

Yancoal Australia (3668 HK)

Net profit +3.5x YoY in 2022 but below expectations; Attractive yield of 20%

YAL's reported net profit in 2022 came in A\$3.6bn, up 3.5x YoY but still 20% below our forecast. The miss was due to a higher-than-expected unit cost and a one-off unwind of discount recognised (A\$279mn) due to early repayment of debt. Stripping out the one-off item, the net profit would be A\$3.87bn (only 14% below our forecast). Going forward, we expect recovery of volume growth and rebound of coal price will serve as key drivers to mitigate the impact of high unit cost. We lower our earnings forecast in 2023E/24E by 6%/3%, largely due to high unit cost assumptions. Our NPV-based TP is revised down to HK\$48 accordingly (WACC: 6.6%). The current yield of 20% should help limit the downside of share price. Maintain **BUY**.

- **2022 results highlights.** Revenue grew 95% YoY to A\$10.5bn, driven by 1.7x YoY increase in blended coal price (to A\$378/t). This boosted EBIT up 3.1x YoY to A\$5.4bn. Finance expense increased 77% YoY to A\$459mn. YAL explained that it included a non-cash interest expense (A\$279mn) relating the unwind of the discount recognised on the US\$775 mn related party loan provided by Shandong Energy in 2020. Given that the loan was fully repaid during 2022, it resulted in all the remaining discount being expensed in 2022. Net profit surged 3.5x YoY to A\$3.6bn. In 2H22, net profit grew 1x YoY (6% HoH) to A\$1.85bn. As at end-2022, YAL had net cash of A\$2bn.
- **Higher-than-expected increase in unit cost.** We calculate that the unit cash cost (excluding royalties) increased 49% YoY to A\$98/t in 2022. This implies that the unit cost surged 74% YoY (33% HoH) to A\$113/t in 2H22. The cost was driven by lower volume (operating deleveraging), advancing mine parameters, spending on production recovery program and external cost inflation (diesel, explosives & electricity).
- **Strong cash flow to support dividend payment.** YAL generated A\$6.5bn of operating cash flow, thanks to good working capital management. YAL declared a fully franked final dividend of A\$924mn (A\$0.7/share). Including the interim dividend, the full year pay-out ratio reached 45%.
- **2023 guidance: Attributable saleable production:** 31-36mn tonnes, (up 5-22% YoY); **Operating cash cost:** A\$92-102/t (expect 1H>2H23); **Capex:** A\$750-900mn (up from A\$544mn in 2022).
- **Risk factors:** (1) decline in coal price; (2) further increase in unit cost; (3) unfavourable weather that affects production.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22A	FY23E	FY24E
Revenue (AUD mn)	3,473	5,403	10,548	10,386	9,576
YoY growth (%)	(22.1)	55.6	95.2	(1.5)	(7.8)
Net profit (AUD mn)	(1,040.2)	790.6	3,587.0	3,576.5	3,143.4
EPS (Reported) (AUD)	(0.79)	0.60	2.72	2.71	2.38
YoY growth (%)	na	na	355.0	(0.3)	(12.1)
Consensus EPS (AUD cents)	na	na	0.00	0.00	0.00
P/E (x)	na	4.2	2.3	2.3	2.6
P/B (x)	0.6	0.5	1.0	0.8	0.7
Yield (%)	0.0	28.2	20.0	22.1	19.4
ROE (%)	(18.3)	13.9	50.6	40.0	29.6
Net gearing (%)	68.7	31.6	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$48.00**

(Previous TP) **HK\$53.00**

Up/Downside **48%**

Current Price **HK\$32.35**

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Stock Data

Mkt Cap (HK\$ mn)	42,716.2
Avg 3 mths t/o (HK\$ mn)	31.6
52w High/Low (HK\$)	39.55/19.68
Total Issued Shares (mn)	1320.4

Source: FactSet

Shareholding Structure

Yankuang Energy	62.3%
China Cinda AM	13.7%

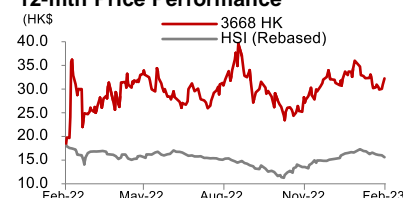
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-10.1%	-1.0%
3-mth	18.9%	5.0%
6-mth	6.4%	2.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: ShineWing Australia

Related Reports

1. Yancoal Australia (3668 HK) – Confirmation of price cap and volume to remove overhang – 14 Feb 2023
2. Yancoal Australia (3668 HK) – Thermal ASP in 4Q continued to beat benchmark – 20 Jan 2023
3. Yancoal Australia (3668 HK) – 3Q thermal coal ASP way above benchmark; a positive surprise – 21 Oct 2022
4. Yancoal Australia (3668 HK) – Further risk reduction after prepayment of US\$1bn debts – 3 Oct 2022

Figure 1: 2022 results highlights

YE Dec 31(A\$ mn)	2021	2022	Change (YoY)	1H21	1H22	Change (YoY)	2H21	2H22	Change (YoY)
Revenue									
Sales of coal	5,409	10,536	94.8%	1,736	4,799	176.4%	3,673	5,737	56.2%
Sea freight	79	87	10.1%	37	38	2.7%	42	49	16.7%
Fair value of losses recycled from hedge reserve	(153)	(239)	56.2%	(28)	(170)	507.1%	(125)	(69)	-44.8%
Sub-total	5,335	10,384	94.6%	1,745	4,667	167.4%	3,590	5,717	59.2%
Other revenue									
Interest income	21	103	390.5%	11	67	509.1%	10	36	260.0%
Mining services fees	0	0		0	0		0	0	
Royalty revenue & other	47	61	29.8%	19	42	121.1%	28	19	-32.1%
Total (other revenue)	68	164	141.2%	30	109	263.3%	38	55	44.7%
Total revenue	5,403	10,548	95.2%	1,775	4,776	169.1%	3,628	5,772	59.1%
Other income/(loss)	(36)	(132)	266.7%	26	97	273.1%	(62)	(229)	269.4%
Change in inventories of finished goods & work in progress	(60)	35	n/a	(19)	(22)	15.8%	(41)	57	n/a
Raw materials and consumables used	(757)	(969)	28.0%	(360)	(428)	18.9%	(397)	(541)	36.3%
Employee benefits	(578)	(662)	14.5%	(284)	(329)	15.8%	(294)	(333)	13.3%
Transportation	(642)	(678)	5.6%	(289)	(321)	11.1%	(353)	(357)	1.1%
Contractual services and plant hire	(410)	(457)	11.5%	(180)	(204)	13.3%	(230)	(253)	10.0%
Government royalties	(421)	(967)	129.7%	(123)	(406)	230.1%	(298)	(561)	88.3%
Coal purchase	(162)	(183)	13.0%	(97)	(73)	-24.7%	(65)	(110)	69.2%
Other operating expenses	(202)	(297)	47.0%	(94)	(161)	71.3%	(108)	(136)	25.9%
Depreciation and amortisation	(831)	(834)	0.4%	(397)	(420)	5.8%	(434)	(414)	-4.6%
EBIT	1,305	5,405	314.3%	(42)	2,509	n/a	1,347	2,896	115.1%
Finance expenses	(259)	(459)	77.2%	(121)	(126)	4.1%	(138)	(333)	141.3%
Share of profit of JV and associates	57	146	156.1%	(14)	72	n/a	71	74	4.2%
Pretax profit	1,103	5,092	361.8%	(177)	2,455	n/a	1,280	2,637	106.1%
Income tax	(312)	(1,505)	382.4%	48	(717)	n/a	(360)	(788)	118.9%
After tax profit	791	3,587	353.7%	(129)	1,738	n/a	920	1,849	101.1%
MI	0	0		0	0		0	0	
Net profit	791	3,587	353.7%	(129)	1,738	n/a	920	1,849	101.1%
D&A	831	834	0.4%	397	420	5.8%	434	414	-4.6%
EBITDA	2,136	6,239	192.1%	355	2,929	725.1%	1,781	3,310	85.9%

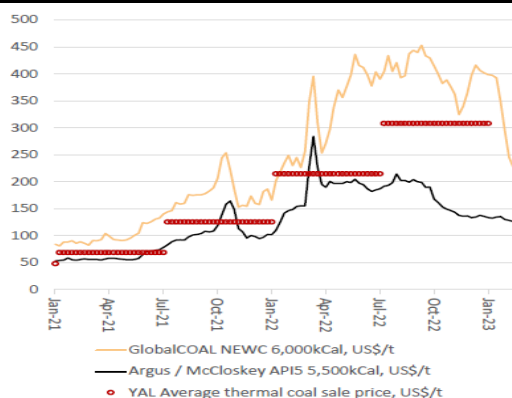
Source: Company data, CMBIGM estimates

Figure 2: Quarterly operating statistics

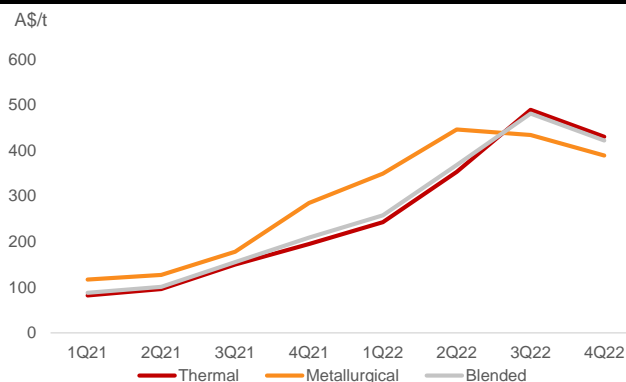
	1Q21	1Q22	Chg (YoY)	2Q21	2Q22	Chg (YoY)	3Q21	3Q22	Chg (YoY)	4Q21	4Q22	Chg (YoY)
Marketable coal production (mn tonnes)												
(100 % equity basis)												
Mines												
HVO	2.6	2.7	3.8%	2.5	2.9	16.0%	2.9	2.4	-17.2%	2.6	1.6	-38.5%
Mount Thorley Warkworth (MTW)	2.7	2	-25.9%	2.3	1.7	-26.1%	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%

Source: Company data, CMBIGM estimates

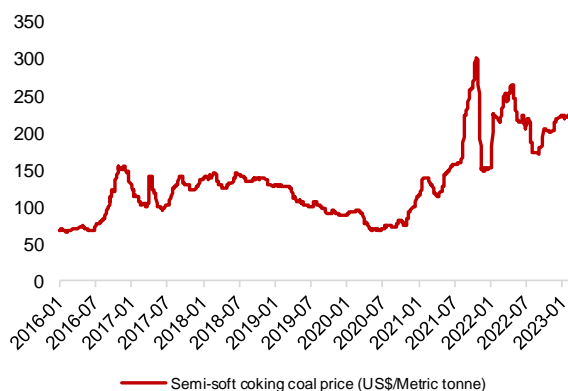
Note: Equity-accounting for Middlemount

Figure 3: Thermal pricing benchmarks

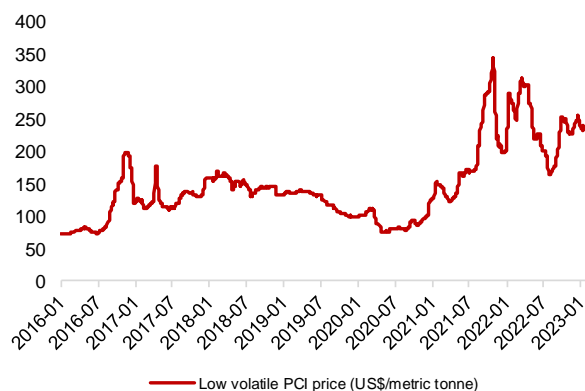
Source: Company, Argus/McCloskey, GlobalCOAL, CMBIGM

Figure 4: Yancoal quarterly ASP trend

Source: Company, CMBIGM

Figure 5: Seaborne Semi-soft Coking Coal (SSCC) price

Source: Wind, CMBIGM

Figure 6: Seaborne pulverised coal injection (PCI) price

Source: Wind, CMBIGM

Figure 7: Change in key operating assumptions and earnings forecast

	Old		New		Change	
	2023E	2024E	2023E	2024E	2023E	2024E
Marketable coal production (mn tonnes) (100 % equity basis)						
Consolidated mines						
HVO	12	13	12	13	0.0%	0.0%
Mount Thorley Warkworth (MTW)	8	9	8	9	0.0%	0.0%
Moolarben	18	19	18	19	0.0%	0.0%
Stratford Duralie	1	0	1	0	0.0%	n/a
Yarrabee	2	2	2	2	0.0%	0.0%
Middlemount	3	3	3	3	0.0%	0.0%
Ashton	1	1	1	1	0.0%	0.0%
Total	44	46	44	46	0.0%	0.0%
Sales volume (mn tonnes)						
Thermal	28	29	28	29	-2.4%	-2.4%
Metallurgical	5	5	6	6	13.3%	13.3%
Total	33	35	33	35	0.0%	0.0%
ASP (A\$/t)						
Thermal	300	260	300	260	0.0%	0.0%
Metallurgical	300	290	300	290	0.0%	0.0%
Blended	300	265	300	265	0.0%	0.2%
Cash operating cost breakdown (A\$/tonne)						
Unit cash operating cost	(110)	(107)	(125)	(115)	14.0%	7.0%
Unit cash operating cost (excluding government royalties)	(86)	(86)	(97)	(90)	12.7%	4.1%
Unit cash margin (excluding government royalties)	214	179	203	176	-5.1%	-1.6%
Net profit (A\$ mn)	3,800	3,245	3,576	3,143	-5.9%	-3.1%

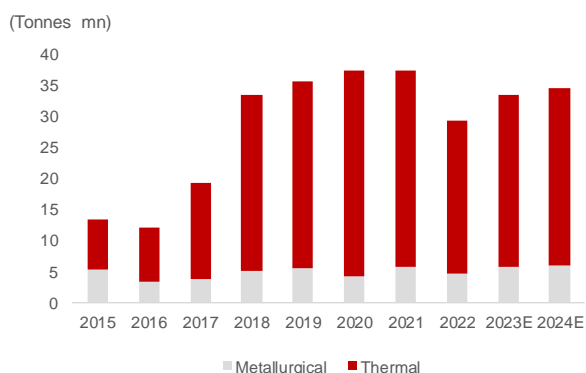
Source: Company data, CMBIGM estimates

Figure 8: Key operating assumptions

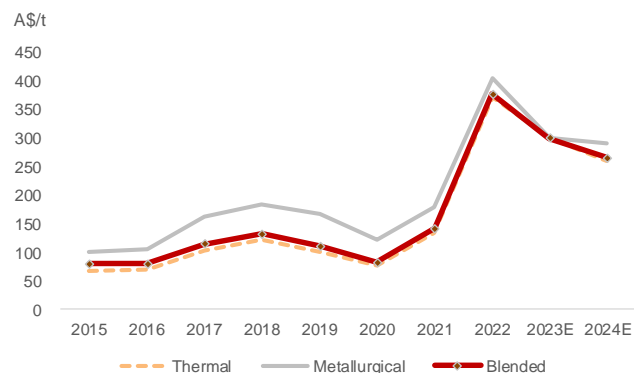
	2017	2018	2019	2020	2021	2022	2023E	2024E
Marketable coal production (mn tonnes) (100 % equity basis)								
Mines								
HVO	14.8	13.3	13.7	12.0	10.6	9.6	12.0	13.0
Mount Thorley Warkworth (MTW)	11.8	12.1	12.1	11.9	11.2	8.1	8.0	9.0
Moolarben	12.4	16.5	17.8	19.7	18.4	14.9	18.0	18.5
Stratford Duralie	0.7	0.5	0.8	0.5	0.8	0.7	0.6	0.0
Yarrabee	2.9	2.6	2.8	3.0	2.6	2.1	2.0	2.0
Middlemount	3.9	3.8	2.7	2.9	3.7	2.6	2.7	2.7
Ashton	1.2	1.1	2.2	1.8	1.2	0.9	1.0	1.0
Total	47.7	49.9	52.1	51.8	48.5	38.9	44.3	46.2
Attributable sales volume (mn tonnes)								
Thermal	15.5	28.4	30.1	33.2	31.7	24.6	27.8	28.8
Metallurgical	3.8	5.1	5.5	4.2	5.8	4.7	5.7	5.9
Total	19.3	33.5	35.6	37.4	37.5	29.3	33.5	34.7
Growth (YoY)								
Thermal	76.1%	83.2%	6.0%	10.3%	-4.5%	-22.4%	12.9%	3.6%
Metallurgical	15.2%	34.2%	7.8%	-23.6%	38.1%	-19.0%	21.0%	3.6%
Average	59.5%	73.6%	6.3%	5.1%	0.3%	-21.9%	14.2%	3.6%
ASP (A\$/tonne)								
Thermal	102	123	100	76	134	372	300	260
Metallurgical	163	183	167	123	180	406	300	290
Blended	114	132	110	82	141	377	300	265
ASP growth (YoY)								
Thermal	45.8%	20.0%	-18.3%	-23.8%	75.4%	177.4%	-19.2%	-13.3%
Metallurgical	53.6%	12.2%	-8.8%	-26.3%	46.5%	125.5%	-26.1%	-3.3%
Blended	42.9%	15.4%	-16.2%	-26.1%	72.9%	167.3%	-20.4%	-11.6%
Cash operating cost breakdown (A\$/tonne)								
Unit cash operating cost	-71	-73	-73	-67	-77	-131	-125	-115
Change (YoY)	3.5%	2.6%	-0.9%	-8.2%	16.2%	69.6%	-4.6%	-8.3%
Unit cash operating cost (excluding government royalties)	-62	-63	-64	-60	-66	-98	-97	-90
Change (YoY)	-1.1%	0.7%	1.6%	-5.4%	9.5%	48.5%	-1.5%	-7.4%

Source: Company data, CMBIGM estimates

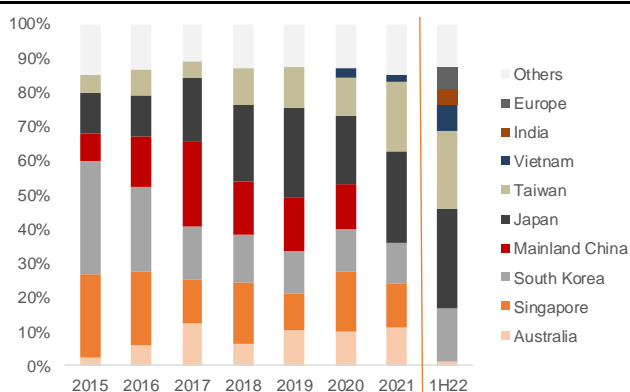
Note: Equity-accounting for Middlemount

Figure 9: YAL's sales volume projection

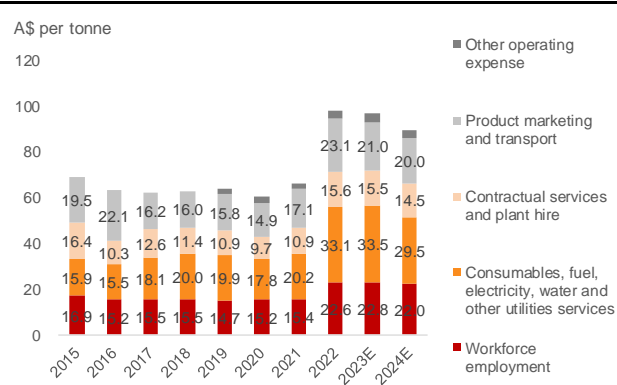
Source: Company data, CMBIGM estimates

Figure 10: YAL's ASP assumptions

Source: Company data, CMBIGM estimates

Figure 11: YAL's regional revenue breakdown

Source: Company data, CMBIGM estimates

Figure 12: YAL's unit cash cost breakdown

Note: Excluding government royalties

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of HK\$48. 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 TP is revised down from HK\$53, as a result of lower earnings and slightly higher WACC of 6.6% (previously 5.9%) after fine-tuning the assumptions.

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 13: TP sensitivity

WACC	LT coal thermal coal price (A\$/t)				
	80	100	120	140	160
4.6%	20	35	50	65	80
5.6%	22	36	49	63	76
6.6%	24	36	48	61	73
7.6%	25	36	47	59	70
8.6%	26	36	47	57	68

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

WACC	LT metallurgical coal price (A\$/t)				
	120	140	160	180	200
4.6%	45	47	50	53	56
5.6%	44	47	49	52	54
6.6%	44	46	48	51	53
7.6%	43	45	47	50	52
8.6%	43	45	47	49	50

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

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022A	2023E	2024E
YE 31 Dec (AUD mn)						
Revenue	4,460	3,473	5,403	10,548	10,386	9,576
Royalties and other related payments	(310)	(232)	(421)	(967)	(952)	(878)
Staff costs	(525)	(568)	(578)	(662)	(763)	(763)
Others	(2,095)	(2,059)	(2,232)	(2,548)	(2,844)	(2,682)
Other income	101	(703)	(36)	(132)	52	48
EBITDA	1,631	(89)	2,136	6,239	5,879	5,302
Depreciation	(607)	(804)	(831)	(834)	(859)	(864)
EBIT	1,024	(893)	1,305	5,405	5,020	4,437
Interest expense	(233)	(191)	(259)	(459)	(24)	(9)
Others	(24)	(59)	57	146	114	63
Pre-tax profit	767	(1,143)	1,103	5,092	5,109	4,491
Income tax	(48)	103	(312)	(1,505)	(1,533)	(1,347)
After tax profit	719	(1,040)	791	3,587	3,576	3,143
Minority interest	0	0	0	0	0	0
Net profit	719	(1,040)	791	3,587	3,576	3,143

BALANCE SHEET	2019A	2020A	2021A	2022A	2023E	2024E
YE 31 Dec (AUD mn)						
Current assets	1,773	1,343	2,531	3,810	5,178	6,596
Cash & equivalents	962	637	1,495	2,699	4,049	5,640
Account receivables	453	344	707	736	744	621
Inventories	261	312	264	330	335	294
Other current assets	97	50	65	45	51	41
Non-current assets	9,320	9,712	9,269	8,991	9,047	8,930
PP&E	2,940	3,302	3,232	3,486	3,776	3,908
Right-of-use assets	4,602	5,581	5,149	4,642	4,326	4,033
Deferred income tax	0	0	0	0	0	0
Investment in JVs & assos	273	257	303	413	498	545
Intangibles	97	135	138	133	130	126
Other non-current assets	1,408	437	447	317	317	317
Total assets	11,093	11,055	11,800	12,801	14,225	15,525
Current liabilities	2,112	1,199	826	2,532	2,608	2,456
Short-term borrowings	1,267	496	66	48	48	48
Account payables	802	665	743	863	939	787
Other current liabilities	43	38	17	1,621	1,621	1,621
Non-current liabilities	2,818	4,663	4,828	2,239	1,739	1,739
Long-term borrowings	2,231	3,709	3,369	625	125	125
Other non-current liabilities	587	954	1,459	1,614	1,614	1,614
Total liabilities	4,930	5,862	5,654	4,771	4,347	4,195
Total shareholders equity	6,161	5,191	6,144	8,028	9,876	11,328
Minority interest	2	2	2	2	2	2
Total equity and liabilities	11,093	11,055	11,800	12,801	14,225	15,525

CASH FLOW	2019A	2020A	2021A	2022A	2023E	2024E
YE 31 Dec (AUD mn)						
Operating						
Profit before taxation	767	(1,143)	1,103	5,092	5,109	4,491
Depreciation & amortization	607	804	831	934	859	864
Tax paid	0	0	0	0	(1,533)	(1,347)
Change in working capital	28	25	(193)	80	59	21
Others	286	1,034	332	659	(233)	(245)
Net cash from operations	1,688	720	2,073	6,765	4,261	3,783
Investing						
Capital expenditure	(277)	(238)	(268)	(544)	(830)	(700)
Acquisition of subsidiaries/ investments	(42)	(204)	(100)	0	0	0
Others	18	(85)	69	287	172	208
Net cash from investing	(301)	(527)	(299)	(257)	(658)	(492)
Financing						
Dividend paid	(514)	(280)	0	(1,626)	(1,729)	(1,691)
Net borrowings	(698)	1	(494)	(1,320)	(500)	0
Proceeds from share issues	0	0	0	0	0	0
Others	(228)	(214)	(447)	(2,465)	(24)	(9)
Net cash from financing	(1,440)	(493)	(941)	(5,411)	(2,253)	(1,700)
Net change in cash						
Cash at the beginning of the year	1,031	962	637	1,495	2,699	4,049
Exchange difference	(16)	(25)	25	107	0	0
Cash at the end of the year	962	637	1,495	2,699	4,049	5,640
GROWTH	2019A	2020A	2021A	2022A	2023E	2024E
YE 31 Dec						
Revenue	(8.0%)	(22.1%)	55.6%	95.2%	(1.5%)	(7.8%)
EBITDA	(15.6%)	na	na	192.1%	(5.8%)	(9.8%)
EBIT	(27.4%)	na	na	314.3%	(7.1%)	(11.6%)
Net profit	(15.7%)	na	na	353.7%	(0.3%)	(12.1%)
PROFITABILITY	2019A	2020A	2021A	2022A	2023E	2024E
YE 31 Dec						
EBITDA margin	36.6%	(2.6%)	39.5%	59.1%	56.6%	55.4%
Return on equity (ROE)	12.0%	(18.3%)	13.9%	50.6%	40.0%	29.6%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022A	2023E	2024E
YE 31 Dec						
Net debt to equity (x)	0.4	0.7	0.3	(0.3)	(0.4)	(0.5)
Current ratio (x)	0.8	1.1	3.1	1.5	2.0	2.7
Receivable turnover days	41.1	41.9	35.5	25.0	26.0	26.0
Inventory turnover days	44.7	55.4	53.3	47.4	48.0	48.0
Payable turnover days	119.2	109.0	100.8	99.4	100.0	100.0
VALUATION	2019A	2020A	2021A	2022A	2023E	2024E
YE 31 Dec						
P/E	5.9	na	4.2	2.3	2.3	2.6
P/B	0.7	0.6	0.5	1.0	0.8	0.7
Div yield (%)	9.9	0.0	28.2	20.0	22.1	19.4

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

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