



Sector Report: Coal Sector

行业报告：煤炭行业

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Coal Price to Retreat on Loosening Production Control Policy, “Neutral”

控产政策放松将带来煤价回撤，“中性”

- The “276 working days” policy is the key driver for the decrease in coal production volume in 2016. With the “276 working days” policy, the daily coal output volume of a coal mine is cut by 16% to 84% of its original capacity. The YTD average monthly ROM coal production declined to 272Mt, down by approximately 11% from average level of approximately 306Mt during 2012 and 2015.
- Coal mining FAI fell sharply in 2016, indicating a slowdown of new coal mining capacity growth in the next few years. Also considering the gradual loosening of production control policy, the effective coal mining capacity will gradually pick up during 2017-2018, but the recovery of coal consumption will support the effective coal mining utilisation rate. **Given the recovery of the effective coal mining utilisation rate, we revise up the annual QHD 5,500kcal average price forecasts for 2016/2017/2018 to RMB465/RMB550/RMB550 per tonne, respectively.**
- Sector rating is “Neutral”. The recent thermal coal price hike has forced the NDRC to temporarily loosen the “276 working days” policy, and we believe that thermal coal price will rapidly decline for the next two quarters from the current level (around RMB700/t) back to around RMB500/t. **Thus, we think that the downside risks for coal mining companies are still high at this moment. Sector rating is “Neutral” and no top pick for the sector at this moment.**
- “276 个工作日”政策是 2016 年煤炭产量下跌的关键因素。受“276 个工作日”政策影响，一个煤矿的日产量被削减了 16% 至其初始产量的 84%。年初至今月均原煤产量跌至 2.72 亿吨，较 2012-2015 年间的 3.06 亿吨水平低了大约 11%。
- 煤炭开采行业固定资产在 2016 年快速下跌，预示新建煤炭产能在未来几年的减缓。此外考虑到控产政策的逐步放松，实际煤炭产能在 2017-2018 年将逐步回升，但煤炭消费的恢复也将支撑实际煤炭产能利用率。基于实际煤炭产能利用率的回升，我们将 2016/2017/2018 年的秦皇岛 5,500 大卡年度均价预测分别上调至人民币 465 元/人民币 550 元/人民币 550 元每吨。
- 行业评级“中性”。近期的动力煤价格暴涨已经迫使发改委暂时放松“276 个工作日”政策，我们相信未来两个季度动力煤价格将从目前水平（约人民币 700 元/吨）快速下跌至人民币 500 元/吨。因此我们认为目前煤炭公司的下行风险较高。行业评级为“中性”，目前没有首选股。

Rating:

Neutral

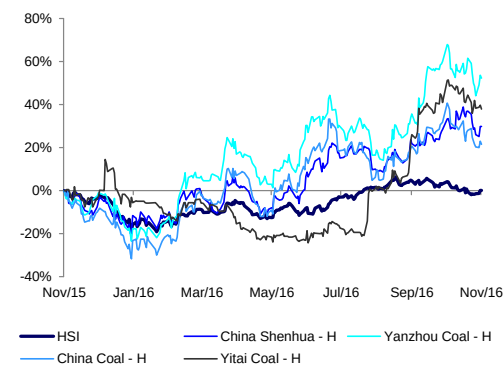
Maintained

评级:

中性 (维持)

Performance of China Coal Miners in Last 52 Weeks

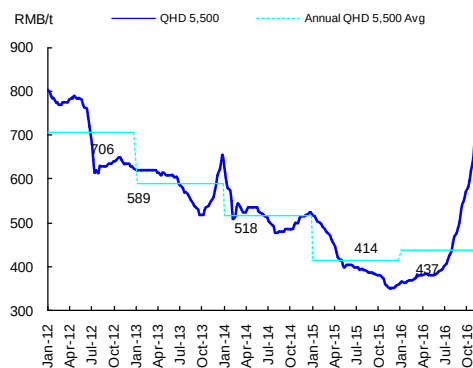
过去 52 周中资煤炭股平均表现



Source: Bloomberg.

Chinese Thermal Coal Price Performance

中国动力煤价格表现



Source: CCTD.

Company Name 公司名称	Ticker 编号	Price 股价 (HK\$)	Target Price 目标价 (HK\$)	Rating 投资评级	FY16 PER 市盈率 (x)	FY17 PER 市盈率 (x)	FY18 PER 市盈率 (x)	FY16 PBR 市净率 (x)	FY16 ROE 净资产收益率 (%)
China Shenhua	01088	16.280	13.20	Neutral	13.1	9.9	9.9	0.9	7.2
Yanzhou Coal	01171	5.740	5.00	Neutral	16.1	10.2	9.1	0.7	4.3
China Coal	01898	4.130	3.65	Neutral	32.7	9.6	9.0	0.6	1.8
Yitai Coal	03948	6.850	5.65	Neutral	16.0	10.3	9.7	0.8	5.4
Weighted Average. 市值加权平均				Neutral	17.5	9.9	9.6	0.8	6.0

Source: Guotai Junan International.

“276 Working Days” Policy Caused Coal Production to Plunge in 2016

The “276 working days” policy is the key driver for the decrease in coal production volume in 2016. With the “276 working days” policy, the daily coal output capacity volume of a coal mine is cut by 16% to 84% of its original capacity. Since the effectiveness of the policy (roughly since 2Q16), the monthly ROM coal production volume fell more than 10% yoy each month (-11.0%/-15.5%/-16.6%/-13.1%/-11.0%/-12.3%/-12.0% for April, May, June, July, August, September and October). The YTD average monthly ROM coal production also declined to 272Mt, down by approximately 11% from average level of approximately 306Mt during 2012 and 2015.

Figure-1: 5-year monthly ROM coal production

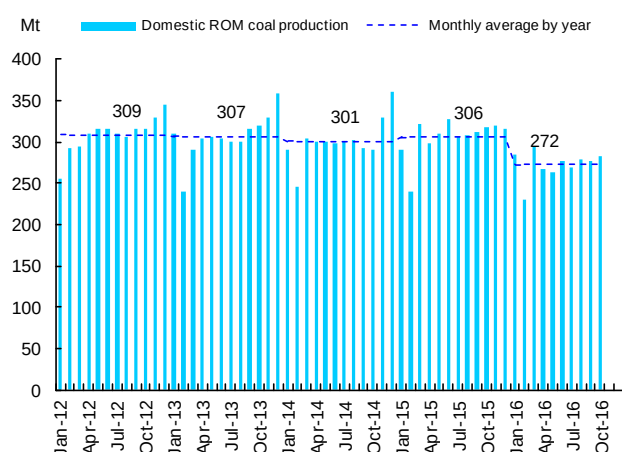
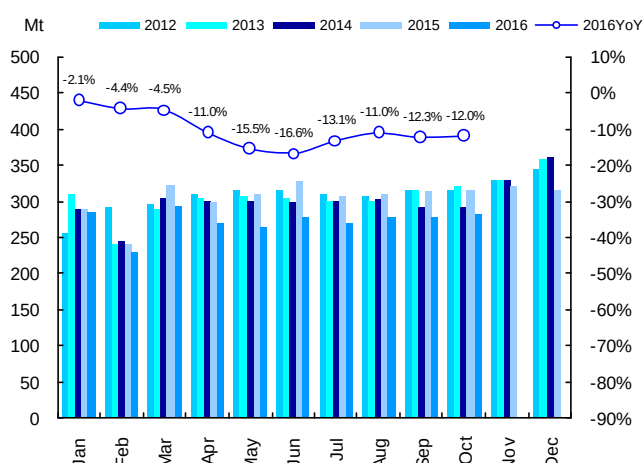


Figure-2: 2016 monthly ROM coal production yoy



Source: National Bureau of Statistics, Guotai Junan International.

Source: National Bureau of Statistics, Guotai Junan International.

Power Consumption Rebounded

Total power consumption growth has rebounded significantly since July 2016 thanks to the tertiary industry and residential sector. 1H16 power consumption growth was still weak, only recording 2.7%. But since July, power consumption growth rebounded robustly, recording 8.2%/8.3%/6.9%/7.0% in July, August, September and October, with an average of 7.6%. The key driver for the rebound was mainly the strong performance in the tertiary industry and residential sector, which on average grew by 14.8% and 16.7% during Jul.-Oct. 2016, much higher than that of the secondary industry (average 4.6% during Jul.-Oct. 2016). We think that the growth driver of power consumption is shifting from the traditional manufacturing sector to the consumer sector, and this shift will continue in the next decade.

Figure-3: Monthly power consumption

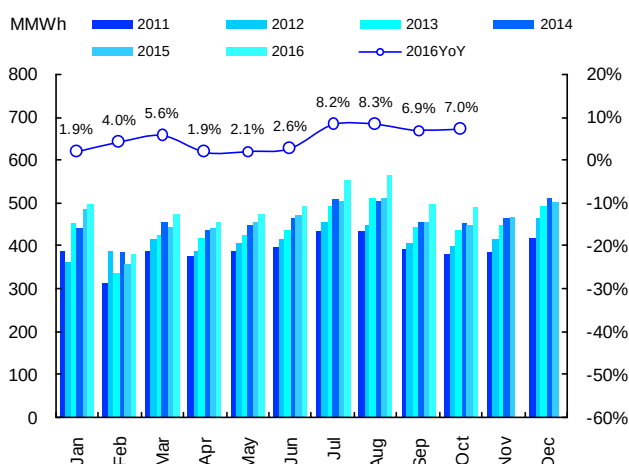
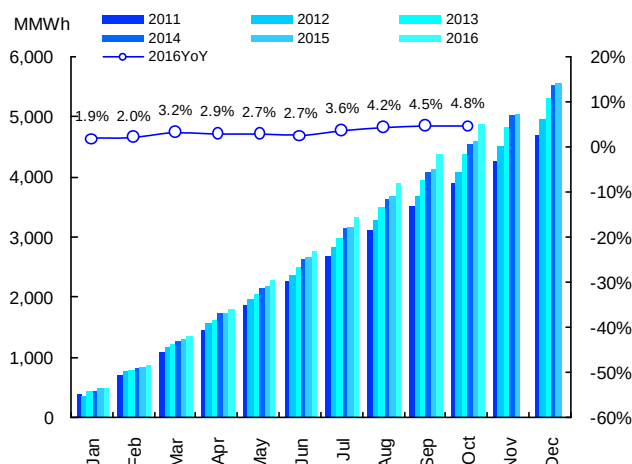


Figure-4: YTD power consumption



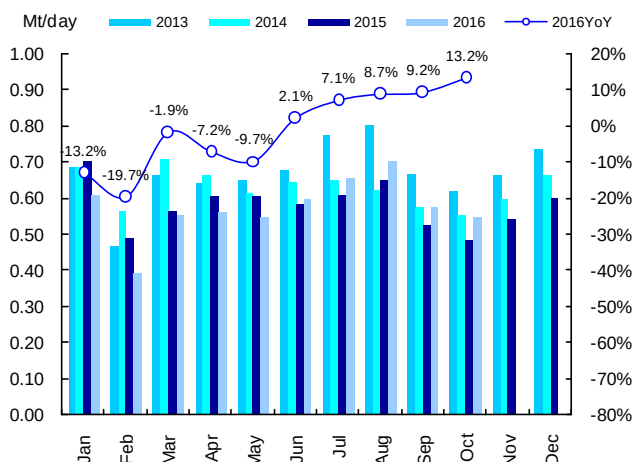
Source: National Energy Administration, Guotai Junan International.

Source: National Energy Administration, Guotai Junan International.

Coal Consumption Recovered

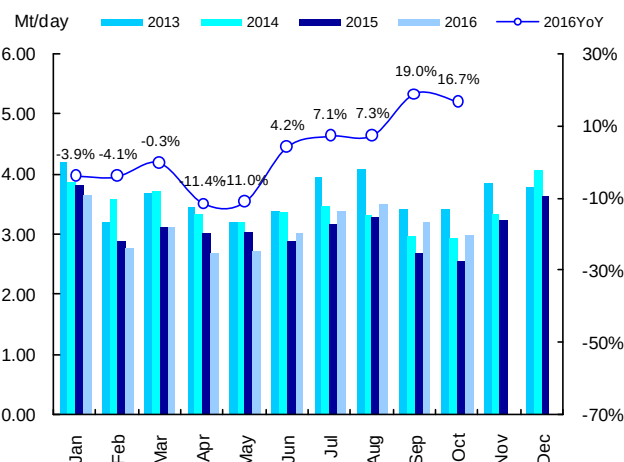
Thermal coal consumption of power plants have started recovery since June 2016. The coal consumption of coastal power plants recovered to positive yoy growth since June 2016, recording 2.1%/7.1%/8.7%/9.2%/13.2% for June, July, August, September and October, 2016. Coal consumption of key power plants also showed similar pattern: recording 4.2%/7.1%/7.3%/19.0%/16.7% yoy growth for June, July, August, September and October, 2016. The recovery of power consumption growth was the main driver for the coal consumption growth recovery.

Figure-5: Coastal power plants coal consumption



Source: WIND, Guotai Junan International.

Figure-6: Key power plants coal consumption

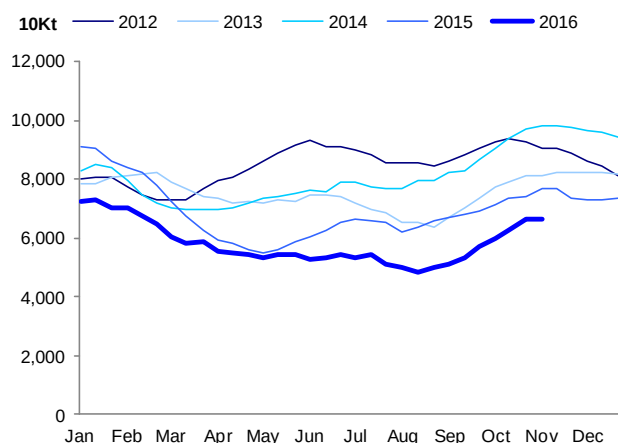


Source: CCTD, Guotai Junan International.

Low Supply and Consumption Recovery Caused Low Inventory at Power Plants

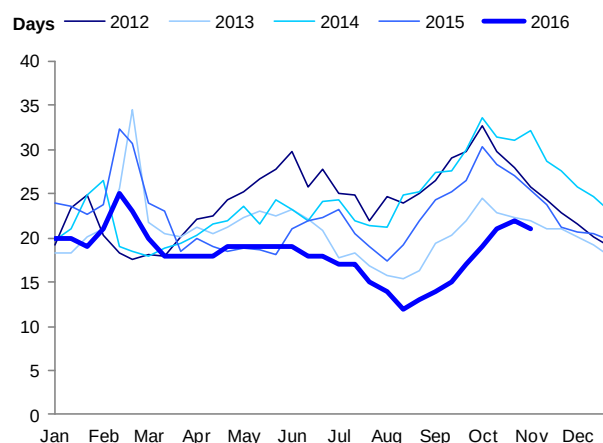
Both coal inventory volume and inventory days remained low in 2016. During Jan.-Oct. 2016, the coal inventory of key power plants ranged from 48.18Mt to 72.71Mt, with an average of 57.98Mt, down 15.5% yoy (68.60Mt for Jan.-Oct. 2015). The coal inventory days also remained low, with a five-year low of 12 days in mid-August, and recovered to 22 days in late October (21.4% or 6 days lower yoy). The low supply and the recovering power consumption are the main reasons for the relatively low power plant inventory levels.

Figure-7: Coal inventory volume of key power plants



Source: National Bureau of Statistics, Guotai Junan International.

Figure-8: Coal inventory days of key power plants

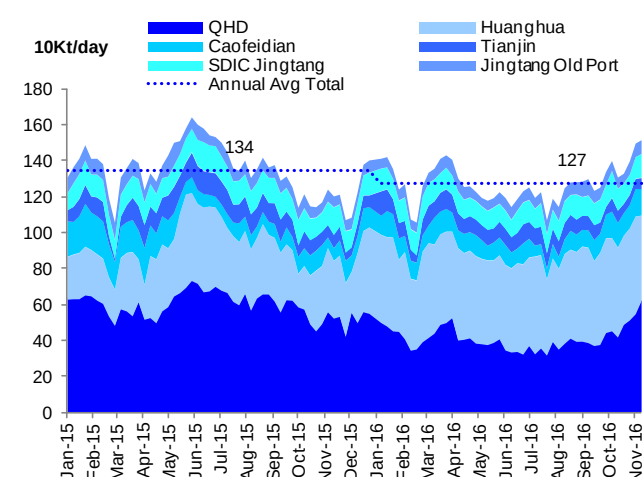


Source: National Bureau of Statistics, Guotai Junan International.

Both Railway Input Volume and Throughput Volume of Bohai-rim Ports Declined

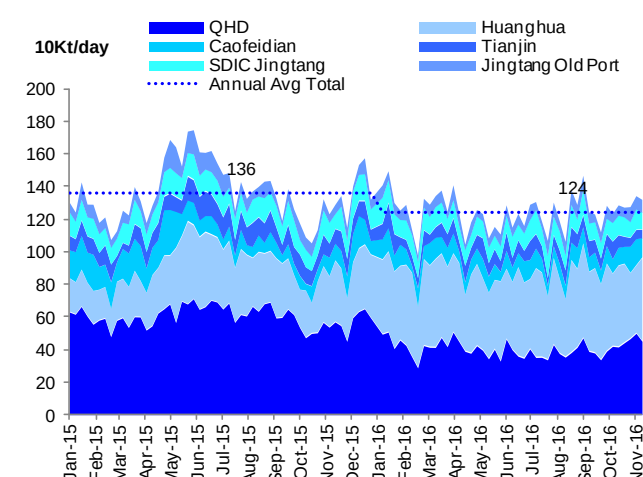
The coal supply decrease caused low coal input volume and throughput volume of Bohai-rim ports in 2016. The YTD average daily coal input volume of 6 ports in Bohai-rim was 1.27Mt/day, 5.3% lower than the annual average in 2015 (1.34Mt/day), and the YTD average daily coal throughput volume of 6 ports in Bohai-rim was only 1.24Mt/day, 8.4% lower than the annual average in 2015 (1.36Mt/day). However, recent figures show that the daily coal input volume has picked up to its YTD high (approximately 1.51Mt/day), indicating the coal supply is recovering.

Figure-9: Coal input volume of 6 ports in Bohai-rim



Source: WIND, Guotai Junan International.

Figure-10: Coal throughput volume of 6 ports in Bohai-rim

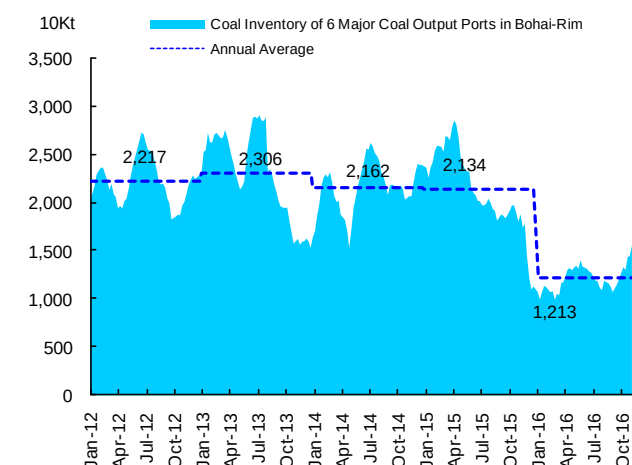


Source: WIND, Guotai Junan International.

Historically Low Inventory Levels at Bohai-rim Ports in 2016

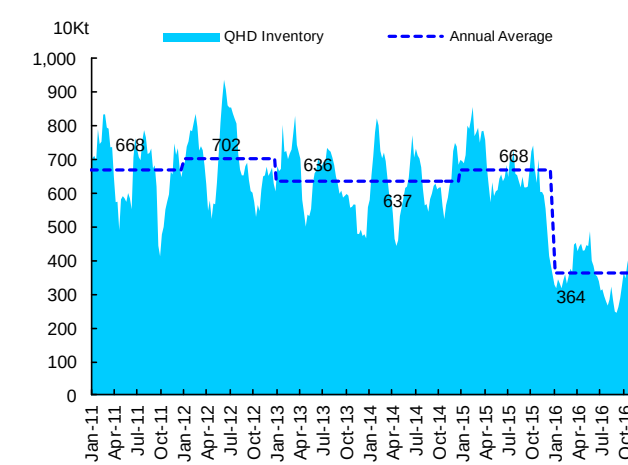
The decrease of coal production volume has resulted in the extremely low inventory levels at Bohai-rim ports in 2016. Due to the coal production decrease, the total coal inventory of 6 ports in Bohai-rim fell sharply in 2016, with a historical low of around 9.9Mt in early March and YTD average of 12.13Mt by early November, 43.2% lower than the annual average level in 2015 (21.34Mt). For QHD port (the leading port among the 6 major coal output ports in the Bohai-rim), the coal inventory even fell to a historical low of 2.46Mt (in early September), while the YTD average only recorded 3.64Mt, -45.5% lower than the annual average in 2015 (6.68Mt). The extremely low coal inventory was the key driver for the thermal coal price hike.

Figure-11: Total coal inventory of 6 ports in Bohai-rim (announced by CCTD)



Source: CCTD, Guotai Junan International.

Figure-12: QHD coal inventory volume

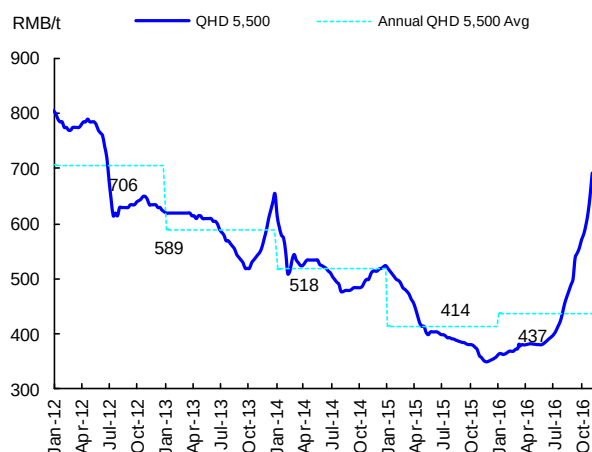


Source: WIND, Guotai Junan International.

Thermal Coal Price Rebounded Tremendously

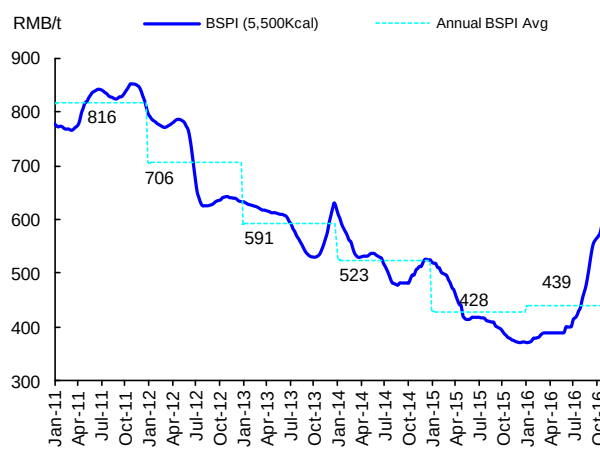
The low inventory and recovering demand resulted in a thermal coal price hike in 2016. QHD 5,500kcal thermal coal spot price picked up from RMB365/t at the beginning of 2016 to almost RMB700/t in early November, up by 92%. The BSPI (Bohai-Rim Steam-Coal Price Index) also hiked significantly from RMB371/t in early January to RMB607/t in early November, up by 64%. The coal price increase has accelerated since 3Q16, mainly driven by the recovering power demand during the summer peak season.

Figure-13: QHD 5,500kcal thermal coal spot price



Source: CCTD, Guotai Junan International.

Figure-14: BSPI (Bohai-Rim Steam-Coal Price Index)

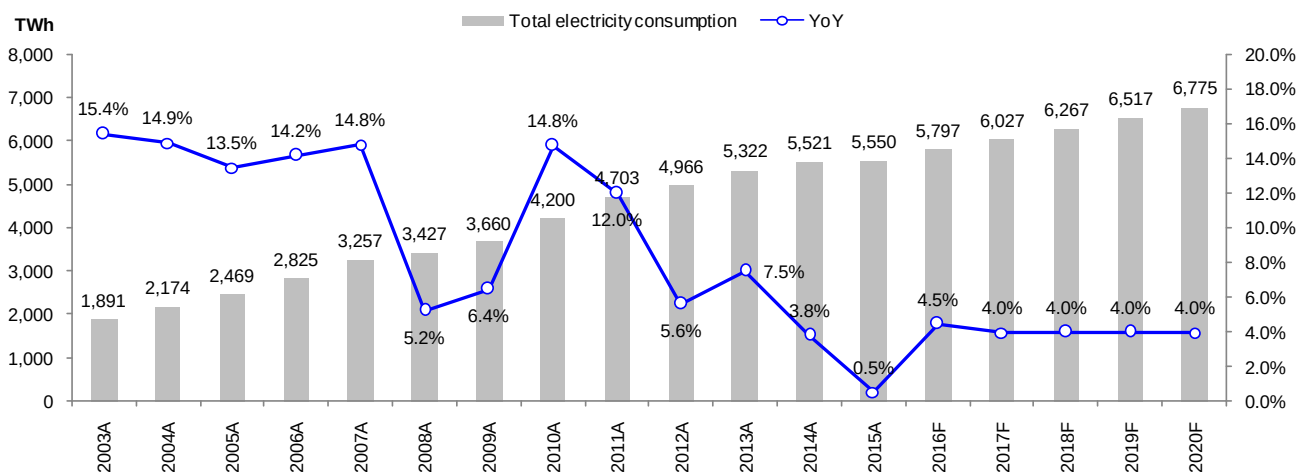


Source: CCTD, Guotai Junan International.

Revise Up Power Consumption Growth Forecasts for 2017-2020

The tertiary industry and residential sector are expected to continue to support power consumption growth. For Jan.-Oct. 2016, both the tertiary industry and residential sector recorded YTD power consumption growth of 11.6%, much higher than the growth of the secondary industry (only 2.3%), showing positive signs that the economy structure is shifting from the traditional manufacturing sector to service and consumer sector. Hence, we revise up the power consumption forecast for 2016 to 4.5%, and CAGR for 2017-2020 is revised up to 4.0% (previously 3.0%).

Figure-15: Total power consumption is forecast to grow at CAGR of 4.0% in 2016-2020

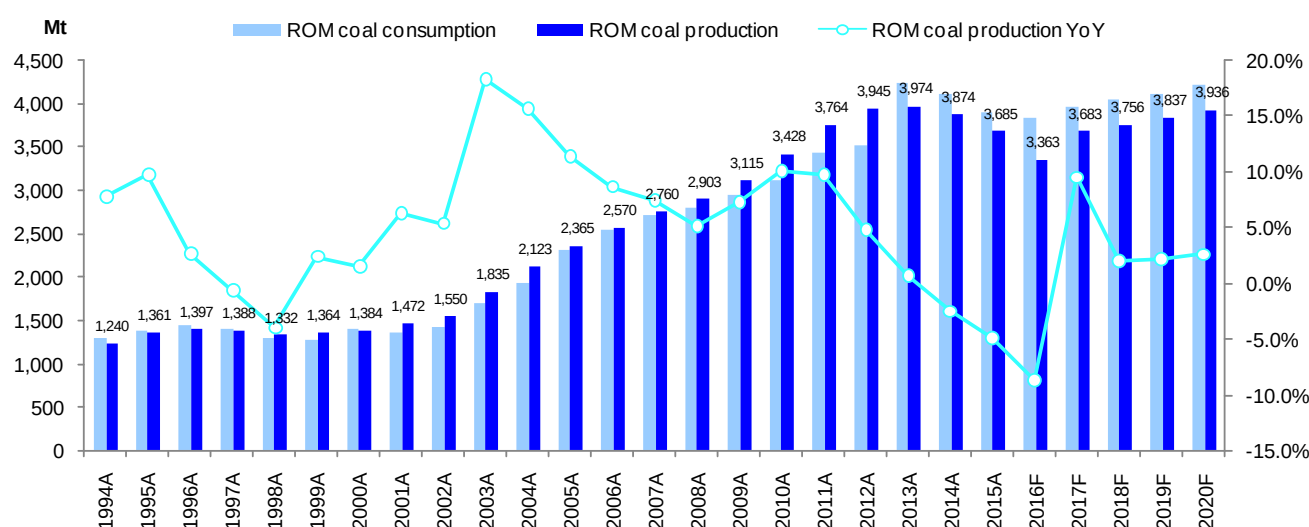


Source: National Energy Administration, Guotai Junan International.

Domestic Coal Production to Grow Modestly in 2017-2020

ROM coal production will fall sharply in 2016, followed by a mild recovery from 2017 to 2020. Due to the introduction of the “276 working days” policy, Jan.-Oct. 2016 ROM coal production retreated by 10.0% yoy to 27.39Mt. For Nov. and Dec. 2016, as the Chinese government is now loosening the “276 working days” policy and pushing coal mining companies to increase their output, we believe that the monthly ROM coal production volume will be higher than the levels during Apr.-Oct. 2016 (approximately 274Mt). Hence, we now forecast that the annual ROM coal production volume for 2016 may decrease by 8.7% yoy to 33.63Mt. For 2017 to 2020, we expect that the government will gradually allow coal miners to resume production back to normal levels, and as a result, the ROM coal production will mainly be driven by domestic energy demand. Based on our power consumption forecast, we expect that the ROM coal production volume will increase at a CAGR of 4.0% during 2017-2020.

Figure-16: ROM coal production is forecast to grow at CAGR of 4.0% from 2016 to 2020



Source: National Energy Administration, Guotai Junan International.

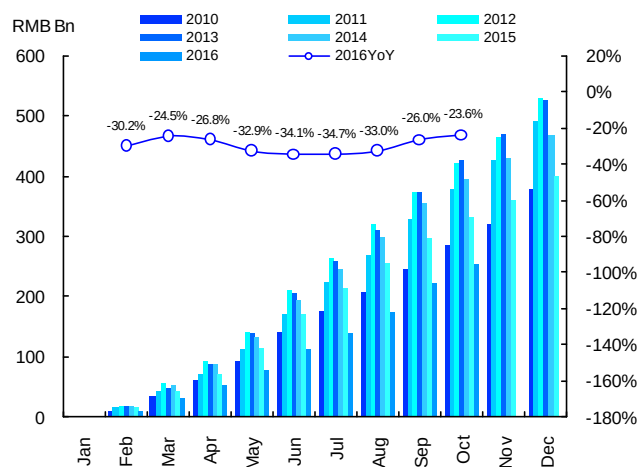
The Effective Coal Mining Utilisation Rate Rebounds in 2016

Coal mining FAI fell sharply in 2016, indicating a slowdown in new coal mining capacity growth in the next few years.

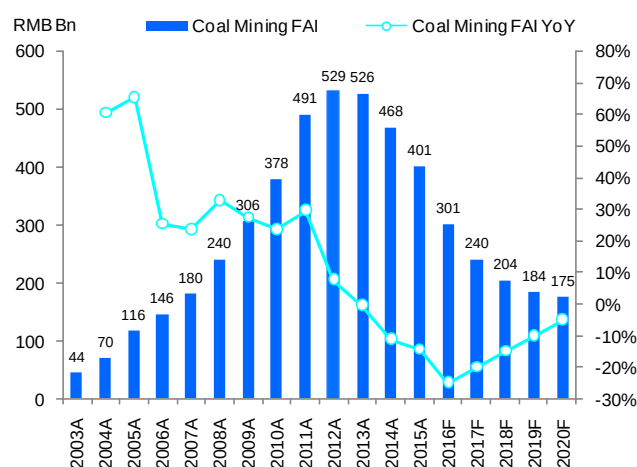
Coal mining FAI dropped by 23.6% yoy in Jan.-Oct. 2016, and we expect that it may drop 25% in 2016. The sharp decline of coal mining FAI growth will lead to a sharp decline in new coal capacity. After accounting in the expected capacity reduction due to government supply-side reform policy (we forecast the capacity reduction to be 250Mt/200Mt/150Mt/100Mt/50Mt per annum for 2016/2017/2018/2019/2020), the total nominal ROM coal capacity may reach its peak in 2016. However, the “276 working days” policy in fact reduced the effective coal production capacity by 16%. As a result, we calculate the effective coal production capacity for 2016 to 2020, assuming the “276 working days” policy will be the most powerful in 2016 (implementing “276 working days” policy for 3 quarters) and then gradually phase out in 2017 (implementing “276 working days” policy for 2 quarters) and 2018 (implementing “276 working days” policy for 1 quarter), while for 2019 and 2020, we think that the coal mining industry will resume to 330 working days as the supply-side reform will be largely done and production restriction policy is no longer needed. The effective utilisation rate is forecast to reach 72%/77%/75%/74%/76% for 2016/2017/2018/2019/2020, respectively.

Revised Up Annual Average Thermal Coal Price Forecasts

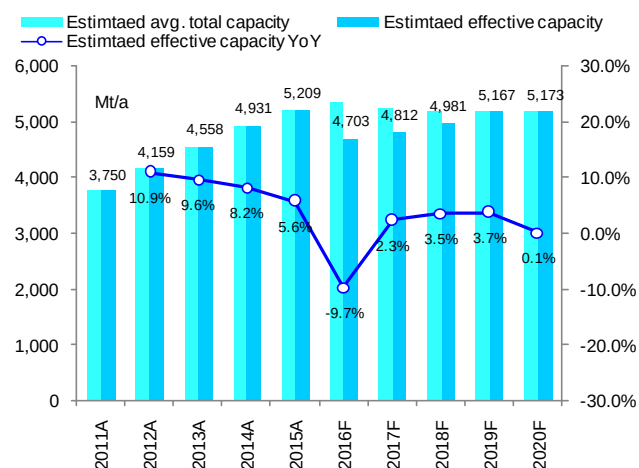
Given the recovery of the effective coal mining utilisation rate, we revise up the annual QHD 5,500kcal average price forecasts for 2016/2017/2018 to RMB465/RMB550/RMB550 per tonne, respectively.

Figure-17: YTD coal mining FAI


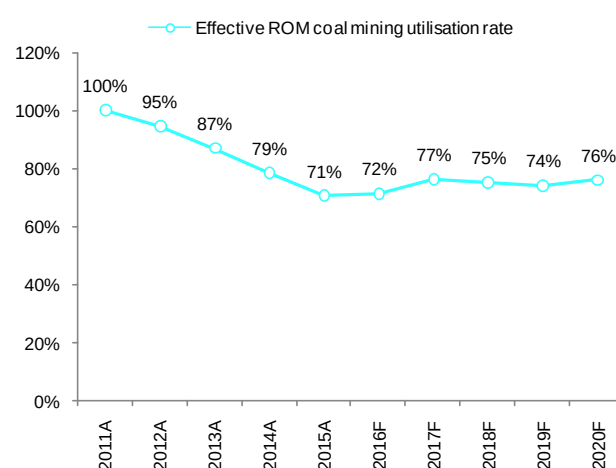
Source: National Bureau of Statistics, Guotai Junan International.

Figure-18: Annual coal mining FAI forecast


Source: National Bureau of Statistics, Guotai Junan International.

Figure-19: Estimated total and the effective ROM coal capacity


Source: Guotai Junan International.

Figure-20: Estimated effective coal mining utilisation rate


Source: Guotai Junan International.

Sector Rating and Top Pick

Sector rating is “Neutral”. In the short term, we believe that the thermal coal price performance in the next two years will continue to be highly affected by the variation of production control policy (i.e. tightening or loosening of the “276 working days” policy), which brings high uncertainty to our earnings forecasts for the sector, and thus we think that the foundation of the recent coal price hike is still fragile. In the medium to long-term (2-3 years), the outcome of coal capacity exit will be the key dominant factor that will affect the long-term coal price outlook. The NDRC has been actively pushing towards the supply-side reform for the coal industry: according to NDRC, by the end of September 2016, the annual coal capacity reduction had completed 80% of the annual target (roughly 200Mt/a), and the NDRC also suggested that the annual target could possibly be reached before the end of 2016. In light of this information, we think that the NDRC’s target of 500Mt/a coal capacity exit and another 500Mt/a reorganising may achieve capacity reduction in 3 to 5 years, and the capacity reduction will ultimately bring the coal price back to normal levels. However, the recent thermal coal price hike has forced the NDRC to temporarily loosen the “276 working days” policy, and we believe for the next two quarters, the thermal coal price will decline quickly from the current level (around RMB700/t) back to around RMB500/t. Thus, we think that the downside risks for the mining companies are still high at this moment. **Sector rating is “Neutral” and no top pick for the sector at this moment.**

Major downside risk factors include: 1) loosening of production control policy, 2) below-expected power demand, 3) higher-than-expected hydro, nuclear and wind power generation, 4) higher-than-expected coal production cost, 5) slower-than-expected coal capacity reduction and consolidation.

Table-1: Sensitivity analysis for Chinese major coal miners

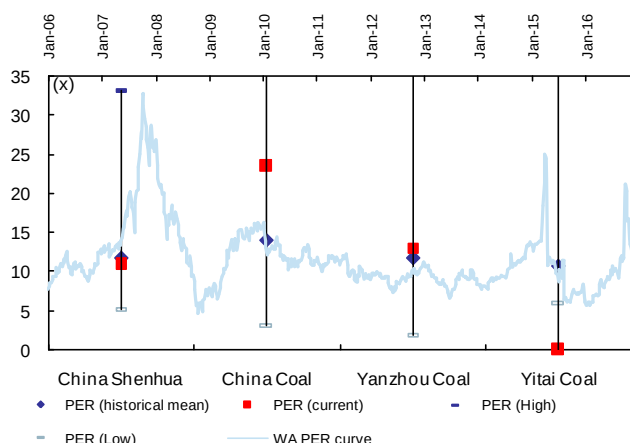
EPS change to key factors	China Shenhua 01088 HK			Yanzhou Coal 01171 HK			China Coal 01898 HK			Yitai Coal 03948 HK		
	2016F	2017F	2018F	2016F	2017F	2018F	2016F	2017F	2018F	2016F	2017F	2018F
Base Case EPS Estimates	1.103	1.461	1.469	0.318	0.500	0.558	0.113	0.381	0.407	0.380	0.591	0.628
Self-produced coal increase by 5%	1.204	1.590	1.596	0.342	0.533	0.595	0.140	0.421	0.450	0.428	0.655	0.696
- EPS change by (RMB)	0.101	0.129	0.126	0.024	0.033	0.036	0.027	0.039	0.043	0.048	0.064	0.068
- % of change	9%	9%	9%	8%	7%	6%	24%	10%	11%	13%	11%	11%
Coal ASP increase by 5%	1.255	1.639	1.646	0.487	0.684	0.751	0.200	0.496	0.535	0.541	0.765	0.813
- EPS change by (RMB)	0.152	0.177	0.177	0.168	0.184	0.192	0.088	0.115	0.128	0.161	0.174	0.185
- % of change	14%	12%	12%	53%	37%	34%	78%	30%	31%	42%	29%	30%
Unit cost of coal production increase by 5%	1.064	1.420	1.426	0.218	0.395	0.449	0.041	0.293	0.309	0.356	0.568	0.602
- EPS change by (RMB)	(0.039)	(0.041)	(0.043)	(0.100)	(0.105)	(0.110)	(0.072)	(0.088)	(0.098)	(0.024)	(0.024)	(0.026)
- % of change	-4%	-3%	-3%	-31%	-21%	-20%	-64%	-23%	-24%	-6%	-4%	-4%

Source: Guotai Junan International.

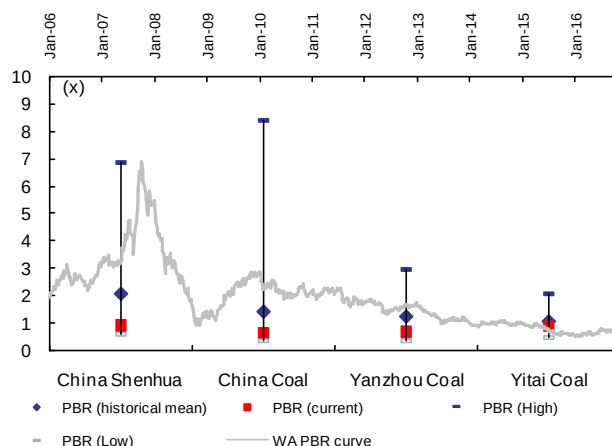
Table-2: The difference between our estimates and market consensus

EPS estimates	Ticker	Our Estimates			Market Consensus			Difference %		
		2016F	2017F	2018F	2016F	2017F	2018F	2016F	2017F	2018F
China Shenhua	01088 HK	1.103	1.461	1.469	1.213	1.319	1.285	-9.1%	10.8%	14.3%
Yanzhou Coal	01171 HK	0.318	0.500	0.558	0.253	0.437	0.328	25.8%	14.3%	70.3%
China Coal	01898 HK	0.113	0.381	0.407	0.113	0.178	0.197	-0.4%	114.3%	106.7%
Yitai Coal	01898 HK	0.380	0.591	0.628	0.165	0.280	0.267	130.4%	111.1%	135.1%

Source: Guotai Junan International.

Figure-21: PER curve (next year) for Chinese coal miners


Source: Bloomberg, Guotai Junan International.

Figure-22: PBR curve (next year) for Chinese coal miners


Source: Bloomberg, Guotai Junan International.

Table-3: Peers comparison of Hong Kong market coal mining sector

Company	Ticker	Rating	Currency	Price	Target	Potential	Mkt cap	Coal Production (Mt)			Production (YoY)			ASP (RMB/t)			
					Price	Uptick	(HK\$ Mn)	2016F	2017F	2018F	2016F	2017F	2018F	2016F	2017F	2018F	
China Shenhua	01088 HK	Neutral	HKD	16.28	13.20	-18.9%	323,803	292	296	298	4.0%	1.2%	0.8%	324	383	383	
Yanzhou Coal	01171 HK	Neutral	HKD	5.74	5.00	-12.9%	28,195	59	63	66	-5.5%	5.9%	4.4%	402	415	415	
China Coal	01898 HK	Neutral	HKD	4.13	3.65	-11.6%	54,758	85	97	107	-11.8%	13.5%	11.3%	336	389	389	
Yitai Coal	03948 HK	Neutral	HKD	6.85	5.65	-17.5%	22,290	40	38	41	5.4%	-4.6%	6.0%	318	371	371	
				EPS (RMB)		EPS (YoY)		EBITDA (RMB Bn)			EBITDA (YoY)			BVPS (RMB)			
Company			2016F	2017F	2018F	2016F	2017F	2018F	2016F	2017F	2018F	2016F	2017F	2018F	2016F	2017F	2018F
China Shenhua			1.103	1.461	1.469	24.3%	32.5%	0.6%	66.5	78.0	77.4	10.5%	17.3%	-0.8%	15.769	16.789	17.674
Yanzhou Coal			0.318	0.500	0.558	851.4%	57.1%	11.8%	10.1	11.7	12.4	47.9%	15.7%	6.1%	7.499	7.903	8.311
China Coal			0.113	0.381	0.407	n.a.	239.0%	6.8%	13.9	19.6	21.0	103.8%	41.2%	7.1%	6.426	6.807	7.100
Yitai Coal			0.380	0.591	0.628	1266.9%	55.5%	6.2%	4.0	5.4	6.1	42.5%	34.8%	12.9%	7.179	7.656	8.106
				Gross Margin		Operating Margin		Net Profit Margin			ROE			EBITDA Margin			
Company			2016F	2017F	2018F	2016F	2017F	2018F	2016F	2017F	2018F	2016F	2017F	2018F	2016F	2017F	2018F
China Shenhua			27.9%	30.1%	29.4%	21.9%	24.8%	24.1%	11.5%	13.4%	13.2%	7.2%	9.0%	8.5%	34.7%	36.0%	35.0%
Yanzhou Coal			28.7%	29.4%	29.9%	16.4%	17.9%	18.6%	4.9%	6.8%	7.3%	4.3%	6.5%	6.9%	31.8%	32.4%	33.3%
China Coal			15.9%	19.6%	19.6%	10.0%	14.3%	14.2%	2.4%	6.7%	6.7%	1.8%	5.8%	5.9%	22.4%	25.9%	25.9%
Yitai Coal			24.0%	27.9%	25.0%	12.2%	17.5%	16.5%	6.0%	8.6%	7.3%	5.4%	8.0%	8.0%	19.7%	24.2%	21.9%
				PER (X)		PBR (X)		EV/EBITDA (X)			Dividend Yield			FCF Yield			
Company			2016F	2017F	2018F	2016F	2017F	2018F	2016F	2017F	2018F	2016F	2017F	2018F	2016F	2017F	2018F
Current Price																	
China Shenhua			13.1	9.9	9.9	0.9	0.9	0.8	4.9	4.1	4.0	3.0%	4.0%	4.1%	7.7%	14.5%	14.1%
Yanzhou Coal			16.1	10.2	9.1	0.7	0.6	0.6	6.8	6.0	5.6	1.9%	2.9%	3.3%	-7.3%	5.9%	10.8%
China Coal			32.7	9.6	9.0	0.6	0.5	0.5	8.5	6.1	5.8	0.0%	3.1%	3.3%	19.2%	12.9%	9.9%
Yitai Coal			16.0	10.3	9.7	0.8	0.8	0.8	15.4	12.6	12.4	1.9%	2.9%	3.1%	-47.9%	-39.1%	-40.6%
At Target Price																	
China Shenhua			10.7	8.0	8.0	0.7	0.7	0.7	4.1	3.4	3.3	3.8%	5.0%	5.0%	9.5%	17.9%	17.5%
Yanzhou Coal			14.0	8.9	8.0	0.6	0.6	0.5	6.5	5.7	5.4	2.1%	3.4%	3.8%	-8.4%	6.8%	12.4%
China Coal			28.9	8.5	8.0	0.5	0.5	0.5	8.1	5.8	5.5	0.0%	3.5%	3.8%	21.7%	14.6%	11.2%
Yitai Coal			13.2	8.5	8.0	0.7	0.7	0.6	14.6	11.9	11.8	2.3%	3.5%	3.7%	-58.1%	-47.5%	-49.2%

Source: Guotai Junan International.

Table-4: Peers valuation comparison of coal sector

Company	Ticker	Currency	Price	Mkt cap (HK\$ mn)	PER (x)			PBR (x)			ROE (%)		
					2016F	2017F	2018F	2016F	2017F	2018F	2016F	2017F	2018F
Hong Kong Market													
CHINA SHENHUA ENERGY CO-H	1088 HK	HKD	16.28	323,803	13.1	9.9	9.9	0.9	0.9	0.8	7.2	9.0	8.5
YANZHOU COAL MINING CO-H	1171 HK	HKD	5.74	28,195	16.1	10.2	9.1	0.7	0.6	0.6	4.3	6.5	6.9
CHINA COAL ENERGY CO-H	1898 HK	HKD	4.13	54,758	32.7	9.6	9.0	0.6	0.5	0.5	1.8	5.8	5.9
INNER MONGOLIA YITAI COAL -H	3948 HK	HKD	6.85	22,290	16.0	10.3	9.7	0.8	0.8	0.8	5.4	8.0	8.0
Hong Kong Market Mean (Simple)					19.5	10.0	9.4	0.8	0.7	0.7	4.7	7.3	7.3
Hong Kong Market Median					16.0	10.1	9.4	0.8	0.7	0.7	4.9	7.2	7.4
Hong Kong Market Mean (Weighted)					16.0	9.9	9.7	0.9	0.8	0.8	6.2	8.3	8.0
A-Share Market													
CHINA SHENHUA ENERGY CO-A	601088 CH	CNY	17.36	387,959	13.9	12.2	11.6	1.1	1.0	1.0	8.5	8.9	8.9
CHINA COAL ENERGY CO-A	601898 CH	CNY	6.58	98,025	113.4	66.5	57.2	1.0	1.0	1.0	1.6	2.6	3.2
YANZHOU COAL MINING CO-A	600188 CH	CNY	12.99	71,693	40.3	25.8	29.4	1.6	1.5	1.5	3.6	6.5	6.3
SHANXI LU'AN ENVIRONMENTAL-A	601699 CH	CNY	9.64	32,401	86.1	28.9	24.1	1.6	1.6	1.5	2.6	5.9	6.4
YANGQUAN COAL INDUSTRY GRP-A	600348 CH	CNY	7.85	21,213	50.0	20.5	18.7	1.4	1.4	1.3	2.4	6.3	7.1
GUIZHOU PANJIANG REFINED-A	600395 CH	CNY	9.95	18,503	94.8	38.3	29.4	2.6	2.5	2.4	3.6	7.6	8.0
JIZHONG ENERGY RESOURCES-A	000937 CH	CNY	8.38	33,271	152.4	45.5	37.1	1.6	1.7	1.6	1.4	3.8	4.7
SHANXI LANHUA SCI-TECH-A	600123 CH	CNY	8.15	10,461	n.a.	65.7	95.9	0.9	0.9	0.9	0.2	0.8	0.9
SHANXI XISHAN COAL & ELEC-A	000983 CH	CNY	10.76	38,098	n.a.	n.a.	n.a.	2.1	2.0	1.9	2.3	5.5	6.3
A-share Market Mean (Simple)					78.7	37.9	37.9	1.6	1.5	1.4	2.9	5.3	5.8
A-share Market Median					86.1	33.6	29.4	1.6	1.5	1.5	2.4	5.9	6.3
A-share Market Mean (Weighted)					45.3	25.8	24.0	1.3	1.2	1.2	5.7	7.0	7.2
Overseas Market													
RIO TINTO PLC	RIO LN	GBp	3,106.50	557,026	16.6	14.7	15.1	1.7	1.7	1.6	10.7	10.5	10.0
BHP BILLITON LIMITED	BHP AU	AUD	25.91	754,569	93.8	24.0	22.8	1.8	1.8	1.7	1.5	7.7	7.1
GLENCORE PLC	GLEN LN	GBp	288.10	398,231	35.3	21.6	18.3	1.2	1.2	1.1	2.5	5.1	6.3
CONSOL ENERGY INC	CNX US	USD	19.66	34,985	n.a.	104.0	24.2	1.1	1.1	1.1	n.a.	0.8	2.7
Overseas Market Mean (Simple)					48.6	41.1	20.1	1.5	1.4	1.4	4.9	6.0	6.5
Overseas Market Median					35.3	22.8	20.5	1.5	1.4	1.4	2.5	6.4	6.7
Overseas Market Mean (Weighted)					55.1	22.1	19.4	1.6	1.6	1.6	4.6	7.8	7.8

Source: Bloomberg, Guotai Junan International.



Company Report: China Shenhua Energy (01088 HK)

公司报告: 中国神华 (01088 HK)

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24 November 2016

Revise Up TP, Maintain "Neutral"

上调目标价, 维持“中性”

- Coal mining FAI fell sharply in 2016, indicating a slowdown in new coal mining capacity growth in the next few years. Also considering the gradual loosening of production control policy, the effective coal mining capacity will gradually pick up during 2017-2018, but the recovery of coal consumption will support the effective coal mining utilisation rate. **Given the recovery of the effective coal mining utilisation rate, we revise up the annual QHD 5,500kcal average price forecasts for 2016/2017/2018 to RMB465/RMB550/RMB550 per tonne, respectively.**
- Key adjustments for China Shenhua:** 1) given the higher coal price forecasts, we revise up the 2016/2017/2018 coal sales ASP forecasts by 21.0%/36.0%/39.6%, 2) the 2016/2017/2018 self-produced coal production forecasts are revised up by 6.2%/6.3%/7.2%, 3) the unit self-produced coal cost forecasts are revised up by 3.3%/10.5%/16.2%, and 4) revise up the average feed-in tariff forecasts for 2017/2018 by 7.2%/8.6%, respectively.
- Revise up TP to HK\$13.20 and maintain "Neutral" rating.** We revise up 2016/2017/2018 EPS of China Shenhua by 28.5%/51.8%/30.1% to RMB1.103/RMB1.461/RMB1.469, respectively. Our new TP represents 10.7x/8.0x/8.0x 2016/2017/2018 PER.
- 煤炭开采行业固定资产在 2016 年快速下跌, 预示新建煤炭产能在未来几年的减缓。此外考虑到控产政策的逐步放松, 实际煤炭产能在 2017-2018 年将逐步回升, 但煤炭消费的恢复也将支撑实际煤炭产能利用率。基于实际煤炭产能利用率的回升, 我们将 2016/2017/2018 年的秦皇岛 5,500 大卡年度均价预测分别上调至人民币 465 元/人民币 550 元/人民币 550 元每吨。
- 对中国神华的关键调整:** 1) 由于提高了煤价预测, 我们将 2016/2017/2018 年煤炭平均售价预测上调了 21.0%/36.0%/39.6%, 2) 2016/2017/2018 年自产煤产量预测上调了 6.2%/6.3%/7.2%, 3) 单位自产煤成本预测上调了 3.3%/10.5%/16.2%, 以及 4) 2017/2018 年平均上网电价上调了 7.2%/8.6%。
- 上调目标价至 13.20 港元, 维持“中性”。** 我们将中国神华的 2016/2017/2018 年 EPS 分别上调了 28.5%/51.8%/30.1% 至人民币 1.103 元/人民币 1.461 元/人民币 1.469 元。我们的新目标价相当于 10.7 倍/8.0 倍/8.0 倍的 2016/2017/2018 财年市盈率。

Rating:

Neutral

Maintained

评级:

中性 (维持)

6-18m TP 目标价:

HK\$13.20

Revised from 原目标价:

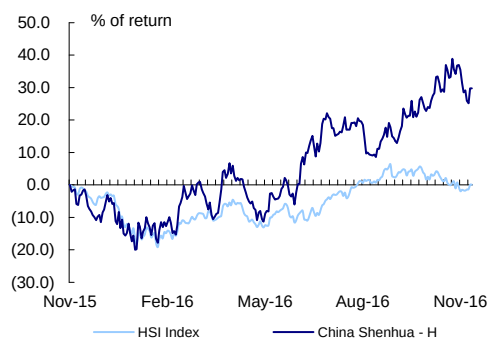
HK\$11.10

Share price 股价:

HK\$16.280

Stock performance

股价表现



Change in Share Price 股价变动	1 M 1 个月	3 M 3 个月	1 Y 1 年
Abs. % 绝对变动 %	1.1	18.7	29.7
Rel. % to HS index 相对恒指变动 %	4.0	19.4	25.8
Avg. share price(HK\$) 平均股价 (港元)	16.6	15.5	13.2

Source: Bloomberg, Guotai Junan International.

Year End 年结 12/31	Turnover 收入 (RMB m)	Net Profit 股东净利 (RMB m)	EPS 每股净利 (RMB)	EPS 每股净利变动 (Δ %)	PER 市盈率 (x)	BPS 每股净资产 (RMB)	PBR 市净率 (x)	DPS 每股股息 (RMB)	Yield 股息率 (%)	ROE 净资产收益率 (%)
2014A	248,360	38,689	1.945	(14.2)	6.7	14.945	0.9	0.740	5.7	13.5
2015A	177,069	17,649	0.887	(54.4)	15.4	14.986	0.9	0.320	2.3	5.9
2016F	191,474	21,939	1.103	24.3	13.1	15.769	0.9	0.441	3.0	7.2
2017F	216,914	29,063	1.461	32.5	9.9	16.789	0.9	0.584	4.0	9.0
2018F	221,201	29,225	1.469	0.6	9.9	17.674	0.8	0.588	4.1	8.5

Shares in issue (m) 总股数 (m)	19,889.6	Major shareholder 大股东	Shenhua Group 73.1%
Market cap. (HK\$ m) 市值 (HK\$ m)	323,803.0	Free float (%) 自由流通比率 (%)	17.1
3 month average vol. 3 个月平均成交股数 ('000)	24,558.0	2016 Net gearing (%) 2016 净负债/股东资金 (%)	10.8
52 Weeks high/low (HK\$) 52 周高/低	17.700 / 10.120	2016 Est. NAV (HK\$) 2016 每股估值 (港元)	16.2

Source: the Company, Guotai Junan International.

Table-5: Key Adjustments of China Shenhua

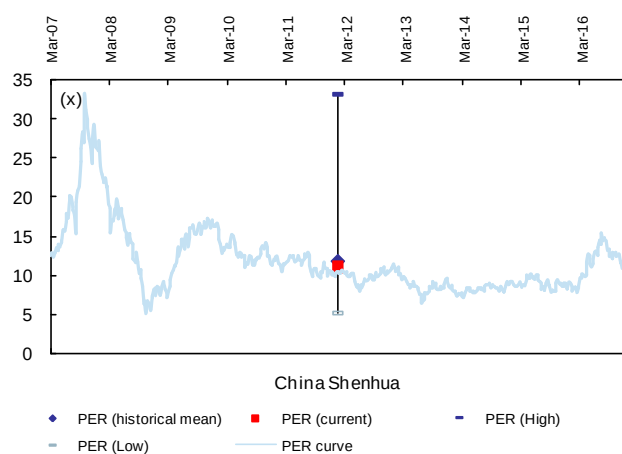
	Old			New			Adjust %/ppt		
	2016F	2017F	2018F	2016F	2017F	2018F	2016F	2017F	2018F
Operation assumptions									
Self-produced coal sales volume (Mt)	275.0	278.0	278.0	292.0	295.5	298.0	6.2%	6.3%	7.2%
Coal sales volume from third party purchase (Mt)	90.8	91.7	91.7	102.2	103.4	104.3	12.6%	12.7%	13.7%
Total coal sales volume (Mt)	365.8	369.7	369.7	394.2	398.9	402.3	7.8%	7.9%	8.8%
ASP of coal sales (RMB/t)	267.3	281.4	295.5	323.5	382.8	382.8	21.0%	36.0%	29.6%
Unit self-produced coal cost (RMB/t)	122.7	118.5	116.7	126.8	130.9	135.6	3.3%	10.5%	16.2%
Unit cost of coal purchase (RMB/t)	195.2	205.4	215.7	210.3	267.9	268.0	7.8%	30.4%	24.2%
Year end operating capacity (MW)	57,248	61,948	68,508	57,598	62,648	69,208	0.6%	1.1%	1.0%
Average operating capacity (MW)	53,998	57,867	65,128	54,060	58,537	65,828	0.1%	1.2%	1.1%
Average utilisation hours (hrs)	4,372	4,243	4,167	4,255	4,176	4,089	-2.7%	-1.6%	-1.9%
Power generation (Bn KWh)	236.1	245.5	271.4	230.1	244.4	269.2	-2.5%	-0.4%	-0.8%
Power sold (Bn KWh)	220.2	229.1	253.4	214.6	228.1	251.3	-2.5%	-0.4%	-0.8%
Average tariff (RMB/MWh)	302.8	284.8	278.0	302.8	305.3	301.9	0.0%	7.2%	8.6%
Unit fuel cost of coal-fired power sold (RMB/MWh)	124.4	130.7	137.1	166.4	196.5	196.4	33.7%	50.3%	43.2%
Dark spread (RMB/MWh)	178.4	154.1	140.8	136.4	108.8	105.5	-23.5%	-29.4%	-25.1%
Financial result adjustments (RMB Mn)									
<u>Total revenue</u>	<u>166,585</u>	<u>170,208</u>	<u>177,521</u>	<u>191,474</u>	<u>216,914</u>	<u>221,201</u>	<u>14.9%</u>	<u>27.4%</u>	<u>24.6%</u>
Coal purchased	(17,710)	(18,848)	(19,791)	(21,491)	(27,711)	(27,951)	21.3%	47.0%	41.2%
Materials, fuel and power	(15,610)	(16,107)	(17,278)	(19,616)	(22,384)	(24,073)	25.7%	39.0%	39.3%
Personnel expenses	(11,871)	(12,076)	(12,569)	(13,193)	(14,014)	(14,936)	11.1%	16.1%	18.8%
D&A	(23,726)	(22,831)	(22,089)	(24,497)	(24,133)	(23,904)	3.2%	5.7%	8.2%
R&M	(8,656)	(8,758)	(9,098)	(9,897)	(10,435)	(11,065)	14.3%	19.1%	21.6%
Transportation charges	(15,100)	(14,952)	(14,760)	(12,364)	(12,364)	(12,347)	-18.1%	-17.3%	-16.3%
Taxes and surcharges	(3,477)	(3,494)	(3,553)	(5,774)	(5,884)	(5,998)	66.1%	68.4%	68.8%
Others	(26,224)	(26,668)	(27,355)	(31,152)	(34,649)	(35,952)	18.8%	29.9%	31.4%
<u>Total COGS</u>	<u>(122,374)</u>	<u>(123,734)</u>	<u>(126,491)</u>	<u>(137,982)</u>	<u>(151,574)</u>	<u>(156,227)</u>	<u>12.8%</u>	<u>22.5%</u>	<u>23.5%</u>
<u>Gross Profit</u>	<u>44,210</u>	<u>46,474</u>	<u>51,029</u>	<u>53,491</u>	<u>65,340</u>	<u>64,974</u>	<u>21.0%</u>	<u>40.6%</u>	<u>27.3%</u>
SG&A	(11,416)	(10,758)	(10,184)	(11,824)	(11,870)	(11,973)	3.6%	10.3%	17.6%
Other net operating income	248	289	326	279	333	384	12.5%	15.2%	17.7%
<u>Operating Profit</u>	<u>33,043</u>	<u>36,006</u>	<u>41,172</u>	<u>41,946</u>	<u>53,803</u>	<u>53,386</u>	<u>26.9%</u>	<u>49.4%</u>	<u>29.7%</u>
Finance income	865	535	713	865	624	943	0.0%	16.6%	32.2%
Finance expenses	(4,171)	(2,906)	(2,099)	(4,171)	(2,906)	(2,011)	0.0%	0.0%	-4.2%
Profits of associates	409	421	426	26	56	92	-93.8%	-86.7%	-78.5%
<u>Profit Before Tax</u>	<u>30,146</u>	<u>34,056</u>	<u>40,211</u>	<u>38,666</u>	<u>51,577</u>	<u>52,410</u>	<u>28.3%</u>	<u>51.4%</u>	<u>30.3%</u>
Income tax	(6,554)	(7,572)	(9,142)	(8,503)	(11,562)	(12,000)	29.7%	52.7%	31.3%
<u>Profit After Tax</u>	<u>23,591</u>	<u>26,484</u>	<u>31,070</u>	<u>30,163</u>	<u>40,015</u>	<u>40,410</u>	<u>27.9%</u>	<u>51.1%</u>	<u>30.1%</u>
Minority interest	(6,522)	(7,333)	(8,603)	(8,223)	(10,952)	(11,184)	26.1%	49.4%	30.0%
<u>Net Profit</u>	<u>17,070</u>	<u>19,151</u>	<u>22,467</u>	<u>21,939</u>	<u>29,063</u>	<u>29,225</u>	<u>28.5%</u>	<u>51.8%</u>	<u>30.1%</u>
EPS (RMB)	0.858	0.963	1.130	1.103	1.461	1.469	28.5%	51.8%	30.1%
Margins and ratios adjustments (%)									
Gross Margin	26.5	27.3	28.7	27.9	30.1	29.4	1.4ppt	2.8ppt	0.6ppt
Operating Margin	19.8	21.2	23.2	21.9	24.8	24.1	2.1ppt	3.6ppt	0.9ppt
Effective Tax Rate	21.7	22.2	22.7	22.0	22.4	22.9	0.2ppt	0.2ppt	0.2ppt
Net Profit Margin	10.2	11.3	12.7	11.5	13.4	13.2	1.2ppt	2.1ppt	0.6ppt
ROE	5.6	6.1	6.8	7.2	9.0	8.5	1.5ppt	2.9ppt	1.7ppt
Net Debt/Equity	10.1	4.3	(2.6)	10.8	2.5	(4.7)	0.7ppt	-1.8ppt	-2.0ppt

Source: the Company, Guotai Junan International

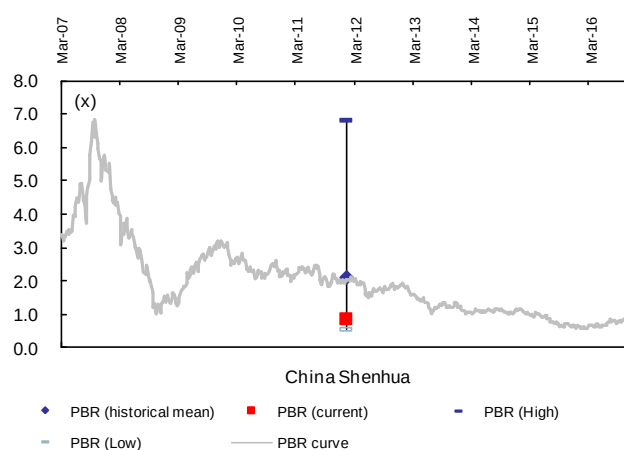
Table-6: Sensitivity analysis for China Shenhua

Key factors	EPS (RMB)		
	2016F	2017F	2018F
Base case estimates	1.103	1.461	1.469
EPS (RMB)			
Self-produced coal production volume +5%	1.204	1.590	1.596
Overall coal ASP +5%	1.255	1.639	1.646
Unit production cost of self-produced coal +5%	1.064	1.420	1.426
Coal-fired capacity utilisation +5%	1.137	1.487	1.497
Avg coal-fired on-grid tariff +5%	1.195	1.559	1.575
Avg borrowing rate up 25bps	1.097	1.456	1.466
EPS change (RMB)			
Self-produced coal production volume +5%	0.101	0.129	0.126
Overall coal ASP +5%	0.152	0.177	0.177
Unit production cost of self-produced coal +5%	(0.039)	(0.041)	(0.043)
Coal-fired capacity utilisation +5%	0.034	0.026	0.027
Avg coal-fired on-grid tariff +5%	0.092	0.098	0.106
Avg borrowing rate up 25bps	(0.006)	(0.005)	(0.004)
EPS change (%)			
Self-produced coal production volume +5%	9.2%	8.8%	8.6%
Overall coal ASP +5%	13.8%	12.1%	12.0%
Unit production cost of self-produced coal +5%	-3.6%	-2.8%	-3.0%
Coal-fired capacity utilisation +5%	3.1%	1.8%	1.9%
Avg coal-fired on-grid tariff +5%	8.3%	6.7%	7.2%
Avg borrowing rate up 25bps	-0.6%	-0.3%	-0.3%

Source: Guotai Junan International

Figure-23: PER curve (next year) for China Shenhua


Source: Bloomberg, Guotai Junan International.

Figure-24: PBR curve (next year) for China Shenhua


Source: Bloomberg, Guotai Junan International.

Financial Statements and Ratios

Income Statement					
Year end Dec (RMB m)	2014A	2015A	2016F	2017F	2018F
Turnover	248,360	177,069	191,474	216,914	221,201
Purchase from Third Party	(43,545)	(17,264)	(21,491)	(27,711)	(27,951)
RM & Coal Cost	(20,640)	(15,816)	(19,616)	(22,384)	(24,073)
Staff Cost	(10,980)	(11,874)	(13,193)	(14,014)	(14,936)
D&A	(18,700)	(21,134)	(24,497)	(24,133)	(23,904)
Maintenance	(9,270)	(8,619)	(9,897)	(10,435)	(11,065)
Transportation Cost	(14,526)	(12,193)	(12,364)	(12,364)	(12,347)
Taxes and surcharges	(4,051)	(5,833)	(5,774)	(5,884)	(5,998)
Others	(53,131)	(30,608)	(31,152)	(34,649)	(35,952)
Opt. Cost	(174,843)	(123,341)	(137,982)	(151,574)	(156,227)
SG&A	(9,459)	(10,298)	(11,824)	(11,870)	(11,973)
Other Costs	(233)	(4,823)	279	333	384
Total Opt. Expenses	(184,535)	(138,462)	(149,527)	(163,111)	(167,815)
Opt. Profit	63,825	38,607	41,946	53,803	53,386
Net Financing Cost	(3,290)	(4,515)	(3,306)	(2,282)	(1,068)
Investment Income	0	0	0	0	0
Gain from Associates	410	428	26	56	92
Profit before Tax	60,945	34,520	38,666	51,577	52,410
Taxation	(12,562)	(9,561)	(8,503)	(11,562)	(12,000)
Profit after Tax	48,383	24,959	30,163	40,015	40,410
Minority Interest	(9,694)	(7,310)	(8,223)	(10,952)	(11,184)
Net Profit	38,689	17,649	21,939	29,063	29,225
EPS (RMB)	1.945	0.887	1.103	1.461	1.469
DPS (RMB)	0.740	0.320	0.441	0.584	0.588

Margin and Efficiency					
	2014A	2015A	2016F	2017F	2018F
EBITDAR %	33.4	34.0	34.7	36.0	35.0
Operating Profit Margin %	25.7	21.8	21.9	24.8	24.1
Net Profit Margin %	15.6	10.0	11.5	13.4	13.2
Dividend Payout Ratio	38.0	36.1	40.0	40.0	40.0
Inventory Days	34.9	42.3	37.7	40.1	42.0
Receivable Days	42.0	73.1	79.7	76.4	80.3
Payable Days	79.4	106.9	77.7	64.6	71.8

Growth (%)					
	2014A	2015A	2016F	2017F	2018F
Turnover	(12.5)	(28.7)	8.1	13.3	2.0
EBITDA	(5.8)	(27.5)	10.5	17.3	(0.8)
Operating Profit	(9.5)	(39.5)	8.6	28.3	(0.8)
Net Profit	(14.2)	(54.4)	24.3	32.5	0.6
Dividend	(18.7)	(56.8)	37.9	32.5	0.6

Profitability					
	2014A	2015A	2016F	2017F	2018F
ROE (%)	13.5	5.9	7.2	9.0	8.5
ROA (%)	7.4	3.2	4.0	5.2	5.0
ROC (%)	17.1	10.2	10.6	13.3	13.1

Financial Ratios					
	2014A	2015A	2016F	2017F	2018F
Net Debt/Equity (%)	14.7	16.3	10.8	2.5	Net Cash
Current Ratio (x)	1.1	1.2	1.2	1.4	1.4
Interest Coverage (x)	19.4	8.6	12.7	23.6	50.0

Source: the Company, Guotai Junan International.

Balance Sheet					
Year end Dec (RMB m)	2014A	2015A	2016F	2017F	2018F
Fixed Assets	281,514	339,326	329,980	322,697	318,808
Construction in Process	78,924	33,610	36,086	41,847	49,416
Intangible Assets	1,509	2,964	2,719	2,561	2,477
Investment in Associates	5,016	5,113	5,613	6,104	6,650
Other Investment	1,795	1,795	1,795	1,795	1,795
Lease Prepayment	14,825	16,535	16,305	16,131	16,012
Deferred Asset	2,042	2,674	3,519	4,344	5,169
Other Non-current Asset	34,635	36,738	34,281	35,406	37,186
Non-current Assets	420,260	438,755	430,297	430,886	437,513
Inventory	15,790	12,816	15,702	17,567	18,380
Trade Receivable	29,914	41,019	42,550	48,203	49,156
Current Prepayments	29,431	19,351	20,635	22,235	23,835
Fixed Deposit	1,275	916	1,270	898	1,388
Cash and Equivalent	35,956	42,323	29,935	46,259	54,169
Others	6,271	4,611	6,348	4,490	6,939
Current Assets	118,637	121,036	116,440	139,653	153,866
Total Assets	538,897	559,791	546,737	570,538	591,379
Short-term Borrowing	17,330	12,812	10,849	9,255	6,526
Trade Payable	38,286	33,990	24,756	28,910	32,569
Tax Payable	2,617	1,965	1,701	2,312	2,400
Other Payables	40,354	47,519	44,314	47,109	49,494
Others	10,274	5,201	12,519	10,260	17,425
Current Liabilities	108,861	101,487	94,139	97,846	108,415
Long-term Borrowing	63,659	88,785	61,478	52,444	36,983
LT Payables, non-current	1,546	2,523	2,234	2,261	2,280
Accrued Expenses	2,102	2,197	2,318	2,445	2,580
Deferred Tax Liability	1,130	878	1,173	1,448	1,723
Non-current Liabilities	68,437	94,383	67,203	58,597	43,566
Minority Interest	64,355	65,853	71,752	80,165	87,869
Shareholder's Equity	297,244	298,068	313,643	333,930	351,530
Total Equity	361,599	363,921	385,395	414,095	439,399
Total Liabilities and Equity	538,897	559,791	546,737	570,538	591,379
BVPS (RMB)	14.945	14.986	15.769	16.789	17.674

Cash Flow Statement					
	2014A	2015A	2016F	2017F	2018F
PBT	60,945	34,520	38,666	51,577	52,410
D&A	20,749	23,990	27,837	27,423	27,164
Net Interest Expense	4,417	4,483	4,171	2,906	2,011
Change of Working Capital	(5,116)	(2,246)	(18,140)	(2,170)	2,679
Tax Payment	(12,620)	(10,760)	(8,503)	(11,562)	(12,000)
Others	(864)	5,419	(84)	103	(268)
Operating Cash Flow	67,511	55,406	43,947	68,278	71,995
Capital Investment	(44,268)	(29,685)	(20,000)	(25,000)	(30,000)
Land Lease Prepayment	(271)	(191)	(200)	(250)	(300)
Disposal	686	640	382	371	363
Dividend Received	357	309	214	307	337
Change of Restricted Bank Deposits	377	1,660	1,737	(1,858)	2,449
Change of Fixed Deposit	17	359	(354)	372	(490)
Others	(61)	785	765	499	793
Investing Cash Flow	(43,163)	(26,123)	(17,456)	(25,559)	(26,848)
New Borrowing	44,500	26,458	50,000	40,000	25,000
Repayment of Borrowing	(63,753)	(22,756)	(74,617)	(50,629)	(43,189)
Dividend Paid	(18,100)	(14,718)	(6,365)	(8,776)	(11,625)
Others	10,631	(12,141)	(7,898)	(6,989)	(7,424)
Financing Cash Flow	(26,722)	(23,157)	(38,879)	(26,394)	(37,238)
Net Cash Change	(2,374)	6,126	(12,388)	16,325	7,909
Cash b/f	38,332	35,962	42,323	29,935	46,259
FX	(2)	235	0	0	0
Cash c/f	35,956	42,323	29,935	46,259	54,169



Company Report: China Coal Energy (01898 HK)

公司报告: 中煤能源 (01898 HK)

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24 November 2016

Revise Up TP, Maintain "Neutral"

上调目标价, 维持“中性”

- Coal mining FAI fell sharply in 2016, indicating a slowdown in new coal mining capacity growth in the next few years. Also considering the gradual loosening of production control policy, the effective coal mining capacity will gradually pick up during 2017-2018, but the recovery of coal consumption will support the effective coal mining utilisation rate. **Given the recovery of the effective coal mining utilisation rate, we revise up the annual QHD 5,500kcal average price forecasts for 2016/2017/2018 to RMB465/RMB550/RMB550 per tonne, respectively.**
- Key adjustments for China Coal:** 1) given the higher coal price forecasts, we revise up the 2016/2017/2018 self-produced coal sales ASP forecasts by 24.9%/39.2%/33.0%, 2) revise up the 2016/2017/2018 unit cost of self-produced coal assumptions by 0.5%/8.3%/8.4%, and 3) revise down forecasts for 2016/2017/2018 chemical product sales volumes and unit COGS.
- Revise up TP to HK\$3.65 and maintain "Neutral" rating.** As we revise up coal price forecasts, we revise up China Coal's 2016/2017/2018 EPS to RMB0.113/RMB0.381/RMB0.407, respectively. Our new TP represents 28.9x/8.5x/8.0x 2016/2017/2018 PER.
- 煤炭开采行业固定资产在 2016 年快速下跌, 预示新建煤炭产能在未来几年的减缓。此外考虑到控产政策的逐步放松, 实际煤炭产能在 2017-2018 年将逐步回升, 但煤炭消费的恢复也将支撑实际煤炭产能利用率。基于实际煤炭产能利用率的回升, 我们将 2016/2017/2018 年的秦皇岛 5,500 大卡年度均价预测分别上调至人民币 465 元/人民币 550 元/人民币 550 元每吨。
- 对中煤能源的其他关键调整:** 1) 由于提高了煤价假设, 我们将 2016/2017/2018 年自产商品煤平均售价预测上调 24.9%/39.2%/33.0%, 2) 将 2016/2017/2018 年单位自产煤成本分别上调 0.5%/8.3%/8.4%, 以及 3) 下调了 2016/2017/2018 年煤化工产品的销量预测以及平均成本预测。
- 上调目标价至 3.65 港元, 维持“中性”评级。** 由于提高了煤价预测, 我们将中煤能源 2016/2017/2018 年每股盈利分别上调至人民币 0.113 元/人民币 0.381 元/人民币 0.407 元。我们的新目标价相当于 28.9 倍/8.5 倍/8.0 倍的 2016/2017/2018 年市盈率。

Rating:

Neutral

Maintained

评级:

中性 (维持)

6-18m TP 目标价:

HK\$3.65

Revised from 原目标价:

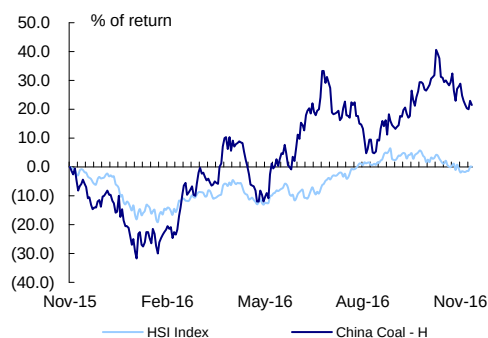
HK\$3.00

Share price 股价:

HK\$4.130

Stock performance

股价表现



Change in Share Price 股价变动	1 M 1 个月	3 M 3 个月	1 Y 1 年
Abs. % 绝对变动 %	(7.8)	11.0	21.5
Rel. % to HS index 相对恒指变动 %	(4.9)	11.7	17.5
Avg. share price(HK\$) 平均股价 (港元)	4.4	4.2	3.5

Source: Bloomberg, Guotai Junan International.

Year End 年结 12/31	Turnover 收入 (RMB m)	Net Profit 股东净利 (RMB m)	EPS 每股净利 (RMB)	EPS 每股净利变动 (Δ %)	PER 市盈率 (x)	BPS 每股净资产 (RMB)	PBR 市净率 (x)	DPS 每股股息 (RMB)	Yield 股息率 (%)	ROE 净资产收益率 (%)
2014A	70,664	141	0.011	(96.3)	310.6	6.554	0.5	0.024	0.7	0.2
2015A	59,271	(3,267)	(0.246)	n.a.	n.a.	6.313	0.5	0.000	0.0	(3.8)
2016F	61,911	1,492	0.113	n.a.	32.7	6.426	0.6	0.000	0.0	1.8
2017F	75,612	5,057	0.381	239.0	9.6	6.807	0.5	0.114	3.1	5.8
2018F	80,990	5,399	0.407	6.8	9.0	7.100	0.5	0.122	3.3	5.9

Shares in issue (m) 总股数 (m)	13,258.7	Major shareholder 大股东	China National Coal Group 57.8%
Market cap. (HK\$ m) 市值 (HK\$ m)	54,758.3	Free float (%) 自由流通比率 (%)	31.0
3 month average vol. 3 个月平均成交股数 ('000)	17,059.5	2016 Net gearing (%) 2016 净负债/股东资金 (%)	76.2
52 Weeks high/low (HK\$) 52 周高/低	4.880 / 2.310	2016 Est. NAV (HK\$) 2016 每股估值 (港元)	4.5

Source: the Company, Guotai Junan International.

Table-7: Key adjustments for China Coal

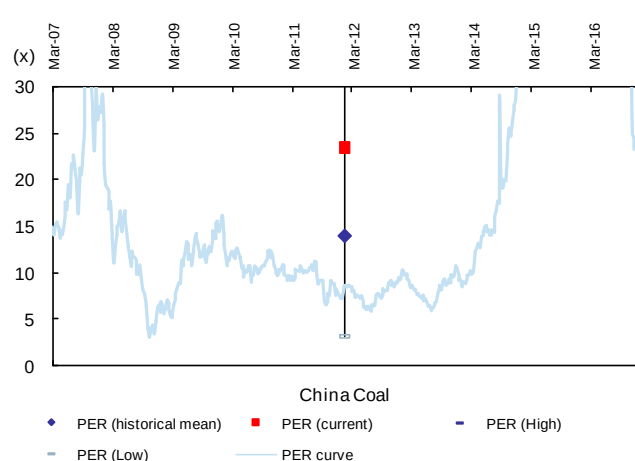
	Old			New			Change %/ppt		
	2016F	2017F	2018F	2016F	2017F	2018F	2016F	2017F	2018F
Coal business operating assumptions									
Self-produced commercial coal production (10kt)	9,748	9,939	10,490	8,507	9,656	10,745	-12.7%	-2.8%	2.4%
Self-produced commercial coal sales (10kt)	9,856	10,048	10,606	8,688	9,861	10,973	-11.9%	-1.9%	3.5%
ASP of overall self-produced coal (RMB/t)	269	280	293	336	389	389	24.9%	39.2%	33.0%
Unit cost of self-produced commercial coal (RMB/t)	290	291	292	291	315	316	0.5%	8.3%	8.4%
Unit gross profit of self-produced commercial coal (RMB/t)	(20)	(11)	1	45	74	73	n.a.	n.a.	5736.0%
Coal-chem business operating assumptions									
Self-produced methanol sales volume (Mt)	0.782	0.782	0.782	0.655	0.680	0.765	-16.3%	-13.0%	-2.2%
Urea sales volume (Mt)	2.138	2.328	2.328	2.025	2.205	2.328	-5.3%	-5.3%	0.0%
Olefin sales volume (Mt)	1.020	1.320	1.320	0.714	1.084	1.084	-30.0%	-17.9%	-17.9%
Self-produced coke sales volume (Mt)	2.000	2.000	2.000	0.831	0.000	0.000	-58.5%	-100.0%	-100.0%
ASP of methanol	1,360	1,333	1,360	1,360	1,333	1,360	0.0%	0.0%	0.0%
ASP of urea	1,653	1,670	1,687	1,653	1,670	1,687	0.0%	0.0%	0.0%
ASP of olefin	6,923	6,992	7,062	6,923	6,992	7,062	0.0%	0.0%	0.0%
ASP of coke (self-produced)	750	775	800	650	650	650	-13.3%	-16.1%	-18.8%
Unit COGS of methanol	1,224	1,200	1,224	1,224	1,200	1,224	0.0%	0.0%	0.0%
Unit COGS of urea	1,438	1,453	1,467	1,157	1,169	1,181	-19.5%	-19.5%	-19.5%
Unit COGS of olefin	4,500	4,545	4,590	4,154	4,195	4,237	-7.7%	-7.7%	-7.7%
Unit COGS of coke (self-produced)	802	820	839	702	763	763	-12.5%	-7.0%	-9.0%
Financials (RMB Mn)									
<u>Revenue</u>	<u>58,105</u>	<u>62,784</u>	<u>66,808</u>	<u>61,911</u>	<u>75,612</u>	<u>80,990</u>	<u>6.5%</u>	<u>20.4%</u>	<u>21.2%</u>
Materials	(27,039)	(28,481)	(29,848)	(24,702)	(28,936)	(30,951)	-8.6%	1.6%	3.7%
Staff costs	(3,321)	(3,498)	(3,666)	(3,593)	(4,209)	(4,502)	8.2%	20.3%	22.8%
D&A	(7,126)	(7,485)	(7,618)	(7,159)	(8,178)	(8,859)	0.5%	9.3%	16.3%
R&M	(712)	(749)	(785)	(898)	(1,052)	(1,125)	26.2%	40.4%	43.3%
Transportation costs	(7,827)	(8,244)	(8,640)	(9,432)	(11,048)	(11,818)	20.5%	34.0%	36.8%
Sales taxes and surcharges	(949)	(999)	(1,047)	(1,347)	(1,578)	(1,688)	42.0%	57.9%	61.2%
Others	(7,590)	(7,995)	(8,378)	(4,940)	(5,787)	(6,190)	-34.9%	-27.6%	-26.1%
<u>Gross Profit</u>	<u>3,544</u>	<u>5,333</u>	<u>6,825</u>	<u>9,839</u>	<u>14,824</u>	<u>15,856</u>	<u>177.7%</u>	<u>178.0%</u>	<u>132.3%</u>
SG&A	(3,970)	(3,934)	(4,088)	(3,783)	(4,155)	(4,521)	-4.7%	5.6%	10.6%
<u>Operating Profit</u>	<u>(372)</u>	<u>1,473</u>	<u>2,825</u>	<u>6,174</u>	<u>10,836</u>	<u>11,513</u>	<u>n.a.</u>	<u>635.8%</u>	<u>307.6%</u>
Net Interest Expense	(4,028)	(3,974)	(4,419)	(4,028)	(3,925)	(4,150)	0.0%	-1.2%	-6.1%
Profits from Asso. & JV	524	553	579	524	553	584	0.0%	0.0%	0.7%
<u>Profit Before Tax</u>	<u>(3,876)</u>	<u>(1,948)</u>	<u>(1,015)</u>	<u>2,669</u>	<u>7,465</u>	<u>7,947</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>
Income Tax	892	407	171	(763)	(1,986)	(2,118)	n.a.	n.a.	n.a.
<u>Profit After Tax</u>	<u>(2,983)</u>	<u>(1,541)</u>	<u>(843)</u>	<u>1,906</u>	<u>5,479</u>	<u>5,829</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>
Minority Interest	414	422	429	(414)	(422)	(429)	n.a.	n.a.	n.a.
<u>Net Profit</u>	<u>(3,398)</u>	<u>(1,962)</u>	<u>(1,272)</u>	<u>1,492</u>	<u>5,057</u>	<u>5,399</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>
EPS (RMB)	(0.256)	(0.148)	(0.096)	0.113	0.381	0.407	n.a.	n.a.	n.a.
Margins and ratios (%)									
Gross Margin	6.1	8.5	10.2	15.9	19.6	19.6	9.8ppt	11.1ppt	9.4ppt
Operating Margin	(0.6)	2.3	4.2	10.0	14.3	14.2	10.6ppt	12.0ppt	10.0ppt
Net Profit Margin	(5.8)	(3.1)	(1.9)	2.4	6.7	6.7	8.3ppt	9.8ppt	8.6ppt
ROE	(4.1)	(2.5)	(1.6)	1.8	5.8	5.9	5.9ppt	8.2ppt	7.5ppt
Net Debt/Equity	82.5	91.0	96.7	76.2	70.3	68.8	-6.3ppt	-20.6ppt	-27.9ppt

Source: Guotai Junan International.

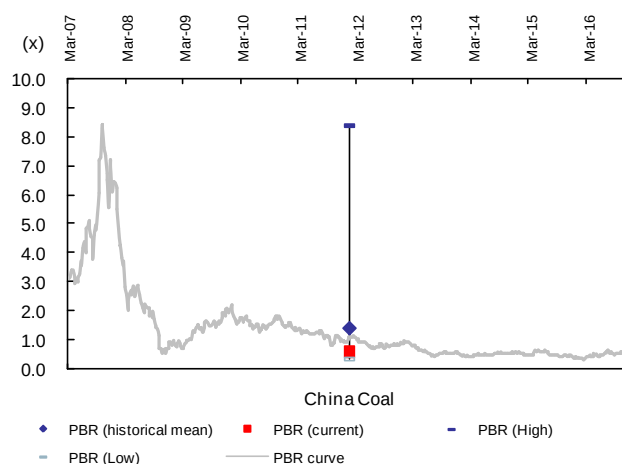
Table-8: Sensitivity analysis for China Coal

Key factors	EPS (RMB)		
	2016F	2017F	2018F
Base case estimates	0.113	0.381	0.407
EPS (RMB)			
Self-produced coal production volume +5%	0.200	0.496	0.535
Overall coal ASP +5%	0.140	0.421	0.450
Unit production cost of self-produced coal +5%	0.041	0.293	0.309
Avg borrowing rate up 25bps	0.103	0.372	0.397
EPS change (RMB)			
Self-produced coal production volume +5%	0.088	0.115	0.128
Overall coal ASP +5%	0.027	0.039	0.043
Unit production cost of self-produced coal +5%	(0.072)	(0.088)	(0.098)
Avg borrowing rate up 25bps	(0.010)	(0.010)	(0.010)
EPS change (%)			
Self-produced coal production volume +5%	78.1%	30.1%	31.3%
Overall coal ASP +5%	24.1%	10.3%	10.6%
Unit production cost of self-produced coal +5%	-64.0%	-23.2%	-24.2%
Avg borrowing rate up 25bps	-8.6%	-2.5%	-2.4%

Source: Guotai Junan International.

Figure-25: PER curve (next year) for China Coal


Source: Bloomberg, Guotai Junan International.

Figure-26: PBR curve (next year) for China Coal


Source: Bloomberg, Guotai Junan International.

Financial Statements and Ratios

Income Statement					
Year end Dec (RMB m)	2014A	2015A	2016F	2017F	2018F
Turnover	70,664	59,271	61,911	75,612	80,990
Materials	(31,555)	(24,200)	(24,702)	(28,936)	(30,951)
Staff cost	(4,335)	(4,230)	(3,593)	(4,209)	(4,502)
D&A	(4,935)	(6,393)	(7,159)	(8,178)	(8,859)
Maintenance	(835)	(825)	(898)	(1,052)	(1,125)
Transportation	(11,834)	(11,735)	(9,432)	(11,048)	(11,818)
Other Tax	(1,078)	(1,493)	(1,347)	(1,578)	(1,688)
Others	(8,896)	(6,292)	(4,940)	(5,787)	(6,190)
Cost of Sales	(63,468)	(55,167)	(52,072)	(60,789)	(65,133)
Gross Profit	7,196	4,104	9,839	14,824	15,856
Selling Expense	(4,904)	(4,400)	(3,783)	(4,155)	(4,521)
Other Opt. Profit	16	56	19	20	20
Other Opt. Net Gain	188	283	98	148	159
Operating Profit	2,497	43	6,174	10,836	11,513
Financial Income	763	966	633	416	468
Financial Costs	(2,715)	(4,947)	(4,661)	(4,341)	(4,618)
Gain from Associates	134	362	524	553	584
Profit Before Tax	679	(3,576)	2,669	7,465	7,947
Taxation	(192)	748	(763)	(1,986)	(2,118)
Profit After Tax	488	(2,828)	1,906	5,479	5,829
Minority Interest	(346)	(439)	(414)	(422)	(429)
Net Profit	141	(3,267)	1,492	5,057	5,399
EPS (Basic) (RMB)	0.011	(0.246)	0.113	0.381	0.407
DPS (Basic) (RMB)	0.024	0.000	0.000	0.114	0.122

Cash Flow Statement					
Year end Dec (RMB m)	2014A	2015A	2016F	2017F	2018F
Profit Before Tax	679	(3,576)	2,669	7,465	7,947
Adjustment:					
PP&E Depreciation	4,998	6,504	7,304	8,412	9,150
Amortisation	456	532	633	637	641
Share of Profits from Asso. & JV	(134)	(362)	(524)	(553)	(584)
Exchange Gain / (Loss)	(21)	(20)	0	0	0
Interest Income	(574)	(620)	(633)	(416)	(468)
Interest Expense	2,733	4,956	4,648	4,327	4,605
Other Adjustment	555	305	337	409	432
Change in Working Capital	(2,394)	403	7,809	1,004	(1,640)
Interest Paid	0	0	0	0	0
Interest Received	0	0	0	0	0
Income Tax Paid	(1,214)	(837)	(763)	(1,986)	(2,118)
Operating Cash Flow	5,084	7,285	21,480	19,300	17,965
Invest in PP&E, Land & Rights	(19,695)	(11,441)	(10,403)	(11,250)	(11,250)
Investments	(4,638)	(4,315)	(666)	(720)	(720)
Disposals	1,390	1,041	56	57	58
Acquisitions	1,804	330	(1,387)	(1,500)	(1,500)
Dividend Received	191	206	306	357	376
Change in Term Deposits	2,389	(12,601)	14,083	(203)	(323)
Others	792	457	0	0	0
Investing Cash Flow	(17,767)	(26,322)	1,989	(13,260)	(13,358)
New Borrowings	38,170	33,667	0	19,000	20,000
Repayment of Borrowings	(12,928)	(17,359)	(17,539)	(16,904)	(17,428)
Capital Contribution	264	514	69	75	75
Dividend	(1,189)	(353)	(79)	(75)	(1,593)
Others	(4,733)	(4,369)	(5,081)	(4,750)	(4,842)
Financing Cash Flow	19,585	12,099	(22,630)	(2,654)	(3,788)
Net Increase in Cash	6,902	(6,938)	839	3,386	819
Cash b/f	11,233	18,132	11,196	12,035	15,420
Net Forex Gains	(2)	2	0	0	0
Cash c/f	18,132	11,196	12,035	15,420	16,239

Source: the Company, Guotai Junan International.

Balance Sheet					
Year end Dec (RMB m)	2014A	2015A	2016F	2017F	2018F
PP&E	126,367	128,805	131,727	134,363	136,246
Mining Rights	33,168	32,844	32,783	32,749	32,716
Other Non-curr Asset	28,696	34,358	38,347	41,685	43,952
Non-current Assets	188,231	196,007	202,856	208,797	212,914
Inventory	8,622	6,825	6,785	7,872	7,988
Trade Receivable	13,459	13,269	10,177	12,429	13,313
Prepayment	7,217	9,727	5,597	6,215	6,657
Term Deposits	5,816	18,416	4,334	4,537	4,859
Cash and Equivalent	18,132	11,196	12,035	15,420	16,239
Other Current Assets	2,535	2,586	1,337	1,264	1,399
Current Assets	55,781	62,019	40,264	47,737	50,455
Total Assets	244,012	258,026	243,121	256,534	263,369
Trade Payable	23,421	20,666	21,399	24,405	23,552
Accruals and Payables	11,746	13,290	12,284	14,036	14,714
Tax Payable	905	1,017	534	1,493	1,589
Current Borrowings	12,837	15,677	14,065	14,500	15,035
Current Bonds	0	16,973	16,973	16,973	16,973
Provision	20	24	14	16	18
Current Liabilities	48,929	67,647	65,268	71,424	71,881
Long-term Debt	51,016	54,480	53,553	55,213	57,250
Other LT Liability	41,138	35,617	22,228	22,462	22,609
Non-current Liabilities	92,154	90,097	75,781	77,675	79,858
Total Liabilities	141,083	157,744	141,049	149,099	151,740
Common Equity	86,904	83,708	85,199	90,256	94,139
Minority Interest	16,025	16,575	16,872	17,179	17,490
Total Equity	102,929	100,282	102,071	107,436	111,629
Total Liabilities and Equity	244,012	258,026	243,121	256,534	263,369
BVPS (RMB)	6.554	6.313	6.426	6.807	7.100

Margin and Efficiency					
	2014A	2015A	2016F	2017F	2018F
Gross Profit Margin %	10.2	6.9	15.9	19.6	19.6
Opt. Profit Margin %	3.5	0.1	10.0	14.3	14.2
EBITDAR %	10.7	11.5	22.4	25.9	25.9
Net Profit Margin %	0.2	(5.5)	2.4	6.7	6.7
Dividend Payout %	226.6	0.0	0.0	30.0	30.0
Inventory Days	44.4	51.1	47.7	44.0	44.4
Receivable Days	68.1	82.3	69.1	54.6	58.0
Payable Days	132.4	145.8	147.4	137.5	134.4

Growth (%)					
	2014A	2015A	2016F	2017F	2018F
Turnover	(14.2)	(16.1)	4.5	22.1	7.1
EBITDA	(36.3)	(10.1)	103.8	41.2	7.1
Operating Profit	(63.7)	(98.3)	14,184.0	75.5	6.2
Net Profit	(96.3)	(2,415.3)	(145.7)	239.0	6.8
Dividend	(70.2)	(100.0)	n.a.	n.a.	n.a.

Profitability					
	2014A	2015A	2016F	2017F	2018F
ROE (%)	0.2	(3.8)	1.8	5.8	5.9
ROA (%)	0.1	(1.3)	0.6	2.0	2.1
ROC (%)	1.5	0.0	3.7	6.3	6.5

Financial Ratios					
	2014A	2015A	2016F	2017F	2018F
Net Debt/Equity (%)	78.5	76.3	76.2	70.3	68.8
Current Ratio (x)	1.1	0.9	0.6	0.7	0.7
Interest Coverage (x)	0.5	0.1	1.2	2.2	2.3



Company Report: Yanzhou Coal (01171 HK)

公司报告: 兖州煤业 (01171 HK)

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24 November 2016

Revise Up TP, Maintain "Neutral"

上调目标价, 维持“中性”

- Coal mining FAI fell sharply in 2016, indicating a slowdown in new coal mining capacity growth in the next few years. Also considering the gradual loosening of production control policy, the effective coal mining capacity will gradually pick up during 2017-2018, but the recovery of coal consumption will support the effective coal mining utilisation rate. **Given the recovery of the effective coal mining utilisation rate, we revise up the annual QHD 5,500kcal average price forecasts for 2016/2017/2018 to RMB465/RMB550/RMB550 per tonne, respectively.**
- Key adjustments for Yanzhou Coal:** 1) given the higher coal price forecasts, we revise up the 2016/2017/2018 self-produced coal sales ASP forecasts by 30.9%/36.0%/36.2%, 2) the 2016/2017/2018 unit self-produced coal production cost forecasts are revised up by 6.3%/9.7%/11.7%, and 3) revise down the 2016/2017/2018 self-produced coal sales volume forecasts by 3.6%/4.6%/6.4%.
- Revise up TP to HK\$5.00 and maintain "Neutral" rating.** As we revise up coal price forecasts, we raise Yanzhou Coal's 2016/2017/2018 EPS to RMB0.318/RMB0.500/RMB0.558, respectively. Our new TP represents 14.0x/8.9x/8.0x 2016/2017/2018 PER.
- 煤炭开采行业固定资产在 2016 年快速下跌, 预示新建煤炭产能在未来几年的减缓。此外考虑到控产政策的逐步放松, 实际煤炭产能在 2017-2018 年将逐步回升, 但煤炭消费的恢复也将支撑实际煤炭产能利用率。**基于实际煤炭产能利用率的回升, 我们将 2016/2017/2018 年的秦皇岛 5,500 大卡年度均价预测分别上调至人民币 465 元/人民币 550 元/人民币 550 元每吨。**
- 对兖州煤业的关键调整:** 1) 由于提高了煤价预测, 我们将 2016/2017/2018 年自产煤平均售价假设上调了 30.9%/36.0%/36.2%, 2) 2016/2017/2018 年单位自产煤成本预测上调了 6.3%/9.7%/11.7%, 以及 3) 2016/2017/2018 年自产煤销量预测下调了 3.6%/4.6%/6.4%。
- 上调目标价至 5.00 港元, 维持“中性”。** 由于提高了煤价预测, 我们将兖州煤业 2016/2017/2018 年每股盈利分别上调至人民币 0.318 元/人民币 0.500 元/人民币 0.558 元。我们的新目标价相当于 14.0 倍/8.9 倍/8.0 倍的 2016/2017/2018 年市盈率。

Rating:

Neutral

Maintained

评级:

中性 (维持)

6-18m TP 目标价:

HK\$5.00

Revised from 原目标价:

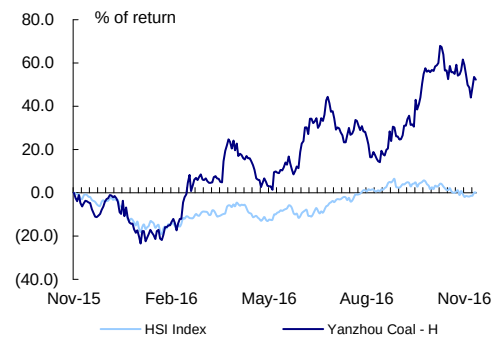
HK\$3.60

Share price 股价:

HK\$5.740

Stock performance

股价表现



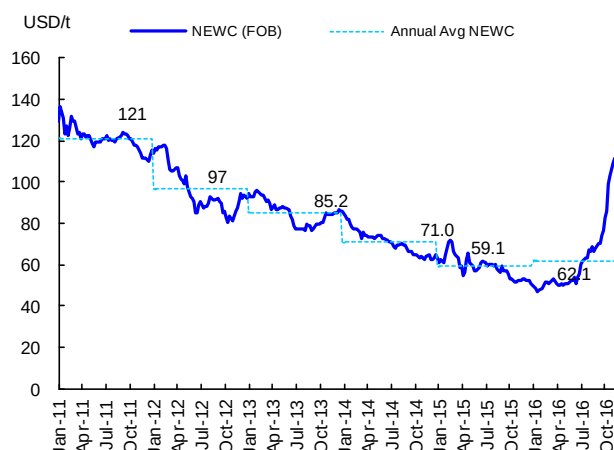
Change in Share Price 股价变动	1 M 1 个月	3 M 3 个月	1 Y 1 年
Abs. % 绝对变动 %	(4.8)	28.1	52.2
Rel. % to HS index 相对恒指变动 %	(1.9)	28.8	48.3
Avg. share price(HK\$) 平均股价 (港元)	5.9	5.4	4.4

Source: Bloomberg, Guotai Junan International.

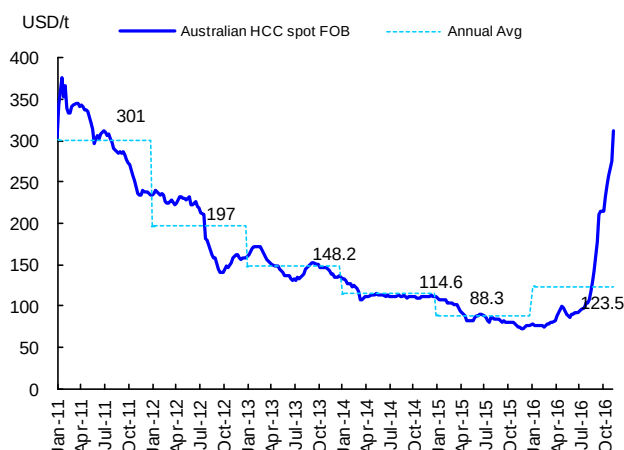
Year End 年结 12/31	Turnover 收入 (RMB m)	Net Profit 股东净利 (RMB m)	EPS 每股净利 (RMB)	EPS 每股净利变动 (Δ %)	PER 市盈率 (x)	BPS 每股净资产 (RMB)	PBR 市净率 (x)	DPS 每股股息 (RMB)	Yield 股息率 (%)	ROE 净资产收益率 (%)
2014A	60,371	766	0.156	(1.4)	29.5	7.874	0.6	0.020	0.4	1.9
2015A	36,404	164	0.033	(78.5)	143.7	7.191	0.7	0.010	0.2	0.4
2016F	31,891	1,563	0.318	851.4	16.1	7.499	0.7	0.095	1.9	4.3
2017F	36,159	2,454	0.500	57.1	10.2	7.903	0.6	0.150	2.9	6.5
2018F	37,375	2,743	0.558	11.8	9.1	8.311	0.6	0.168	3.3	6.9

Shares in issue (m) 总股数 (m)	4,912.0	Major shareholder 大股东	Yankuang Group 52.9%
Market cap. (HK\$ m) 市值 (HK\$ m)	28,195.0	Free float (%) 自由流通比率 (%)	36.1
3 month average vol. 3 个月平均成交股数 ('000)	18,507.4	2016 Net gearing (%) 2016 净负债/股东资金 (%)	140.3
52 Weeks high/low (HK\$) 52 周高/低	6.440 / 2.880	2016 Est. NAV (HK\$) 2016 每股估值 (港元)	6.8

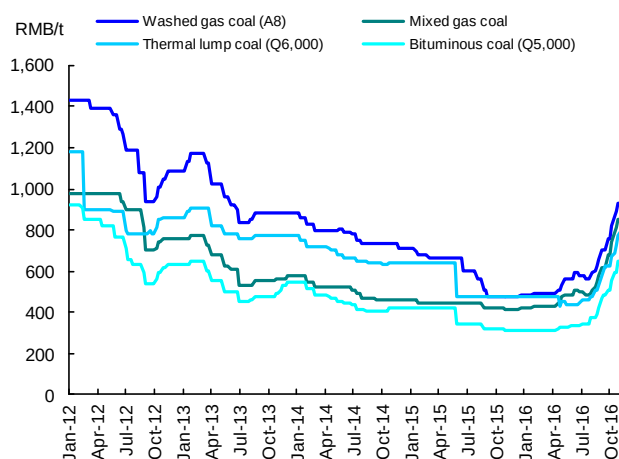
Source: the Company, Guotai Junan International.

Figure-27: Australia thermal coal price index


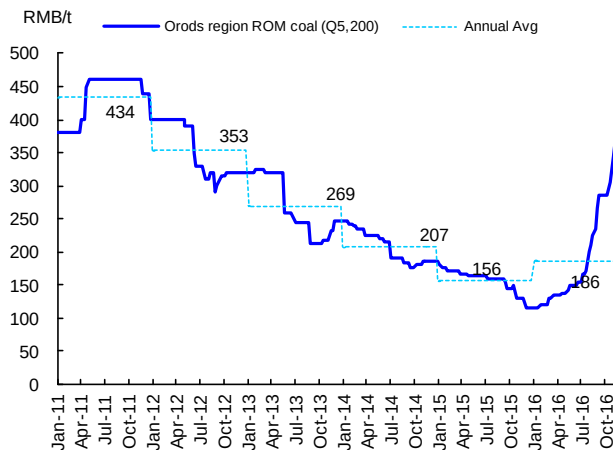
Source: Wind, Guotai Junan International.

Figure-28: Australia coking coal price performance


Source: CCTD, Guotai Junan International.

Figure-29: Coal price performance of Yanzhou region


Source: Wind, Guotai Junan International.

Figure-30: ROM coal price performance of Ordos region


Source: Wind, Guotai Junan International.

Table-9: Key adjustments of Yanzhou Coal

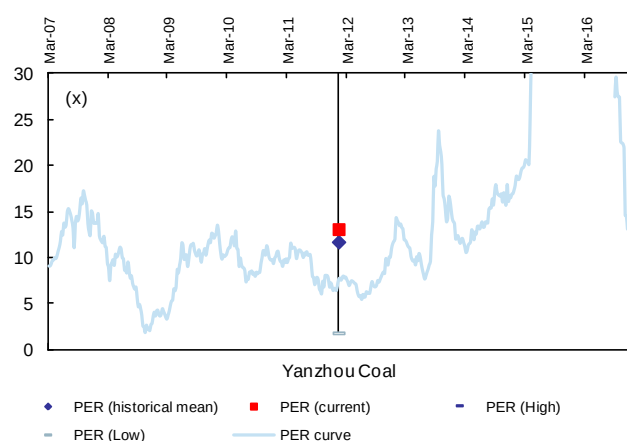
	Old			New			Change %/ppt		
	2016F	2017F	2018F	2016F	2017F	2018F	2016F	2017F	2018F
Operations (IFRS)									
Self produced coal sales volume (Kt)	61,653	65,973	70,293	59,443	62,963	65,763	-3.6%	-4.6%	-6.4%
ASP of self produced coal (RMB/t)	307	305	305	402	415	415	30.9%	36.0%	36.2%
Shandong base (RMB/t)	305	308	311	428	449	449	40.3%	45.7%	44.3%
Shanxi Nenghua (RMB/t)	158	167	175	209	248	248	32.3%	48.6%	41.6%
Heze Nenghua (RMB/t)	327	330	334	570	582	582	74.3%	76.1%	74.2%
Ordos Nenghua (RMB/t)	139	146	153	233	275	275	67.5%	88.2%	79.2%
YAL (RMB/t)	402	419	436	409	418	440	1.6%	-0.2%	0.8%
Yancoal International (RMB/t)	254	267	281	275	303	326	8.4%	13.4%	16.0%
Unit cost of self produced coal (RMB/t)	219	212	209	233	233	233	6.3%	9.7%	11.7%
Shandong base (RMB/t)	198	194	192	210	212	214	6.2%	9.4%	11.6%
Shanxi Nenghua (RMB/t)	164	161	159	171	173	174	4.1%	7.3%	9.5%
Heze Nenghua (RMB/t)	299	293	290	311	314	317	4.1%	7.3%	9.5%
Ordos Nenghua (RMB/t)	173	169	167	180	181	183	4.1%	7.3%	9.5%
YAL (RMB/t)	290	284	281	301	304	308	4.1%	7.3%	9.5%
Yancoal International (RMB/t)	206	202	200	214	217	219	4.1%	7.3%	9.5%
Unit gross margin of self coal (RMB/t)	89	93	96	170	182	182	91.6%	96.2%	89.5%
Financials (RMB Mn)									
Coal sales	30,504	32,308	34,191	28,155	32,331	33,460	-7.7%	0.1%	-2.1%
Coal transportation sales	334	331	327	235	234	232	-29.7%	-29.3%	-28.9%
Power sales	236	236	236	605	641	648	155.8%	171.4%	174.2%
Methanol sales	2,155	2,198	2,242	2,007	2,047	2,088	-6.9%	-6.9%	-6.9%
Heat supply sales	29	32	35	29	33	36	0.0%	2.0%	1.0%
Equipment sales	309	337	365	860	873	911	178.2%	159.3%	149.4%
Total Sales	33,567	35,442	37,397	31,891	36,159	37,375	-5.0%	2.0%	-0.1%
Coal transportation cost	(1,935)	(1,980)	(2,024)	(1,944)	(1,992)	(1,988)	0.4%	0.6%	-1.8%
Coal sales & rail service cost	(25,200)	(26,129)	(27,156)	(18,274)	(20,927)	(21,553)	-27.5%	-19.9%	-20.6%
Power supply cost	(176)	(180)	(183)	(462)	(490)	(495)	162.3%	172.7%	170.0%
Methanol cost	(1,461)	(1,491)	(1,520)	(1,347)	(1,374)	(1,401)	-7.8%	-7.8%	-7.8%
Heat supply cost	(15)	(17)	(19)	(15)	(17)	(18)	0.0%	0.0%	-2.9%
Equipment cost	(306)	(334)	(362)	(690)	(722)	(755)	125.3%	116.5%	108.4%
COGS	(29,094)	(30,130)	(31,265)	(22,732)	(25,522)	(26,211)	-21.9%	-15.3%	-16.2%
Gross Profit	4,473	5,312	6,132	9,159	10,636	11,164	104.8%	100.2%	82.1%
SG&A	(4,916)	(5,078)	(5,207)	(5,655)	(5,912)	(6,051)	15.0%	16.4%	16.2%
P&L of Associates	332	310	322	332	310	322	0.0%	0.0%	0.0%
Other income	1,731	1,626	1,638	1,731	1,759	1,840	0.0%	8.2%	12.3%
Operating Profit	1,288	1,860	2,563	5,236	6,483	6,953	306.3%	248.6%	171.3%
Financial cost	(2,223)	(2,192)	(2,232)	(2,223)	(2,185)	(2,209)	0.0%	-0.3%	-1.0%
Profit Before Tax	(600)	(20)	655	3,347	4,610	5,068	n.a.	n.a.	673.3%
Income Tax	125	53	(57)	(1,028)	(1,360)	(1,480)	n.a.	n.a.	2519.9%
Profit After Tax	(475)	33	599	2,318	3,250	3,588	n.a.	9806.0%	499.0%
Perpetual securities	(424)	(424)	(424)	(424)	(424)	(424)	0.0%	0.0%	0.0%
NCI - perpetual securities	(140)	(140)	(140)	(140)	(140)	(140)	0.0%	0.0%	0.0%
NCI - others	287	203	142	(191)	(231)	(280)	n.a.	n.a.	n.a.
Net Profit	(753)	(328)	177	1,563	2,454	2,743	n.a.	n.a.	1450.6%
EPS (RMB)	(0.153)	(0.067)	0.036	0.318	0.500	0.558	n.a.	n.a.	1450.6%
Margins and ratios (%)									
Gross Margin	13.3	15.0	16.4	28.7	29.4	29.9	15.4ppt	14.4ppt	13.5ppt
Operating Margin	3.8	5.2	6.9	16.4	17.9	18.6	12.6ppt	12.7ppt	11.7ppt
Net Profit Margin	(2.2)	(0.9)	0.5	4.9	6.8	7.3	7.1ppt	7.7ppt	6.9ppt
ROE	(2.2)	(1.0)	0.5	4.3	6.5	6.9	6.5ppt	7.4ppt	6.4ppt
Net Debt/Equity	157.4	161.6	158.9	140.3	132.0	122.1	-17.1ppt	-29.6ppt	-36.7ppt

Source: the Company, Guotai Junan International.

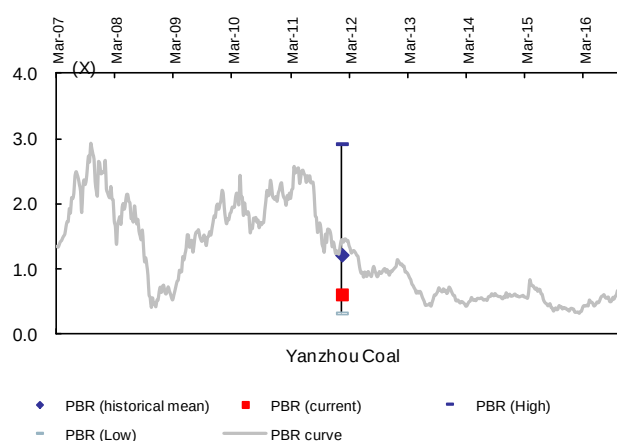
Table-10: Sensitivity analysis for Yanzhou Coal

Key factors	EPS		
	2016F	2017F	2018F
Base case estimates	0.318	0.500	0.558
EPS (RMB)			
Self-produced coal production volume +5%	0.342	0.533	0.595
ASP of self-produced coal +5%	0.487	0.684	0.751
Unit cost of self-produced coal +5%	0.218	0.395	0.449
Avg borrowing rate up 25bps	0.296	0.477	0.536
EPS change (RMB)			
Self-produced coal production volume +5%	0.024	0.033	0.036
ASP of self-produced coal +5%	0.168	0.184	0.192
Unit cost of self-produced coal +5%	(0.100)	(0.105)	(0.110)
Avg borrowing rate up 25bps	(0.023)	(0.022)	(0.022)
EPS change (%)			
Self-produced coal production volume +5%	7.5%	6.6%	6.5%
ASP of self-produced coal +5%	52.9%	36.9%	34.4%
Unit cost of self-produced coal +5%	-31.4%	-21.0%	-19.7%
Avg borrowing rate up 25bps	-7.1%	-4.4%	-4.0%

Source: Guotai Junan International.

Figure-31: Forward PER curve for Yanzhou Coal


Source: Bloomberg, Guotai Junan International.

Figure-32: Current PBR curve for Yanzhou Coal


Source: Bloomberg, Guotai Junan International.

Financial Statements and Ratios

Income Statement					
Year end Dec (RMB m)	2014A	2015A	2016F	2017F	2018F
Coal Sales	58,539	32,876	28,155	32,331	33,460
Transportation	374	327	235	234	232
Chemicals	1,195	2,265	2,007	2,047	2,088
Electricity & Heat	262	626	634	674	683
Equipment	0	310	860	873	911
Total Turnover	60,371	36,404	31,891	36,159	37,375
Transportation Cost of Coal	(2,292)	(2,079)	(1,944)	(1,992)	(1,988)
Cost of Sales and Service	(49,558)	(25,838)	(18,274)	(20,927)	(21,553)
Cost of Power	(160)	(477)	(462)	(490)	(495)
Cost of Methanol	(869)	(1,536)	(1,347)	(1,374)	(1,401)
Cost of Heat	(11)	(13)	(15)	(17)	(18)
Cost of Equipment	0	(308)	(690)	(722)	(755)
COGS	(52,889)	(30,250)	(22,732)	(25,522)	(26,211)
Gross Profit	7,481	6,154	9,159	10,636	11,164
Selling and Adm. Exp.	(6,070)	(5,697)	(5,655)	(5,912)	(6,051)
Other Opt. Income	2,382	2,318	1,731	1,759	1,840
Operating Profit	3,794	2,775	5,236	6,483	6,953
Gain from Associates	311	502	332	310	322
Gain from JV	(321)	(170)	2	2	2
Financial Cost	(2,184)	(2,484)	(2,223)	(2,185)	(2,209)
Profit Before Tax	1,600	622	3,347	4,610	5,068
Taxation	(1,113)	(490)	(1,028)	(1,360)	(1,480)
Profit After Tax	487	133	2,318	3,250	3,588
Perpetual securities	(36)	(346)	(424)	(424)	(424)
NCI - perpetual securities	(82)	(141)	(140)	(140)	(140)
NCI - others	398	519	(191)	(231)	(280)
Net Profit	766	164	1,563	2,454	2,743
EPS (Basic) (RMB)	0.156	0.033	0.318	0.500	0.558

Margin and Efficiency					
	2014A	2015A	2016F	2017F	2018F
Gross Profit Margin %	12.4	16.9	28.7	29.4	29.9
Operating Profit Margin %	6.3	7.6	16.4	17.9	18.6
EBITDAR %	11.4	18.8	31.8	32.4	33.3
Net Profit Margin %	1.3	0.5	4.9	6.8	7.3
Inventory Days	10.6	20.0	25.4	20.0	18.9
Receivable Days	48.7	65.5	61.7	51.8	51.6
Payable Days	23.3	49.7	47.3	25.5	26.6

Growth (%)					
	2014A	2015A	2016F	2017F	2018F
Turnover	7.0	(39.7)	(12.4)	13.4	3.4
EBITDA	59.2	(0.2)	47.9	15.7	6.1
Operating Profit	185.7	(26.9)	88.7	23.8	7.3
Net Profit	(1.4)	(78.5)	850.2	57.1	11.8
Dividend	0.0	(50.1)	854.5	57.1	11.8

Profitability					
	2014A	2015A	2016F	2017F	2018F
ROE (%)	1.9	0.4	4.3	6.5	6.9
ROA (%)	0.6	0.1	1.1	1.9	2.0
ROC (%)	4.3	3.6	6.3	7.4	7.8

Financial Ratios					
	2014A	2015A	2016F	2017F	2018F
Net Gearing (%)	119.8	139.4	140.3	132.0	122.1
Current Ratio (x)	1.4	1.2	1.2	1.2	1.3
Interest Coverage (x)	1.3	1.2	2.2	2.8	2.9

Source: the Company, Guotai Junan International.

Balance Sheet					
Year end Dec (RMB m)	2014A	2015A	2016F	2017F	2018F
Cash and Equivalent	15,042	20,175	14,296	15,832	17,161
Account Receivables	7,084	5,977	4,805	5,449	5,120
Inventory	1,470	1,852	1,311	1,486	1,229
Prepayments	5,260	7,219	7,969	6,053	6,002
Others	9,230	13,588	12,593	14,537	14,882
Current Assets	38,086	48,811	40,973	43,357	44,394
Mining Rights	37,288	32,243	31,378	30,498	29,678
Fixed Assets	44,175	45,616	49,296	51,641	54,237
Goodwill	2,233	2,296	2,296	2,296	2,296
Deferred Tax Assets	5,680	7,097	2,700	2,428	2,132
Others	5,637	6,408	3,959	2,714	2,387
Non-current Assets	95,012	93,661	89,629	89,578	90,730
Total Assets	133,098	142,472	130,603	132,934	135,124
Trade Payable	4,037	4,207	1,682	1,888	1,939
Other Payable and Accruals	8,737	9,009	6,365	6,196	6,499
Current Borrowings	10,872	23,903	21,799	22,159	22,135
Others	3,684	4,936	4,901	4,457	4,443
Current Liabilities	27,330	42,056	34,746	34,700	35,016
Non-current Borrowing	50,566	45,577	44,259	44,990	44,941
Others	9,203	9,037	4,096	3,526	3,161
Non-current Liabilities	59,770	54,614	48,354	48,516	48,102
Common Equity	38,726	35,370	36,884	38,869	40,876
Minority Interest	7,273	10,432	10,619	10,850	11,130
Total Liabilities and Equity	133,098	142,472	130,603	132,934	135,124
BVPS (RMB)	7.874	7.191	7.499	7.903	8.311

Cash Flow Statement					
Year end Dec (RMB m)	2014A	2015A	2016F	2017F	2018F
Profit Before Tax	1,600	622	3,347	4,610	5,068
Depreciation	3,079	3,743	4,562	4,930	5,164
Amortisation	1,116	719	1,290	1,255	1,220
Change in Working Capital	1,196	116	(180)	(612)	525
Income Taxes Paid	(2,219)	(1,556)	(1,028)	(1,360)	(1,480)
Others	(599)	703	116	(8)	(56)
Operating Cash Flow	4,172	4,347	8,105	8,814	10,440
Change in Term Deposits	(723)	2,152	(1,959)	(82)	5
Change in Restricted Cash	(186)	(81)	278	(1)	(1)
Purchase of PP&E	(5,800)	(12,310)	(7,647)	(6,750)	(7,200)
Disposal of PP&E	81	3,405	228	246	258
Acquisitions	(1,660)	(1,889)	(850)	(750)	(800)
Others	(246)	519	0	0	0
Investing Cash Flow	(8,535)	(8,203)	(9,949)	(7,337)	(7,738)
New Bank Borrowing	22,629	26,871	7,000	11,000	10,000
Repayment of Bank Borrowing	(12,399)	(15,531)	(10,422)	(9,909)	(10,072)
Dividend Paid	(98)	(98)	(49)	(469)	(736)
Others	(1,439)	(168)	(564)	(564)	(564)
Financing Cash Flow	8,692	11,074	(4,035)	58	(1,373)
Net Cash Increase	4,329	7,218	(5,880)	1,536	1,330
Cash b/f	10,923	15,042	20,175	14,296	15,832
FX Gain/Loss	(210)	233	0	0	0
Assets Held For Sale	0	(2,318)	0	0	0
Cash c/f	15,042	20,175	14,296	15,832	17,161



Company Report: Yitai Coal (03948 HK)

公司报告: 伊泰煤炭 (03948 HK)

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24 November 2016

Revise Up TP and Maintain "Neutral"

上调目标价并维持“中性”

- Coal mining FAI fell sharply in 2016, indicating a slowdown in new coal mining capacity growth in the next few years. Also considering the gradual loosening of production control policy, the effective coal mining capacity will gradually pick up during 2017-2018, but the recovery of coal consumption will support the effective coal mining utilisation rate. **Given the recovery of the effective coal mining utilisation rate, we revise up the annual QHD 5,500kcal average price forecasts for 2016/2017/2018 to RMB465/RMB550/RMB550 per tonne, respectively.**
- Key adjustments for Yitai Coal:** 1) given the higher coal price forecasts, we revise up the 2016/2017/2018 overall coal ASP forecasts by 22.4%/35.8%/29.3%, 2) revise up the 2016/2017/2018 unit production cost of self-produced coal by 3.3%/8.2%/9.7%, and 3) revise down the 2016/2017 chemical product ASP forecasts by 4.7%/2.2%.
- Revise up TP to HK\$5.65 and maintain "Neutral" rating.** As we revise up coal price forecasts, we raise Yitai Coal's 2016/2017/2018 EPS to RMB0.380/RMB0.591/RMB0.628, respectively. Our new TP represents 13.2x/8.5x/8.0x 2016/2017/2018 PER.
- 煤炭开采行业固定资产在 2016 年快速下跌, 预示新建煤炭产能在未来几年的减缓。此外考虑到控产政策的逐步放松, 实际煤炭产能在 2017-2018 年将逐步回升, 但煤炭消费的恢复也将支撑实际煤炭产能利用率。**基于实际煤炭产能利用率的回升, 我们将 2016/2017/2018 年的秦皇岛 5,500 大卡年度均价预测分别上调至人民币 465 元/人民币 550 元/人民币 550 元每吨。**
- 对伊泰煤炭的其他关键调整:** 1) 由于提高了煤价预测, 我们将 2016/2017/2018 年商品煤平均售价预测上调 22.4%/35.8%/29.3%, 2) 将 2016/2017/2018 年单位自产煤生产成本分别上调了 3.3%/8.2%/9.7%, 以及 3) 2016/2017 煤化工产品的平均售价预测分别下调了 4.7%/2.2%。
- 上调目标价至 5.65 港元, 维持“中性”评级。** 由于提高了煤价预测, 我们将伊泰煤炭 2016/2017/2018 年每股盈利上调至人民币 0.380 元/人民币 0.591 元/人民币 0.628 元。我们的新目标价相当于 13.2 倍/8.5 倍/8.0 倍的 2016/2017/2018 年市盈率。

Rating:

Neutral
Maintained

评级:

中性 (维持)

6-18m TP 目标价:

HK\$5.65

Revised from 原目标价:

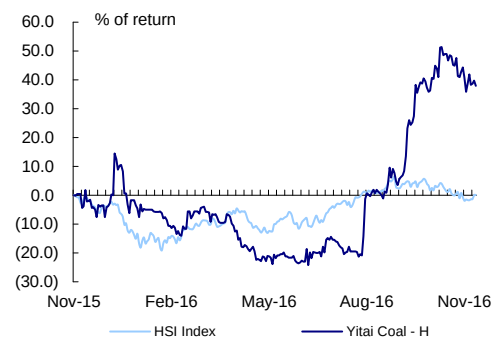
HK\$4.50

Share price 股价:

HK\$6.850

Stock performance

股价表现



Change in Share Price 股价变动	1 M 1 个月	3 M 3 个月	1 Y 1 年
Abs. % 绝对变动 %	(2.1)	35.4	37.9
Rel. % to HS index 相对恒指变动 %	0.7	36.1	33.9
Avg. share price(HK\$) 平均股价 (港元)	7.2	6.4	4.9

Source: Bloomberg, Guotai Junan International.

Year End 年结 12/31	Turnover 收入 (RMB m)	Net Profit 股东净利 (RMB m)	EPS 每股净利 (RMB)	EPS 每股净利变动 (Δ %)	PER 市盈率 (x)	BPS 每股净资产 (RMB)	PBR 市净率 (x)	DPS 每股股息 (RMB)	Yield 股息率 (%)	ROE 净资产收益率 (%)
2014A	24,806	2,253	0.692	(34.3)	7.9	7.047	0.8	0.208	3.8	10.2
2015A	19,116	91	0.028	(96.0)	206.3	6.807	0.8	0.009	0.1	0.4
2016F	20,452	1,237	0.380	1,266.9	16.0	7.179	0.8	0.114	1.9	5.4
2017F	22,473	1,924	0.591	55.5	10.3	7.656	0.8	0.177	2.9	8.0
2018F	28,009	2,042	0.628	6.2	9.7	8.106	0.8	0.188	3.1	8.0

Shares in issue (m) 总股数 (m)	3,254.0	Major shareholder 大股东	Yitai Group 58.6%
Market cap. (HK\$ m) 市值 (HK\$ m)	22,289.9	Free float (%) 自由流通比率 (%)	5.2
3 month average vol. 3 个月平均成交股数 ('000)	245.3	2016 Net gearing (%) 2016 净负债/股东资金 (%)	172.6
52 Weeks high/low (HK\$) 52 周高/低	7.780 / 3.730	2016 Est. NAV (HK\$) 2016 每股估值 (港元)	7.6

Source: the Company, Guotai Junan International.

Table-11: Key adjustments of Yitai Coal

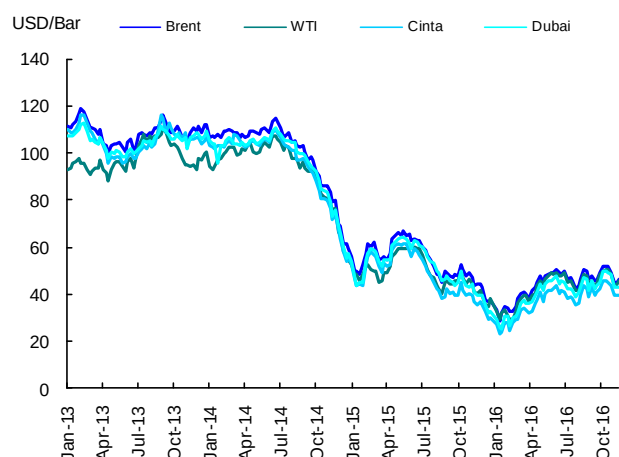
	Old			New			Change %/ppt		
	2016F	2017F	2018F	2016F	2017F	2018F	2016F	2017F	2018F
Coal operation assumptions									
Self-produced ROM coal production (Mt)	39.4	40.9	42.4	40.3	38.4	40.7	2.3%	-6.0%	-3.9%
Self-produced salable coal production (Mt)	35.5	36.6	37.7	36.4	34.1	36.0	2.6%	-6.7%	-4.4%
Coal purchased from the third parties (Mt)	23.0	23.8	24.5	22.5	21.2	22.3	-2.2%	-11.0%	-8.8%
Total coal sales (Mt)	58.5	60.3	62.2	58.9	55.3	58.4	0.7%	-8.4%	-6.1%
QHD 5,500 Annual Avg (RMB/t)	380.0	400.0	420.0	465.0	550.0	550.0	22.4%	37.5%	31.0%
ASP of total coal sales (RMB/t)	259.8	273.5	287.2	317.9	371.4	371.4	22.4%	35.8%	29.3%
Unit production cost of self-produced coal (RMB/t)	60.0	61.0	62.0	62.0	66.0	68.0	3.3%	8.2%	9.7%
Unit total COGS of coal sales (RMB/t)	212.7	216.2	219.8	227.5	246.6	247.9	7.0%	14.1%	12.8%
Unit gross margin of coal sales (RMB/t)	47.2	57.3	67.4	90.4	124.7	123.5	91.7%	117.8%	83.3%
Coal-Chemical operation assumptions									
Chemical product sales volume (t)	180,000	180,000	625,000	180,000	180,000	625,000	0.0%	0.0%	0.0%
ASP (RMB/t)	4,300	4,500	4,700	4,100	4,400	4,700	-4.7%	-2.2%	0.0%
Financial result adjustments (RMB Mn)									
Revenue	17,132	18,608	24,148	20,452	22,473	28,009	19.4%	20.8%	16.0%
Cost of sales	(14,692)	(15,524)	(19,757)	(15,546)	(16,210)	(20,994)	5.8%	4.4%	6.3%
Gross profit	2,440	3,085	4,391	4,906	6,263	7,015	101.0%	103.0%	59.7%
Other income and gains	100	100	100	100	100	100	0.0%	0.0%	0.0%
Selling and distribution expenses	(1,006)	(999)	(990)	(1,017)	(959)	(1,008)	1.1%	-4.0%	1.9%
Administrative expenses	(1,387)	(1,374)	(1,365)	(1,387)	(1,374)	(1,365)	0.0%	0.0%	0.0%
Other expenses	(107)	(107)	(107)	(107)	(107)	(107)	0.0%	0.0%	0.0%
Operating profit	41	705	2,030	2,496	3,923	4,634	6054.7%	456.4%	128.3%
Finance income	67	58	58	67	73	64	0.0%	24.3%	10.2%
Finance costs	(802)	(1,213)	(1,910)	(816)	(1,246)	(1,816)	1.8%	2.8%	-4.9%
Exchange gains, net	(15)	(10)	(10)	(15)	(10)	(10)	0.0%	0.0%	0.0%
Share of profits of associates	40	43	47	40	43	47	0.0%	0.0%	0.0%
PBT	(667)	(413)	216	1,774	2,785	2,921	n.a.	n.a.	1250.2%
Income tax expense	(41)	(26)	(9)	(281)	(432)	(451)	590.9%	1567.1%	4734.2%
PAT	(707)	(439)	207	1,493	2,353	2,469	n.a.	n.a.	1093.0%
Non-controlling interests	128	77	(35)	(256)	(430)	(427)	n.a.	n.a.	1108.2%
Net profit	(579)	(362)	172	1,237	1,924	2,042	n.a.	n.a.	1089.9%
EPS	(0.178)	(0.111)	0.053	0.380	0.591	0.628	n.a.	n.a.	1089.9%
DPS	0.000	0.000	0.016	0.114	0.177	0.188	n.a.	n.a.	1089.9%
Margins and ratios adjustments (%)									
Gross Margin	14.2%	16.6%	18.2%	24.0%	27.9%	25.0%	9.7ppt	11.3ppt	6.9ppt
Operating Margin	0.2%	3.8%	8.4%	12.2%	17.5%	16.5%	12.0ppt	13.7ppt	8.1ppt
Effective Tax Rate	-6.1%	-6.3%	4.3%	15.8%	15.5%	15.5%	22.0ppt	21.8ppt	11.1ppt
Net Profit Margin	-3.4%	-1.9%	0.7%	6.0%	8.6%	7.3%	9.4ppt	10.5ppt	6.6ppt
ROE	-2.6%	-1.7%	0.8%	5.4%	8.0%	8.0%	8.1ppt	9.7ppt	7.2ppt
Net Debt/Equity	193.7%	245.4%	290.7%	172.6%	194.2%	216.1%	-21.1ppt	-51.1ppt	-74.6ppt

Source: the Company, Guotai Junan International.

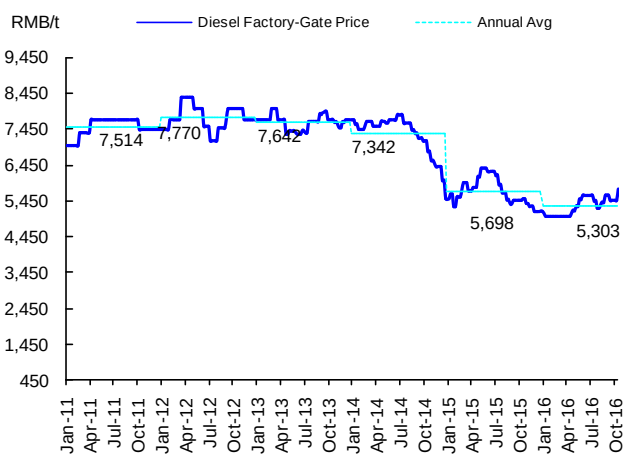
Table-12: Sensitivity analysis for Yitai Coal

Key factors	EPS		
	2016F	2017F	2018F
Base case estimates	0.380	0.591	0.628
EPS (RMB)			
Self-produced coal production +5%	0.428	0.655	0.696
Domestic thermal coal price +5%	0.541	0.765	0.813
Unit pit mouth coal production cost +5%	0.356	0.568	0.602
Average borrowing rate +25bps	0.377	0.584	0.614
EPS change (RMB)			
Self-produced coal production +5%	0.048	0.064	0.068
Domestic thermal coal price +5%	0.161	0.174	0.185
Unit pit mouth coal production cost +5%	(0.024)	(0.024)	(0.026)
Average borrowing rate +25bps	(0.003)	(0.007)	(0.014)
EPS change (%)			
Self-produced coal production +5%	12.6%	10.9%	10.8%
Domestic thermal coal price +5%	42.2%	29.4%	29.6%
Unit pit mouth coal production cost +5%	-6.3%	-4.0%	-4.1%
Average borrowing rate +25bps	-0.8%	-1.2%	-2.3%

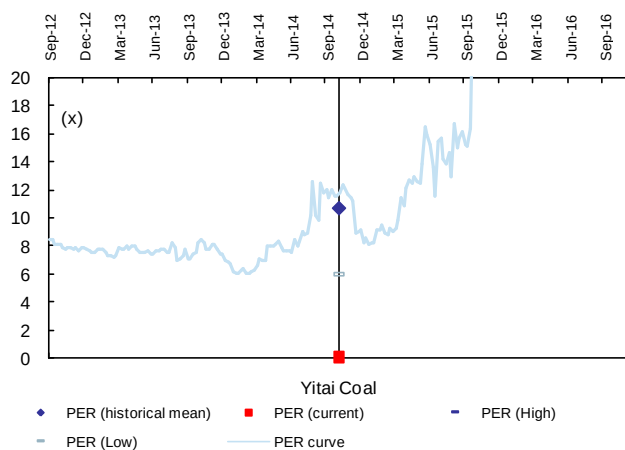
Source: Guotai Junan International.

Figure-33: Global Crude Oil Price Performance


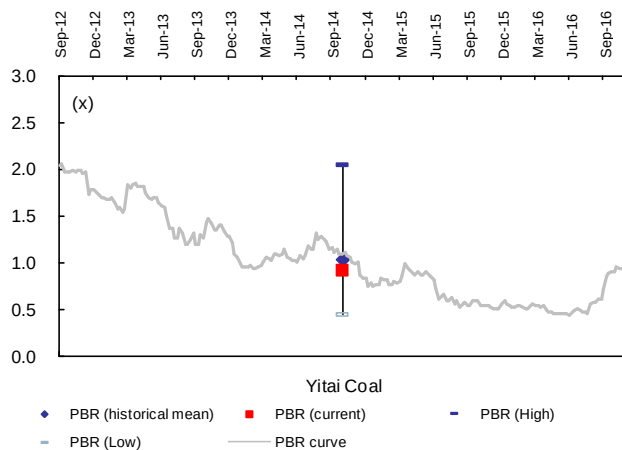
Source: Wind, Guotai Junan International.

Figure-34: China Diesel Factory-Gate Price


Source: Wind, Guotai Junan International.

Figure-35: PER curve (next year) for Yitai Coal


Source: Bloomberg, Guotai Junan International.

Figure-36: PBR curve (next year) for Yitai Coal


Source: Bloomberg, Guotai Junan International.

Financial Statements and Ratios

Income Statement					
Year end Dec (RMB m)	2014A	2015A	2016F	2017F	2018F
Revenue	24,806	19,116	20,452	22,473	28,009
Cost of sales	(18,005)	(15,443)	(15,546)	(16,210)	(20,994)
Gross profit	6,801	3,673	4,906	6,263	7,015
Other income, gains & losses	291	200	100	100	100
Selling & distribution expenses	(1,355)	(1,018)	(1,017)	(959)	(1,008)
Administrative expenses	(1,611)	(1,573)	(1,387)	(1,374)	(1,365)
Other expenses	(121)	(205)	(107)	(107)	(107)
Operating profit	4,004	1,077	2,496	3,923	4,634
Finance income	98	80	67	73	64
Finance costs	(743)	(868)	(816)	(1,246)	(1,816)
Exchange gains, net	0	(22)	(15)	(10)	(10)
Share of profits of JV	0	2	2	3	3
Share of profits of associates	40	25	40	43	47
Profit before tax	3,400	294	1,774	2,785	2,921
Income tax expense	(639)	(42)	(281)	(432)	(451)
Profit after tax	2,761	253	1,493	2,353	2,469
Non-controlling interests	(509)	(162)	(256)	(430)	(427)
Net profit	2,253	91	1,237	1,924	2,042
EPS (RMB)	0.692	0.028	0.380	0.591	0.628
DPS (RMB)	0.208	0.009	0.114	0.177	0.188

Cash Flow Statement					
	2014A	2015A	2016F	2017F	2018F
PBT	3,400	294	1,774	2,785	2,921
Finance costs	743	868	816	1,246	1,816
Exchange gains, net	(0)	23	15	10	10
Finance income	(98)	(80)	(67)	(73)	(64)
D&A	1,701	1,752	1,515	1,484	1,470
Share of profits of Asso. & JV	(40)	(27)	(42)	(46)	(49)
Disposals	(13)	40	0	0	0
Others	5	1	(0)	(0)	0
Change of working capital	457	139	(618)	(63)	(959)
Income tax paid	(408)	(252)	219	(132)	(271)
Cash flows of operating	5,745	2,758	3,611	5,213	4,873
Purchases of PP&E	(8,697)	(7,195)	(10,236)	(9,441)	(9,104)
Investments	(1,550)	(1,380)	(960)	(940)	(903)
Interest received	65	64	67	73	64
Proceeds from disposals	27	208	0	0	0
Pay for acquisition	0	0	(28)	0	0
Others	(1,747)	2,053	8	28	31
Cash flows of investing	(11,902)	(6,251)	(11,150)	(10,281)	(9,913)
Proceeds from share issue	0	0	0	0	0
Increase of debt	14,121	11,036	21,024	19,002	23,505
Repayment of debt	(4,277)	(3,450)	(7,896)	(11,827)	(14,279)
Interest paid	(1,411)	(1,619)	(1,966)	(2,696)	(3,009)
Dividend paid	(1,041)	(677)	(28)	(371)	(577)
Others	(9)	(218)	(3,110)	64	7
Cash flows of financing	7,383	5,071	8,024	4,172	5,646
Net Cash Increase	1,226	1,579	485	(896)	607
Cash b/f	3,809	5,031	6,606	7,091	6,195
FX	(4)	(4)	0	0	0
Cash c/f	5,031	6,606	7,091	6,195	6,802

Financial Ratios					
	2014A	2015A	2016F	2017F	2018F
Net Debt/Equity (%)	86.0	125.0	172.6	194.2	216.1
Current Ratio (x)	2.3	1.2	1.4	1.1	1.1
Interest Coverage (x)	2.9	0.7	1.3	1.5	1.6

Source: the Company, Guotai Junan International.

Balance Sheet					
Year end Dec (RMB m)	2014A	2015A	2016F	2017F	2018F
PP&E	36,803	43,855	51,892	59,771	67,308
Investment properties	138	462	443	425	406
Prepaid land lease payments	1,004	857	939	991	1,037
Mining rights	409	369	345	322	300
Other intangible assets	79	57	89	113	131
Investments in JV	49	81	84	86	89
Investments in associates	386	795	867	934	1,000
Other non-current assets	6,821	7,905	13,238	15,527	17,509
Total non-current assets	45,688	54,381	67,897	78,168	87,779
Inventories	1,710	1,085	1,342	1,440	1,823
Trade and bills receivables	2,866	3,815	3,802	3,870	4,823
Other receivables	1,477	2,139	856	844	822
Restricted cash	42	142	149	157	165
Cash and short-term deposits	6,960	6,606	7,101	6,205	6,812
Total current assets	13,056	13,788	13,250	12,516	14,445
Total assets	58,744	68,169	81,147	90,684	102,224
Trade and bills payables	1,051	1,516	933	973	1,260
Other payables and accruals	3,349	5,114	3,204	3,205	3,181
Current bank borrowings	1,218	5,219	4,928	5,950	7,415
Tax payable	9	37	511	786	941
Total current liabilities	5,627	11,886	9,575	10,913	12,797
Non-current bank borrowings	17,485	21,100	34,495	41,647	51,903
Long term bonds	7,972	7,976	8,000	7,000	4,500
Other non-current liabilities	164	439	747	749	750
Total non-current liabilities	25,621	29,515	43,242	49,395	57,153
Total liabilities	31,247	41,400	52,818	60,308	69,950
Issued capital	3,254	3,254	3,254	3,254	3,254
Reserves	19,001	18,870	19,736	21,082	22,512
Proposed final dividend	677	28	371	577	613
Equity attributable to shareholder	22,932	22,151	23,361	24,913	26,379
Non-controlling interests	4,565	4,617	4,968	5,462	5,896
Total equity	27,497	26,768	28,329	30,376	32,274
Total liability and equity	58,744	68,169	81,147	90,684	102,224
BVPS (RMB)	7.047	6.807	7.179	7.656	8.106

Margin and Efficiency					
	2014A	2015A	2016F	2017F	2018F
EBITDAR (%)	23.2	14.8	19.7	24.2	21.9
Operating Profit Margin (%)	16.1	5.6	12.2	17.5	16.5
Net Profit Margin (%)	9.1	0.5	6.0	8.6	7.3
Dividend Payout Ratio	30.0	30.6	30.0	30.0	30.0
Receivable Days	42.6	63.4	70.1	65.8	69.7

Growth (%)					
	2014A	2015A	2016F	2017F	2018F
Revenue	2.2	(22.9)	7.0	9.9	24.6
EBITDA	(21.8)	(50.7)	42.5	34.8	12.9
Operating Profit	(26.2)	(73.1)	131.7	57.2	18.1
Net Profit	(34.3)	(96.0)	1,266.9	55.5	6.2
Dividend	(35.0)	(95.9)	1,241.7	55.5	6.2

Valuation					
	2014A	2015A	2016F	2017F	2018F
ROE (%)	10.2	0.4	5.4	8.0	8.0
ROA (%)	4.3	0.1	1.7	2.2	2.1
ROC (%)	9.5	2.1	4.1	5.4	5.6

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance >15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance >5%; or the fundamental outlook of the sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	Relative Performance <-5%; or the fundamental outlook of the sector is unfavorable.

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