

Yancoal Australia (3668 HK)

Scarcity value yet to be explored; Resume coverage with BUY

We expect a resilient demand for seaborne coal as many countries have put energy security top of the priority, while the coal supply has remained tight due to miners' capex discipline and heavy rainfall in Australia, a key coal producing country. The strong coal price helped Yancoal Australia (YAL), the largest pure coal producer in Australia, reduce the net gearing ratio dramatically from 69% in 2020 to only 3% in Jun 2022, which paved the way for generous dividend distribution going forward. We forecast net profit in 2H22E to grow 2x YoY and 60% HoH, taking the full year profit to A\$4.5bn (+4.7x YoY). We expect >A\$4bn of free cash flow this year, representing ~50% of free cash yield at the current price. Resume coverage with **BUY** and NPV-based TP of HK\$53. The stock is now trading at 1.7x 2022E P/E or 20% yield (based on 50% payout), which is incredibly attractive.

- Australian coal miners are major beneficiaries amid the geopolitical tension.** Australia is the largest seaborne coal supplier in the world, with coal export accounting for 29% of total export globally in 2021, followed by Indonesia (26%) and Russia (18%). On the consumption side, China, India, Japan and Europe are the major importers. With the official ban of Russian coal import into the EU starting from Aug, Australia has the potential to fill the gap in the EU market. In 1H22, Europe accounted for 6% of YAL's total revenue, up significantly from 0.5% in 1H21.
- More ASP upside on contract repricing.** YAL's realized price of thermal coal surged 2.3x YoY to A\$298/t (~US\$224/t) in 1H22. The ASP was below benchmark spot prices for two reasons: (1) YAL offered high portion of low heat (5,500 kCal) coal sales; (2) YAL has a high percentage of Japanese customers (29% of revenue in 1H22) where the price is set on an annual basis. We expect the gradual repricing of these annual contracts will lift ASP further on top of the strong spot price. We forecast 30% HoH increase thermal coal ASP in 2H22E.
- Blue Sky scenario: NPV-based TP can reach HK\$160 in theory.** Our TP of HK\$53 is based on a LT thermal coal price assumption (2025E-60E) of only A\$120/t (~US\$80/t). The NPV per share can reach HK\$160, if we set the coal price the same as that in 1H22 (A\$298) throughout the remaining mine life.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Turnover (A\$ mn)	3,473	5,403	11,324	10,357	9,559
Change (YoY)	-22.1	55.6	109.6	-8.5	-7.7
Core net profit (A\$ mn)	-1,040	791	4,525	3,763	3,216
Core EPS (A\$)	-0.79	0.60	3.43	2.85	2.44
Change (YoY)	n/a	n/a	474.0	-16.8	-14.5
Consensus EPS (A\$)	n/a	n/a	n/a	n/a	n/a
EV/EBITDA (x)	-83.1	3.5	1.0	1.2	1.3
PE (x)	n/a	9.4	1.7	2.2	2.6
PB (x)	1.5	1.2	0.9	0.8	0.7
Yield (%)	0.0	8.8	20.1	15.8	13.5
ROE (%)	-18.3	13.9	59.6	38.7	28.9
Net gearing (%)	68.7	31.6	Net cash	Net cash	Net cash

Note: Thermal coal price assumptions: A\$350/300/250 per tonne in FY22E/23E/24E

Source: Company data, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$53.0**

Up/Downside **+62%**
 Current Price **HK\$32.8**

Coal Mining

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Stock Data

Mkt Cap (HK\$ mn)	43,310
Avg 3 mths t/o (HK\$ mn)	100
52w High/Low (HK\$)	47.26/11.67
Total Issued Shares (mn)	1,320

Source: Bloomberg

Shareholding Structure

Yankuang Energy	62.26%
China Cinda AM	13.74%
Others	23.99%

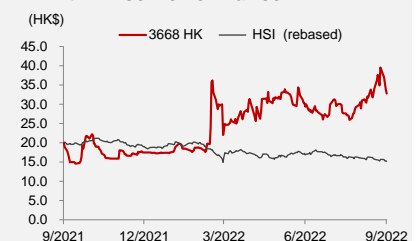
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	14.5%	21.2%
3-mth	12.0%	26.1%
6-mth	54.5%	50.3%

Source: Bloomberg

12-mth Price Performance



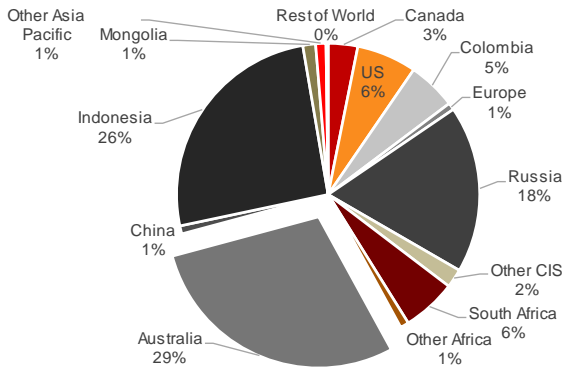
Source: Bloomberg

Auditor: ShineWing Australia

Related Reports

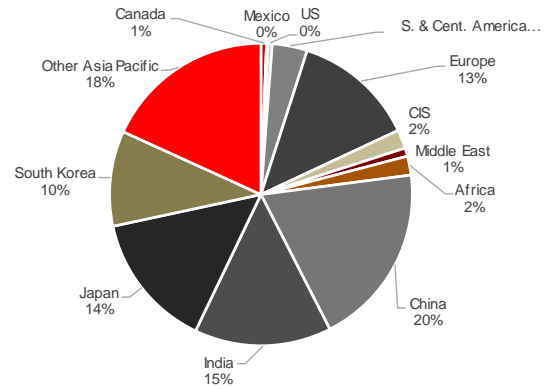
Yancoal Australia (3668 HK) - High quality low cost coal producer; Initiate with BUY - 13 Mar 2019

Figure 1: Australia is the largest exporter of coal



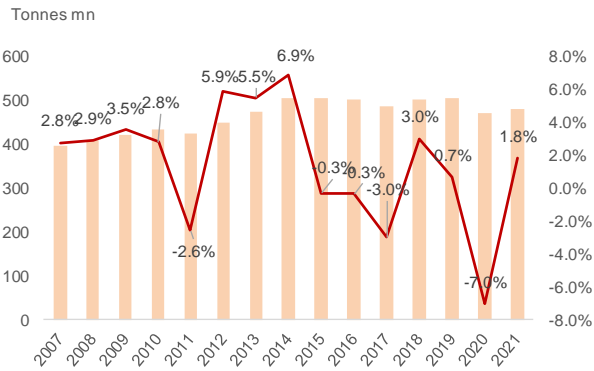
Note: Figures in 2021
Source: BP, CMBIGM

Figure 2: Coal import by regions



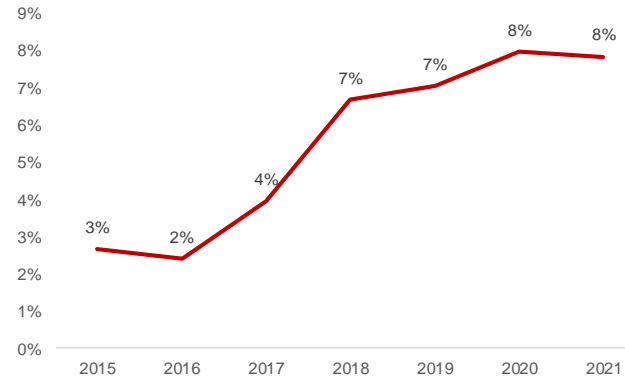
Note: Figures in 2021
Source: BP, CMBIGM

Figure 3: Coal production in Australia



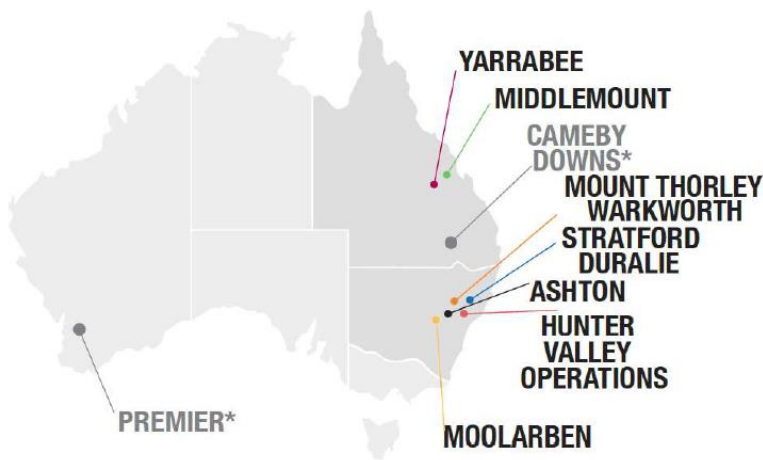
Source: BP, CMBIGM

Figure 4: Market share of YAL in Australia



Note: Based on YAL's attributable production
Source: BP, Company data, CMBIGM estimates

Figure 5: Location of YAL's coal mines



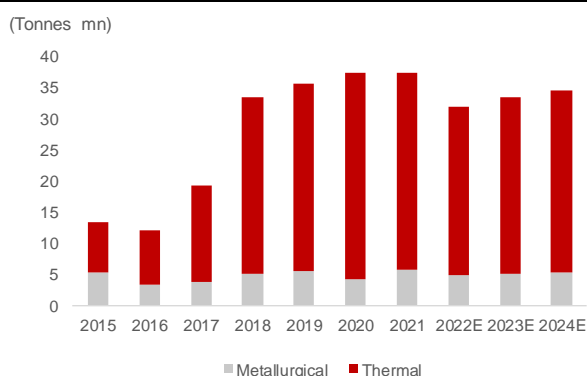
Note*: Managed mines
Source: Company data, CMBIGM

- **2022E Full year guidance.** YAL targets to achieve 31-33mn tonnes of full year production target, with cash cost target (excluding government royalties) of A\$84-89/t. Full year capex budget is A\$550-600mn.

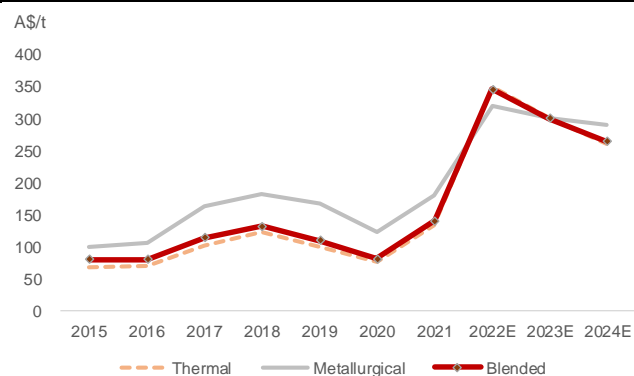
Figure 6: Key operating assumptions

	2017	2018	2019	2020	2021	2022E	2023E	2024E
Marketable coal production (mn tonnes) (100 % equity basis)								
Consolidated 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 Durale	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
Ashton	1.2	1.1	2.2	1.8	1.2	1.0	1.0	1.0
Total	43.8	46.1	49.4	48.9	44.8	39.8	41.6	43.5
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%	45.3%	-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%

Source: Company data, CMBIGM estimates

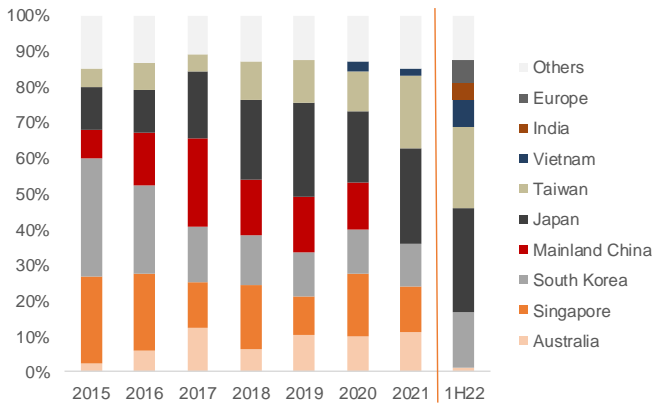
Figure 7: YAL's sales volume projection


Source: Company data, CMBIGM estimates

Figure 8: YAL's ASP assumptions


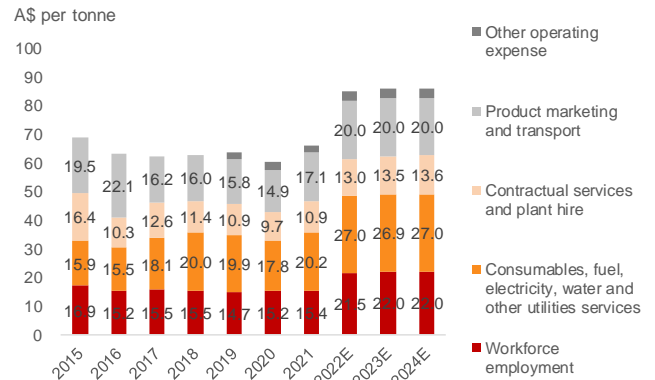
Source: Company data, CMBIGM estimates

Figure 9: YAL's regional revenue breakdown



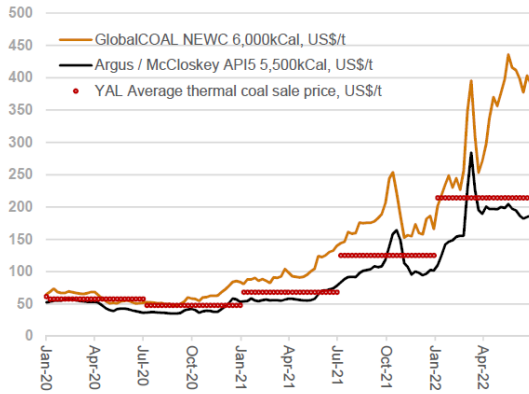
Source: Company data, CMBIGM estimates

Figure 10: YAL's unit cash cost breakdown



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

Figure 11: Thermal benchmarks vs YAL thermal coal ASP



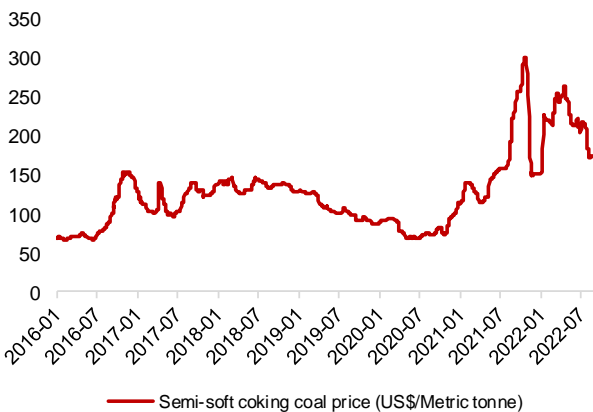
Source: YAL, Argus/McCloskey, GlobalCOAL, CMBIGM

Figure 12: Newcastle Port thermal 6,000 kcal/kg FOB price



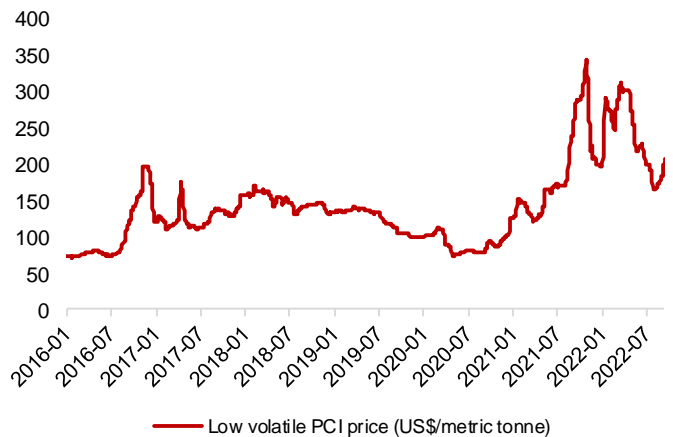
Source: Bloomberg, CMBIGM

Figure 13: Seaborne Semi-soft Coking Coal (SSCC) price



Source: Wind, CMBIGM

Figure 14: Seaborne pulverised coal injection (PCI) price



Source: Wind, CMBIGM

Valuation

Resume coverage with BUY with TP of HK\$53. We value YAL by employing net present value (NPV), a common methodology for valuing miners. 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.

We see overseas coal miners the comparable peers with YAL, given that all YAL's mines are located in Australia. Overseas coal miners generally enjoyed higher valuation compared with HK-listed Chinese names. Cross checking, our TP implies 2.8x/3.6x 2022E/23E P/E, still representing ~30% discount to the overseas peer's average of 4x/5x.

Figure 15: 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

Figure 16: Peers comparison

Ticker	Company	Price (local currency)	Market cap (US\$ m)	PE (x)		PB (x)		EV/EBITDA (x)		Dividend yield (%) FY1
				FY1	FY2	FY1	FY2	FY1	FY2	
Overseas listed										
YAL AU Equity	YANCOAL AUSTRALIA	6.09	5,401	1.7	2.2	0.9	0.8	1.0	1.2	20.1
WHC AU Equity	WHITEHAVEN COAL	8.63	5,542	2.9	4.3	1.4	1.1	1.8	2.6	11.8
NHC AU Equity	NEW HOPE CORPORATION	5.57	3,116	4.6	2.7	1.9	1.3	2.8	1.7	14.3
BTU US Equity	PEABODY ENERGY	20.60	2,964	3.3	3.7	1.3	1.3	1.6	2.0	0.0
GLEN LN Equity	GLENORE PLC	489.30	72,649	3.8	5.9	1.5	1.5	3.0	3.9	10.1
BHP AU Equity	BHP BILLITON	38.04	129,420	8.2	10.2	2.6	2.5	4.2	4.8	8.6
AAL LN Equity	ANGLO AMERICAN	2,818.50	39,438	5.7	6.7	1.3	1.1	3.1	3.4	7.3
BANPU TB Equity	BANPU PUBLIC	13.70	2,501	2.6	3.9	1.0	0.9	3.1	3.8	11.0
ADRO IJ Equity	ADARO ENERGY TBK	3,930.00	8,407	3.9	6.4	1.5	1.4	2.2	3.4	8.8
Average				4.1	5.1	1.5	1.3	2.5	3.0	10.2
Hong Kong listed										
3668 HK Equity	YANCOAL AUSTRALIA	32.80	5,518	1.7	2.2	0.9	0.8	1.0	1.2	20.1
1088 HK Equity	CHINA SHENHUA-H	24.55	83,637	6.2	6.8	1.2	1.1	4.1	4.3	13.5
1171 HK Equity	YANZHOU COAL-H	30.80	29,255	4.5	5.3	1.6	1.3	5.2	5.9	11.4
1898 HK Equity	CHINA COAL ENE-H	7.07	16,955	3.6	3.9	0.7	0.6	3.0	3.1	7.4
639 HK Equity	SHOUGANG FUSHAN	2.64	1,699	4.5	5.1	0.7	0.7	1.4	1.6	16.3
Average				4.1	4.7	1.0	0.9	2.9	3.2	13.7
Average (total)				4.1	5.0	1.3	1.2	2.7	3.1	11.5

Source: Bloomberg, Company data, CMBIGM estimates

- **Key risks:** (1) Decline in coal price; (2) easing geopolitical tension; (3) higher-than-expected production cost.

Financial Summary

Income statement

YE 31 Dec (A\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	3,473	5,403	11,324	10,357	9,559
Other income	-703	-36	57	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	-882	-807	-745
Changes in deferred mining	0	0	0	0	0
Coal purchase	-302	-162	-204	-185	-169
Other operating expenses	-183	-202	-332	-321	-309
Dep & amortization	-804	-831	-835	-841	-819
EBIT	-893	1,305	6,521	5,498	4,701
Finance expenses	-191	-259	-179	-139	-124
Share of profit of JV & associates	-59	57	32	17	18
Pretax profit	-1,143	1,103	6,373	5,376	4,595
Income tax	103	-312	-1,848	-1,613	-1,378
After tax profit	-1,040	791	4,525	3,763	3,216
MI	0	0	0	0	0
Net profit	-1,040	791	4,525	3,763	3,216
Core net profit	-1,040	791	4,525	3,763	3,216
D&A	804	831	835	841	819
EBITDA	-89	2,136	7,356	6,339	5,520

Cash flow summary

YE 31 Dec (A\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Pretax profit	-1,143	1,103	6,373	5,376	4,595
Finance cost	191	259	179	139	124
Interest income	-84	-21	-99	-128	-210
Share of profit or loss of associates	59	-57	-32	-17	-18
Depreciation & amortization	804	831	835	841	819
Income tax paid	0	0	-1,848	-1,613	-1,378
Change in working capital	25	-193	-723	946	-1,324
Others	868	151	0	0	0
Cash flow from operation	720	2,073	4,685	5,545	2,608
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	99	128	210
Others	-133	57	0	0	0
Cash flow from investing	-527	-299	-476	-419	-338
Equity financing	0	0	0	0	0
Net bank borrowings	1	-494	-850	-500	0
Net repayment of borrowings from associates	0	0	0	0	0
Dividend paid	-280	0	-1,626	-2,413	-1,759
Interest paid	-179	-180	-179	-139	-124
Others	-35	-267	0	0	0
Cash flow from financing	-493	-941	-2,655	-3,052	-1,882
Change in cash	-300	833	1,554	2,074	388
Cash at beginning of the year	962	637	1,495	3,049	5,122
Exchange gains/(losses) and others	-25	25	0	0	0
Cash at the end of the year	637	1,495	3,049	5,122	5,510

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	4,863	6,006	7,751
Inventories	312	264	318	298	323
Trade receivables	344	707	1,403	527	1,830
Royalty receivables	16	23	51	17	46
AFS investments	2	0	0	0	0
Others	32	42	42	42	42
Cash	637	1,495	3,049	5,122	5,510
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
Others	0	0	0	0	0
Non-current liabilities	4,663	4,828	3,978	3,478	3,478
Interest-bearing liabilities	3,709	3,369	2,519	2,019	2,019
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	9,045	10,395	11,853
Shareholders' equity	5,191	6,144	9,043	10,393	11,851
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	99.6	98.9	97.9
Sea freight	1.8	1.5	0.7	0.8	0.8
Fair value of losses recycled from	(5.6)	(2.8)	(1.7)	(1.4)	(1.6)
Interest income	2.4	0.4	0.9	1.2	2.2
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	65.9	62.3	59.4
EBIT margin	(25.7)	24.1	57.6	53.1	49.2
Net profit margin	(30.0)	14.6	40.0	36.3	33.6
Core net profit margin	(30.0)	14.6	40.0	36.3	33.6
Growth (%)					
Revenue	(22.1)	55.6	109.6	(8.5)	(7.7)
EBITDA	(105.5)	(2,493.5)	244.4	(13.8)	(12.9)
EBIT	(187.2)	(246.1)	399.8	(15.7)	(14.5)
Net profit	(244.7)	(176.0)	472.4	(16.8)	(14.5)
Core net profit	(308.1)	(176.0)	472.4	(16.8)	(14.5)
Balance sheet ratio					
Current ratio (x)	1.1	3.1	5.5	6.7	8.3
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	35.2	26.2	20.7
ROE	(18.3)	13.9	59.6	38.7	28.9
Per share data					
EPS (A\$)	-0.79	0.60	3.43	2.85	2.44
BVPS (A\$)	3.93	4.65	6.85	7.87	8.97
DPS (A\$)	0.00	0.70	1.71	1.43	1.22

Source: Company data, CMBIGM estimates

Disclosures & Disclaimers

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