (39% QoQ) in 3Q22, which is way above the API5 price (the major benchmark of 5500kCal; 118% YoY; 6% QoQ). This suggests good management execution. Yancoal maintains the full year saleable production guidance of 31-33mn tonnes and unit cash cost of A\$84-89/t (excluding royalties). While the volume target is challenging, we expect it will be more than offset by a strong coal price in 4Q22E. We expect the solid balance sheet and strong free cash flow will offer room for potential dividend upside. Reiterate **BUY** and NPV-based TP of HK\$53. The stock is attractively trading at 1.5x 2022E P/E or 23% yield (net of dividend tax).

- **ASP above expectations in 3Q22.** Thermal ASP surged 226% YoY (39% QoQ) to A\$489/t in 3Q. This is much higher than the average price of API5 (US\$195 or A\$286). Based on our understanding, the higher ASP versus benchmark was driven by good timing of sales, higher volume sold on short term basis and roll over of long dated contracts. Metallurgical ASP increased 144% YoY to A\$434/t. The blended ASP surged 210% YoY (31% QoQ) to A\$481/t.
- **Production volume affected by rain disruptions and labour shortage.** Attributable sales volume of thermal coal / metallurgical coal dropped 34%/44% YoY to 5.8mn/0.9 tonnes. In 9M22, the total attributable sales volume was 22.4mn tonnes. This suggests that Yancoal has to deliver 8.6-10.6mn tonnes in 4Q22E in order to achieve the full year target of 31-33mn tonnes.
- **Solid balance sheet.** As at end-Sep, Yancoal had a gross cash balance of A\$3.4bn, after paying A\$696mn interim dividend and repaying A\$1.2bn of debts. In Oct, Yancoal completed the US\$1bn (~A\$1.56bn) of debt repayment, which took the debt level down to <US\$800mn (~A\$1.27bn).
- **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	3.0	0.9	1.0	1.2
PE (x)	n/a	7.5	1.5	1.8	2.1
PB (x)	1.2	1.0	0.8	0.7	0.6
Yield (%)	0.0	11.0	23.0	19.3	16.5
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	+102%
Current Price	HK\$26.20

Coal Mining

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Stock Data

Mkt Cap (HK\$ mn)	34,596
Avg 3 mths t/o (HK\$ mn)	114
52w High/Low (HK\$)	47.26/15.21
Total Issued Shares (mn)	1,320
Source: Bloomberg	

Shareholding Structure

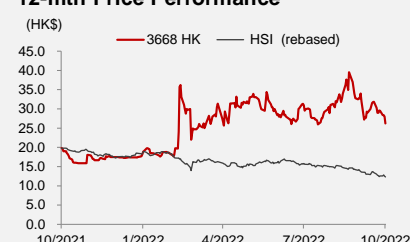
Yankuang Energy	62.26%
China Cinda AM	13.74%
Others	23.99%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-13.8%	-3.1%
3-mth	-10.5%	11.9%
6-mth	1.8%	29.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: ShineWing Australia

Related Reports

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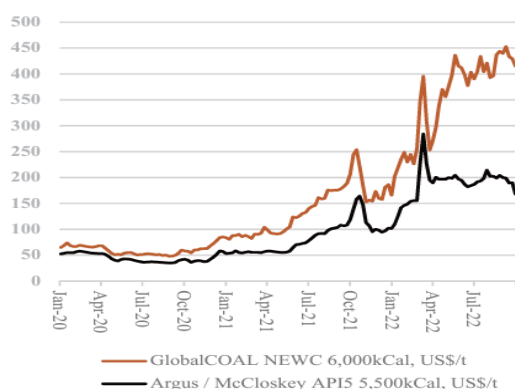
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Figure 1: 3Q22 operating statistics

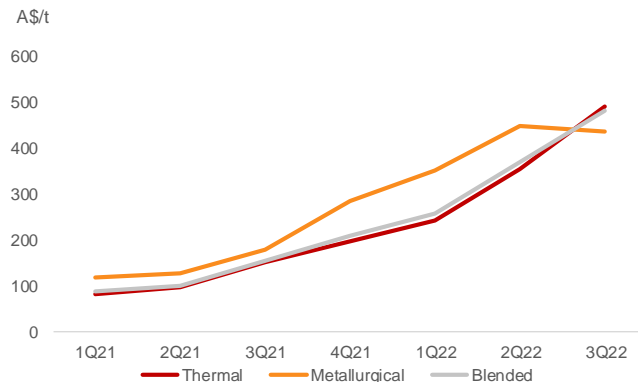
	1Q21	1Q22	Chg (YoY)	2Q21	2Q22	Chg (YoY)	3Q21	3Q22	Chg (YoY)
Marketable coal production (mn tonnes) (100 % equity basis)									
Mines									
HVO	2.6	2.7	3.8%	2.5	2.9	16.0%	2.9	2.4	-17.2%
Mount Thorley Warkworth (MTW)	2.7	2	-25.9%	2.3	1.7	-26.1%	3.2	2.1	-34.4%
Moolarben	4.1	4.3	4.9%	5.1	4.1	-19.6%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

Note: Equity-accounting for Middlemount

Source: Company data, CMBIGM estimates

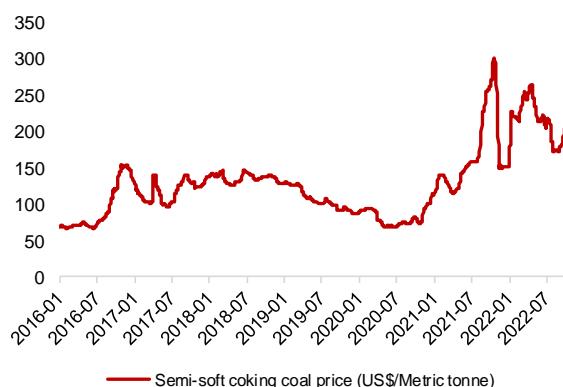
Figure 2: Thermal pricing benchmarks

Source: Company, Argus/McCloskey, GlobalCOAL, CMBIGM

Figure 3: Yancoal quarterly ASP trend

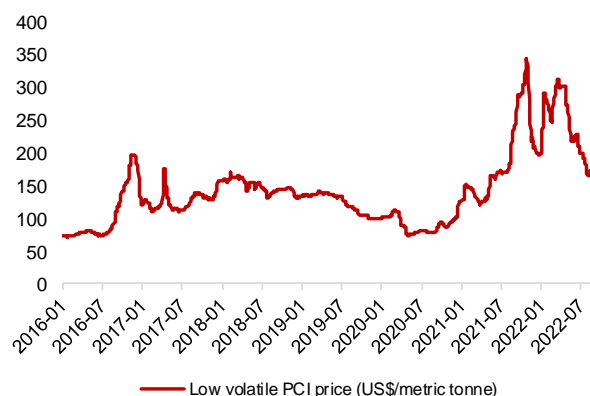
Source: Company, CMBIGM

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



Source: Wind, CMBIGM

Figure 5: Seaborne pulverised coal injection (PCI) price



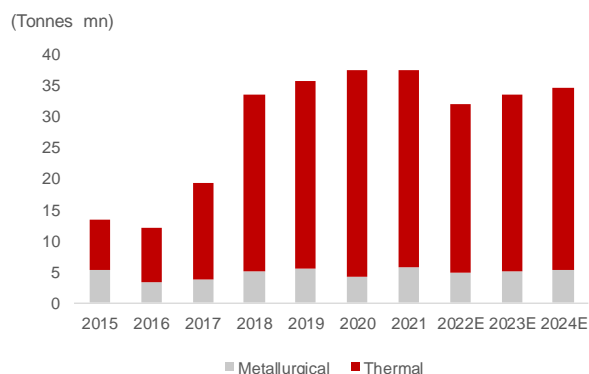
Source: Wind, CMBIGM

Figure 6: Key operating assumptions

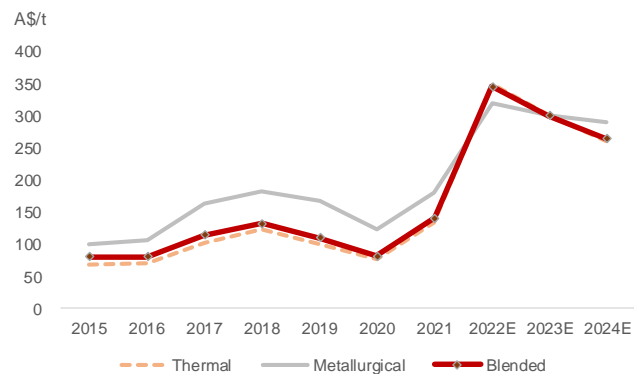
	2017	2018	2019	2020	2021	2022E	2023E	2024E
Marketable coal production (mn tonnes)								
(100 % equity basis)								
Mines								
HVO	14.8	13.3	13.7	12.0	10.6	11.5	12.0	13.0
Mount Thorley Warkworth (MTW)	11.8	12.1	12.1	11.9	11.2	7.7	8.0	9.0
Moolarben	12.4	16.5	17.8	19.7	18.4	17.0	18.0	18.5
Stratford 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
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

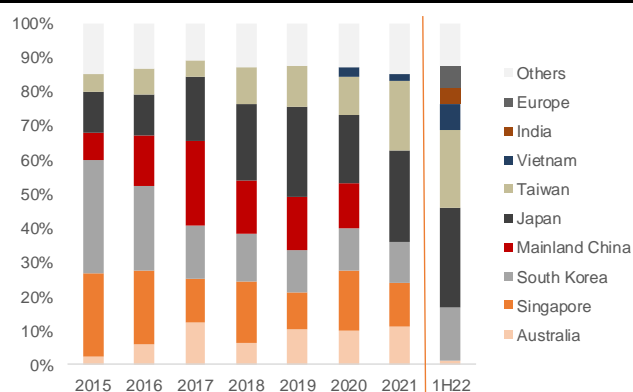
Source: Company data, CMBIGM estimates

Figure 7: YAL's sales volume projection

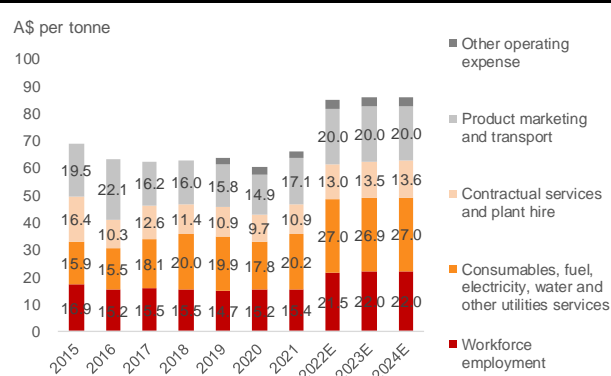
Source: Company data, CMBIGM estimates

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

Reiterate BUY with TP of HK\$53. We value YAL by employing net present value (NPV). 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 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	(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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