

Yancoal Australia (3668 HK)

1H19 results in line with expectation

SUMMARY. Yancoal's core net profit in 1H19 grew ~4% YoY to A\$345mn, which is in line with our expectation. The profit growth was mainly helped by lower finance expense. We believe debt repayment will continue to be the risk reduction driver for the Company. Yancoal has maintained its guidance on production volume and cash cost for the full year. We left our earnings forecast unchanged and our DCF-based TP is HK\$24. The Stock is attractively trading at 5x 2019E P/E and 10% dividend yield.

■ **Key highlights on 1H19 results.** Reported net profit came in at A\$564mn, up 56% YoY, due to a one-off tax benefit of A\$219mn as a result of the finalization of tax base on C&A acquisition. Excluding this tax benefit and other non-recurring items, the net profit grew ~4% YoY to A\$345mn, representing 47% of our full year estimates. Ex-mine sales volume of coal grew 2% YoY to 16.5mn tonnes while ASP dropped 3% YoY (largely in line with market trend). Total revenue (including other income) remained stable YoY in 1H19. Unit cash operating cost (excluding government royalties) was A\$62/t in 1H19, unchanged YoY. The profit growth came mainly from an 18% reduction of finance expense as Yancoal repaid US\$500mn debts in 1H19. Yancoal generated strong operating cash flow of \$783mn in 1H19, up 10% YoY. Net debt to equity ratio reduced from 53% in Dec 2018 to 48% in Jun 2019. Yancoal declared interim dividend of A\$136.7mn, implying payout ratio of 24% (based on reported earnings) or 40% (based on core earnings).

■ **Full year guidance unchanged.** Yancoal maintains its full year production target of 35mn tonnes and cash cost target (excluding government royalties) of A\$62.5/t. Besides, Yancoal maintains its dividend payout target ratio of 50%. This implies 10% dividend yield based on our earnings estimate. Full year capex budget is unchanged at A\$285mn.

■ **Key risks:** (1) weakness in coal price; (2) disruption in coal delivery; (3) higher-than-expected production cost.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Turnover (A\$ mn)	2,601	4,850	4,769	4,677	4,471
Change (YoY)	110.1	86.5	-1.7	-1.9	-4.4
Core net profit (A\$ mn)	88	713	742	695	576
Core EPS (A\$)	0.11	0.57	0.56	0.53	0.44
Change (YoY)	n/a	425.5	-0.6	-6.3	-17.1
EV/EBITDA (x)	8.3	3.5	3.9	4.2	4.9
PE (x)	9.3	4.0	5.0	5.4	6.5
PB (x)	0.7	0.6	0.6	0.6	0.6
Yield (%)	0.0	15.0	10.0	9.3	7.7
ROE (%)	2.8	13.1	12.5	11.2	8.9
Net gearing (%)	89.1	53.0	39.4	22.0	15.1

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price **HK\$24.0**
 (Previous TP **HK\$24.0**)
 Up/Downside **+53%**
 Current Price **HK\$15.64**

Mining Sector

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Stock Data

Mkt Cap (HK\$ mn)	23,720
Avg 3 mths t/o (HK\$ mn)	0.01
52w High/Low (HK\$)	23.72/14.70
Total Issued Shares (mn)	1,320

Source: Bloomberg

Shareholding Structure

Yanzhou Coal	62.26%
China Cinda AM	15.89%
Glencore Coal	6.40%
China Shandong Investment	5.41%
Others	10.04%

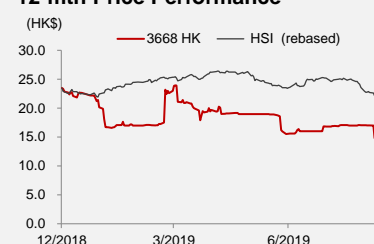
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-8.4%	+0.4%
3-mth	-17.5%	-12.6%
6-mth	-8.3%	-0.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: ShineWing Australia

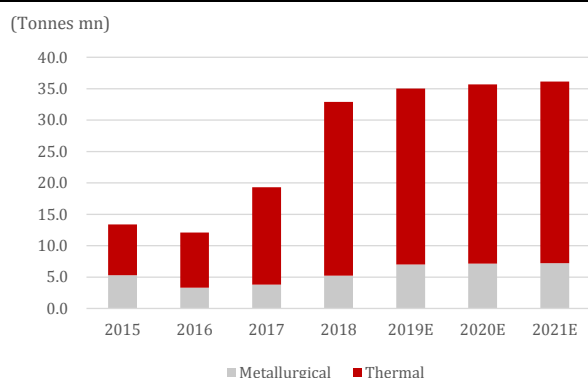
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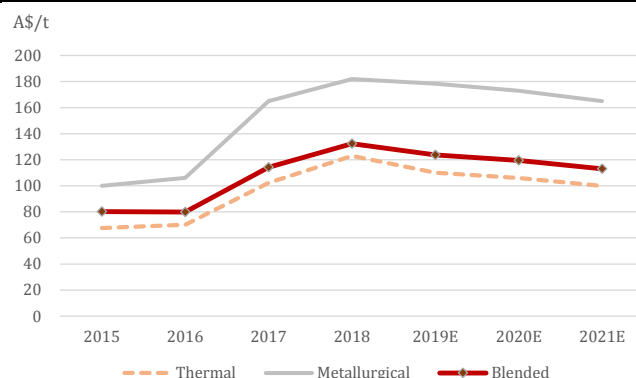
Figure 1: Key highlights on 1H19 results

YE Dec 31(A\$ mn)	1H17	1H18	1H19	Change (YoY)
Revenue				
Sales of coal	835	2,250	2,272	1.0%
Sea freight	0	37	50	35.1%
Fair value of losses recycled from hedge reserve	(101)	(45)	(75)	66.7%
Sub-total	734	2,242	2,247	0.2%
Other revenue				
Interest income	57	58	62	6.9%
Mining services fees	29	26	25	-3.8%
Other	12	21	16	-23.8%
Total (other revenue)	98	105	103	-1.9%
Total revenue	832	2,347	2,350	0.1%
Other income	8	115	16	-86.1%
Change in inventories of finished goods & work in progress	10	24	38	58.3%
Raw materials and consumables used	(109)	(337)	(352)	4.5%
Employee benefits	(102)	(254)	(260)	2.4%
Transportation	(122)	(274)	(293)	6.9%
Contractual services and plant hire	(90)	(206)	(189)	-8.3%
Government royalties	(53)	(161)	(164)	1.9%
Changes in deferred mining costs	0	0	0	n/a
Coal purchase	(148)	(182)	(177)	-2.7%
Other operating expenses	(76)	(170)	(69)	-59.4%
Depreciation and amortisation	(80)	(244)	(294)	20.5%
EBIT	70	658	606	-7.9%
Finance expenses	(105)	(152)	(125)	-17.8%
Share of profit of JV and associates	17	33	11	-66.7%
Pretax profit	(18)	539	492	-8.7%
Income tax	4	(178)	72	n/a
After tax profit	(14)	361	564	56.2%
MI	0	0	0	n/a
Net profit	(14)	361	564	56.2%
Core net profit	(14)	333	345	3.6%
D&A	80	244	294	20.5%
EBITDA	150	902	900	-0.2%

Source: Company data, CMBIS

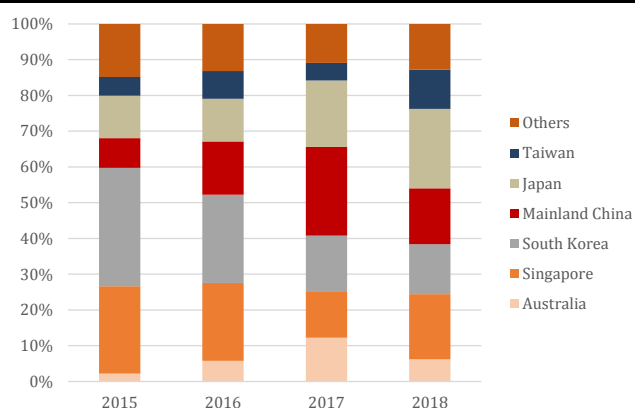
Figure 2: Yancoal's sales volume projection

Source: Company data, CMBIS estimates

Figure 3: Yancoal's ASP assumptions

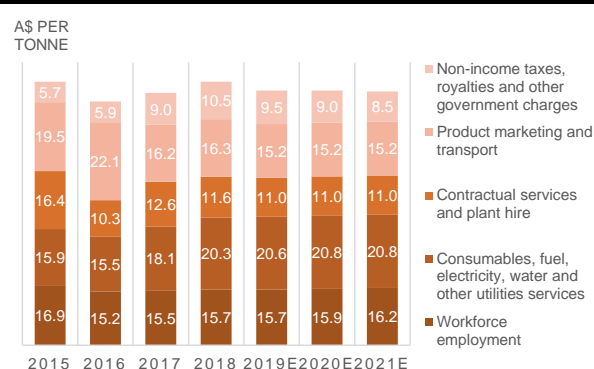
Source: Company data, CMBIS estimates

Figure 4: Yancoal's revenue breakdown



Source: Company data, CMBIS estimates

Figure 5: Yancoal's unit cash cost breakdown



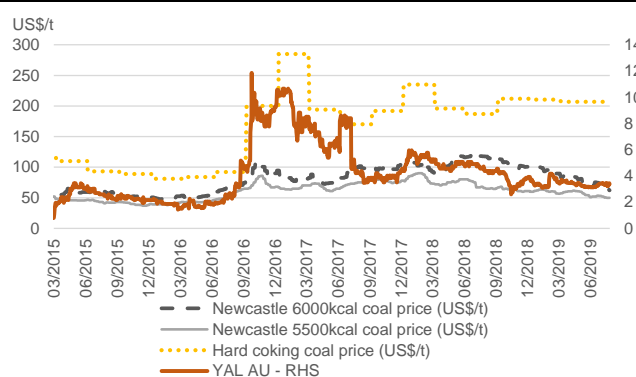
Source: Company data, CMBIS estimates

Figure 6: Key operating assumptions

	2017	2018	2019E	2020E	2021E
Marketable coal production (mn tonnes)					
(100 % equity basis)					
Consolidated mines					
HVO	14.8	13.3	13.5	14.0	14.6
Mount Thorley Warkworth (MTW)	11.8	12.1	12.1	12.1	11.8
Moolarben	12.4	16.5	16.5	16.5	16.5
Stratford Duralie	0.7	0.5	0.8	1.0	0.9
Yarrabee	2.9	2.6	3.3	3.5	4.0
Total	42.6	45.0	46.2	47.1	47.8
Sales volume (mn tonnes)					
Thermal	15.5	27.7	28.0	28.6	28.9
Metallurgical	3.8	5.2	7.0	7.1	7.2
Total	19.3	32.9	35.0	35.7	36.2
Growth (YoY)					
Thermal	76.1%	78.7%	1.2%	1.9%	1.3%
Metallurgical	15.2%	37.2%	34.4%	1.9%	1.3%
Average	59.5%	70.5%	6.5%	1.9%	1.3%
ASP (A\$/tonne)					
Thermal	102	123	110	106	100
Metallurgical	165	182	178	173	165
Blended	114	132	124	119	113
ASP growth (YoY)					
Thermal	45.8%	20.3%	-10.6%	-3.6%	-5.7%
Metallurgical	55.6%	10.3%	-2.0%	-3.0%	-4.6%
Blended	42.9%	15.9%	-6.6%	-3.5%	-5.4%
Cash operating cost breakdown (A\$/tonne)					
Unit cash operating cost	(71)	(74)	(72)	(72)	(72)
Change (YoY)	3.5%	4.4%	-3.3%	-0.1%	-0.4%
Unit cash operating cost (excluding government royalties)	(62)	(64)	(63)	(63)	(63)
Change (YoY)	-1.1%	2.5%	-2.2%	0.7%	0.4%

Source: Company data, CMBIS

Figure 7: Coal price versus YAL share price



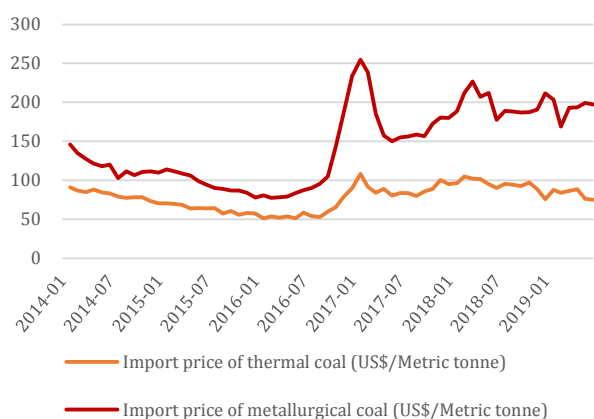
Source: Bloomberg, CMBIS

Figure 8: Price difference between 3668 HK & YAL AU



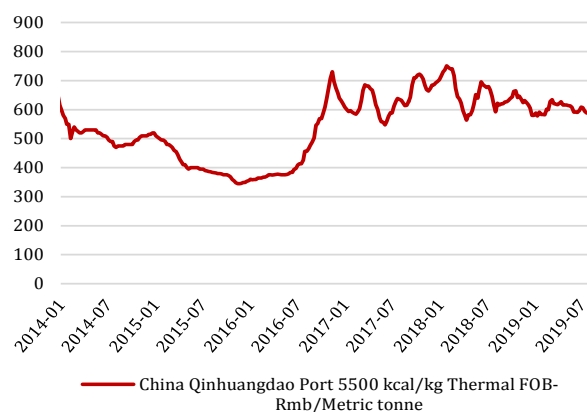
Source: Bloomberg, CMBIS

Figure 9: China imported thermal & metallurgical coal price (from Australia)



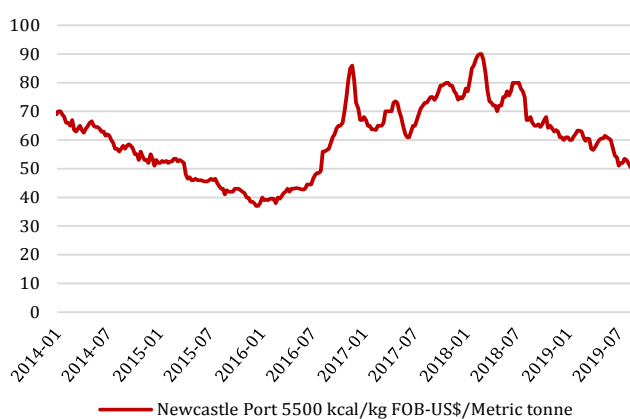
Source: China Customs, Wind, CMBIS

Figure 10: China Qinhuangdao Port 5500 kcal/kg thermal FOB price



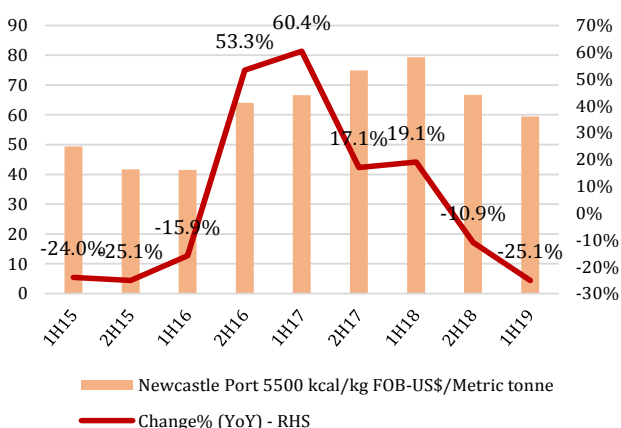
Source: Bloomberg, CMBIS

Figure 11: Newcastle Port thermal 5500 kcal/kg FOB price

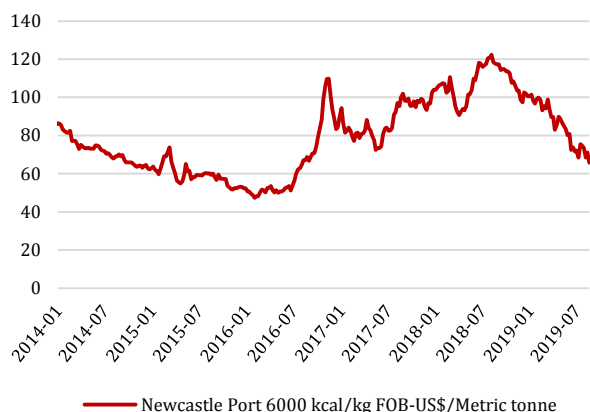


Source: Bloomberg, CMBIS

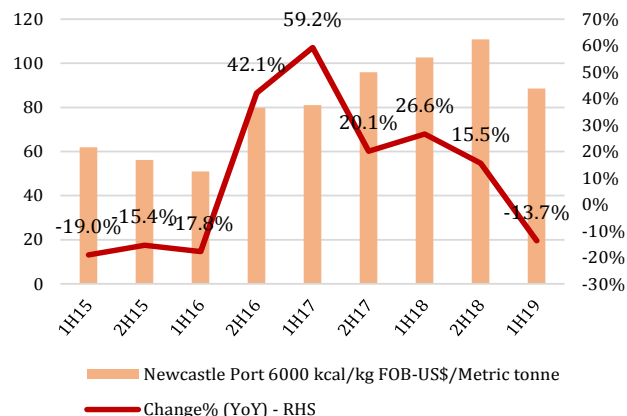
Figure 12: Newcastle Port thermal 5500 kcal/kg FOB price (half-year)



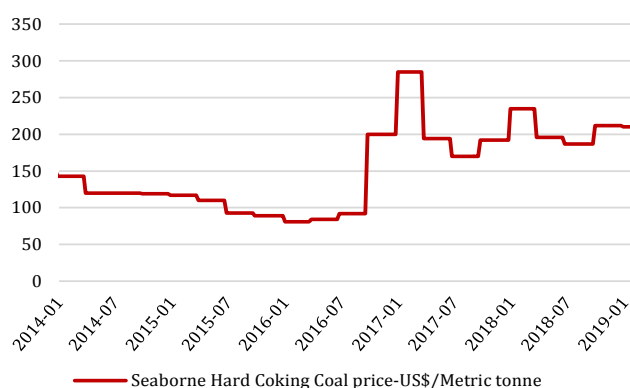
Source: Bloomberg, CMBIS

Figure 13: Newcastle Port thermal 6000 kcal/kg FOB price

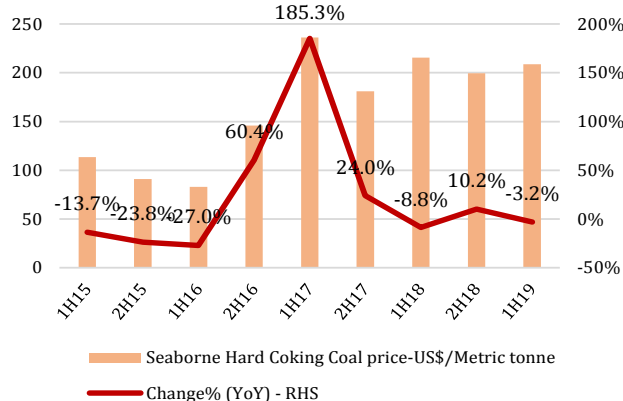
Source: Bloomberg, CMBIS

Figure 14: Newcastle Port thermal 6000 kcal/kg FOB price (half-year)

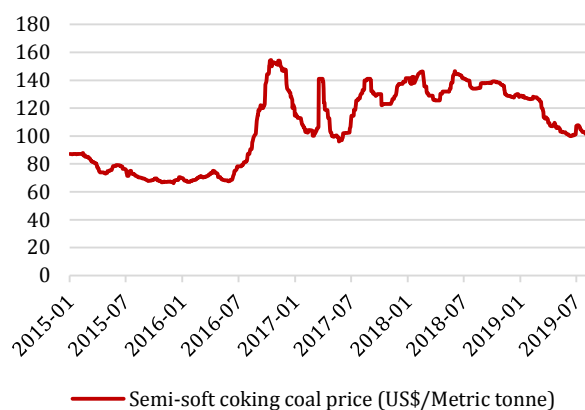
Source: Bloomberg, CMBIS

Figure 15: Seaborne Hard Coking Coal (HCC) price

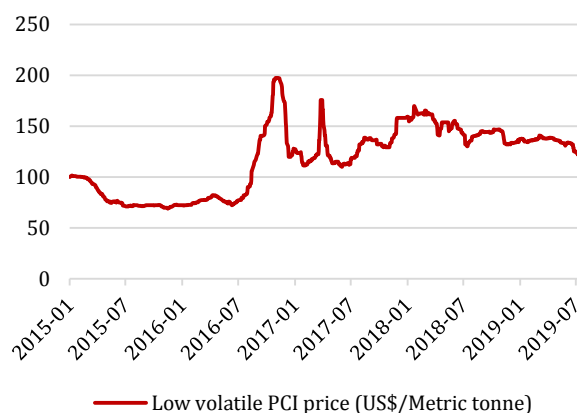
Source: Bloomberg, CMBIS

Figure 16: Seaborne Hard Coking Coal (HCC) price (half-year)

Source: Bloomberg, CMBIS

Figure 17: Seaborne Semi-soft Coking Coal (SSCC) price

Source: Bloomberg, CMBIS

Figure 18: Seaborne pulverised coal injection (PCI) price

Source: Bloomberg, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Total revenue	2,601	4,850	4,769	4,677	4,471
Other income	294	150	24	23	22
Change in inventories	7	31	0	0	0
Raw materials and consumables	(349)	(669)	(722)	(742)	(752)
Employee benefits	(302)	(518)	(553)	(572)	(588)
Transportation	(312)	(537)	(533)	(543)	(550)
Contractual services	(274)	(418)	(422)	(431)	(437)
Government royalties	(173)	(347)	(334)	(323)	(309)
Changes in deferred mining	0	0	0	0	0
Coal purchase	(340)	(332)	(215)	(211)	(202)
Other operating expenses	(330)	(278)	(272)	(267)	(255)
Dep & amortization	(256)	(523)	(536)	(550)	(557)
EBIT	567	1,410	1,207	1,062	845
Finance expenses	(287)	(293)	(211)	(139)	(88)
Share of profit of JV & associates	32	56	49	56	55
Pretax profit	311	1,172	1,045	979	812
Income tax	(82)	(320)	(303)	(284)	(235)
After tax profit	229	852	742	695	576
MI	0	0	0	0	0
Net profit	229	852	742	695	576
Core net profit	88	713	742	695	576
D&A	256	523	536	550	557
EBITDA	823	1,933	1,743	1,612	1,402

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Pretax profit	311	1,172	1,045	979	812
Finance cost	176	293	211	139	88
Interest income	(114)	(119)	(61)	(42)	(22)
Share of profit or loss of associates	(32)	(56)	(49)	(56)	(55)
Depreciation & amortization	256	523	536	550	557
Income tax paid	0	0	0	0	(235)
Change in working capital	9	73	(80)	134	(62)
Others	(88)	1	0	0	0
Cash flow from operation	518	1,887	1,601	1,705	1,083
Net capex on PP&E	(298)	(189)	(300)	(300)	(300)
Investment in JV/associates	40	524	0	0	0
Investment in subsidiaries	(3,247)	(353)	0	0	0
Investment in intangibles	(35)	(2)	0	0	0
Dividend received	6	17	7	8	8
Interest received	59	96	61	42	22
Others	85	(169)	0	0	0
Cash flow from investing	(3,390)	(76)	(232)	(250)	(270)
Equity financing	3,125	268	0	0	0
Net bank borrowings	(8)	(1,014)	(1,200)	(1,200)	(500)
Net repayment of borrowings from associates	63	117	60	60	60
Dividend paid	0	(130)	(514)	(391)	(321)
Interest paid	(169)	(236)	(211)	(139)	(88)
Others	(118)	(28)	0	0	0
Cash flow from financing	2,893	(1,023)	(1,865)	(1,670)	(909)
Change in cash	21	788	(495)	(215)	(96)
Cash at beginning of the year	190	207	1,031	536	320
Exchange gains/(losses) and others	(4)	36	0	0	0
Cash at the end of the year	207	1,031	536	320	224

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	10,624	10,486	9,929	9,383	9,172
PP&E	2,832	2,939	2,893	2,832	2,756
Mining tenements	4,296	4,218	4,032	3,847	3,671
Investment in JV/associates	251	307	349	396	443
Exploration and evaluation	565	563	563	563	563
Loan to an associate	712	835	775	715	715
Trade and other receivables	473	292	292	292	292
Intangible assets	99	97	93	89	85
Others	2	8	8	8	8
Deferred tax assets	1,219	1,062	759	475	475
Royalty receivable	175	165	165	165	165
Current assets	1,689	1,922	1,434	1,193	1,071
Inventories	150	226	126	233	129
Trade receivables	658	552	624	529	573
Royalty receivables	24	28	63	26	60
AFS investments	613	57	57	57	57
Others	37	28	28	28	28
Cash	207	1,031	536	320	224
Current liabilities	1,013	913	840	948	860
Trade and other payables	758	840	767	875	787
Non-contingent royalty payable	112	25	25	25	25
Interest-bearing liabilities	17	13	13	13	13
Provisions	59	34	34	34	34
Others	0	1	1	1	1
Non-current liabilities	6,257	5,657	4,457	3,257	2,757
Interest-bearing liabilities	4,682	4,111	2,911	1,711	1,211
Deferred tax liabilities	1,037	1,029	1,029	1,029	1,029
Provisions	488	488	488	488	488
Non-contingent royalty payable	48	27	27	27	27
Others	2	2	2	2	2
Equity	5,043	5,838	6,066	6,371	6,626
Shareholders' equity	5,040	5,836	6,064	6,369	6,624
MI	3	2	2	2	2

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Sales of coal	100.8	97.7	95.4	95.7	95.9
Sea freight	0.5	1.4	1.4	1.5	1.6
Fair value of losses recycled from	(8.8)	(3.3)	0.0	0.0	0.0
Interest income	4.4	2.5	1.3	0.9	0.5
Mining services fees	2.0	0.9	1.0	1.1	1.1
Other	1.1	0.8	0.8	0.9	0.9
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratio (%)					
EBITDA margin	34.2	41.6	37.7	35.5	32.2
EBIT margin	21.8	29.1	25.3	22.7	18.9
Net profit margin	8.8	17.6	15.6	14.9	12.9
Core net profit margin	3.4	14.7	15.6	14.9	12.9
Growth (%)					
Revenue	110.1	86.5	(1.7)	(1.9)	(4.4)
EBITDA	2,255.9	134.8	(9.8)	(7.5)	(13.0)
EBIT	n/a	148.6	(14.4)	(12.0)	(20.4)
Net profit	n/a	272.1	(12.9)	(6.3)	(17.1)
Core net profit	n/a	710.2	4.0	(6.3)	(17.1)
Balance sheet ratio					
Current ratio (x)	1.7	2.1	1.7	1.3	1.2
Receivable turnover days	77	46	45	45	45
Inventory turnover days	32	35	34	34	34
Payable turnover days	142	118	120	120	120
Net debt / total equity (%)	89.1	53.0	39.4	22.0	15.1
Profitability (%)					
ROA	2.3	6.9	6.2	6.3	5.5
ROE	7.2	15.7	12.5	11.2	8.9
Per share data					
EPS (A\$)	0.28	0.68	0.56	0.53	0.44
BVPS (A\$)	4.01	4.42	4.59	4.82	5.02
DPS (A\$)	0.00	0.40	0.28	0.26	0.22

Source: Company data, CMBIS estimates

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