

# Yancoal Australia (3668 HK)

## ASP offset the decline in sales volume in 1Q23; Expect improvement in volume

Yancoal's ASP of A\$347/t (+35% YoY) in 1Q23 is better than our expectation, which helped mitigate the 24% YoY decline in sales volume. We estimate Yancoal delivered ~A\$2bn of revenue (+1.8% YoY). Going forward, we expect sequential improvement in production volume as the water storage issue as a result of rainfall will be gradually improved. We have left our earnings forecast unchanged and maintain our **BUY** rating with NPV-based TP of HK\$48. Since the inclusion in Stock Connect on 13 Mar, Southbound holdings in Yancoal has been increased to 1.48%. We expect fund inflow to continue, given that YAL offers scarcity value for Mainland China investors who are looking for opportunities in seaborne coal sector, high dividend yield (2023E: 24%) and low valuation (2.1x 2023E).

- Production volume still affected water storage issue and labour shortage.** Attributable sales volume of thermal coal / metallurgical coal was -30%/+9% YoY to 4.7mn/1.2 mn tonnes in 1Q23. Total attributable sales volume dropped 24% YoY to 5.9mn tonnes which accounted for only 18% of our full year estimate of 33.5mn tonnes (run rate in 1Q22: 27%).
- 1Q23 ASP breakdown.** Thermal ASP increased 39% YoY (-21% QoQ) to A\$338/t in 1Q23. We see the ASP resilient as it is much higher than the average price of API5 (US\$125 or A\$283) and close to the GCNewc 6,000kCal (US\$242 or A354). Metallurgical ASP increased 10% YoY to A\$383/t (-1% QoQ). The blended ASP increased 35% YoY (-18% QoQ) to A\$347/t.
- Solid balance sheet.** As at end-Mar, Yancoal had a gross cash balance of A\$2.8bn, after the prepayment of US\$333mn (~A\$497mn) debts in Feb. Over the coming months, Yancoal will make payment on dividend (A\$924mn) and tax (A\$1.5bn). We expect Yancoal to maintain a strong net cash position, given the expected strong operating cash flow.
- 2023 guidance unchanged:** Attributable saleable production: 31-36mn tonnes, (up 5-22% YoY); Operating cash cost: A\$92-102/t (CMBI forecast: 1H>2H23).
- Key risk factors:** (1) further decline in coal price; (2) 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	2.1	2.1	2.4
P/B (x)	0.6	0.5	0.9	0.8	0.7
Yield (%)	0.0	28.2	21.4	23.6	20.8
ROE (%)	(18.3)	13.9	50.6	40.0	29.6
Net gearing (%)	68.7	31.6	(25.2)	(39.3)	(48.3)

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** **HK\$48.00**

(Previous TP) HK\$48.00

**Up/Downside** **58.7%**

**Current Price** **HK\$30.25**

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### Stock Data

Mkt Cap (HK\$ mn)	39,943.3
Avg 3 mths t/o (HK\$ mn)	31.3
52w High/Low (HK\$)	39.55/23.45
Total Issued Shares (mn)	1320.4

Source: FactSet

### Shareholding Structure

Yanguang Energy	62.3%
China Cinda AM	13.7%

Source: HKEX

### Share Performance

	Absolute	Relative
1-mth	3.6%	-0.7%
3-mth	-11.9%	-6.4%
6-mth	8.0%	-12.4%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

**Auditor: ShineWing Australia**

### Related Reports

- Yancoal Australia (3668 HK) – Inclusion in Stock Connect a re-rating driver – 6 Mar 2023
- Yancoal Australia (3668 HK) – Net profit +3.5x YoY in 2022 but below expectations; Attractive yield of 20% - 28 Feb 2023
- Yancoal Australia (3668 HK) – Confirmation of price cap and volume to remove overhang – 14 Feb 2023
- 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

**Figure 1: 1Q23 Operating statistics**

	1Q22	1Q23	Chg (YoY)	2Q21	2Q22	Chg (YoY)	3Q21	3Q22	Chg (YoY)	4Q21	4Q22	Chg (YoY)
<b>Marketable coal production (mn tonnes)</b> (100 % equity basis)												
<b>Mines</b>												
HVO	2.7	1.8	-33.3%	2.5	2.9	16.0%	2.9	2.4	-17.2%	2.6	1.6	-38.5%
Mount Thorley Warkworth (MTW)	2	2	0.0%	2.3	1.7	-26.1%	3.2	2.1	-34.4%	3	2.3	-23.3%
Moolarben	4.3	2.6	-39.5%	5.1	4.1	-19.6%	4.6	3.4	-26.1%	4.6	3.1	-32.6%
Stratford Duralie	0.2	0.1	-50.0%	0.2	0.1	-50.0%	0.2	0.2	0.0%	0.3	0.2	-33.3%
Yarrabee	0.5	0.4	-20.0%	0.4	0.5	25.0%	0.7	0.5	-28.6%	0.7	0.6	-14.3%
Middlemount	0.8	0.5	-37.5%	0.9	0.6	-33.3%	0.9	0.7	-22.2%	0.9	0.5	-44.4%
Ashton	0.2	0.3	50.0%	0.2	0.2	0.0%	0.4	0.3	-25.0%	0.2	0.2	0.0%
<b>Total</b>	<b>10.7</b>	<b>7.7</b>	<b>-28.0%</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> (Attributable basis)												
<b>Total</b>	<b>8.1</b>	<b>5.9</b>	<b>-27.2%</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	6.7	4.7	-29.9%	7.3	6.6	-9.6%	8.8	5.8	-34.1%	8.3	5.51	-33.6%
Metallurgical	1.1	1.2	9.1%	1.3	1.3	0.0%	1.6	0.9	-43.8%	1.6	1.43	-10.6%
<b>Total</b>	<b>7.8</b>	<b>5.9</b>	<b>-24.4%</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>6.94</b>	<b>-29.9%</b>
<b>ASP (A\$/tonne)</b>												
Thermal	243	338	39.1%	96	353	267.7%	150	489	226.0%	195	430	120.5%
Metallurgical	349	383	9.7%	127	446	251.2%	178	434	143.8%	285	389	36.5%
<b>Blended</b>	<b>258</b>	<b>347</b>	<b>34.5%</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	1,628	1,589	-2.4%	701	2,330	232.4%	1,320	2,836	114.9%	1,619	2,369	46.4%
Metallurgical	384	460	19.7%	165	580	251.2%	285	391	37.1%	456	556	22.0%
<b>Total ex-mine coal revenue</b>	<b>2,012</b>	<b>2,048</b>	<b>1.8%</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>

Source: Company data, CMBIGM estimates

Note: Equity-accounting for Middlemount

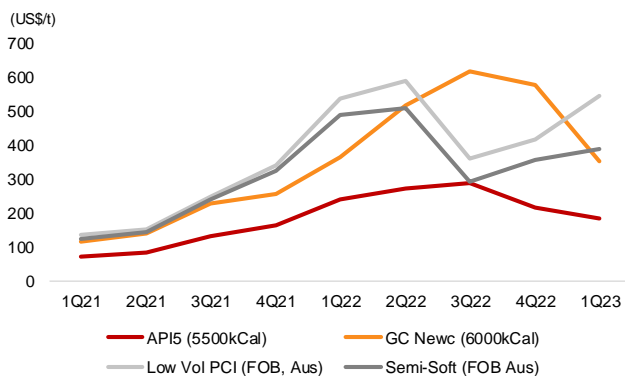
**Figure 2: Key operating assumptions**

	2017	2018	2019	2020	2021	2022	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	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
<b>Total</b>	<b>47.7</b>	<b>49.9</b>	<b>52.1</b>	<b>51.8</b>	<b>48.5</b>	<b>38.9</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	24.6	27.8	28.8
Metallurgical	3.8	5.1	5.5	4.2	5.8	4.7	5.7	5.9
<b>Total</b>	<b>19.3</b>	<b>33.5</b>	<b>35.6</b>	<b>37.4</b>	<b>37.5</b>	<b>29.3</b>	<b>33.5</b>	<b>34.7</b>
<b>Growth (YoY)</b>								
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%
<b>Average</b>	<b>59.5%</b>	<b>73.6%</b>	<b>6.3%</b>	<b>5.1%</b>	<b>0.3%</b>	<b>-21.9%</b>	<b>14.2%</b>	<b>3.6%</b>
<b>ASP (A\$/tonne)</b>								
Thermal	102	123	100	76	134	372	300	260
Metallurgical	163	183	167	123	180	406	300	290
<b>Blended</b>	<b>114</b>	<b>132</b>	<b>110</b>	<b>82</b>	<b>141</b>	<b>377</b>	<b>300</b>	<b>265</b>
<b>ASP growth (YoY)</b>								
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%
<b>Blended</b>	<b>42.9%</b>	<b>15.4%</b>	<b>-16.2%</b>	<b>-26.1%</b>	<b>72.9%</b>	<b>167.3%</b>	<b>-20.4%</b>	<b>-11.6%</b>
<b>Cash operating cost breakdown (A\$/tonne)</b>								
<b>Unit cash operating cost</b>								
Change (YoY)	-71	-73	-73	-67	-77	-131	-125	-115
<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>-98</b>	<b>-97</b>	<b>-90</b>
Change (YoY)	-1.1%	0.7%	1.6%	-5.4%	9.5%	48.5%	-1.5%	-7.4%

Source: Company data, CMBIGM estimates

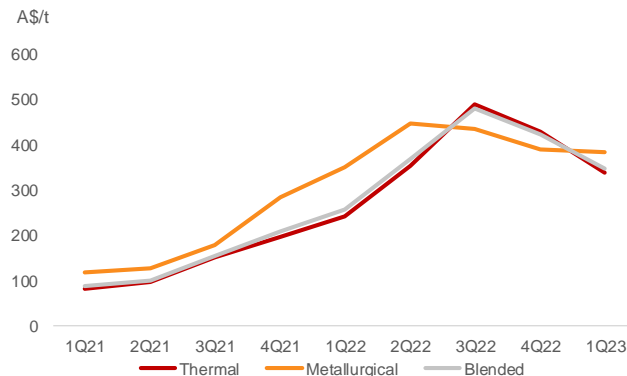
Note: Equity-accounting for Middlemount

**Figure 3: Coal pricing benchmarks**



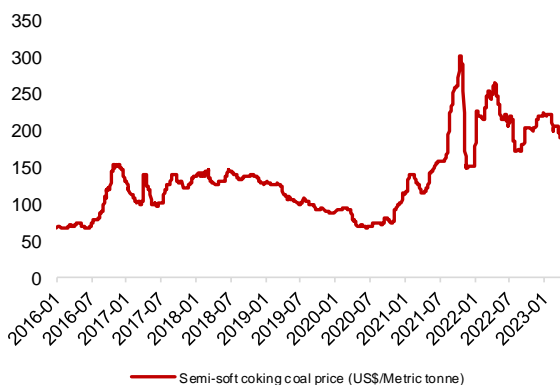
Source: Company, Argus/McCloskey, GlobalCOAL, CMBIGM

**Figure 4: Yancoal quarterly ASP trend**



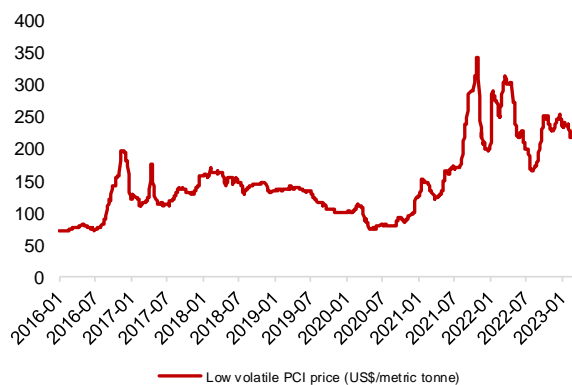
Source: Company, CMBIGM

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



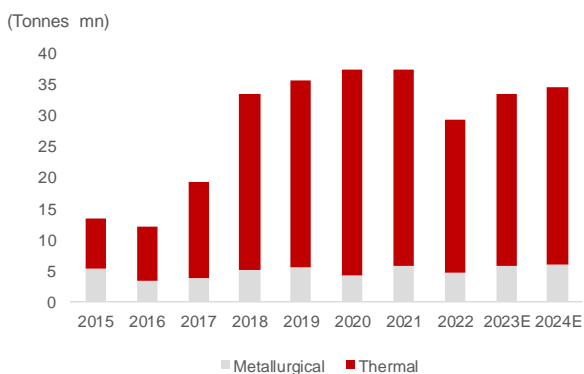
Source: Wind, CMBIGM

**Figure 6: Seaborne pulverised coal injection (PCI) price**



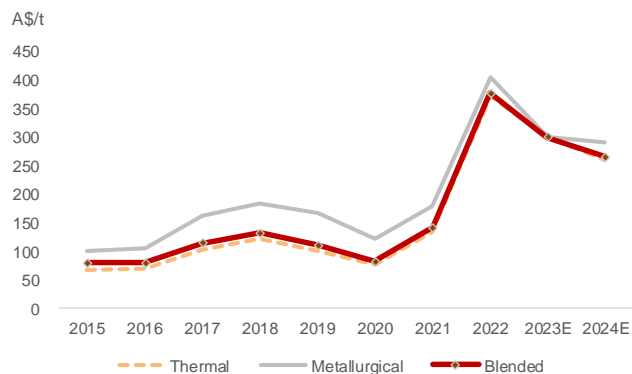
Source: Wind, CMBIGM

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

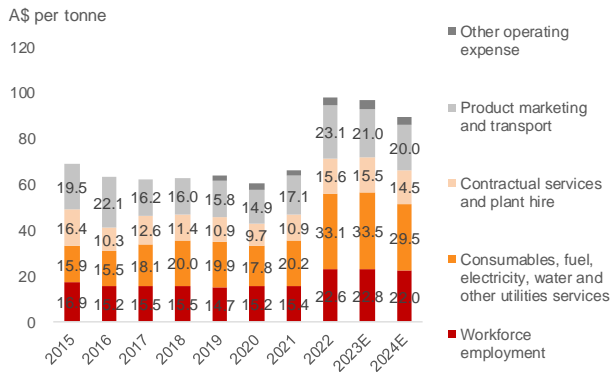


Source: Company data, CMBIGM estimates

**Figure 8: YAL's ASP assumptions**



Source: Company data, CMBIGM estimates

**Figure 9: YAL's unit cash cost breakdown**


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

## Valuation

**Maintain BUY with 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 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 10: 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
<b>6.6%</b>	24	36	<b>48</b>	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
<b>6.6%</b>	44	46	<b>48</b>	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)						
<b>Revenue</b>	<b>4,460</b>	<b>3,473</b>	<b>5,403</b>	<b>10,548</b>	<b>10,386</b>	<b>9,576</b>
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
<b>EBITDA</b>	<b>1,631</b>	<b>(89)</b>	<b>2,136</b>	<b>6,239</b>	<b>5,879</b>	<b>5,302</b>
Depreciation	(607)	(804)	(831)	(834)	(859)	(864)
<b>EBIT</b>	<b>1,024</b>	<b>(893)</b>	<b>1,305</b>	<b>5,405</b>	<b>5,020</b>	<b>4,437</b>
Interest expense	(233)	(191)	(259)	(459)	(24)	(9)
Others	(24)	(59)	57	146	114	63
<b>Pre-tax profit</b>	<b>767</b>	<b>(1,143)</b>	<b>1,103</b>	<b>5,092</b>	<b>5,109</b>	<b>4,491</b>
Income tax	(48)	103	(312)	(1,505)	(1,533)	(1,347)
<b>After tax profit</b>	<b>719</b>	<b>(1,040)</b>	<b>791</b>	<b>3,587</b>	<b>3,576</b>	<b>3,143</b>
Minority interest	0	0	0	0	0	0
<b>Net profit</b>	<b>719</b>	<b>(1,040)</b>	<b>791</b>	<b>3,587</b>	<b>3,576</b>	<b>3,143</b>

BALANCE SHEET	2019A	2020A	2021A	2022A	2023E	2024E
YE 31 Dec (AUD mn)						
<b>Current assets</b>	<b>1,773</b>	<b>1,343</b>	<b>2,531</b>	<b>3,810</b>	<b>5,178</b>	<b>6,596</b>
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
<b>Non-current assets</b>	<b>9,320</b>	<b>9,712</b>	<b>9,269</b>	<b>8,991</b>	<b>9,047</b>	<b>8,930</b>
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
<b>Total assets</b>	<b>11,093</b>	<b>11,055</b>	<b>11,800</b>	<b>12,801</b>	<b>14,225</b>	<b>15,525</b>
<b>Current liabilities</b>	<b>2,112</b>	<b>1,199</b>	<b>826</b>	<b>2,532</b>	<b>2,608</b>	<b>2,456</b>
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
<b>Non-current liabilities</b>	<b>2,818</b>	<b>4,663</b>	<b>4,828</b>	<b>2,239</b>	<b>1,739</b>	<b>1,739</b>
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
<b>Total liabilities</b>	<b>4,930</b>	<b>5,862</b>	<b>5,654</b>	<b>4,771</b>	<b>4,347</b>	<b>4,195</b>
<b>Total shareholders equity</b>	<b>6,161</b>	<b>5,191</b>	<b>6,144</b>	<b>8,028</b>	<b>9,876</b>	<b>11,328</b>
Minority interest	2	2	2	2	2	2
<b>Total equity and liabilities</b>	<b>11,093</b>	<b>11,055</b>	<b>11,800</b>	<b>12,801</b>	<b>14,225</b>	<b>15,525</b>

<b>CASH FLOW</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec (AUD mn)</b>						
<b>Operating</b>						
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)
<b>Net cash from operations</b>	<b>1,688</b>	<b>720</b>	<b>2,073</b>	<b>6,765</b>	<b>4,261</b>	<b>3,783</b>
<b>Investing</b>						
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
<b>Net cash from investing</b>	<b>(301)</b>	<b>(527)</b>	<b>(299)</b>	<b>(257)</b>	<b>(658)</b>	<b>(492)</b>
<b>Financing</b>						
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)
<b>Net cash from financing</b>	<b>(1,440)</b>	<b>(493)</b>	<b>(941)</b>	<b>(5,411)</b>	<b>(2,253)</b>	<b>(1,700)</b>
<b>Net change in cash</b>						
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
<b>Cash at the end of the year</b>	<b>962</b>	<b>637</b>	<b>1,495</b>	<b>2,699</b>	<b>4,049</b>	<b>5,640</b>
<b>GROWTH</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
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%)
<b>PROFITABILITY</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
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%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
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
<b>VALUATION</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
P/E	5.9	na	4.2	2.1	2.1	2.4
P/B	0.7	0.6	0.5	0.9	0.8	0.7
Div yield (%)	9.9	0.0	28.2	21.4	23.6	20.8

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

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