

Yanzhou Coal Mining (1171); Tight supply with strong demand of electricity approaching; Buy

We noticed that even the major IPPs have high coal inventories and their buying incentive are low, coal price isn't that low in low season. As we believe the supply in foreseeable future continues to be tight and the market may underestimate the upcoming demand for electricity, for which we initiate BUY for Yancoal as it is currently trading at a discount price on forward PE compared with peers.

Seasonal strong demand approach along with hotter summer

Traditional coal demand peak season usually starts from June. However, extreme weather had shown up in China since the start of year. According to CMA, the national average temperature was 12.6 °C, which was 1.95 °C higher than the normal years in April. Since El Nino will affect China experience a hotter summer, we expect heat wave will arrive earlier than last year. Electricity demand especially from tertiary industry as well as urban and rural resident (URR) electricity consumption amid longer period of extreme hot weather will probably drive social electricity consumption growth beyond 5.5%. We expect demand for coal will pick up as soon as the power plants starts to consume the inventory in late May. Yancoal will be benefited since its major sales region focus in east and north China.

Extra demand from Huazhong while supply still tight

The Inner Mongolia-Jiangxi Railway transporting coal from Inner Mongolia into central and southern China is expected to complete in Oct19. We estimate it will lower transportation costs of around 70-80% less from current level and drive more demand from power plants. Nevertheless, strict Meiguanpiao control at key production regions and mines safety inspections in Shaanxi-Inner Mongolia mines which will not lift in the short term continue tighten market supply. As of end of April, average single well's capacity was 5.18 mtpa while 78 wells (81.65 mpta) still under suspension. Besides, China may continue to cap coal import to support domestic producers. Hence, we believe tight supply will give support to coal price.

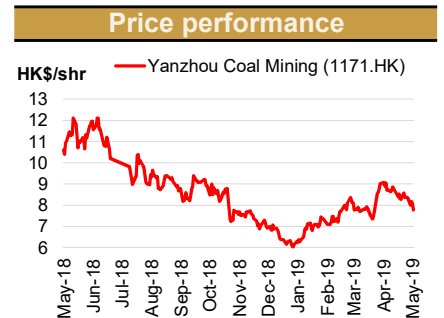
Production recovery along with increasing capacity

Release of production restriction in Ordos Shilawusu and Yingpanyu, as well as increase capacity from Zhuanlongwan and YAL will bring an extra production growth of Yancoal at around 7mt in 2019, accounting for 6% increase YoY. Beyond that, since the government plans to shut down more small-scale coal mines due to safety concerns, the company will benefit from authorities support mines with rich resources and higher safety standards to upgrade their capacities to higher levels.

We initiate our Buy rating with a TP of HK\$10.7, implying 36.1% upside. The company currently trading at 3.4X FY19E PE. The company's undemanding valuation to its peers 48% is attractive. We price the company at 4.7X FY19E PE to reflect its sales volume normalization and strong electricity demand in 3Q19.

Key data				
Sector	Energy			
Rating	Buy			
Price target	HK\$10.70			
Price (HK\$/shr)	7.86			
52wk range (HK\$)	5.95-12.42			
Market cap (HK\$)	15.19 bn			
Shrs outstanding	1.95 bn			
Main ownership	Yankuang Group Co Ltd (14.24%)			
Key indicator forecast				
	FY17	FY18	FY19	FY20E
EPS(HKD)	1.73	2.08	2.29	2.34
P/B(X)	0.7	0.6	0.6	0.6
P/E(X)	4.7	3.9	3.4	3.4
ROE(%)	17.4%	17.3%	17.2%	15.0%
ROA(%)	4.3%	4.3%	4.7%	4.6%

Sources: Company Data, Bloomberg, Anli Research estimates

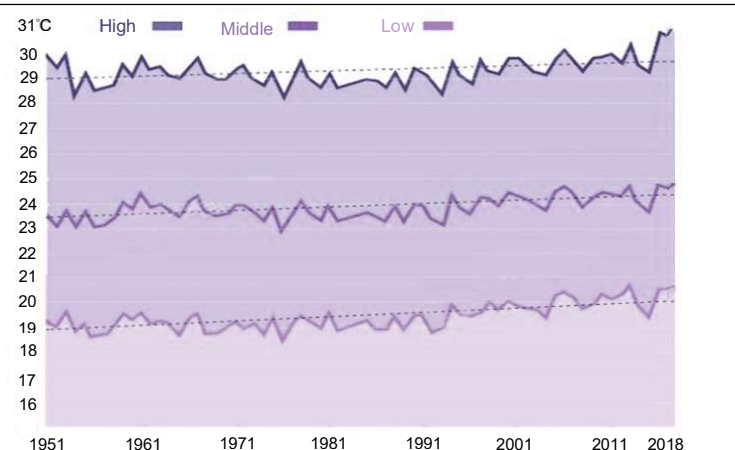


Source: Bloomberg as of 10 May, 2019

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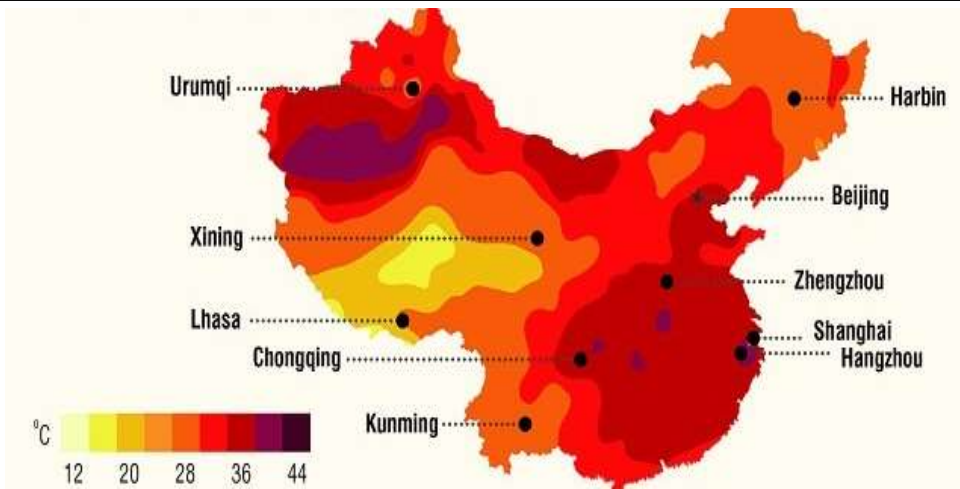
Fig 1. Scientists warned 2019 will be the hottest year in record



Source:CMA, Anli Research

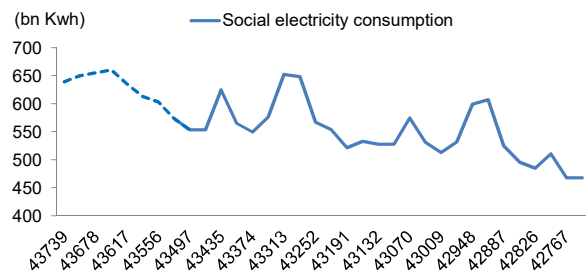
Remarks: Temperature showed above was recorded of 31 provincial-level regions in summer

Fig 2: Southeast and Northern China often record higher temperature in summer



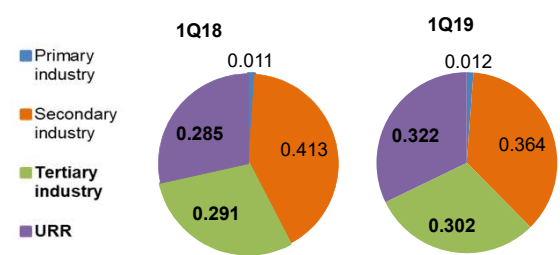
Source: CMA, Anli Research

Fig 3: Social electricity consumption is expected to pick up in 3Q19



Source: NEA, Anli Research estimates

Fig 4: Growth contribution from tertiary industry and URR continues to grow



Source: NEA, Anli Research

Fig 5: Menghua Railway helps to lower transportation cost from Mongolia Mines to Central and Southern China



Source: Ministry of Railways, Company Data, Anli Research

Fig 6: Numbers of coal mines are scheduled to resume and increase production

Mine Names	Segments	Expected production Remarks
Zhuanlongwan Mine	Ordos Neng Hua	+2 mt Approved to increase capacity from 5 mtpa to 10 mtpa
Yingpanhao Mine	Ordos Neng Hua	+1.6 mt Pending for mining right approval. Expect to resume soon
Shilawusu Mine	Haosheng Company	+2 mt Pending for mining right approval. Expect to resume soon
Mount Thorley Warkworth	Yancoal Australia	+1.4 mt Optimization from 18mt to 24mt
Subtotal		+7 mt
Current production		113.94 mt
Expected production in 2019		120.94 m t

Source: Company Data, Anli Research estimates

Fig 7: Company's valuation is well below its peers

Company name	Ticker	Mkt Cap (HKD\$bn)	Last Price (HKD)	P/E(X)		P/B(X)		EV/EBITDA (X)		ROE (%)	
				2019E	2020E	2019E	2020E	2019E	2020E	2019E	2020E
YANZHOU COAL MINING CO-H	1171 HK	15.34	7.86	3.4	3.4	0.6	0.6	7.2	7.3	14.5	13.0
HK listed coal mining companies											
CHINA COAL ENERGY CO-H	1898 HK	13.2	3.22	7.8	7.6	0.4	0.4	7.3	7.2	5.0	5.0
SHOUGANG FUSHAN RESOURCES	639 HK	9.5	1.8	8.0	7.5	0.6	0.6	3.1	3.1	7.3	7.2
CHINA SHENHUA ENERGY CO-H	1088 HK	57.4	16.9	6.7	6.8	0.8	0.8	3.8	3.9	12.1	11.1
Average		26.7	7.3	7.5	7.3	0.6	0.6	4.7	4.7	8.1	7.8
China listed coal mining companies											
SHANXI COAL INTERNATIONAL -A	600546 CH	11.0	5.6	14.6	13.3	1.9	1.7	6.4	6.2	17.8	16.2
SHANGHAI DATUN ENERGY-A	600508 CH	8.5	11.8	12.0	10.0	0.8	0.8	6.2	6.2	9.4	10.1
PINGDINGSHAN TIANAN COAL -A	601666 CH	11.8	5.0	11.3	10.2	0.9	0.8	3.7	3.4	8.9	9.1
CHINA COAL XINJI ENERGY CO-A	601918 CH	10.0	3.9	10.8	10.2	1.7	1.5	6.7	6.4	16.5	15.5
DATONG COAL INDUSTRY CO -A	601001 CH	9.2	5.5	10.7	10.8	1.5	1.3	5.5	5.5	15.0	14.4
JINNENG SCIENCE&TECHNOLOGY-A	603113 CH	9.8	14.4	9.4	8.6	1.7	1.4	5.4	5.0	21.4	19.1
SHANXI LANHUA SCI-TECH-A	600123 CH	9.8	8.6	9.3	8.4	0.9	0.8	6.9	6.4	12.7	12.5
SHANXI LU'AN ENVIRONMENTAL-A	601699 CH	27.0	9.0	8.9	8.3	1.2	1.1	4.5	4.6	15.1	14.9
YANGQUAN COAL INDUSTRY -A	600348 CH	16.4	6.8	8.4	8.0	0.9	0.8	4.7	4.4	12.7	12.3
HUOLINHE OPENCUT COAL IND -A	002128 CH	16.7	6.3	7.9	7.5	1.2	1.1	5.8	5.5	17.9	16.5
Average		32.8	7.7	10.3	9.5	1.3	1.1	5.6	5.4	14.8	14.1

Source: Bloomberg as of May 10 2019, Anli Research estimates

Remarks: CNY/HKD: 1.1642

Yanzhou Coal Mining (1171): Financial summary

Income statement (RMB \$bn)	FY17	FY18	FY19E	FY20E
Sales income	52.7	67.4	72.1	73.6
COGS	(33.8)	(43.1)	(48.2)	(49.2)
Gross Profit	18.9	24.3	23.9	24.4
SG&A	(9.3)	(10.7)	(11.2)	(11.6)
Operating profit	9.7	13.6	12.7	12.8
Share of P/L pf Asso	0.7	1.3	1.3	1.3
Share of P/L pf JV	0.2	0.2	0.2	0.3
Financial cost	(3.3)	(3.6)	(3.3)	(3.1)
Other inc/exp	4.0	4.4	4.5	4.8
Profit before tax	11.3	15.9	15.5	16.0
Income tax	(2.7)	(4.6)	(4.1)	(4.3)
Profit for the year	8.6	11.3	11.3	11.8
Minority interest	1.2	2.7	1.5	1.7
Net profit	7.4	8.6	9.8	10.0

Earnings growth	FY17	FY18	FY19E	FY20E
YoY growth				
Revenue	58.3%	28.1%	6.9%	2.0%
Gross profit	14.9%	28.5%	-1.7%	2.0%
Operating profit	476.4%	41.3%	-6.9%	0.5%
Net profit	346.4%	16.6%	14.2%	2.4%

Margin analysis	FY17	FY18	FY19E	FY20E
Gross margin	35.9%	36.0%	33.1%	33.1%
Operating margin	18.3%	20.2%	17.6%	17.4%
Net margin	14.0%	12.7%	13.6%	13.6%
SG&A and others/sales	17.6%	15.8%	15.5%	15.8%

Ratios	FY17	FY18	FY19E	FY20E
Current ratio(X)	1.0	1.1	1.2	1.3
ROE	17.4%	17.3%	17.2%	15.0%
ROA	4.3%	4.3%	4.7%	4.6%
Inventories days	33	34	34	34
Receivable days	108	57	57	57
Payable days	96	104	105	101
Cash conversion cycle	45	-13	-14	-10

Source: Company Data, Anli Research estimates

Balance Sheet (RMB \$bn)	FY17	FY18	FY19E	FY20E
Fixed assets	46.3	45.3	50.5	55.3
Intangible assets	50.2	47.9	46.5	45.2
Others	35.6	48.0	45.7	47.2
Non-current asset	132.1	141.2	142.7	147.7
Inventories	3.1	4.1	3.9	4.4
Trade Receivables	15.8	10.7	10.2	10.5
Cash	21.1	27.4	35.1	40.1
Others	25.3	22.7	21.6	22.3
Current asset	65.2	64.8	70.8	77.4
Total assets	197.3	206.0	213.5	225.1
Trade & other payables	9.0	12.5	12.7	13.6
Borrowings	27.8	20.1	19.3	18.4
Others	27.0	27.0	25.7	26.6
Current liabilities	63.7	59.6	57.7	58.5
Borrowings	42.6	48.6	46.5	44.6
Others	11.3	10.8	10.2	10.6
Non-Current liabilities	53.9	59.4	56.7	55.1
Total liabilities	117.6	119.0	114.4	113.7
Minority interest	32.3	35.0	37.3	39.5
Shareholders capital	47.4	52.1	61.9	71.9

Cash flow statement (RMB \$bn)	FY17	FY18	FY19E	FY20E
PBT	11.3	15.9	15.5	16.0
Finance Cost	3.2	3.5	3.3	3.1
Working capital changes	(1.4)	0.7	0.4	0.4
Others	(0.9)	(1.8)	(3.8)	(2.7)
CFO	12.2	18.2	17.3	17.2
CAPEX	(22.2)	(9.3)	(9.0)	(9.0)
Others	(8.6)	(0.9)	3.6	(0.1)
CFI	(30.8)	(10.2)	(5.4)	(9.1)
Increase in debt	6.9	(1.9)	(2.7)	(3.0)
Dividends paid	(1.1)	(3.5)	(2.7)	(2.2)
Others	17.8	3.5	(4.0)	(3.0)
CFF	23.6	(1.9)	(9.4)	(8.2)

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