

# Yancoal Australia (3668 HK)

## Thermal ASP in 4Q continued to beat benchmark

Yancoal achieved thermal coal ASP of A\$430/t in 4Q22 (+121% YoY) which is higher than API5 price (the major benchmark of 5500kCal; +32% YoY). This is the second quarter that Yancoal successfully beat the benchmark through effective coal sales strategy. This strong ASP helped offset the weak attributable coal sales (-30% YoY) as a result of rain disruptions, taking the revenue up 41% YoY in 4Q, based on our calculation. On the cost side, while Yancoal's unit cash cost (excluding royalties) would likely be close to the high end of the guidance (A\$84-89/t) in 4Q22, we expect the potential sales volume recovery will help stabilize the unit cost in 2023E. We continue to believe Yancoal's solid balance sheet and strong free cash flow will offer room for potential dividend increase. We have left our earnings forecast unchanged as we are awaiting the full set of financial results in Feb. Reiterate **BUY** and NPV-based TP of HK\$53. The stock is attractively trading at 2.4x 2023E P/E or 18% yield (net of 30% dividend tax).

- **ASP remained strong in 4Q22. Thermal ASP** surged 121% YoY (-12% QoQ) to A\$430/t in 4Q22. Similar to 3Q, Yancoal's thermal ASP in 4Q was much higher than the average price of API5 (US\$141 or A\$214). The above-benchmark ASP was driven by the capacity to wash coal and the available of purchased coal for blending. **Metallurgical ASP** increased 37% YoY (-10% QoQ) to A\$389/t. The **blended ASP** surged 102% YoY (-12% QoQ) to A\$422/t.
- **Decline in production volume well expected.** Attributable sales volume of thermal coal / metallurgical coal dropped 34%/11% YoY to 5.5mn/1.4mn tonnes, due to extreme weather, pandemic disruptions and labour shortage. In 2022, the total attributable sales volume was 29.3mn tonnes, down 22% YoY.
- **Substantial debt reduction since Oct 2021.** As at end-2022, Yancoal had a gross cash balance of A\$2.7bn. Since Oct 2021, Yancoal has repaid US\$2.76bn (~A\$4bn) of debts.
- **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	4.0	1.1	1.3	1.5
PE (x)	n/a	9.8	1.9	2.4	2.8
PB (x)	1.6	1.3	1.0	0.9	0.8
Yield (%)	0.0	8.4	18.2	14.7	12.6
ROE (%)	-18.3	13.9	61.2	38.5	28.9
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	+54%
Current Price	HK\$34.35

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### Stock Data

Mkt Cap (HK\$ mn)	45,357
Avg 3 mths t/o (HK\$ mn)	29
52w High/Low (HK\$)	39.55/17.60
Total Issued Shares (mn)	1,320

Source: Bloomberg

### Shareholding Structure

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

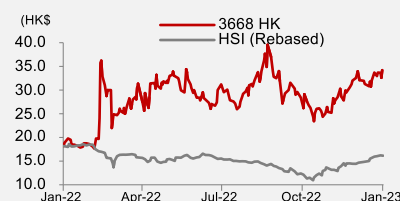
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	5.5%	-5.7%
3-mth	22.7%	-6.4%
6-mth	9.7%	4.7%

Source: Factset

### 12-mth Price Performance



Source: Factset

### Auditor: ShineWing Australia

### Related Reports

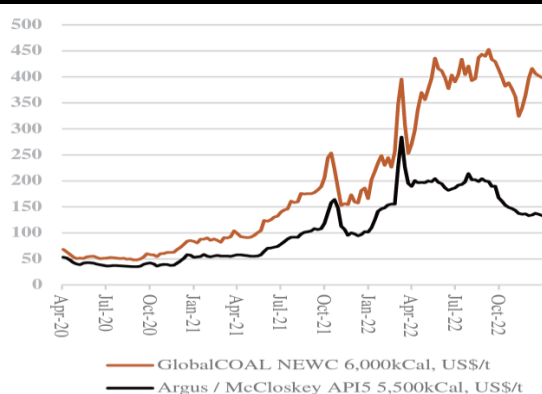
1. Yancoal Australia (3668 HK) – 3Q thermal coal ASP way above benchmark; a positive surprise - 21 Oct 2022
2. Yancoal Australia (3668 HK) - Further risk reduction after prepayment of US\$1bn debts – 3 Oct 2022
3. Yancoal Australia (3668 HK) - Scarcity value yet to be explored; Resume coverage with BUY – 19 Sep 2022

**Figure 1: 4Q22 operating statistics**

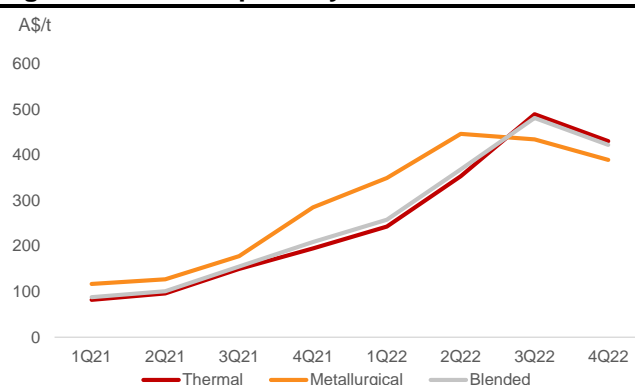
	1Q21	1Q22	Chg (YoY)	2Q21	2Q22	Chg (YoY)	3Q21	3Q22	Chg (YoY)	4Q21	4Q22	Chg (YoY)
<b>Marketable coal production (mn tonnes)</b>												
<b>(100 % equity basis)</b>												
<b>Mines</b>												
HVO	2.6	2.7	3.8%	2.5	2.9	16.0%	2.9	2.4	-17.2%	2.6	1.6	-38.5%
Mount Thorley Warkworth (MTW)	2.7	2	-25.9%	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%
<b>Total</b>	<b>11.6</b>	<b>10.7</b>	<b>-7.8%</b>	<b>11.6</b>	<b>10.1</b>	<b>-12.9%</b>	<b>12.9</b>	<b>9.6</b>	<b>-25.6%</b>	<b>12.3</b>	<b>8.5</b>	<b>-30.9%</b>
<b>Marketable coal production (mn tonnes)</b>												
<b>(Attributable basis)</b>												
<b>Total</b>	<b>8.7</b>	<b>8.1</b>	<b>-6.9%</b>	<b>8.8</b>	<b>7.4</b>	<b>-15.9%</b>	<b>9.9</b>	<b>7.3</b>	<b>-26.3%</b>	<b>9.3</b>	<b>6.6</b>	<b>-29.0%</b>
<b>Attributable sales volume (mn tonnes)</b>												
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%
<b>Total</b>	<b>8.6</b>	<b>7.8</b>	<b>-9.3%</b>	<b>8.6</b>	<b>7.9</b>	<b>-8.1%</b>	<b>10.4</b>	<b>6.7</b>	<b>-35.6%</b>	<b>9.9</b>	<b>6.9</b>	<b>-29.9%</b>
<b>ASP (A\$/tonne)</b>												
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%
<b>Blended</b>	<b>88</b>	<b>258</b>	<b>193.2%</b>	<b>101</b>	<b>368</b>	<b>264.4%</b>	<b>155</b>	<b>481</b>	<b>210.3%</b>	<b>209</b>	<b>422</b>	<b>101.9%</b>
<b>Revenue (A\$ mn)</b>												
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%
<b>Total ex-mine coal revenue</b>	<b>754</b>	<b>2,012</b>	<b>166.8%</b>	<b>866</b>	<b>2,910</b>	<b>236.0%</b>	<b>1,605</b>	<b>3,227</b>	<b>101.1%</b>	<b>2,075</b>	<b>2,926</b>	<b>41.0%</b>

Note: Equity-accounting for Middlemount

Source: Company data, CMBIGM estimates

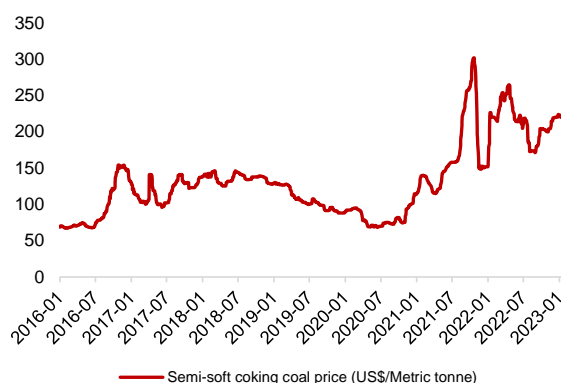
**Figure 2: Thermal pricing benchmarks**

Source: Company, Argus/McCloskey, GlobalCOAL, CMBIGM

**Figure 3: Yancoal quarterly ASP trend**

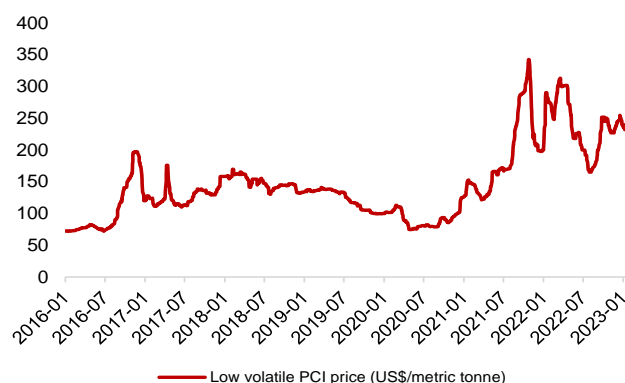
Source: Company, CMBIGM

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



Source: Wind, CMBIGM

Figure 5: Seaborne pulverised coal injection (PCI) price



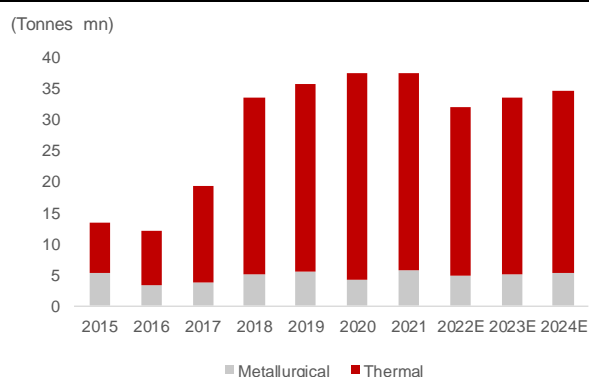
Source: Wind, CMBIGM

Figure 6: Key operating assumptions

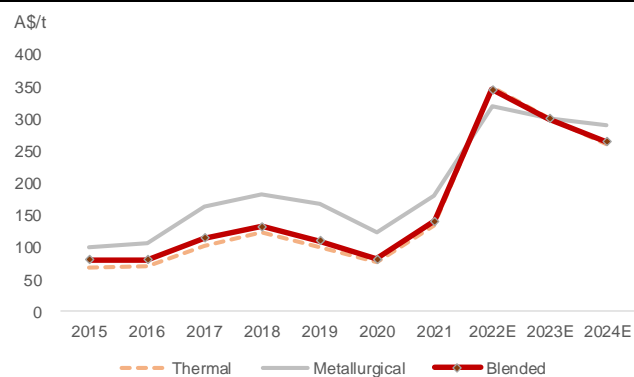
	2017	2018	2019	2020	2021	2022E	2023E	2024E
<b>Marketable coal production (mn tonnes)</b>								
(100 % equity basis)								
<b>Mines</b>								
HVO	14.8	13.3	13.7	12.0	10.6	11.5	12.0	13.0
Mount Thorley Warkworth (MTW)	11.8	12.1	12.1	11.9	11.2	7.7	8.0	9.0
Moolarben	12.4	16.5	17.8	19.7	18.4	17.0	18.0	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
<b>Total</b>	<b>47.7</b>	<b>49.9</b>	<b>52.1</b>	<b>51.8</b>	<b>48.5</b>	<b>42.6</b>	<b>44.3</b>	<b>46.2</b>
<b>Attributable sales volume (mn tonnes)</b>								
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
<b>Total</b>	<b>19.3</b>	<b>33.5</b>	<b>35.6</b>	<b>37.4</b>	<b>37.5</b>	<b>32.0</b>	<b>33.5</b>	<b>34.7</b>
<b>Growth (YoY)</b>								
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%
<b>Average</b>	<b>59.5%</b>	<b>73.6%</b>	<b>6.3%</b>	<b>5.1%</b>	<b>0.3%</b>	<b>-14.7%</b>	<b>4.5%</b>	<b>3.6%</b>
<b>ASP (A\$/tonne)</b>								
Thermal	102	123	100	76	134	350	300	260
Metallurgical	163	183	167	123	180	320	300	290
<b>Blended</b>	<b>114</b>	<b>132</b>	<b>110</b>	<b>82</b>	<b>141</b>	<b>346</b>	<b>300</b>	<b>265</b>
<b>ASP growth (YoY)</b>								
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%
<b>Blended</b>	<b>42.9%</b>	<b>15.4%</b>	<b>-16.2%</b>	<b>-26.1%</b>	<b>72.9%</b>	<b>144.9%</b>	<b>-13.2%</b>	<b>-11.8%</b>
<b>Cash operating cost breakdown (A\$/tonne)</b>								
<b>Unit cash operating cost</b>	<b>-71</b>	<b>-73</b>	<b>-73</b>	<b>-67</b>	<b>-77</b>	<b>-112</b>	<b>-110</b>	<b>-107</b>
Change (YoY)	3.5%	2.6%	-0.9%	-8.2%	16.2%	45.2%	-2.2%	-2.2%
<b>Unit cash operating cost (excluding government royalties)</b>	<b>-62</b>	<b>-63</b>	<b>-64</b>	<b>-60</b>	<b>-66</b>	<b>-85</b>	<b>-86</b>	<b>-86</b>
Change (YoY)	-1.1%	0.7%	1.6%	-5.4%	9.5%	28.3%	1.2%	0.2%

Note: Equity-accounting for Middlemount

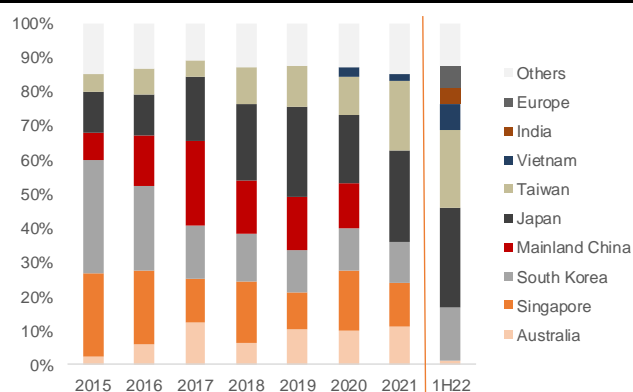
Source: Company data, CMBIGM estimates

**Figure 7: YAL's sales volume projection**

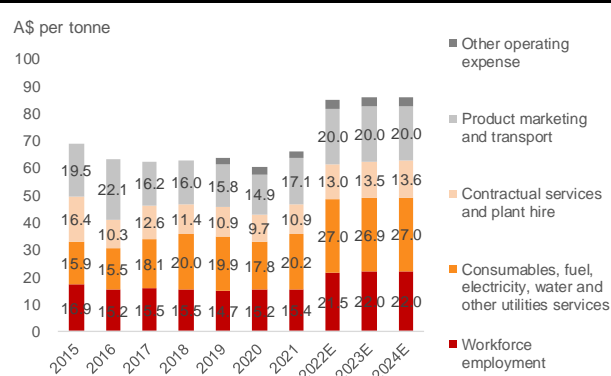
Source: Company data, CMBIGM estimates

**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
<b>5.9%</b>	29.3	41.3	<b>53.3</b>	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
<b>5.9%</b>	48.9	51.1	<b>53.3</b>	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
<b>Total revenue</b>	<b>3,473</b>	<b>5,403</b>	<b>11,293</b>	<b>10,311</b>	<b>9,501</b>
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
<b>EBIT</b>	<b>-893</b>	<b>1,305</b>	<b>6,493</b>	<b>5,456</b>	<b>4,649</b>
Finance expenses	-191	-259	-132	-45	-30
Share of profit of JV & associates	-59	57	32	17	18
<b>Pretax profit</b>	<b>-1,143</b>	<b>1,103</b>	<b>6,392</b>	<b>5,428</b>	<b>4,636</b>
Income tax	103	-312	-1,854	-1,628	-1,391
<b>After tax profit</b>	<b>-1,040</b>	<b>791</b>	<b>4,538</b>	<b>3,800</b>	<b>3,245</b>
MI	0	0	0	0	0
<b>Net profit</b>	<b>-1,040</b>	<b>791</b>	<b>4,538</b>	<b>3,800</b>	<b>3,245</b>
<b>Core net profit</b>	<b>-1,040</b>	<b>791</b>	<b>4,538</b>	<b>3,800</b>	<b>3,245</b>
D&A	804	831	835	841	819
<b>EBITDA</b>	<b>-89</b>	<b>2,136</b>	<b>7,328</b>	<b>6,298</b>	<b>5,468</b>

### 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
<b>Cash flow from operation</b>	<b>720</b>	<b>2,073</b>	<b>4,689</b>	<b>5,530</b>	<b>2,609</b>
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
<b>Cash flow from investing</b>	<b>-527</b>	<b>-299</b>	<b>-507</b>	<b>-465</b>	<b>-395</b>
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
<b>Cash flow from financing</b>	<b>-493</b>	<b>-941</b>	<b>-4,171</b>	<b>-2,973</b>	<b>-1,805</b>
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
<b>Non-current assets</b>	<b>9,712</b>	<b>9,269</b>	<b>9,041</b>	<b>8,764</b>	<b>8,510</b>
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
<b>Current assets</b>	<b>1,343</b>	<b>2,531</b>	<b>3,313</b>	<b>4,478</b>	<b>6,236</b>
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
<b>Current liabilities</b>	<b>1,199</b>	<b>826</b>	<b>881</b>	<b>897</b>	<b>930</b>
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
<b>Non-current liabilities</b>	<b>4,663</b>	<b>4,828</b>	<b>2,415</b>	<b>1,915</b>	<b>1,915</b>
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
<b>Equity</b>	<b>5,193</b>	<b>6,146</b>	<b>9,058</b>	<b>10,430</b>	<b>11,900</b>
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
<b>Sales mix (%)</b>					
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
<b>Profit &amp; loss ratio (%)</b>					
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
<b>Growth (%)</b>					
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)
<b>Balance sheet ratio</b>					
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
<b>Profitability (%)</b>					
ROA	(9.4)	6.9	37.6	29.7	23.2
ROE	(18.3)	13.9	59.7	39.0	29.1
<b>Per share data</b>					
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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